ubank
Growing with You

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UBANK INTEGRATED REPORT 2019

ubank
Growing with You

INTEGRATED REPORT 2019

Growing with U

Let us all uplift the lives of our customers while building real, spirited partnerships.
We are U

Navigational icons

CAPITALS

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

COMPANY SCORECARD

- Company
- Customers
- Communities
- Colleagues
- Control
- Conduct

STRATEGIC OBJECTIVES

- SO I 1 Diversify revenue streams
- SO I 2 Embed a high-performance culture
- SO I 3 Inculcate strong, Bank-wide compliance
- SO I 4 Leverage our stakeholder base
- SO I 5 Strengthen leadership
- SO I 6 Recapitalise the Bank

Contents

Navigational icons

The following icons are applied throughout the report to improve usability and to highlight integration between relevant content elements:

For more information see pages of this report

For further information visit our website www.ubank.co.za

The Ubank story

Ubank's positioning in the market is unique. Founded and built upon the deposits of our original mineworker customers, the Bank has consolidated that base, expanding its strategic intent to embrace and serve all workers. Our primary stakeholders are our customers and the communities in which they live and work, and in which we operate.

Ubank at a glance

ROE | 25.6%
(FY2018: 9.2%)

ROA | 3.5%
(FY2018: 1.0%)

Profit before tax | R257.4 million
(FY2018: R78.7 million)

Gross customer assets | R737.5 million
(FY2018: R832.7 million)

Deposit book | R4.7 billion
(FY2018: R4.8 billion)

Number of physical channels | 48
(FY2018: 66)

Number of Ubank ATMs | 99
(FY2018: 92)

Number of other channels | 43
(FY2018: 38)

Permanent employees | 766
(FY2018: 705)

Brand affinity rating | 9.17/10
(FY2018: 9.35/10)

Customer satisfaction rating | 8.33/10
(FY2018: 8.58/10)

Building a strong foundation with you

Our values have always driven our efforts and reflect the essence of our brand:

Real
In 1975 Teba Cash Financial Services is formed to provide mineworkers with basic financial services, helping with remittances to their families and dependants in the rural and labour-sending areas

Spirited
In the early 1990s, South Africa changes forever, and we change too, from a savings fund into the commercial Teba Bank

Partnerships
In June 2000, Teba Bank is granted a banking licence. Owned by a Trust whose beneficiaries are our customers, the Bank operates under the stewardship of trustees elected by the National Union of Mineworkers (NUM) and the South African Chamber of Mines, now the Minerals Council South Africa

__Our brand__ promise reflects our commitment to __Growing with You__

Our brand differentiators enable us to be

» Community-immersed
» Nurturing of relationships
» Educating and empowering

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HKLM

Our mission

is to be a **provider of sustainable and affordable financial services** to workers and their families, and uplift and develop their communities

Our vision

is to be **the Bank of choice** for workers, their families and communities

Empowering
In 2008, we rejuvenate our brand, and articulate a new vision, mission, set of values and strategy that drives our passion to truly become the Workers' Bank of Choice

Excellence
In October 2010, we become Ubank and launch our new identity

Passion, Respect, Sincerity
We are driven by a strategy for the future to expand into the open market and to attract a younger, technologically active segment of our society. We are energised with a commitment to our customers and their communities. We continue to meet and exceed their expectations with the understanding and value we place on each individual with whom we work and for whom we provide our services

We are proud of our long association with the mining industry, embracing mineworkers, mining companies and other stakeholders who continue to play a significant role in our development.

Our customers are our owners and we exist to serve them through the provision of financial services that meet their changing needs and improve their lives.

*We are committed to **Building a strong foundation with you***

Our aspiration

to be the **Workers' Bank of Choice** is founded on our values, our actions, and our growth

Our logo

reflects our history and the **close relationships we maintain with our customers – their fingerprints inspired the design** and are literally and figuratively present throughout the Bank

Our values

Passion
Empowering
Excellence
Respect
Sincerity

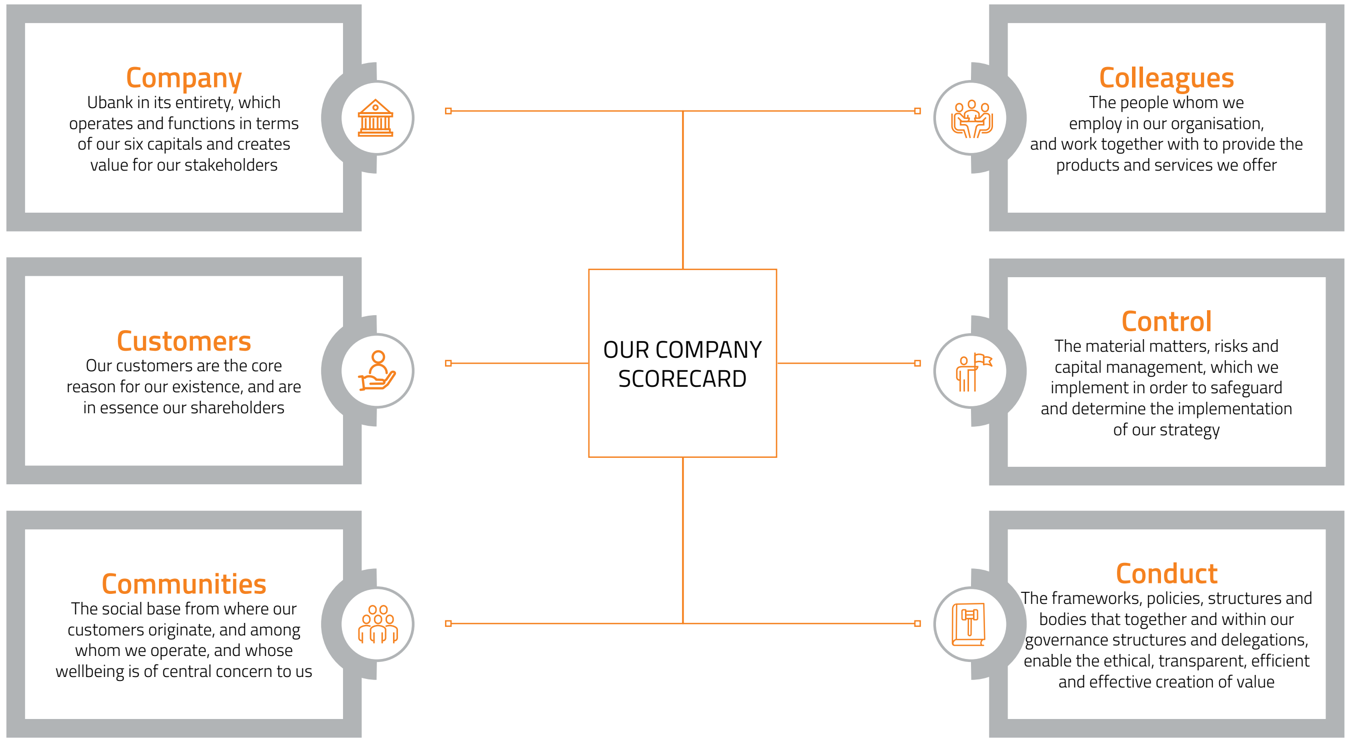
OUR APPROACH

Our corporate social responsibility, initiatives, investment and grasp of the social realities of our market are of fundamental importance, something that filters through our entire way of creating value and doing business.

Our Company scorecard

We understand that our sustainability is dependent on our recognition of the needs of our customers and their communities, and their aspirations and preferences. It is for this reason that our company objectives (what we call our five Cs), as described below, form the basis of our ability to create value, and which, along with a sixth, Conduct, constitute the structure of this report.

Our five Cs underpin our Company scorecard and embrace key performance indicators and targets that we set for our business and against which we measure our financial and non-financial performance. We define them, together with Conduct, as follows, and identify them throughout the report with the icons below:



Integrated thinking

We endeavour not only to maintain, but to increase, our deep understanding of, and commitment to, our customers, the communities in which they live and work and in which we operate, and to our colleagues, the Ubankers who work to deliver the performance we target in implementing our strategy, and to measuring our performance against it in terms of our six capitals.

Financial capital	The pool of funds available to us as an organisation
Manufactured capital	The physical tools, equipment and property that enable us to operate
Intellectual capital	All the intellectual property knowledge, systems, procedures and protocols, and the value associated with our brand and reputation
Human capital	Our people, with their competencies, abilities, dedication, experience and ability to innovate
Social and relationship capital	The connections we have established within and among our communities and stakeholders, the interests, respect, trust and willingness to engage that we share
Natural capital	The actions we take to sustain the environment in our endeavour to grow our business and support our customers

This kind of integrated thinking is inherent in the way we guide and grow our business, and the way in which we assess it and devise its strategy in terms of our financial, human, intellectual, manufactured, social and relationship, and natural capitals, as outlined in the <IR> framework.

For more on our capitals and business model, see pages 9 to 11.

Responsible and transparent governance

Above all, our roots among the gold and platinum mining workforce and their representative unions, and our obligations to their financial wellbeing, commit us to our adherence to and compliance with all regulatory and legal requirements. This is reflected in our commitment to tying diligent and transparent governance to every aspect of our operations. We do this in order to create value, promote growth and to remain sustainable in the short, medium and long term, and to deliver on our brand promise.

For more on our stakeholders and governance, see pages 18 to 21 and 26 to 29 respectively.

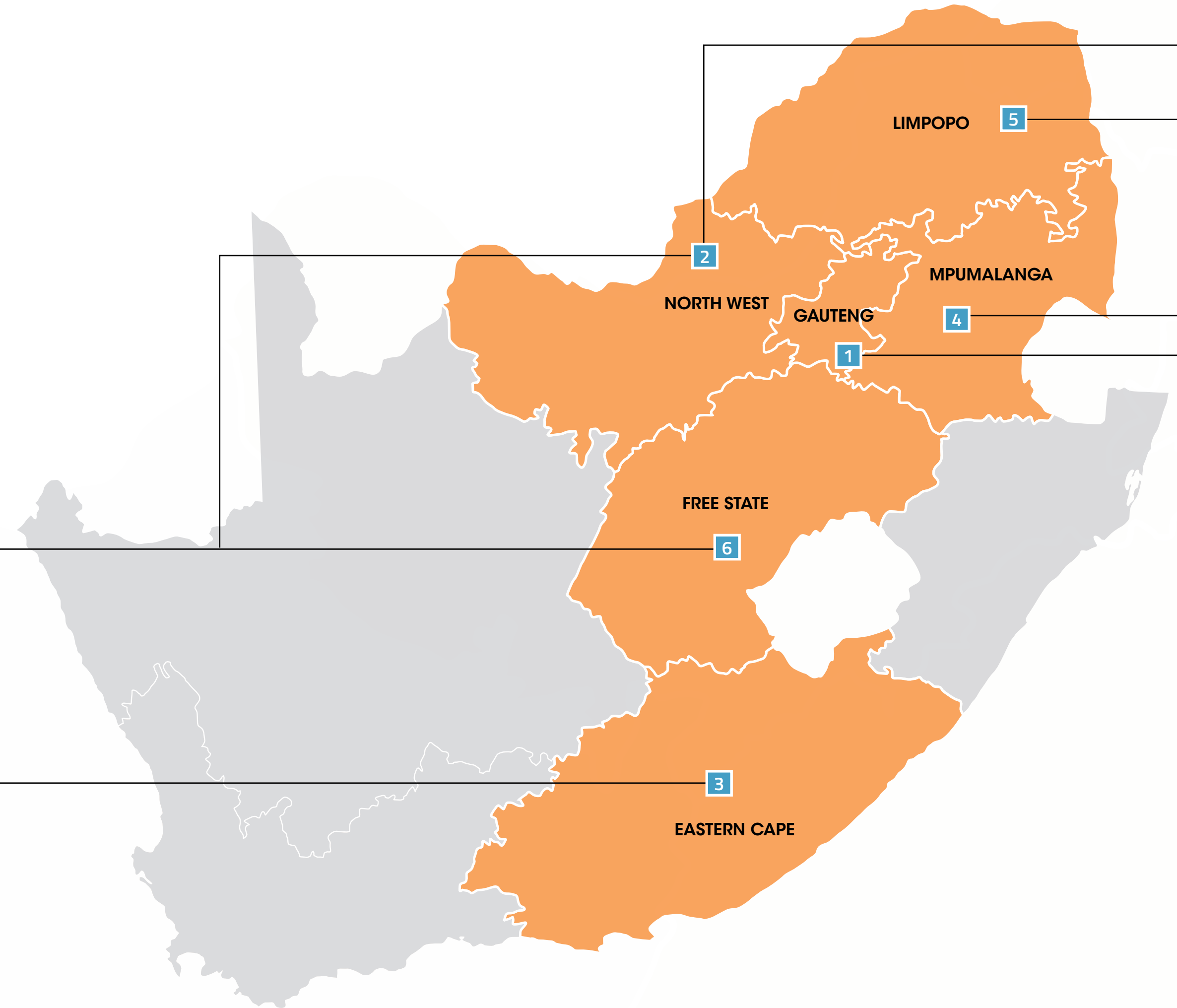
This approach is reflected in viewing everything we do in terms of company, control, customers, communities, colleagues, and conduct.

OUR FOOTPRINT

Teba outlets (non-RSA)	
Points of presence	
9 Lesotho	6 Mozambique
2 Botswana	2 Eswatini

FREE STATE REGION 2 6	
Points of presence	
10 branches	3 Teba outlets
14 ATMs	

EASTERN CAPE REGION 3	
Points of presence	
12 branches	6 Teba outlets
17 ATMs	



NORTH REGION 2 5	
Points of presence	
16 branches	10 Teba outlets
46 ATMs	

GAUTENG REGION 1 4	
Points of presence	
10 branches	4 Teba outlets (KwaZulu-Natal)
22 ATMs	

About our report

This report, with its theme of ***Building a strong foundation with you***, is our second integrated report, and with it we endeavour to present a full, coherent, consistent and transparent description of the ways in which we create value for our shareholders in the short, medium and long term, as well as to reflect the material interests of all our stakeholders.

Reporting boundary

This report covers the financial year 1 March 2018 to 28 February 2019 and focuses on the material matters relating to our strategy, business model, operating context, performance, governance, and the material risks and opportunities arising from them, that we have identified in line with best practice, and which we outline on pages 6 to 64. It is an explanation of how we create value in the short, medium and long term, which we define as 12 months, one to five years, and five to ten years respectively.

Reporting frameworks

The report was prepared with regard to the aspirations and ideals set out in the principles of the King IV Code on Corporate Governance (King IV) and is also guided by the principles and requirements of the International Integrated Reporting Council (IIRC) <IR> framework. Our annual financial statements on pages 66 to 129 were prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Banks Act, 94 of 1990 (Banks Act) and the Companies Act of South Africa, 71 of 2008 (Companies Act), where appropriate.

Materiality

We consider an issue to be material if it has the potential to have a substantial impact on our ability to exist and continue to do business, our social relevance and our relationships with our stakeholders. An issue is also considered to be material if it has the potential to substantially impact our ability to create value. Our material issues are informed by the expectations and concerns of our stakeholders, as well as the social, economic and environmental context in which we operate.

Our material matters, as described on pages 27 to 29, are linked to our value drivers to direct the way we plan our strategy and the priorities of our management. We view the process in which we determine our materiality as a business tool that facilitates integrated thinking, as well as improvements to enhance the input of our stakeholders. The material matters included in this report were determined through a structured process involving key management and executives and are endorsed by our Board.

For more on our control and risk management strategy see pages 26 and 27.

Forward-looking statements

This report contains certain forward-looking statements, particularly with regard to the potential of diversifying our markets, and the effect of global and domestic economic conditions on the Bank's strategy, performance and operations. These forward-looking statements thus involve both known and as yet unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements.

Ubank undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. The forward-looking statements have not been reviewed or reported on by the auditors.

Feedback

Ubank understands the importance and values the process of integrated reporting. Your feedback is therefore important to us and we welcome your input to improve the quality and relevance of our reports.

Please visit our website www.ubank.co.za or alternatively email us at investorenquiries@ubank.co.za.

Directors' statement of responsibility

The Board of Directors (the Board), supported by the Audit Committee, acknowledges its responsibility for overseeing and ensuring the integrity of this integrated report. Executive management, assisted by the reporting team, was responsible for the preparation of this report. It has applied its collective mind to the report's presentation and preparation, and believes it fairly represents the matters that have a material effect on our ability to create value. The Board accordingly approved this integrated report, which is signed on its behalf, on 30 July 2019:

JH de Villiers Botha
Chairman

Chairman's message

In a year in which the banking industry in South Africa came under increased regulatory and legal scrutiny as a result of some unsettling practises that generated a degree of stark media and public attention, it is gratifying to note that at Ubank we continued to remain attentive to governance, and strive to be compliant at all times.

A new strategy for a new era

Driven by the need to increase and diversify revenue, a main focus for the Board during the year under review was to redefine our strategy for the Bank and to ratify a plan of action based on that strategy which outlines what the key initiatives will be in the short to medium term, being the next year to five years.

Associated with this is the new remuneration strategy which the Board approved, and which clearly articulates the basic salaries as well as the short- and long-term incentives for the organisation.

For more on our strategy and target achievements, see page 15 to 17.

Regulatory compliance

There were, in addition, ongoing regulatory issues to which the Board applied its collective mind, with special attention paid to risk management issues. In doing so, full cognisance was taken of the requirements of the South African Reserve Bank (SARB). This was accomplished alongside our oversight of the normal compliance issues, and ensuring that we diligently comply with all the relevant regulatory requirements.

We continue to hold regular meetings with the SARB, and in an ongoing process maintained the services of external providers to reassess our provisions for bad debt and provide advice as to the effectiveness of our mitigation measures.

Related to this are the accounting principles of the International Financial Reporting Standards (IFRS) with regard to our capital adequacy ratio (CAR). A major achievement for the year under review is that we have remained above the regulatory CAR established by the SARB. This is evidenced in the year-on-year movement from 24.53% (FY2018) to a ratio that at financial year-end was at 25.29%. It was aided by a capital injection resulting from the settlement of a historical legal claim, in which we recouped our original investment with some interest. We have also reviewed our methodology on risk assessment, with both Board and the regulator satisfied with the outcome.

For more on capital adequacy see page 36.

Recapitalisation

The recapitalisation of the Bank remains a necessary strategic thrust that we continue to pursue actively. The agreements with a potential investor that we had envisaged signing in this regard during the year under review were unfortunately not able to be concluded as the potential investor was ultimately unable to comply with certain conditions.

Nonetheless, we have maintained our momentum with the Capitalisation Committee, a sub-committee of the Board delegated to undertake the process of appointing a service provider to assist the Bank in identifying suitable investors. With recapitalisation as a material matter for the Bank, this will remain a major focus for us in the short term as it will not only provide capital for long-term growth, but it also addresses a concern of the SARB in that we will have resources beyond the Teba Fund Trust (the Trust) which is our shareholder, and which will be able to provide such support when and if required.

Skills and strengths

I am pleased to note that during the year under review, the Board saw a widening of its skills across the full spectrum of competencies, including human resources (HR), risk management, compliance and strategy. Moreover, there was an improvement in its overall functioning, as evidenced by an assessment conducted by the Institute of Directors of South Africa (IoDSA), which yielded a very satisfactory score.

For more on our Board competencies, see pages 54 to 57.

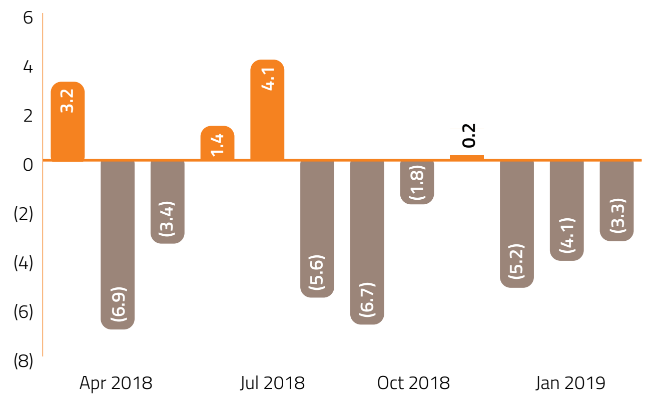
Two new members were inducted onto the Board during the year under review, with the result that there are now three independent directors. However, in terms of King IV, and in the view of the Bank, the six nominee directors from the Trust and the two trustees from the National Union of Mineworkers (NUM) and the Minerals Council South Africa cannot be viewed as being independent. This remained a topic of discussion by the Board during the year under review, and we are awaiting a determination on the matter from the SARB. On matters of delegation and oversight,
I am pleased to note that our Board committees continue to function exceptionally well.

For more on matters of governance, see pages 60 to 64.

Growing our base

While financial performance in a difficult economic climate remains a concern, the Bank has nevertheless performed exceptionally well during the year under review. There is no doubt that Ubank will remain a niche bank with the mining sector remaining an important focus of operations. In terms of our strategy, however, we will continue in the short, medium and long term to promote growth and deliver value for our stakeholders by broadening our customer base, and expanding into adjacent blue-collar markets.

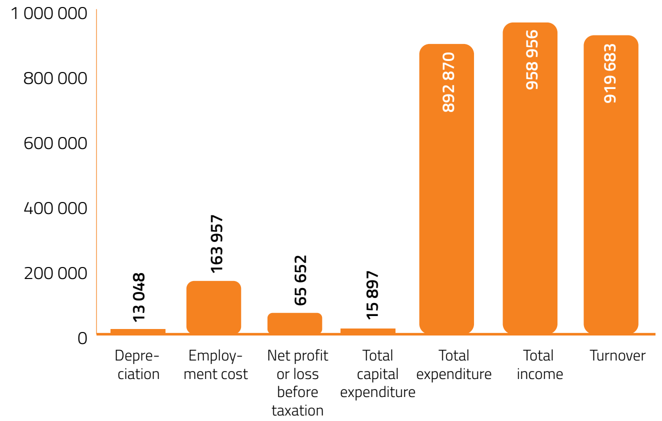
Mining production shrinkage (%)



For more on our strategy and stakeholders, see pages 15 to 21.

At the same time, we are also looking at the development of small, medium and micro enterprises (SMMEs), which, with the South African economy poised for growth, should see benefits. In addition, we have already put agreements in place with major providers of insurance and mobile services.

SMMEs: Contribution to all enterprises by financial indicator (R million)



Ref: SMME Quarterly 2018-Q3

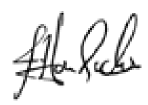
Stakeholders

The Bank regularly updates its stakeholder matrix, and it is gratifying to observe again this year that it is a well-functioning and well-managed process. I continue to have regular trilateral meetings with the Chairman of the Trust and the SARB, with open discussions which are minuted and documented by the regulator. The Bank also maintains its ongoing engagements with the mining unions as well as with the Minerals Council South Africa during which their concerns are closely monitored and noted, with a view to facilitating a considered and appropriate response from the Bank.

For more on our stakeholder management, see pages 18 to 21.

Acknowledgements

It remains for me to thank the Board members for their time and contribution. The number of meetings that were held and attended during the year under review is testament to their dedication and commitment, and to their diligence in ensuring that we deal with the issues we face in a prudent and professional manner. I would like to extend my thanks to our CEO Luthando Vutula and his entire executive team, all of whom have demonstrated their skill, care and commitment in ensuring ongoing stability and value for all our stakeholders. To all our staff, who have once again demonstrated their loyalty and conscientiousness to both Ubank and its customers, I would like, on behalf of the Board, to extend our gratitude and appreciation.



JH de Villiers Botha
Chairman

Company

We create value for our stakeholders through our business model. With this model, inputs from our capitals are transformed through business activities and interactions to produce outputs and outcomes. Over the short, medium and long term, these in turn create value for the Bank, its stakeholders, society and the environment.

The inputs of our capitals are transformed by our business model into the outcomes for our stakeholders in terms of our Company scorecard objectives – Company, Customers, Communities, Colleagues and Control, and which reflect our stakeholders. Along with our Conduct, reflected in our governance structures, these are further detailed in their own sections in this report. The outcomes of this business process together comprise our key performance measures.

Good jobs and economic growth

OUR VALUE-CREATING BUSINESS MODEL

The capitals – our key inputs

Financial capital
- R596.5 million in equity (normalised)
- R4.7 billion deposit book
- CMM investment recovery
- R168.7 million in project funding

For more information see pages 32 to 37.

Social and relationship capital
- Nurturing relationships that are built on listening, action and communication
- Partnering with communities every step of the way
- Educating and empowering customers to achieve financial success

For more information see pages 44 to 49.

Human capital
- 766 employees
- Our values and behaviours
- Employment equity status
- Investment in training and development
- Employee value proposition

For more information see pages 50 to 51.

Intellectual capital
- Prominent brand in the gold and platinum mining communities
- Strong brand affinity
- Key partnerships

For more information see pages 38 to 43.

Manufactured capital
- Points of presence
- New channels
- IT systems and infrastructure

For more information see page 36.

Natural capital
- Sustainable initiatives

For more information see page 11.

Value-adding activities – our key outputs

– our products

uSave	Savings and deposit products with competitive yields to help our customers make the most of their money
uLend	Lending products designed around our customers' needs
uSecure	Offer our customers peace of mind with our funeral policies and credit life assurance
uSpend	Providing safe and easy access to our customers' money by facilitating payments and transactions through our various channels

– our key value drivers

Affordability
We offer competitively priced products within our customers' means

Accessibility
We are available where our customers and communities work and live, through our branch networks, mobile services and ATMs

Partnerships
Ubank works together with its communities, uplifting and creating value in their lives

Efficiency
Our product offering is provided with service excellence

Reliability
Our customers can trust us with their money

Needs-based innovation
We constantly engage our communities in order to determine our customers' needs and offer suitable solutions

– our promise to our colleagues

We use our real-spirited partnerships to nurture, uplift and empower our colleagues

– our brand essence

- We connect with and touch our stakeholders on a personal level
- Maintain a vibrant, dynamic and thriving offering
- We create value together with our customers and nurture strong bonds

Value created for our stakeholders in terms of our scorecard – our key outcomes and related trade-offs

Company

Outcomes	Target achieved
49.9% decrease in profit before tax (normalised)	X
1.9% decline in total assets (normalised)	X
16.2% decrease in net loan book	X
72.3% increase in strategic funding	√

Trade-offs
Total income structure continues to be skewed mostly towards interest income, increasing reliance on the performance of the loan book.

Actions to enhance outcomes
Customer-centric and focused approach to diversify revenue streams through digital transformation and open-market entry.

Recapitalise the Bank and implement optimal balance sheet management strategy.

Related risks
Capital risk, strategic risk, concentration risk, customer risk, IT risk

Related strategic objectives:
SO I 1 SO I 6

See pages 8 to 25.

Colleagues

Outcomes	Target achieved
Exceeded EE targets	√
32 graduates and 14 BankSeta learners appointed	√
Employee turnover of 8.6% below industry benchmark	√
3.06% of TGP invested in training and development	√

Trade-offs
The closure of some branches led to the redeployment of employees to nearby branches or the direct sales force.

The planned direct sales team was not appointed that led to the current inbound sales team acting in capacity as outbound sales consultants.

Actions to enhance outcomes
Continue to enable the business through human resource capacitation and explore the use of strategic partnership models and focused delivery teams.

Empower talent through continued focus on the employee value proposition and people development.

Related risks
People risk

Related strategic objectives:
SO I 2

See pages 50 to 51.

Control and conduct

Outcomes	Target achieved
Capital adequacy ratio of 25.3%	√
Successful IFRS 9 implementation	√
Positive Board appraisal report	√

Trade-offs
Balance sheet management to optimise capital reserves impacted strategic spend.

Actions to enhance outcomes
Recapitalise the Bank and implement an optimal balance sheet management strategy.

Compliance with all regulatory requirements.

Related risks
Capital risk, strategic risk, regulatory and compliance risk

Related strategic objectives:
SO I 3 SO I 6

See pages 26 to 29 and 52 to 64.

Customers

Outcomes	Target achieved
Active customer base improved by 4.1%	X
39.2% increase in gross new customers	X
Digital transformation of customer base	X
New channels deployed	√

Trade-offs
The book-to-card migration has resulted in a decline in the net fees and commission income due to pricing differences.

Actions to enhance outcomes
Activate compelling customer value proposition (CVP) for open market customers to aggressively grow primary customer base by leveraging strategic partnerships and digital capabilities.

Partner to extend non-branch physical footprint.

Related risks
Customer risk, reputational risk, concentration risk

Related strategic objectives:
SO I 1 SO I 4

See pages 38 to 43.

Communities

Outcomes	Target achieved
New social media strategy	√
Nurturing partnerships with our communities	√
78% of total waste recycled at Head Office	√

Trade-offs
Increased brand awareness through new social media strategy necessitate us to be more than meticulous to retain our excellent reputation.

Actions to enhance outcomes
Build awareness and credibility in targeted communities

Related risks
Reputational risk

Related strategic objectives:
SO I 4

See pages 44 to 49.

Managing risks – our top 10 risks

1. Capital risk
2. People risk
3. Customer risk
4. Concentration risk
5. IT risk
6. Fraud risk
7. Regulatory and compliance risk
8. Strategic risk
9. Reputational risk
10. Outsourcing risk

For more information on our risks and risk management see pages 26 to 29.

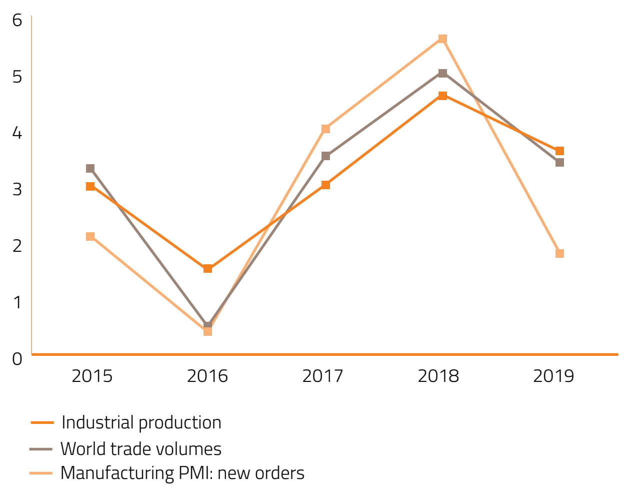
OUR OPERATING CONTEXT

With South Africa being grouped among the developing countries, its economy is particularly sensitive to global trends and fluctuations. The macro economic effects inevitably trickle down through industry cutbacks and cautiousness to our customers.

Salient features	Impact on our value creation	Strategic response and opportunities
Global economic context *(See Figure 1)*		
» Growth slowdown since rapid 2017 global growth » Business confidence deteriorating » Political uncertainty in the US, Eurozone, turmoil resulting from Brexit uncertainty » Implementation of trade tariffs and retaliatory measures in major economies » A strong US Dollar » Firm domestic demand in advanced economies » Higher borrowing costs » Improved performance in large emerging markets » Stronger than expected growth in Eurozone, Japan and the US	» Volatility in South African markets trickles down to affect our customers' finances negatively	» Provision of financial education to our customers » Extended product/service and rewards offering that remains value adding and competitive
South African economic context *(See Figures 2 and 3)*		
» The South African economy grew by 1.4% in the fourth quarter of 2018, contributing to an overall growth rate of 0.8% for the year down from 1.4% in 2017 » Government introducing economic stimulus and recovery plan » Political uncertainty with change of President, and progress in dealing with SOE corruption » Continued depressed mining industry returns and industrial unrest » Volatile Rand during 2018, appreciated in early 2019	» Customers adversely affected by slow economy » Slow growth and unemployment remain drivers of the future performance of our loan and deposit book as well as transactional behaviour of customers » All may lead to customer attrition, account inactivity, inability to collect and less propensity to save	» Grow customer base and broaden product holdings in a way that drives non-interest revenue and net interest income while avoiding commensurate cost growth » Competitive and value-adding product offerings » Strengthen economic independence through SMME and blue-collar market offerings » Reshape channel network for relevance and for efficiency
Financial industry *(See Figure 4)*		
» Industry resilience with solid growth in the first half of 2018 » Competition remains tough with new entrants to the market » CPI within SARB target range of 3% – 6%. Inflation up to 4.1% in February 2019 and likely to continue to pick up » Generally stable interest rates with 25 basis point rate cut in March 2018 and reversed in November 2018 » Gradual recovery in loans to households in 2018 but credit growth to companies continued to slow down	» Increased competition from new market entrants with compelling CVPs » Customer attrition » Decline in non-interest revenue » Deterioration of loan book	» Customer retention framework and initiatives » Aggressive win-back strategies for inactive customers » Defend core market and grow open market with targeted segmentation » Leverage existing brand equity but evolve brand to reposition for open market » CVPs that respond to common and unique financial services and needs of targeted segments » Build brand awareness and credibility in targeted communities » Create compelling reasons to engage with the brand

In addition, with our customer base still drawn primarily from the mining sector (and in particular from the gold and platinum segments within it), we are mainly exposed to economic conditions and the social realities emerging from them.

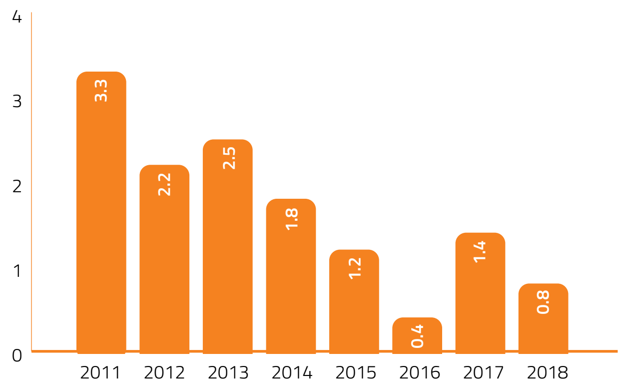
Figure 1: Industrial production and trade (%)



Sources: CPB Netherlands Bureau for Economic Policy Analysis, Haver Analytics and Markit Economics

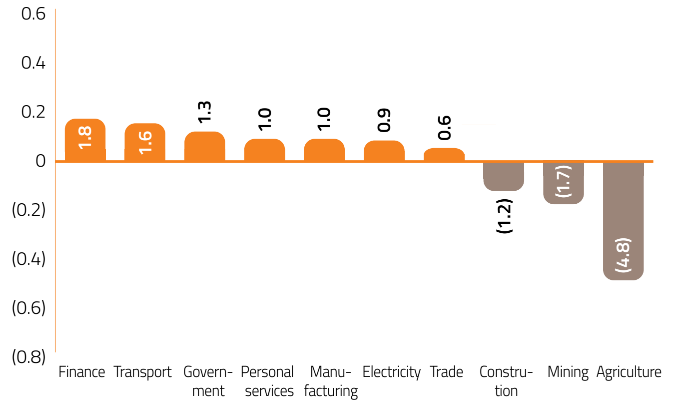
Note: PMI – Purchasing Managers' Index. PMI greater than 50 implies expansion of economic activity, while PMI less than 50 implies contraction. Industrial production and trade are shown as a three-month moving average percent change from one year ago.

Figure 2: South African annual GDP growth (%)



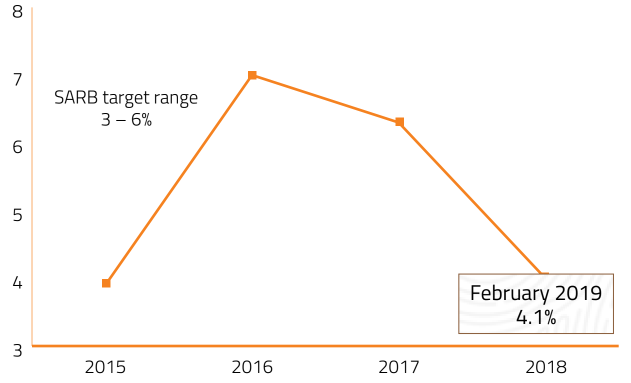
Source: Gross domestic product (GDP), 4th quarter 2018

Figure 3: Industry growth in 2018 compared with 2017 (%)



Source: Gross domestic product (GDP), 4th quarter 2018

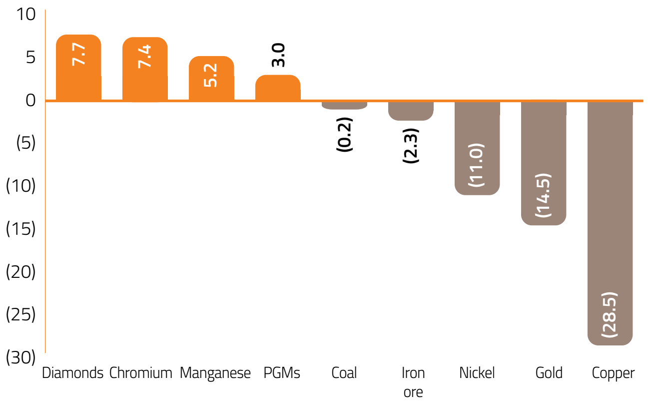
Figure 4: SARB inflation target range (%)



Source: Consumer price index (CPI), February 2019

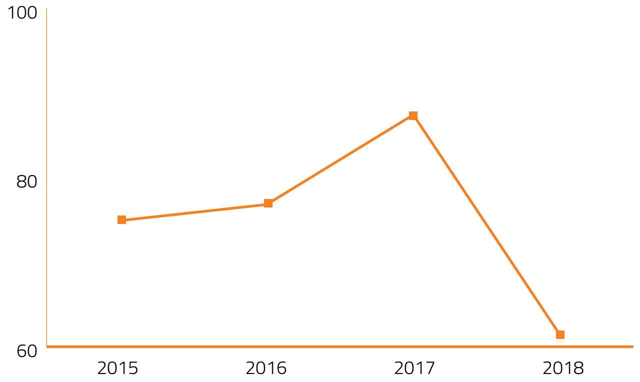
Salient features	Impact on our value creation	Strategic response and opportunities
Mining industry *(See Figures 5 to 7)*		
» Lacklustre mining with production falling by 1.6% in 2018 compared with 2017 » Gold continued to decline with a 14.5% drop in production with strike action contributing to the drop in activity in 2018. Platinum Group Metals (PGMs) industry only just remaining stable » Gold and platinum sector, representing 58% of total employment shed, almost 12 000 in nine months to September 2018 » Downward trend in commodity prices continued » Wage negotiations and strikes	» Retrenchments at the gold and platinum mines may translate into customer attrition and inactivity/dormancy, deterioration of the loan book quality and our ability to collect as well as an increased customer propensity to save less	» Reshape branch network for relevance » Robust collections strategy » Compelling and value adding product/service offerings addressing customer-specific needs » Aggressive win-back strategies for inactive customers
Emerging trends		
» Increased financial access of previous unbanked market » Artificial intelligence (AI) » Digital currencies and block chain technologies » Increased focus on data privacy and security	» Increased competition from market entrants with CVPs that are simpler, more convenient and cheaper » Digital strategies and impact of AI that require change management, technical expertise, new ways of thinking » Customer privacy and security of digital economy	» Advance mobile and digital channels through digital transformation and capabilities » Partnership strategy and evaluation framework to leverage strategic and fintech partners » Invest in customer experience data and personalisation to deliver a differentiated rewards-based experience » Develop a digitally enabled CVP » Design thinking approach to improve customer centricity

Figure 5: Production growth in 2018 compared with 2017 (%)



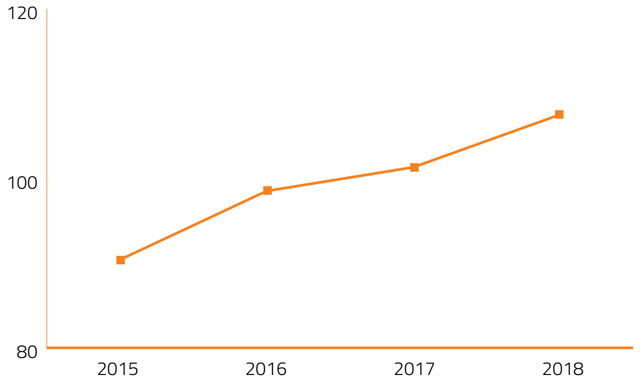
Source: Mining: Production and sales, December 2018

Figure 6: Gold production



Source: Mining: Production and sales, December 2018

Figure 7: PGMs production



Source: Mining: Production and sales, December 2018

OUR SHORT-, MEDIUM- AND LONG-TERM STRATEGIES

Tshutsheka 2023 (Unleashed) – what we call our strategy, and in alignment with its name, has been developed not only to entrench our position as a Tier 2 retail bank of choice for workers, but also to ensure that we evolve into a competitive and notable player in the retail banking sector, enabling us to say to all our stakeholders that we are ***building a strong foundation with you.***

Our ambition for growth is founded on the strengths and expertise we have in the gold and platinum mining sector and shaped to enable us to expand into the open market. Our unique selling proposition comprises our strong roots and the focus we have within the communities where we provide our financial services.

Our strategy is designed to enable us not only to entrench our position as a retail bank of choice for workers in select markets, but also to evolve into a competitive financial services provider across diverse market segments. The Tshutsheka 2023 strategy entails the following key strategic objectives:

- » **To diversify revenue streams** by entering into non-mining markets while entrenching ourselves in the broader mining market
- » **To leverage our stakeholder base** by building strategic alliances to support our growth plans
- » **To embed a high-performance culture,** leveraging employee commitment, proactive talent management and investment in employee wellbeing
- » **To strengthen leadership** and change a culture of non-compliance
- » **To inculcate strong, Bank-wide compliance,** risk assessment and governance levels
- » **To recapitalise the Bank** in order to achieve sustainable growth, offering a competitive and efficient banking operation, delivery of our value proposition and realisation of our brand promise

...Giving rise to our short- to medium-term focus areas:

Digital transformation

» This initiative will support growth goals and rapid change through flexibility, scalability, simplicity and modularity by:
- Being a foundation and facilitator for growth ambition
- Securing activation and engagement
- Reducing customer attrition
- Building revenue

Human capital

» In addition to reviewing our remuneration strategy, this entails filling key positions, skills development, organisational design and change management

Capitalisation

» Capitalisation of the Bank for growth remains a core priority and underpins most of the planning in the short and medium term, in order to fund:

Small business market

» The SMME segment has been identified as a key driver of economic growth and thus a commercial opportunity for the Bank

Open market strategy

» Our growth strategy in the short to medium term is to create a compelling value proposition for the open market and thereby mitigate the concentration risk we currently have in the gold and platinum mining sector

Customer acquisition

» Support the business with plans to retain and acquire open market customers including channel optimisation and CVP enhancements

We **implement** these imperatives across a three-phased approach comprising:

» **Strengthening the foundation** » **Securing organic growth** » **Leveraging opportunities**

...and **realise** them in terms of our scorecard objectives

For more on our target achievements see pages 16 to 17.

TARGET ACHIEVEMENT

	Action plans	Target	Achieved during FY2019	Company scorecard objective
Digital transformation Key impacted risks: 3; 5; 6; 7; 9				
	Stabilise and enhance IT capability through core banking platform upgrade	Start project to upgrade core banking platform during FY2019 to complete during FY2020 .	» Project initialised and approved at Board level. Project Khulula in progress to be completed within FY2020.	
	Voice assisted banking channel	Implement voice assisted banking channel.	» Infrastructure and integration development completed. User acceptance testing in progress.	
Human capital Key impacted risk: 2				
	Enable the business through human resource capacitation and explore the use of strategic partnership models to address the capacity challenges and close skills gaps	Fill critical vacancies and use alternative resourcing models such as "speed dating" and building up an unsolicited CV database.	» 108 positions were filled during the financial year. » We identified key talent and scarce skills in the market and engaged with 47 individuals. » A CV database was compiled and prioritised according to requirements and pre-screenings conducted. Also, all employees redeployed where branches were closed.	
	Empower talent through continued focus on people development	Conduct leadership competency training, expand the leadership programme and introduce succession plan interventions.	» Successors and talent identified. 14 BankSeta learners and 32 graduates on-boarded during the financial year. Leadership competency training not yet fully implemented.	
	Formalise job grades and pay scales as well as implementation of the total reward strategy	Implement the remuneration strategy and the incentive model scheme to recognise achievement of customer acquisition target.	» Roadshows conducted to inform colleagues of the technicalities of the pay scales. » Total reward strategy not yet implemented but innovation scheme approved for implementation in FY2020. Sales incentive scheme model developed and approved but not yet implemented.	
	Drive the organisational design and culture change within the organisation	Implement change management through the embedding values initiative and the enhancement of our communication channels.	» Structured workshops to heighten the awareness of the "Respect" and "Passion" values were conducted. The practices identified at the workshops still need to be embedded throughout the business. » Structured communication forums for employees and leaders still needs to be enhanced.	
Capitalisation Key impacted risks: 1; 8				
	Recapitalise the Bank	Contract with investor of choice.	The process of capitalisation has maintained momentum with the Capitalisation Committee delegated to undertake the process of appointing a service provider to facilitate the capitalisation process.	

	Action plans	Target	Achieved during FY2019	Company scorecard objective
Small business market Key impacted risks: 3; 4				
	Enable activation of small business segment with a clear go-to-market plan	Define the small business CVP; resource the unit with skilled experts and enable the business banking functionality.	» A high-level small business strategy has been formulated, however, the product offering and the pricing thereof are still being developed. » Key appointments to drive the strategy in progress.	
Open market strategy Key impacted risks: 3; 4				
	Introduce new pay file solution into non-mining market	Bulk acquisition of customers.	» The process of identifying potential companies are ongoing, however, no contracts with open-market customers signed during the financial year.	
	Activate compelling CVP for open market customers	Introduce personal loan for salaried customers, an overdraft product and debt consolidation.	» Revised UBPL product offering for salaried customers implemented from April 2019. Overdraft product approved in concept and debt consolidation product currently in pilot with Ubank colleagues.	
	Leverage strategic partnerships	Bankcassurance strategy with clear go-to-market plan that includes a strategic partnership with an insurance partner.	» Potential partner identified. » Product proposition and pricing considered. » White label product proposition work-in-progress.	
Customer acquisition, channel optimisation and CVP enhancements Key impacted risks: 3; 4				
	Grow the active primary customer base	Realign sales team to include a direct sales team to acquire new business and to retain and dominate the current mining market.	» A direct sales team was not appointed. 40% of the original target achieved through current inbound sales team acting in capacity as outbound sales consultants. » Reactivation rate of dormant accounts not achieved.	
	Optimise payments product/streams	Increase debit card merchant acceptance, enable real-time payments, develop and launch prepaid debit card.	» Debit card volumes at merchants increased by 30% during FY2019. » Real-time payments application submitted to the Payments Association of South Africa and prepaid debit card project raised with relative parties as well as Visa bin application complete.	
	Expand and optimise channel infrastructure	Ensure efficiencies through closure of non-performing branches and expand channels with Bank-on-Wheels, 20 new ATMs and mobile banking.	» Total of five front-ends closed during FY2019. Sales force converted to direct selling team. » Bank-on-Wheels and mobile banking successfully launched and 20 ATMs installed.	

Key On target In progress Target not met

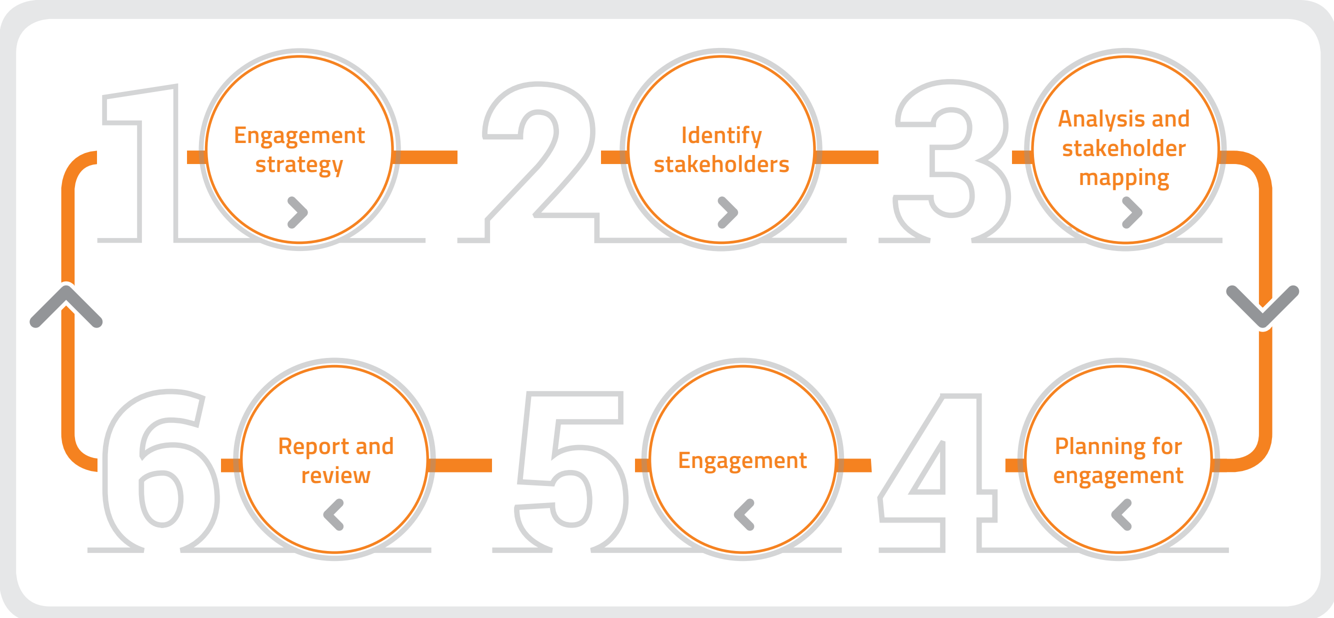
OUR STAKEHOLDERS AND THEIR NEEDS

Our relationships with our stakeholders form part of our social and relationship capital, and as such is an essential aspect of our brand positioning and differentiation in the marketplace. Engagements are held at various levels throughout the organisation from branches to the executive suite, as appropriate to the issue being addressed.

We have put in place a stakeholder engagement model as well as stakeholder engagement guidelines and a high-level stakeholder engagement plan. Our stakeholder engagement model stipulates that quarterly reports for critical relationships be presented to the Social and Ethics Committee and annually in the Integrated report.

Our six-step framework

We have a six-step framework in place that governs the ways in which we engage with all those who have an interest in the way we perform and create value.



Our stakeholder mapping

KEEP SATISFIED	
» Customers	» Asset fund/fund managers
» Community	» Government
» Media	» Public and private organisations
» Mine management	» Competitors
» Bankers	

KEY PLAYERS	
» National Union of Mineworkers (NUM)	» Management
» Minerals Council South Africa	» Colleagues
» COSATU/AMCU/other labour unions	» Third-party relationships including strategic service providers and alliances
» Trustees	» Teba Ltd
» Board	» Regulators

MONITOR
» Suppliers

KEEP INFORMED	
» Industry and trade associations	» Mining houses
» External auditors	» SASBO (Finance Union)

Engaging with our stakeholders

We note and act upon issues raised by our stakeholders, from operational requests (such as extending branch opening and closing hours to facilitate specific events) to community responsibilities (such as supporting memorial services for stakeholders or customers as members of the community).

We continue to ensure that our engagement with stakeholders on specific stakeholder interests or issues is adequate for achieving our shared goals. We remain committed to enhancing and adding value to our relationships and maintain an ongoing commitment to identify strategic responses and to improve the level of our engagement.

We present a stakeholder engagement report quarterly for consideration by the Social and Ethics Committee as part of our internal Sustainability Report.

Our key stakeholder engagements

Material issues	Our response	Company scorecard objective
» Teba Fund Trust » Board of Directors » Minerals Council South Africa and NUM		
Recapitalisation	We maintain continuous engagement with potential investors. Recapitalisation is mapped as a key strategic objective.	
Participation in Medical Bureau for Occupational Diseases' mining outreach programme	Involvement in two outreach programmes. Ubank also had successful engagements with the Minerals Council South Africa regarding a possible collaboration on similar initiatives.	
Group schemes for NUM members	Ubank met with the Treasurer General of NUM to discuss the proposal to offer group schemes on various products and services to the members of NUM. It was agreed that Ubank will present the proposal to the NUM national office bearers, regional treasurers and secretaries to understand the full value proposition.	
Related capitals		
Relationship status	√ √ √ √	
» Regulators		
» FY2018 performance » Strategic objectives for FY2019 » Key risk and mitigating factors for Ubank » Risk data aggregation and Risk reporting » Recapitalisation and long-term sustainability of the Bank	» Overview of business plans and alignment to strategic objectives. » Recapitalisation is mapped as a key strategic objective.	
Related capitals		
Relationship status	√ √ √ √ √	

OUR STAKEHOLDERS AND THEIR NEEDS continued

Material issues	Our response	Company scorecard objective
» **Management and colleagues**		
Information on recapitalisation strategic projects, operational issues, community engagements, workplace policies and practices, employee wellness and support channels	» The CEO engages via regular roadshows across the network and at head office, via closed television broadcasts to all staff, and through a monthly blog called Thetha Nam'. Thetha Nam' encourages ongoing direct engagement across the organisation. » There is ongoing communication with all employees through PriorityComms and LekgotlaNews email communication channels. This is complemented by a digital communication channel embedded in the Bank's network which pushes pop-up messages, videos and surveys onto employees' desktops to bring important matters to their attention. » An additional blog spot called Uchat was added to the Intranet, and on which anyone can publish a blog across a number of categories. Senior management demonstrate usage by blogging about issues relating to their departments such as marketing, credit and customer.	
Implementation of job grading and pay scales	» The HR and transformation team engaged via roadshows across the network and at head office. The roadshows focused on clearly communicating the process, policies and impact of the job grading and pay scales system.	
Related capitals		
Relationship status	√√√√√	
» **Third parties**		
Service level agreement with Teba Ltd	» Engagements at senior level to optimise synergies and compliance matters and implement mitigating actions on an operational level. » Monthly meetings are also held to specifically deal with current issues at hand.	
Identification of potential service providers	» Partnerships with service providers are key to our strategy implementation. A memorandum of understanding has been signed with key providers and negotiations are ongoing.	
Related capitals		
Relationship status	√√√	

Material issues	Our response	Company scorecard objective
» **Unions** » **Mine management** » **Communities** » **Customers**		
Annual price increase, Ubank product and service offerings, Book to card conversions.	» We maintain ongoing clear and transparent communication with our customers ahead of annual increases. Pricing is aligned with CVP and competitive with the market. We conduct regular quantitative and qualitative surveys and focus groups to ensure our understanding of our customers' needs, wants and issues are relevant and up to date.	
SASSA beneficiaries' migration and account opening	» Ubank served SASSA beneficiaries by assisting with transactional accounts to receive their SASSA benefits. Taskforces are creating awareness in the regions.	
Labour and hostel strength and retrenchment possibilities	» Our branch representatives engage with the unions and mine management on a regular basis and report on these engagements on a quarterly basis. Pricing and product/service structures and offerings are adjusted and aligned to address these challenges.	
Front-end closures	» Alignment with strategic objective of branch optimisation and reshaping branch network for relevance. » Clear communication provided ahead of closures to inform customers as well as to migrate to the nearest branch. » Where possible an ATM channel remained at certain sites.	
Debit card fraud education	» Financial and fraud prevention education is provided on a continuous basis to our customers through community initiatives.	
Related capitals		
Relationship status	√√√√	

Key

√ – Poor or non-existing relationship.
√√ – Relationship of poor quality and needs improvement.
√√√ – Relationship quality fair. Some mutual benefits exist but room for improvement.
√√√√ – Relationship quality good with mutual benefits and some minor challenges.
√√√√√ – Relationship quality high with mutual benefits and no challenges.

OUR BUSINESS PROJECTS

We have been focused on laying the foundation for our strategy during the year under review by assessing the network, addressing our concentration risk, upgrading our core banking system and progressing with digital transformation.

Customer-focused strategy implementation

The Bank initiated a number of key business projects. These projects impact on our financial and social and relationship capitals.

Customer acquisition

In driving customer acquisition, we planned to allocate 60% of our target to a new outsourced direct sales-agent team. This was put on hold, however, as a result of a Constitutional Court ruling concerning temporary and contracted employees, and has remained deferred pending clarification of the implications of the ruling.

The remaining 40% of our stretch target was allocated to our existing branch network, achieving 58.4% of the target. This success is a result of a retraining process focused on providing our sales consultants with 'hunter' skills, moving from reactive in-branch selling to proactive selling in the communities we serve. Thus, while our overall target was not reached, we ended the financial year in a net growth position for the first time in seven years.

Network review

In line with our strategy to penetrate the open market we have reassessed the branch network. In some instances, we have chosen to relocate branches from mine premises to towns to allow greater access. In other instances, mine shaft closures have forced us to migrate customers and relocate branches. In the last few months of the year under review, we closed 11 branches – all of them on mine premises. There were consultations with mineworker unions to manage relationships during the closures and the new Bank-on-Wheels was deployed to ensure continued service for customers.

Concentration risk

Mining retrenchments and shaft closures have had an impact on transactional income and customer activity which will lead to attrition over time, serving to underline our exposure to concentration risk.

Most of the branch closures were due to 'forced' mine closures. Ubank chose not to retrench staff from these branches but, in consultation with the SASBO union and the impacted individuals, redeployed them to other branches to assist with sales efforts. Internal policies for staff relocations informed this process, and the majority of the affected staff experienced improved travel conditions by moving from isolated mines into towns.

Book-to-card conversion

The majority of our customers have traditionally used savings books rather than debit cards. Savings books were favoured by customers for their perceived safety, easy record keeping and in-built discipline. This means that they can only withdraw cash in branches during banking hours making impulse spending less likely.

As the profile of our base has changed to younger, more educated customers, preferences are also changing. In addition, we have made a concerted effort since 2009 to educate our customers to the safety, convenience and benefits of debit cards and electronic banking.

During the year under review we targeted conversion of customers from book to card with the aim of converting the majority. In February 2018, 44% of customers were active card users. By February 2019 this had swung to 64%, excluding savings groups who will not be issued cards.

Authenticated collections – DebiCheck

The SARB has instructed the banks to develop a new industry solution, now called Authenticated Collections under the brand 'DebiCheck', which will require collectors to submit their mandates to their customers for authentication using the latest technology. While there is no financial benefit in implementing this system, the Bank's level of compliance is maintained.

Core banking system upgrade

In order to meet the growth and digital transformation ambitions of the business going forward and to mitigate the risk of operating the business on an outdated core banking system, Project Khulula (meaning 'unleashed') was kicked off in August 2019.

In undertaking this project, the Bank will benefit from system capabilities and efficiencies and from being able to leverage the core banking system effectively. It will also mitigate significant business risks created by outdated and beyond end-of-life systems.

Mobile banking

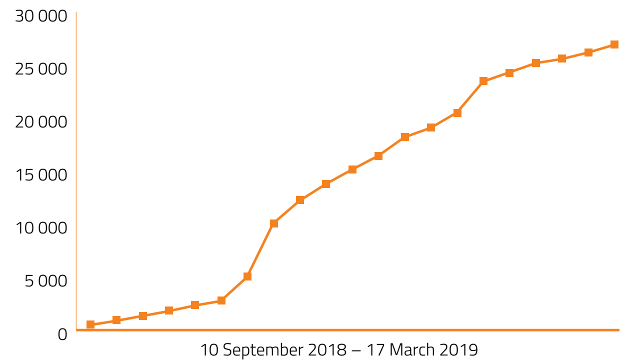
The Bank launched new mobile banking channels during FY2019. These comprised:

- A banking app (first-time launch)
- Internet banking (first-time launch)
- An improved USSD-based mobile banking channel

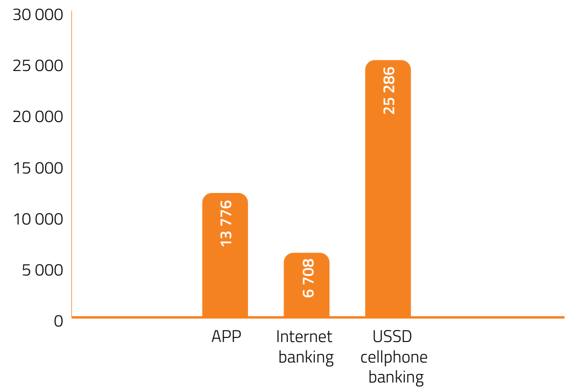
The mobile banking service offers the usual balance and statement views, inter-account transfers, external transfers as well as airtime and electricity purchases, with the most utilised services being balance views and airtime purchases.

The target for the mobile banking channels was 8 000 registrations in the first five months from launch in October 2018 to financial year end. However, supported by our iMali Yam! marketing campaign devised to drive registrations and usage of both the debit card and mobile banking, we achieved over 25 000 registrations.

Ubank mobile banking registrations



Registration stats per channel as at 17 March 2018



OUR BUSINESS PROJECTS continued

Customer growth initiatives

Bank-on-Wheels

Essentially a mobile branch mounted on a truck, our Bank-on-Wheels was used to service customers in Embalenhle when the two branches on the Kinross mines were terminated due to mine closure. This provided services for customers around August 2018 until a new branch was opened in Embalenhle Mall (Mall @ Emba) in March 2019.

New Bank-on-Wheels mobile branch

The Bank-on-Wheels truck contains:

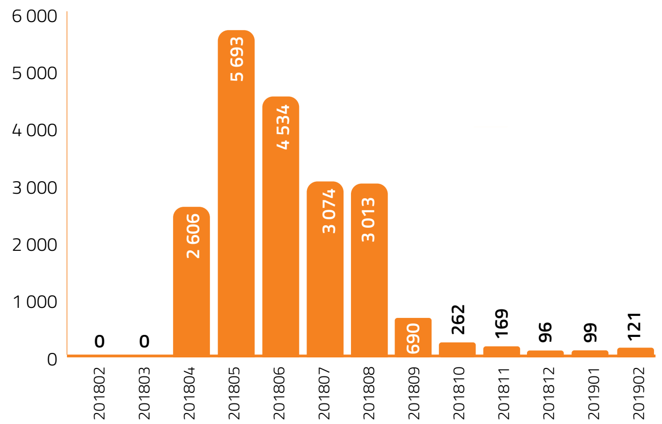
- 1 ATM
- 2 Tellers
- Bulk cash transfer tray
- Teller trolley with drop safe
- Cash transfer draws
- Built-in security with CCTV cameras

SASSA beneficiaries

During the year under review we responded to the Department of Home Affairs plea for banks to assist with the payment of social grants to beneficiaries. We actively pursued the opportunity by assisting them with transactional accounts that would enable them to receive their SASSA benefits. Task forces from various branches created awareness by utilising Ubank-branded vehicles and marketing to SASSA queues.

The acquisition of SASSA beneficiaries slowed in the latter part of the year as external sales efforts were reduced to deal with high volumes in-branch. The lack of an outbound sales force impacted this initiative as well as overall sales.

SASSA transactional accounts opened per month



Overall performance

While our retail performance did not meet all the strategic goals, significant progress was nevertheless made in meeting stretch goals, such as customer acquisition.

In a tough trading year for the business, we noted that:

- Lack of capitalisation impacted investments in the business
- Strikes and retrenchments on the mines had a major impact on our core customer base
- The level of indebtedness of our target market had an impact on credit book performance and sales

For more on our target achievements see pages 16 to 17.

THE ROAD AHEAD

Globally

While there is much uncertainty about developments with macro economic implications such as trade tariff sparring between major economies and Brexit, and the drop-off in world trade growth of over 5% during 2018, rising interest rates, surging equity and commodity market volatility indicate that global financial conditions are tightening. The global economy appears to be vulnerable to shocks and in the medium to long term there is a rising probability of a recession, which will have a bearing on domestic conditions.

South Africa

National Treasury has revised the growth outlook of the domestic economy downwards to 1.5% for 2019. In the short term there is a weaker outlook with global trade and investment moderating, with a fragile recovery in household income. Nonetheless, there are signs that the economy will gain ground, although the unpredictable outcomes of the results of the 2019 general election and the ongoing difficulties of the mining industry in particular will have a bearing on our customer base.

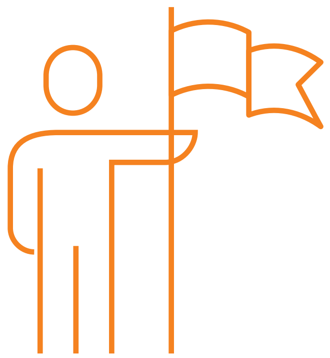
However, with our high customer satisfaction indicators, our strategy for expansion into the open market, and our competitiveness enhanced by our move to further digitalise both our operations and our product offering, we believe that we are well placed to meet the requirements of a widening and more demanding customer demographic.

Opportunities

We see our strategic readiness within the digital realm as key to our growth. This, combined with the value of our reputation as a niche bank that is demonstratively diligent in its governance and transparency, and the recapitalisation of the Bank that we are actively pursuing, are strategic enablers. It is through these enablers that we will extend our reach and ensure that we achieve our vision to be the **Workers' Bank of Choice.**

Control

The Bank is committed to managing its risks and opportunities in the interests of all stakeholders. Every employee has a responsibility to act in this manner. The risk management philosophy encompasses the tone set by the Bank and all its business units with respect to its risk appetite or risk tolerance, thereby constituting the basis for how risk is viewed and addressed. The overall risk philosophy of Ubank is to identify, assess and manage its business unit's risks so as to preserve its strategic objectives.



Our risk management strategy

Value is maximised when management sets a clear strategy and objectives to strike an optimal balance between growth, return goals and related risks. Ubank aims to efficiently and effectively deploy resources in pursuit of the Bank's objectives. Management's general risk management strategy for all material risks identified is to actively monitor and manage risk.

In order for management to effectively deal with uncertainty, associated risks, opportunities and enhance the capacity to build value, the following key elements are taken into consideration:

- Aligning risk appetite and the Bank's strategy
- Enhancing risk response decisions
- Reducing operational losses
- Identifying and managing multiple and cross-enterprise risks
- Seizing opportunities
- Improving deployment of capital

Enterprise Risk Management Framework (ERMF)

We have set out our process for the management of risk arising from our activities in our ERMF, in line with our risk appetite limits and thresholds, which are also set out in the framework.

Our risk appetite is the amount and type of risk that the Bank is prepared to accept or tolerate in conducting its operations in the pursuit of its business objectives; and our risk appetite framework, which includes policies, processes, controls, and systems through which we establish, communicate and monitor our risk appetite, provides an overall approach for this.

In addition to articulating the risk governance framework, the ERMF also sets out the process for the identification and assessment, management, mitigation, monitoring and reporting of the Bank's key risks. Risk identification and assessment is conducted through the risk and control self-assessment process.

Promote just, peaceful and inclusive societies

Our risk governance structure

Ubank's Risk Governance Structure is made up of the following:

Board of Directors	Ultimately responsible for all the risks in the Bank, including but not limited to operational risk, credit risk, assets and liabilities and solvency risks.
Board Risk Committee	Assists the Board in reviewing the overall quality, integrity and reliability of the Bank's risk management process and all significant risks facing the Bank.
Executive Committee	Responsible for monitoring the risk profile of the Bank and ensure effective risk mitigations are implemented.
Enterprise Risk Committee	Oversee and maintain the Bank's risk management plan in line with the ERMF approved by the Board of Directors.
Business Unit Management	Responsible for managing risks in the areas for which they are responsible.

3rd Line of defence – Internal and external audit

2nd Line of defence – Enterprise risk function

1st Line of defence – Business units and risk owners

Our top 10 key enterprise risks

The Bank has a strong risk management strategy in place which deals with the material risks to which the Bank is exposed, and those strategies are adopted and applied by management to manage these material risks. Material risks are identified and the approach to each risk is formally captured within the ERMF.

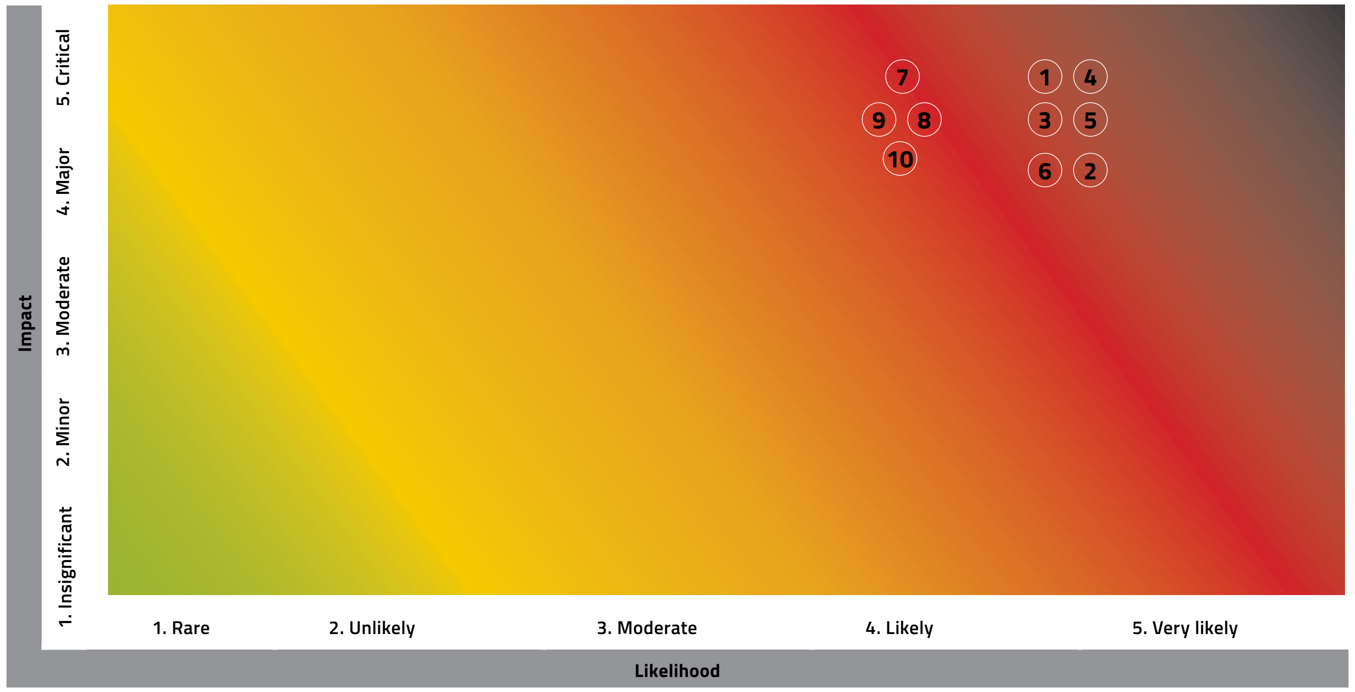
Key enterprise risks	Risk source	Risk cause/outcome	Opportunities	Mitigating action plans	Strategic initiatives
1 **Capital risk**	Internal	The lack of capital supply inhibits the Bank from achieving its strategic growth objectives and may result in insufficient resilience to withstand stress events. The risk of regulatory non-compliance therefore exists in the form of breach of capital preservation limits.	» Digitalisation » Capacity to implement strategic growth initiatives » Enhanced CVP	» Capital-raising project managed through the Capitalisation Committee » Tactical capital plans to ensure regulatory CAR is maintained, including the appropriation of FY2019 half-year profits to fund priority strategic projects	SO I 3 SO I 6
2 **People risk**	Internal	Inadequate skills capacity due to staff turnover and restrictions on filling of vacancies resulting in an overstretch of current resources and thus negatively impacting achievement of operational and strategic objectives.	» Cross-skills development and promotions » Employee value proposition enhancements	» Staff placed in acting positions » Implementation of a culture change plan » Change management initiatives through appropriate and relevant communication channels	SO I 2 SO I 5

CONTROL continued

Key enterprise risks	Risk source	Risk cause/outcome	Opportunities	Mitigating action plans	Strategic initiatives
3 Customer risk	External	Customer attrition in the gold and platinum mining sector and the inability to attract open market customers due to inadequate footprint, ATM network, product competitiveness and brand awareness. Challenges in the economic environment also reduce consumer spending and ability to repay debts.	» Opportunity to target open market and workers » Enhanced CVP » Strategic partnerships	» Customer acquisition and retention initiatives » Customer centric 2023 strategy » Implementation of mobile and digital banking platforms » Research and evaluation of existing products	SO 1 SO 4 SO 6
4 Concentration risk	External	Concentration in the gold and platinum mining sector, coupled with the declining customer base due to retrenchments resulting in a declining loan book, increased impairments and reduced transactional income.	» Opportunity to target open market and workers » Enhanced CVP » Strategic partnerships	» Open-market customer acquisition initiatives » 2023 strategy for the development of a comprehensive CVP	SO 1 SO 4 SO 6
5 Information Technology (IT) risk	Internal and external	Current banking platform is outdated with limitations. The nature of cyber threats are continuously evolving, increasing the risk of data loss/leakage or denial of service attacks.	» Digitalisation » Agility » Enhanced CVP	» Upgrade of the core banking system » Cyber risk monitoring and insurance » Improvement of current cyber threat controls » Initiatives using security information and event management and Distributed Denial of Service protection	SO 1 SO 6
6 Fraud risk	Internal and external	Inadequate physical security, surveillance, category safes, access controls, and delayed armed response in remote areas may result in losses due to robberies burglaries and ATM bombing. The risk of losses due to fraud perpetrated on our customers through debit card identity theft and account take-over fraud.	» Customer-centric CVP » Enhanced fraud prevention, detection and management capacities	» Improvement of physical security through the reinforcement and implementation of physical threat procedures, armed response and physical infrastructure upgrades » Implementation of card-skimming mitigation measures, fraud awareness campaigns, SMS notifications to customers and mandates above prescribed limit transactions, monitoring of dormant accounts and the implementation of fraud management system and call centre	SO 3
7 Regulatory risk	Internal	Failure to comply with the requirements to establish an independent compliance unit as per section 60 and Regulation 49 of the Banks Act. Fines and penalties from regulator due to non-compliance with all applicable legislation and regulations.	» Implement regulatory system that complements our CVP	» Implementation of Financial Intelligence Centre Amendment Act requirements as well as the protection of personal information privacy programme to ensure compliance » Monitoring, tracking and reporting of the remediation log to resolve anti-money laundering SARB findings	SO 3

Key enterprise risks	Risk source	Risk cause/outcome	Opportunities	Mitigating action plans	Strategic initiatives
8 Strategic risk	Internal	Inability to act on strategic opportunities due to resource constraints and failure to adequately align Ubank with other partners for optimal partnership benefits.	» Strategic partnerships » Footprint and channel expansion » Enhanced CVP	» Development of strategic and business plans aligned with the 2023 strategy » Culture-change agenda aimed at achieving strategic objectives » Relationship management of key partnerships	SO 6
9 Reputational risk	External	Unsatisfactory customer service experience may lead to reputational risk and negative brand impact.	» Customer-centric CVP » Branding opportunities	» Ongoing customer service and customer education roadshows » Effective customer query and resolution policy and procedures » Recapitalisation change management facilitation	SO 2 SO 3
10 Outsourcing risk	Internal and external	Reliance on service providers for key services and unsatisfactory delivery by vendors due to inadequate vendor management and service level agreements (SLAs) may result in delays in the implementation of key projects and initiatives.	» Strategic partnerships » Digitalisation » Enhanced CVP	» SLAs in place with a majority of service providers » Legal department review of contracts before sign-off » Improvement of current SLAs and implementation of new ones where absent » Monthly meetings with suppliers » Vendor performance review and monitoring of SLAs	SO 1

Our risk heat map



Chief Executive Officer's message

Once again, I am proud to present our integrated report – our second – for the 2018/19 financial year. In what proved to be a period of ongoing challenges in the wider economy displaying all the signs of a recession, I am pleased to acknowledge that Ubank's performance was nonetheless a very gratifying one.

Our external and internal operating context

In an economy that was not performing, and in the context of ongoing constraints in the gold and platinum mining sectors, which employ what is still the majority of our customers, and with a resultant impact on our income growth, we have had to carefully monitor and contain our costs. Our good results are an indication of the success we have had in accomplishing this.

A notable feature of the year under review is the appearance in the marketplace of new competitors for Ubank. This has occurred with the granting of licences for niche banks such as TymeBank and Bank Zero. Others, like the Post Office, have licences pending. Moreover, we have seen acquisitions and consolidation in the banking sector with Capitec having bought Mercantile Bank for its access to SMMEs, and Bank of Athens having already been sold.

These developments have been taking place against the backdrop of the exponentially increasing need to digitalise in services, offerings and infrastructure. Our strategy definitively takes this into account, as we see technological innovation as very much an important enabler for our ability to continue creating value and to compete in the short to medium term.

During the year under review, we took a decision to create an environment for our customers that will support this strategic intent. Key to that will be our investment in our new core banking system. This new technology will certainly enable us to better retain and attract customers, increase our competitiveness, and maximise efficiencies that will help facilitate growth.

Thus, as much as the introduction of new niche banking competition has sharpened our drive for cost efficiency, we see this widening competitive landscape as an opportunity in which to continue to expand our market beyond customers working in the mining sector.

In a second major strategic focus during the year, we have been acting on our mission to become the Workers' Bank of Choice, viewing it as extending to embrace other sectors, such as the policing, nursing and education. Our core banking investment has been very much a part of our intent in this drive to extend our market reach during the year.

In this regard, we firmly believe that there is great opportunity in the SMME market. It is a fact that globally, where there is no growth in SMMEs, gross domestic product (GDP) suffers. In South Africa SMMEs are seen as the future of business, representing a full 40% of all businesses in the country. The National Development Plan (NDP) envisages that by 2030, 90% of all new jobs will be in SMMEs. Beyond the business growth opportunities that this represents for Ubank, we also see it as an opportunity to make a contribution towards general economic growth and stability.

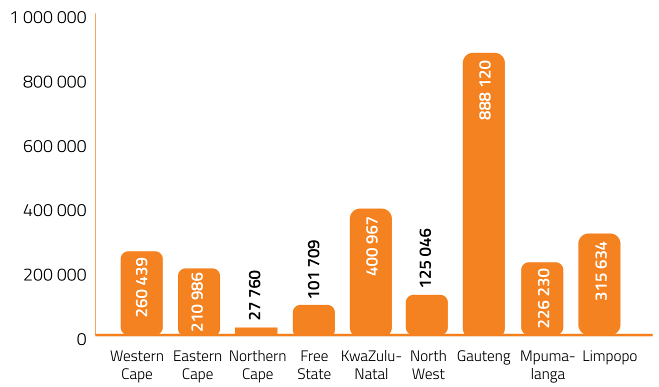
For more on our strategy and target achievements, see pages 15 to 17.

Key SMME indicators

Key indicators	2018 Q3
Number of SMMEs	2 556 891
Number of formal SMMEs	734 023
Number of informal SMMEs	1 756 314
Number of jobs provided	10 067 628
% Operating in trade and accommodation	40.4%
% Operating in community services	13.7%
% Operating in construction	14.7%
% Operating in finance and business services	13.3%
% Black-owned formal SMMEs	75.1%

Source: SMME Quarterly update, 3rd quarter 2018

SMMEs by province: DTI and proxy vs GDP



Source: QLFS of Stats SA

Reputation

The year under review was notable for some very high-profile financial debacles. In the banking sector the VBS saga had major repercussions, while other surprising revelations brought major companies such as Steinhoff, Basil Read, Tongaat and Aspen to public attention. When companies that appear too big to fail prove all too vulnerable, and in particular where corruption appears to have played a part, no business – and in particular no bank – can afford to be complacent. There is always the effect of association in the public mind, and as in the case of VBS in particular, we had to be more than meticulous in ensuring that our excellent reputation among all our stakeholders was not in any way doubted. I am pleased to say that as a result of our agile responses, coupled with the residual loyalty of our customers, our reputation has remained at the high levels that we have always worked so hard to maintain.

Outlook

The immediate economic outlook for the country, and indeed globally, remains rather flat, although there are of course unique social, political and economic circumstances that pertain to the South African environment. It will take some time before they are resolved, and we believe therefore that in the short term, there will be some hurdles that we will have to negotiate with the same foresight and strategic agility that we have displayed over the past year. We will also need to bring in new people with diverse skills, and the message that we are already conveying to all our stakeholders is that it is our ability and willingness to change as the landscape changes that will ensure our ongoing stability and sustainability.

In the medium to long term, however, I believe that we will go from strength to strength as we implement our strategy for growth and diversification into the open market, and enhance our competitiveness with products, technology, innovation and efficiency.

Acknowledgments

This year we have an outgoing Chairman of the Board, and I would like to thank him for the outstanding contribution he has made to Ubank over more than a decade of service as an independent director. His calm, wise and knowledgeable leadership has enabled us to continue to perform at the level we have; it is with great appreciation of his dedicated efforts that we will take our leave of him. Appreciative thanks are also due to all the members of the Board, whose skilful and diligent direction has facilitated our management decisions, and enabled the smooth, productive and transparent operations of the Bank. They all made an outstanding contribution. I would also like to thank the Trust – our shareholder – for their continued and unstinting support.

Finally, Ubank is nothing without the dedicated and committed people – our colleagues who comprise and live our ethos, and who work so hard to make sure that our customers' trust in us is always fully justified. I would like to thank each and every one of you for your contribution to another positive and encouraging year.

L Vutula
Chief Executive Officer

Chief Financial Officer's report

Value creation for the Bank's stakeholders by means of financial capital is measured through its financial performance and investment for growth while maintaining adequate levels of capital.

Return on Equity 25.6%
(FY2018: 9.2%)
#4.8%

Cost: income ratio (excluding impairments) 63.7%
(FY2018: 77.3%)
#82.6%

Value of deposit book R4.7 billion
(FY2018: 4.8 billion)

Return on Assets 3.5%
(FY2018: 1.0%)
#0.5%

Capital adequacy ratio 25.29%
(FY2018: 24.53%)

Loans: deposit book 13.0%
(FY2018: 15.2%)

Profit before tax R257.4 million
(FY2018: R78.7 million)
#R43.7 million

Value of gross loan book R737.5 million
(FY2018: R832.7 million)

Strategic spend funding R168.7 million
(FY2018: R97.9 million)

 # Normalised to exclude recovery of Corporate Money Managers' Fund (CMM) investment.

Ubank managed to remain resilient for the financial year ended 28 February 2019 against a challenging operating and economic environment characterised by corporate failures, declining commodity prices and mining production, retrenchments and new financial industry entrants.

Despite these challenges, the Bank's profit before tax for the year increased by 227.0% to R257.4 million (normalised FY2019: R43.7 million; FY2018: R78.7 million) which translates into a ROE of 25.6% (normalised FY2019: 4.8%; FY2018: 9.2%) and ROA of 3.5% (normalised FY2019: 0.5%), up from 1.0% in FY2018. The Bank managed its capital adequacy levels to remain above the minimum regulatory requirements set by the SARB and ended at 25.29% (FY2018: 24.53%) before full-year appropriation of profits.

Financial performance
Simplified statement of profit or loss

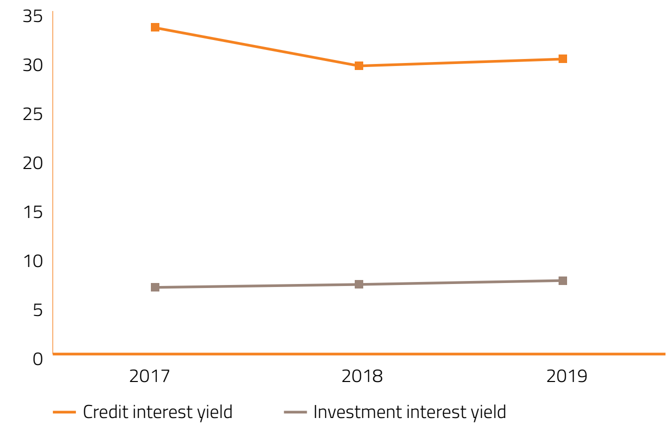
	2019 R'000	2018 R'000	Change R'000	Change %
Net interest income[1]	421 687	423 527	(1 840)	(0.4)
Net fees and commission income[2]	248 391	272 761	(24 370)	(8.9)
Other income[3]	263 237	36 589	226 648	619.4
Total operating income	933 315	732 877	200 438	27.3
Impairment charge on financial assets[4]	(80 945)	(87 562)	6 617	(7.6)
Net operating income	852 370	645 315	207 055	32.1
Total operating expenses[5]	(594 932)	(566 587)	(28 345)	5.0
Net profit before tax	257 438	78 728	178 710	227.0
Taxation	(62 553)	(24 557)	(37 996)	154.7
Profit for the year	194 885	54 171	140 714	259.8

[1]Net interest income
Net interest income totalling R421.7 million decreased year-on-year by R1.8 million (0.4%), driven mainly by the downward trend of the net loan book by 15.2%. Interest received on loans and advances makes up 39.1% of total interest received. The average credit interest yield (post-impairments) deteriorated from 32.8% (FY2018) to 30.1%, mainly resulting from a 20.9% decline in loan sales as well as a 25bps repo rate cut early in the financial year.

The average interest yield on investments improved to some extent (FY2019: 7.5%; (FY2018: 7.1%) compared to the previous financial year. The improvement is largely due to optimal investment strategies as well as the recovery of R251.8 million on the CMM investment now concluded and derecognised. Further details regarding the recovery of the investments are disclosed within the notes of the annual financial statements note 16 (pages 114 to 115).

Interest paid to our customers on their savings and investment accounts increased by R1.1 million (1.1%) despite the 2.7% decline in the deposit book. Our rates are aligned to the Bank's strategy to support our CVP and remain competitive.

Interest yield trend (%)



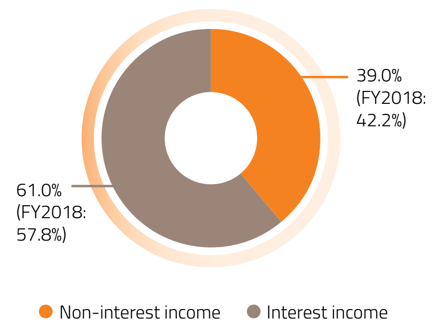
[2]Net fees and commission income
The 5.6% decline in fees and commission income reflects the impact of a weak economy coupled with low consumer confidence levels and buying power. Fees and commission income decreased year-on-year by R18.9 million totalling R319.2 million (FY2018: R338.1 million).

Income from lending activities declined by 14.4% in line with the downward trend of the loan book. Payroll income, whereby the Bank acts as paymaster to mining houses, reduced by 21.0%, replicating the current challenging mining environment of retrenchments and mining strikes as well as mining houses seeking more effective ways to run their payroll activities.

Transactional and service fee income, which contributed 74.0% of fees and commission income, declined by 4.4% while ATM income improved by 7.6% year-on-year. This is in line with our strategic drive to migrate customers using branch channels to use more digital channels such as ATMs and mobile banking. We are pleased to report on our success at migrating customers to digital channels. While that depicts an increased demand for our digital services, branch transaction volumes have inevitably been negatively affected. ATM and mobile fees are noticeably lower than in-branch transactional and service fees. The migration has therefore resulted in a decline in the net fees and commission income; however, the Bank is convinced that the provision of these digital services makes sound business sense with global and local trends moving towards advanced technology.

Increasing the customer base therefore remains a focused area regarding generating transactional revenue. The number of active customers has increased by 4.1% year-on-year.

Income composition (normalised)



Non-interest revenue growth remains a challenge and a key strategic objective for the Bank. We therefore continue to explore new revenue opportunities and diversify transactional types to combat concentration risk and reliance on interest revenue.

[3]Other income

Other income totalling R263.2 million increased by 619.4% and comprises mainly post write-off recoveries and the CMM investment recovery. Bad debt recoveries of loans previously written off deteriorated by 39.1% and totalled R18.9 million for the year. Recoveries of R244.0 million relate to the CMM investment, now concluded and derecognised.

Impact of the CMM investment recovery is as follows:

	2019 R'000
Profit before tax:	
Interest Income	2 997
Other income (CMM recovery)	244 045
Impairment charge	(5 337)
Other operating expenses	(27 972)
Taxation	(47 738)
Investments:	
Proceeds received	(251 755)
Recovery on investment	214 045

[4]Impairment charge on financial assets

Credit impairment charges totalling R75.1 million were marginally (5.0%) lower than FY2018 (R79.1 million). The 17.5% increase in the provision for impairments on loans and advances reflects the challenging environment in the mining sector that are faced with declining commodity prices, retrenchments, load shedding and high operating costs.

The impairment coverage of 15.2% (FY2018: 11.5%) were largely impacted by the IFRS 9 transitional adjustment of R30.1 million on 1 March 2018 (page 118).

[5]Total operating expenses

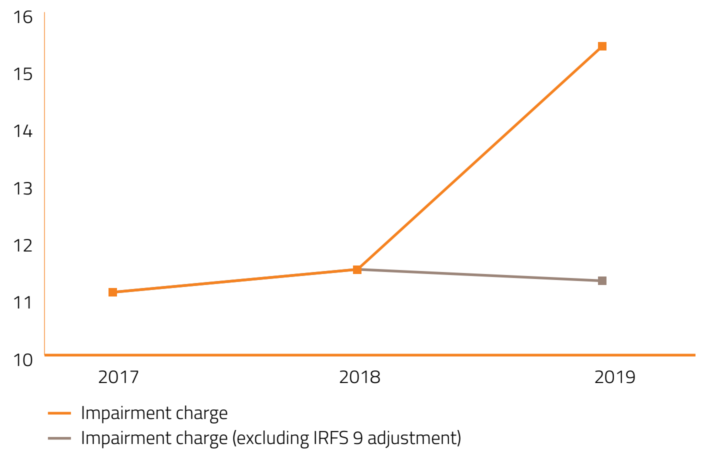
Operating expense (including fees of R28.0 million relating to the recovery of the CMM investment) increased 5.0% and totalled R594.9 million. The slow growth in spend demonstrates the concerted efforts by the Bank and its staff to manage expenditure in an environment of slow revenue growth without restricting investment in business growth. A variety of initiatives were delivered during the year under review and comprise R18.9 million (FY2018: R15.8 million) of operating expenditure.

Staff-related costs (excluding a bonus provision of R20.0 million in FY2018) increased by 8.7% driven by a combination of annual average salary increases as well as appointments in vacant positions made during the financial year under review.

Operating expenditure breakdown:

	2019 R'000	2018 R'000	Change R'000	Change %
CMM expenditure	27 972	–	27 972	100
Staff expenses (excluding bonuses)	265 531	244 206	21 325	8.7
Operating expenses:				
Business as usual	282 848	286 595	(3 747)	(1.3)
Strategic initiatives	18 581	15 786	2 795	17.7
	594 932	546 587	48 345	8.8

Impairment coverage (%)



Simplified statement of financial position

	2019 R'000	2018 R'000	Change R'000	Change %
ASSETS				
Non-current assets	175 011	185 636	(10 625)	(5.7)
Current assets	5 473 518	5 401 936	71 582	1.3
Total assets	5 648 529	5 587 572	60 957	1.1
EQUITY				
Equity	762 480	591 624	170 856	28.9
LIABILITIES				
Non-current liabilities	4 753 860	4 851 293	(97 433)	(2.0)
Current liabilities	132 189	144 655	(12 466)	(8.6)
Total equity and liabilities	5 648 529	5 587 572	60 957	1.1

Capital expenditure

Capital expenditure increased by 122.9%, translating into additional spend of R46.1 million during the financial year under review. The increased spend reflects our continued focus on strategic initiatives and investment in growth.

Spend on software development constitutes 84.1% (R41.7 million) of the total capital expenditure and relates mostly to the upgrade of our core banking system, a key initiative in our journey of building a strong foundation with you.

Capital expenditure:

	2019 R'000	2018 R'000	Change R'000	Change %
Software development	41 710	2 900	38 810	1 338.3
Leasehold improvements	12 764	8 746	4 018	45.9
Motor vehicles	1 602	–	1 602	100
Furniture and fittings	4 148	9 236	(5 088)	(55.1)
Office equipment	3 666	1 717	1 949	113.5
Computer equipment	11 781	11 345	436	3.8
ATMs	8 026	3 611	4 415	122.3
	83 697	37 555	46 142	122.9

Customer deposits

Customer deposits of R4.8 billion declined marginally by 2.0% (R97.4 million) amidst tough economic conditions.

Transactional mining accounts, which contribute 43.9% of customer deposits, declined by 6.6% (R148.2 million). Term deposits contribute 26.5% of customer deposits and grew by 4.1% year-on-year on the back of strong growth in our Save Together and Eezisave products that grew by 12.3% and 15.2% respectively.

Through the efforts of the retail team, the number of gross new customers grew by 39.2% and the active customer base improved by 4.1% during the financial year under review.

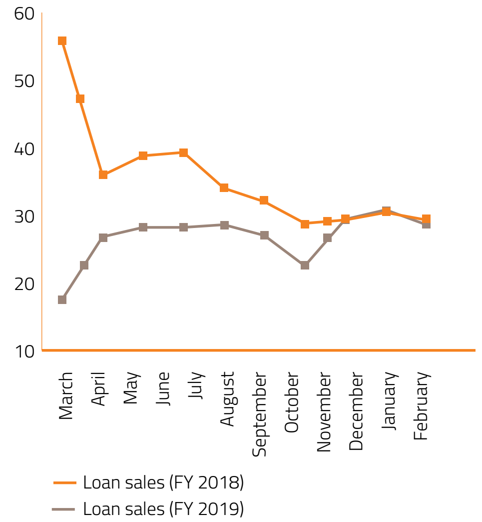
Loans and advances

The net loan book, concentrated mainly in the gold and platinum mining sector, of R625.3 million (FY2018: R737.2 million) declined by 15.2%, driven by the challenging environment in the mining sector faced with declining commodity prices, political uncertainty, load shedding and high operating costs .

The Bank achieved total loans sales of R310.1 million, down 20.9% from the previous financial year (R391.9 million). As a result of the declining loan book and the impact of IFRS 9 implementation (R30.1 million), the balance sheet coverage ratio has decreased from the prior year's 11.5% (FY2018) to 15.2% (FY2019).

Commensurate with the declining loan book trend, the arrears ratio (arrears balance to total loan book balance) deteriorated year-on-year from 5.3% (FY2018) to 5.7% at February 2019. This is evidenced by the collections ratio also declining from 59.9% to 51.6%. In addition, the repayment ratio declined from 119.1% to 93.3%.

Loan sales (R million)



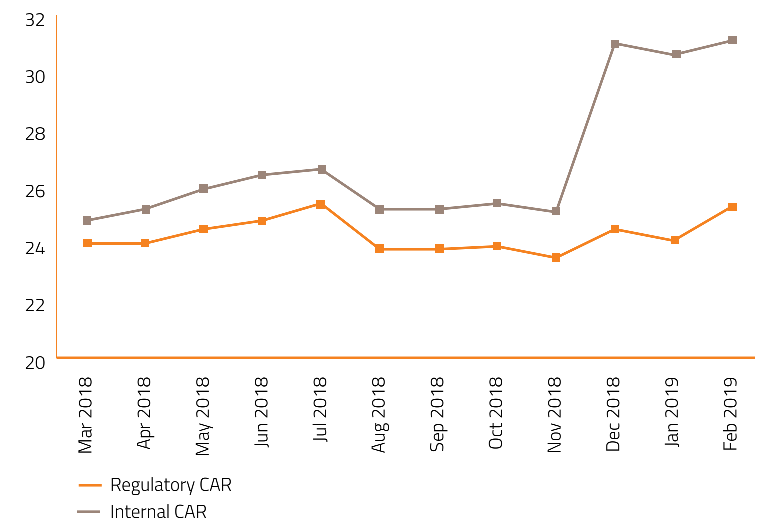
Capital management

The Bank's CAR of 25.29% (FY2018: 24.53%), before appropriation of profit at 28 February 2019, remained above the SARB regulatory and the Bank's internal limit.

During December 2018 the Corporate Money Managers (CMM) investment was recovered and contributed to an approximate 500bps increase on the internal CAR. The Bank adopted IFRS 9 that became effective on 1 January 2018. The estimated impact of the accounting standard implementation was a 75bps decrease.

Capitalisation of the Bank remains a key success factor to maintain cost-effective and adequate capital levels while investing for growth.

CAR position (%)



Strategic spend

During the financial year, total funding of R168.7 million was released in respect of the Bank's initiatives through the Investment Committee; a growth of 72.3% compared to FY2018. This reflects the Bank's focused approached to remain aligned to the strategic roadmap to ***building a strong foundation with you.***

Funds released for key initiatives are as follows:

Channel projects:
- Voice-assisted channel
- Branch optimisations
- Branch relocations

IT-related projects:
- Compliance computer based training system
- Core banking upgrade

Ongoing rollover projects:
- Fraud management system
- Authenticated collections programme (Debicheck)
- Electronic records management system (Biometrics implementation)
- Industry cash management process

Financial outlook

Looking ahead, weak economic and volatile conditions will remain, with challenges and ongoing difficulties in the mining industry and regulatory environment impacting our customer base and also the consumer's wallet. The impact of new entrants and continued drive towards digitalisation in the financial industry must also not be ignored.

Ubank is not immune to such conditions but will remain focused, vigilant and committed to deliver on our brand promise of ***Growing with You.*** We will therefore continue to deliver on our strategy while driving financial sustainability.

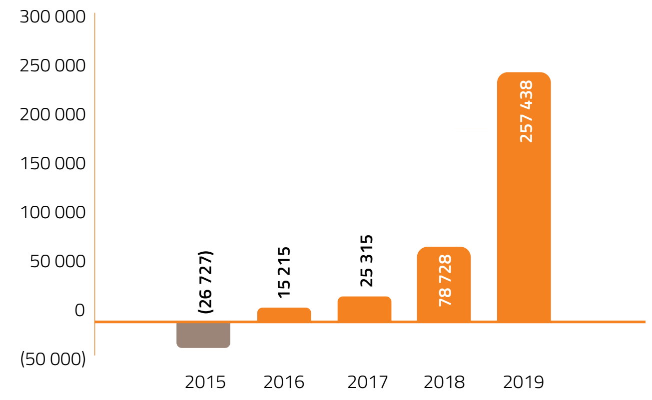
Key focus points during the next financial year will be as follows:
- Invest in growth and CVP
- Focused drive to diversify our income streams and to pursue opportunities to grow non-interest revenue thereby reducing reliance on interest revenue
- Accelerate the digitalisation intent of the Bank
- Capitalisation
- Key partnerships to grow and develop the Bank
- To remain cost conscious and drive operational efficiencies
- Brand awareness

Appreciation

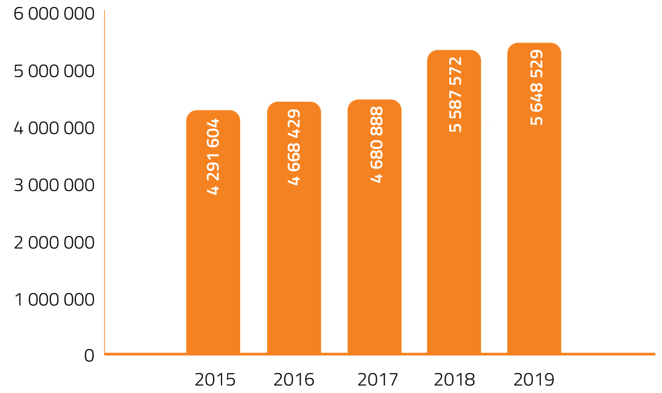
I would like to conclude by thanking my colleagues and the members of the Board and Exco for their ongoing support and leadership during the year. I would also like to extend my appreciation to the Financial Solutions team for their ongoing commitment, dedication and efforts.

JH du Preez
Chief Financial Officer

Profit before tax (R million)



Total assets (R million)



Customers

Central to our operations is our relationship, understanding, tracking and approach to our customers, whose loyalty to our brand forms part of our financial, human, and social and relationship capitals.

The foundation of our relationship with our customers is our CVP, which is what mediates our brand. Our uniqueness is embedded in our brand essence.

Our brand and customer value proposition

REAL
Connecting with and touching all stakeholders on a personal level

Community immersed

SPIRITED
Vibrant, dynamic and thriving

Nurturing relationships

PARTNERSHIPS
Creating value together and nurturing strong bonds

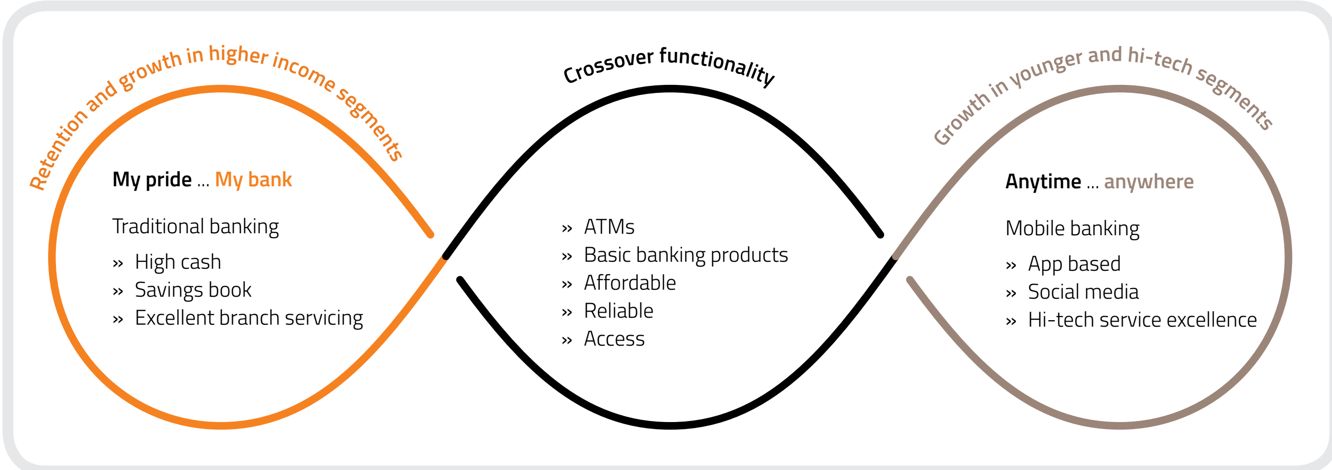
Educating and empowering

Our brand promise:	Growing with You
Our brand positioning:	Ubank educates and empowers its customers to achieve financial success, partners with its communities to uplift them and nurtures relationships with all stakeholders
Our brand differentiators:	Community-immersed; nurturing relationships; educating and empowering
Our Ubank value proposition centres on three core themes:	» Life-long relationships » Caring community » Deep understanding

We understand that our target customers need financial stability and financial growth.

For the past few years we have worked on a dual CVP, acknowledging our traditional customer base who preferred savings books, cash and over-the-counter dealings, and have been providing them with customer education and financial literacy to encourage a behavioural shift to cards, ATMs, retail point-of-sale (POS) and mobile banking electronic channels. We also acknowledge our future market who value banking anytime, anywhere and appreciate higher tech convenience offerings.

Our enhanced value proposition thus comprises two facets – one branch-based, the other electronic, with crossover functionality for customers who wish to make use of both.



During the year under review we saw a shift manifest as more and more customers started choosing debit cards over savings books, electronic (ATM/ Point-of-sale transactions) and mobile banking over in-branch transacting. We also noted a change in customer profile, with a younger and more equal gender balance, where previously our customer base was significantly skewed toward older males as a result of our historic mineworker customer base. This has strengthened and encouraged the Bank's move toward digital transformation.

Decent work and economic growth

We continue to enhance our value proposition and build a strong foundation to transform the Bank digitally, in line with the needs and preferences of our target market.

CVP design principles and what they mean in a digitally transformed organisation

Our CVP design principles guide all design elements within the organisation, for product, channel, process, campaigns, etc.

Simple	Keep interactions simple and **mobile first**. Don't make customers or frontline colleagues think/wonder what to do. Act in **customers' best interests**. Interactions should be **effortless** for customers and frontline colleagues.
Flexible	**Know the customer** and what they need at different life stages. Make it **easy to change/ connect products**. Allow them to **tailor-make** their interaction by choosing the type of interaction that suits them (digital/face-to-face).
Affordable	**Unmatched value for money** – with built in digital education on which is the best value for money option (e.g. if customer chooses an expensive channel, inform them immediately about the cheaper option).
Accessible	The customer and frontline colleagues must **trust** the systems and support available to them. Focus is on **reliability, convenience and access** to all channels and products.

PRIVACY BY DESIGN

Customers/colleagues must know that their personal information is **private and secure** at all times. This must be built into channel, product, service and process design.

SUSTAINABILITY BY DESIGN

Customers/colleagues must know that Ubank acknowledges and works towards the triple bottom line and – **PEOPLE**... PLANET...**PROFIT**

Sustainability is intrinsic.

Customer growth initiatives

In line with our strategy, the Bank undertook a number of initiatives during the year under review in order to grow our customer base, thereby augmenting our financial, and social and relationship capitals.

Credit and transactional campaign

This campaign was conducted from March to June 2018. It included radio on community stations, print, billboard and taxi advertising, activations, and digital (utilising the website, SMS and Smart SMS, allowing users to respond to SMS options which facilitates tracking).

Mining outreach programme

The Bank has partnered with the Medical Bureau of Occupational Diseases on an outreach programme targeted at ex-mineworkers, who could possibly have an occupational compensation claim. Ubank was an ideal partner as a well-known and trusted brand amongst mineworkers and many of the potential beneficiaries already banked with us, we were happy to assist the remainder to open accounts. The programme attempted to track-and-trace over 10 000 people, with over 5 000 medical examinations scheduled to be carried out. Ubank assisted with the payment of benefits to identified beneficiaries.

Bank-on-Wheels mobile branch

When Kinross 1 and 2 mine shafts closed, forcing the termination of our branches there, the Bank-on-Wheels was deployed to the area to service customers until the new Embalenhle branch in the mall could open.

For more on the Bank-on-Wheels, see page 24.

Sisonke campaign

This was a savings account campaign aimed at increasing deposits from savings groups during a seasonally low period of the year. This also forms part of a marketing strategy aimed at building strong relationships across the group-based informal savings community, encompassing savings groups, burial societies, etc.

Social media (SM) strategy implementation

Social media is a very cost-effective means of building a presence in the open market while improving the customer experience. There were other compelling reasons for implementing our social media strategy.

Customer research indicated a growing affinity and usage of social media across our customer base even in the very traditional segments, for example, focus group participants (who were predominantly, over 50-years old and migrant workers from neighbouring countries) indicated that they used Facebook as a relatively cheap means of communicating with their families. In addition, we believe that currently there is a saturation of cellular phones across our customer base.

A strong, well thought-through SM approach on the Facebook and Twitter platforms enabled us to accomplish:

- Brand building and brand awareness
- Reputation management
- Direct communication with our current and potential new customers
- New product sales and cross-selling
- Ubank 'community' updates
- Immediate connection
- The establishment of a cost-effective communication platform
- Monitoring and evaluation capabilities available as part of SM management tools

Social media summary in the first few months of implementation

Facebook

3 722	Followers
3 710	Page likes
98%	South African
58%	Male
69%	Under 35 years of age
44%	Of followers from Gauteng | 14% from KwaZulu-Natal
73%	Communicate on Facebook in English

Twitter

1 569	Followers
94%	South African
68%	Male
74 400	Twitter impressions*

** An impression is the total number of times that tweets about the search term were delivered to Twitter streams, i.e. the number of overall impressions generated.*

Marketing campaign

We conducted a year-end marketing campaign focused on encouraging customers to use mobile banking and their debit cards over the festive season. By January 2019 the Bank registered over 25 000 customers for the mobile banking service even though the initial targets expected a response of around 8 000 customers.

The campaign was promoted in-branch, on social media, and on radio on SABC stations (Lesedi, UmhloboWenene and Motsweding), and in print in the Daily Sun.

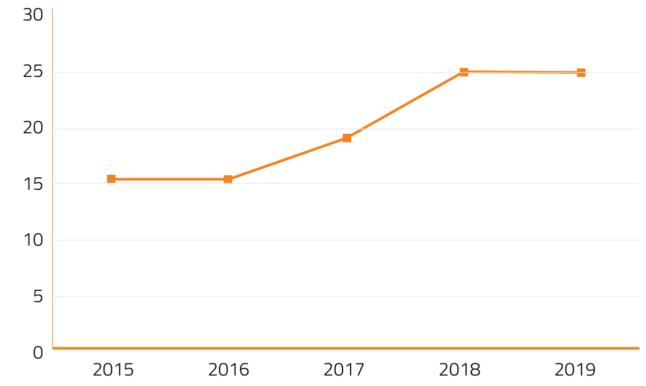
Brand awareness

During the year under review we undertook projects to increase brand awareness through sporting events like the Ubank Challenge (a road race in Randfontein), and a boxing tournament in the Eastern Cape, promoted on social media and aired on national television.

CUSTOMERS continued

Customer acquisition indicators

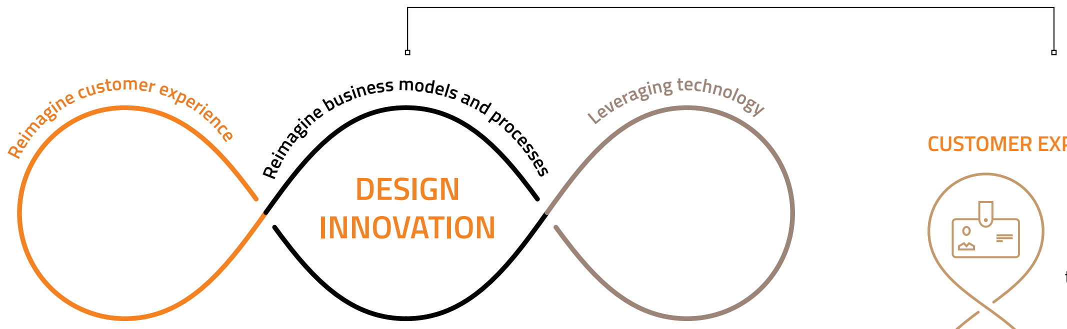
Improvement in monthly customer acquisition over the past three years



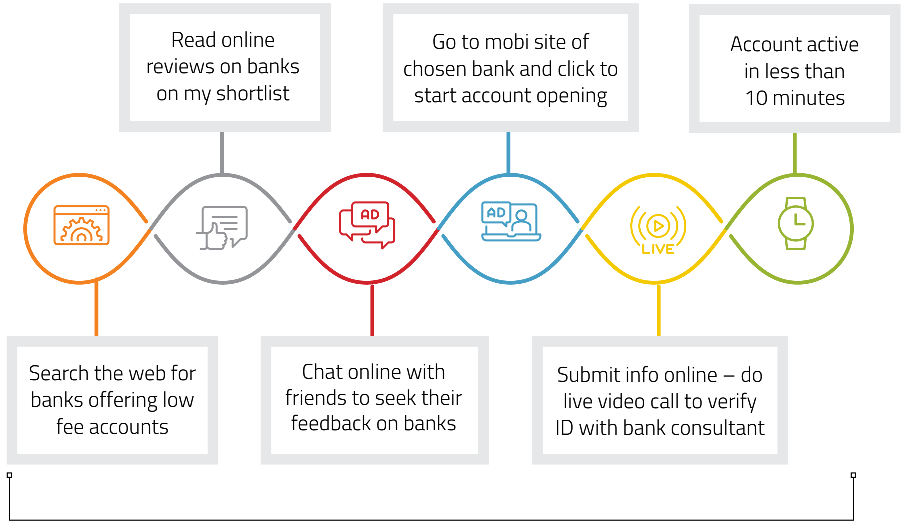
Digital transformation

Our strategy to transform to digital services and products in pursuit of growth and competitiveness in the open market is underpinned by our commitment to transform traditional banking into a customer-focused, exceptional experience, increasing our financial, social and relationship and intellectual capitals as we do so.

People-centric digital transformation



I WANT TO... "open an account"



ADAPT A CUSTOMER POINT OF VIEW – OUTSIDE IN

CUSTOMER EXPECTATIONS

KNOW ME
Know my financial goals, needs, likes and dislikes. Empower me to make good financial decisions.

MAKE IT SIMPLE
Keep my interactions simple. Don't make me think. Act in my best interests.

CONNECTED
Mobile first. Accessible through any interface of my liking. Don't force to use what suits you.

RESPOND NOW
Inform me spontaneously. Don't make me wait. Educate me if I make a wrong move.

TRUST
Keep my information and my money safe. Be unquestionably trustworthy and reliable.

Customer engagement

Customer engagement is the level of emotional connection the customer develops with the Bank through repeated and ongoing interaction.

Ubank conducted a three-year quantitative customer tracking study between 2016 and 2018 to gauge key customer metrics. The survey was focused on the target market around our branch network including both customers of Ubank and customers of competitor banks in the area, with the metrics compared to the competitor averages.

There are low levels of active engagement

Usage of products	Usage of mobile channels	Net promoter score
Engaged customers [2 products or more]	Engaged customers [mobile channels only]	Engaged customers [net of detractors]
18%	11%	25% (33%)

There are high levels of passive engagement

Propensity to stay	Brand affinity	Customer satisfaction
Engaged customers [intend staying]	Engaged customers [love the Bank]	Engaged customers (satisfied)
85% (81%)	9.17% (5.53%)	8.33% (8.61%)

Functional issues have major impact on engagement

Complaints resolution	Service rating	Nature of problems experienced at Ubank
Engaged customers [resolved]	Engaged customers [noticed improvement]	Four problems have been consistently raised over the past three years:
32% (43%)	54% (74%)	1. Slow/poor service 2. Faulty unreliable ATM 3. Bank charges query/dispute 4. Debit query/dispute*

18% of Ubank customers experience problems on average versus 11% of competitor customers

**Disputed debit: customers indicate this refers mainly to loan deductions continuing after loans have been paid off.*

HIGHLIGHTS

- Propensity to stay
- Brand affinity
- Customer satisfaction

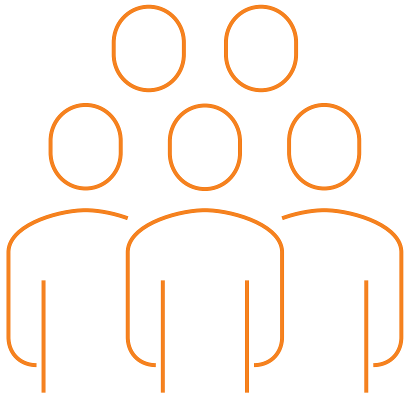
LOWER INDICATORS

A net promoter score which is lower than the average competitor and is influenced by the lower advertising spend and low brand awareness of Ubank in the market

Complaints resolution and service rating are areas that we need to improve, and progress in which has already been noted

Communities

Our commitment to the communities in which we operate forms part of our social and relationship and human capitals that have a bearing not just on the sustainability of the Bank, but on the wider sustainability and self-reliance of our customers, their families, the wider economy as well as the physical environment within which they live and work.



Global sustainability context

We take this view in terms of a global sustainability concept in which the aspects of business sustainability include:

» Long-term growth
» Systems thinking
» Profitability
» Customer loyalty
» Stewardship

Sponsorships and donations

Ubank presents a consistent image and message to stakeholders, the general public and to customers. This goes beyond corporate identity, and includes other aspects of marketing such as sponsorships and donations.

Our sponsorships and donations policy governs this and has been introduced to formalise the sponsorships and donations that we undertake in line with our business requirements and the guidelines of the Advertising Regulatory Board.

SUSTAINABLE DEVELOPMENT GOALS

End poverty in all its forms everywhere

Ensure healthy lives and promote wellbeing for all ages

Ensure inclusive and quality education for all and promote lifelong learning

Achieve gender equality and empower all women and girls

Decent work and economic growth

Reduced inequalities

Promote just, peaceful and inclusive societies

Community programmes

We maintain a number of strategic partnerships in order to facilitate and maximise our community outreach.

Partnership with Operation Hope	Financial education and entrepreneurial skills workshops for mineworkers conducted in partnership with Operation Hope.
Partnership with Banking Association of South Africa	StarSaver teaching children to save initiative and Spelling Bee piloted in Eastern Cape school where we have donated books and conducted training for Librarians.
Partnership with Royal Bafokeng Holdings	This programme will incorporate all initiatives that we will partner on for the year, including the back-to-school campaign.

We undertook a number of community programmes during the year under review.

Ubank community projects	Teba Fund Trust
» School Development programme	» School Development programme
» Ubank Bursary programme	» Teba Fund Trust/Ubank annual soccer tournament
» Financial Education programme	» Teacher Exchange programme/SA and New York
» StarSaver – Teach Children to Save SA campaign	» Distribution of school books in the Eastern Cape from USACF
» Take a Girl Child to Work campaign	» Spelling Bee/Library programme
» Tomorrow's Men campaign	» Stakeholder engagement/DoE
» Back-to-school campaign – Royal Bafokeng Holdings partnership	
» Entrepreneurship programme	
» Spelling Bee/Library programme (BASA)	
» Stakeholder engagement and partnerships/mining houses/ Department of Enterprises (DoE)	
» Khulanathi Employee Volunteer projects	

COMMUNITIES continued

Some highlights of our activities during FY2019 include:

Teba Fund Trust programmes

Living up to our promise of nurturing and empowering our communities really comes easy for us especially when we collaborate with the right partners.

USACF/Teba Fund Trust donation programme

Ubank through Teba Fund Trust partnered with US-African Children Fellowship (USACF) to donate a couple of containers filled with books, bookcases, chalk, toys, games, soccer balls and other items to be used by schools' to the Lusikisiki Department of Basic Education district office with the sole purpose of setting up schools functioning libraries. Among the schools that benefited from this initiative were Tshapile Junior Secondary school, Lower Esitholeni Primary, Zinini Junior Secondary school and Mbutye Primary school, Gwebityala Secondary school, and Dalasile Secondary school, all these giving around 20 000 school learners access to books.

Installation of library shelves

Library shelves were installed at two schools that have been identified in conjunction with the Department of Basic Education (Mpame Junior Secondary school and Xuba Primary school). The new shelving units were ready for use at the beginning of the 2019 school year and are expected to assist in improving teaching and learning conditions in the schools.

PUTTING YOU IN **UBANK**

INDIVIDUALS
COMMUNITIES
BUSINESS
UNIONS
COMMUNITY-IMMERSED
NURTURING RELATIONSHIPS
EDUCATING AND EMPOWERING

Ubank community projects

Our intention as a bank revolves around customer centricity and it therefore requires us to provide high-level customer service and positive experiences. Moreover, our intention is strongly channelled by our need to always educate and empower our customers, communities and prospective customers.

Ubank Financial Education Drive

It is with this, that on 11 October 2018 the Corporate Social Investment team hosted the first of a series of financial education workshops at Busmark – supplier of a comprehensive range of top quality buses and bus services and products to southern Africa.

The workshop aimed to educate employees on how to best manage their finances in order to make confident financial decisions. A topic that was highly welcomed given the number of complaints and comments about indebtedness some experienced through unscrupulous practices of micro lenders.

People Against the Spread of Aids and Starvation (PASAS)

Ubank in partnership with the Department of Health proudly handed over a newly built community centre to PASAS. This programme is run by 20 caregivers who dedicated themselves to look after the sick and the needy suffering from HIV/Aids, and committed themselves to also provide healthcare services in the community. This follows a previous installation of basic sanitary facilities for the organisation in the previous financial year.

Financial Wellbeing workshop

Ubank hosted 50 female stokvel customers at a Financial Wellbeing workshop at Klerksdorp Protea hotel on Saturday, 11 August 2018 in celebration of Women's month. The workshop covered both personal finance and group savings.

COMMUNITIES continued

Khula Nathi projects

Ubank strives to instil a culture of social responsibility and social change among its employees to help improve the lives of our communities. Employees therefore invest their time, skills or money into a community project. The Khula Nathi programme encourages employees to proactively seek out community projects in their respective regions that they will support. Over the years, this initiative has proved to be both successful and fulfilling for our employees and the beneficiaries.

» Mthatha Hub realised the challenges a girl child experiences during school visits and engagements they had with SASSA beneficiaries. Ubank showed their Ubuntu and delivered school shoes and sanitary towels to kids living around Mqanduli-Ngangolwandle Secondary school. Moreover, the donated items were purchased from a local black woman-owned enterprise that manufactures the only sanitary towels with a Xhosa name – Ntombam ("My Girl").

» The teams from Flagstaff, Bizana and Lusikisiki handed over toothbrushes and toothpaste to 95 foundation phase learners at Diko Secondary Primary school.

» The Marikana and Karee branches organised the Masters Soccer Tournament that hosted eight soccer clubs from Marikana and Limpopo communities. Ubank sponsored prizes in the form of cash, trophies and medals.

» The Carletonville branch initiated a project to assist a child-headed household in Khutsong. A young scholar heading up the household of her three siblings needed support. The branch collected enough groceries and school shoes to assist this family and eight others in the community.

» The Northam branch handed over gift packs and food parcels to the elderly members of the Kgolagano Old Age Home in Manamakgoteng and celebrated Gogo Letta's 100th birthday.

» The Welkom branch responded to the struggle of an unemployed man in Kutlwanong township whose house was gutted by fire. They donated a stove, curtains, bed and bedding and facilitated the fixing of the house.

Colleagues

At Ubank, our colleagues refer to each other as Ubankers, and all who work at the Bank form a significant part of both our human and intellectual capitals.

Total **number of employees**, including Exco
766 (FY2018: 705)

Percentage of **temporary employees** of the total headcount
2.06% (FY2018: 5.48%)

Number of new employees recruited
108 (FY2018: 69)

Average turnover rate
8.62% (FY2018: 12.9%)

Employee value proposition (EVP)

Our EVP is implicitly contained in all our Human Resources policies. As a company striving to adhere to the principles of a high-performance organisation, we endeavour to develop, nurture and retain talent and optimise the competencies of Ubankers in order to meet the Bank's strategic objectives.

During the year under review, the Bank reviewed the EVP especially in the light of rapid digital transformation. Various interventions and initiatives were introduced to ensure readiness of our colleagues:

Implementation of job grading and pay scales

One of the key initiatives was the implementation of job grading and pay scales. The main aim was to ensure that as a bank we reward fairly and equitably in line with the principle of equal pay for job of equal value. Change management support became critical in the form of roadshows and post implementation assessments in an effort to drive understanding of the process as well as getting insight of the core issues to inform various recommendations. The recommendations are planned for implementation in the next financial year upon approval.

Leadership enablement

Leadership sponsorship is central to any change and it ensures that successful change happens. In response to various diagnostics implemented in the past, to enable our leaders to drive the change process, we have identified leadership competencies that are important to enable day-to-day management and supervision of the various teams. We thus came up with an intervention aimed at capacitating our supervisors/team leaders and managers to enable them to execute the defined leadership competencies in their day-to-day operational activities for all levels of leadership within the Bank.

Ubank Book Club and other leadership forums

As part of the readiness process, as well as creating a learning culture within the Bank, forums were established involving industry leaders and subject-matter experts to create awareness of our commitment to transform in the context of the fourth industrial revolution and our strategic objective of digitalisation.

Values initiative

The embedding of the values initiative has been a focus for the past year, with the aim of continuing to ensure that we shape the culture that we want to see at Ubank by enabling the living of the values. Various initiatives to drive this involved conducting a survey to test the relevance of the values in the current volatile, uncertain, complex and ambiguous (VUCA) context and elevating two of the values. The values were confirmed by the study as relevant and the two elevated values (i.e. Passion and Respect) were chosen as the first to elevate.

Decent work and economic growth

Achieve gender equality and empower all women and girls

CHANGE – ***The way we formulate our behaviours underpins...***

Care	Harona	Achieve	Nurture	Grow	Energise
Treating colleagues and customers with dignity and respect	Protecting and enhancing our reputation	Driving performance at pace | Delivering on promises | Celebrating success	Actively participating in our communities	Developing ourselves and our people	Demonstrating positive energy, enthusiasm, pride, passion and integrity

... PEERS – ***The way we realise our values***

Passion	Empowering	Excellence	Respect	Sincerity
Commitment with pride and enthusiasm	Enabling and supportive to all	Growing the business through performance	Remaining open minded and considerate	Having caring open conversations

We believe in proudly advocating our values and behaviours.

We are committed to continuously embedding them.

Our study assistance programme

3.06% of annual Total Guaranteed Package was spent on training during FY2019. 171 employees, representing 23.5% of staff, made use of the Bank's study assistance scheme with studies at universities and other accredited training institutions.

Graduate development programme

Ubank is driven by a social consciousness that underpins all we do – our customers are our owners and we exist to serve them and improve the lives of their communities. We are therefore committed to supporting the national government's drive for the development of skills in South Africa to actively contribute to the economic growth of the country by providing opportunities for previously disadvantaged students.

The Ubank graduate development programme mainly targets graduates from previously disadvantaged universities. A total of 32 graduates were recruited and placed during the year under review.

The graduate programme supports the Bank's long-term human capital and leadership needs for qualified employees from critical fields of study, who will add value to the Bank and can be considered to be employed in a full-time capacity. Through this programme graduates are given invaluable practical experience, mentoring, coaching, training and development opportunities.

Employee wellness

The employee participation rate of our Employee Wellness days that took place during FY2019 was high. Our colleagues' lifestyle and clinical risk indicators were analysed. Ubank has, as a result, raised a more aggressive, practical and holistic plan in addressing wellness issues. These include a wider scope of awareness campaigns, practical guidelines to address wellness issues and associated corporate activities.

Employment equity (EE)

We exceeded our EE targets in most categories this year. The total number of black employees (African, Coloured and Indian) in February 2019 constituted 94.2% of our permanent employees. Coloureds and people with disabilities are however under-represented.

Several measures were put in place to ensure improved representation:

Talent Acquisition

Our EE Committee assists in ensuring compliance during the recruitment process by attending interviews and providing information that pertains to relevant EE targets. Human resources business partners and line managers are also informed in advance about the Economically Active Population (EAP) status in their divisions.

People with disabilities

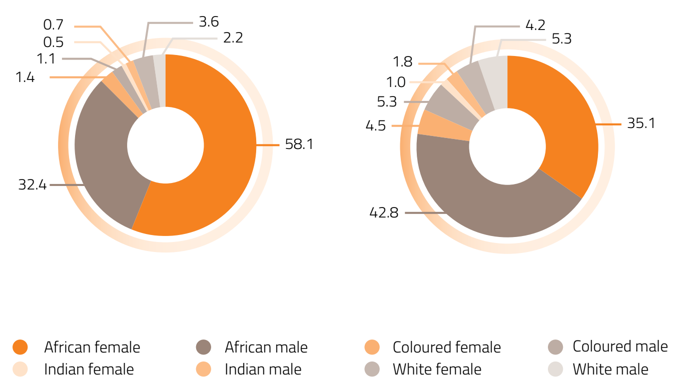
We have appointed additional people with disabilities. The Bank will continue to engage with recruitment agencies and institutions such as the Association of People with Disabilities and Department of Labour in that regard.

Training and development

As part of our investment in our human and intellectual capitals, we make study assistance available for our employees, especially in areas where shortfalls are experienced with regard to the EAP.

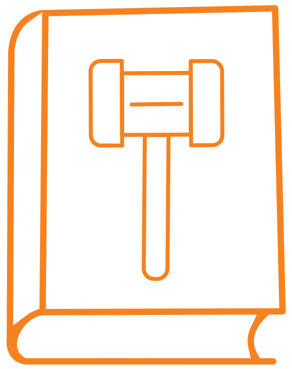
Transformational data

% of staff *% of Economically active population*



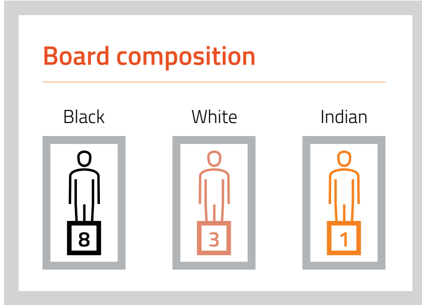
Conduct

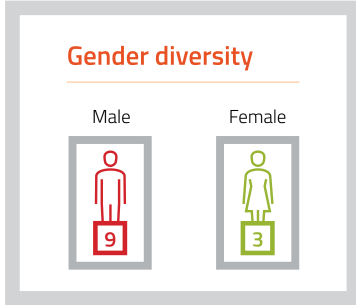
Ubank is committed to the principles of openness, integrity and accountability in all dealings with all our stakeholders. We fully endorse the values of good corporate governance, standards and principles as recommended by King IV and we apply these to support and strengthen our governance processes.



Our Board

Collectively, the members of our Board have the diversity and level of skills, knowledge and experience that enables them to conduct their duties and responsibilities effectively. This, together with their commitment to the principles of sound and transparent governance, enables responsible, informed and objective decision-making, which in turn provides effective guidance for the Bank, both adding value, and contributing towards the creation of value.





M Lesabe | R Miyambo | L Vutula | ZN Miya | K Pillay | MJ Ramataboe | KP Nkambule | JH de Villiers Botha | G Briggs | NC Katamzi | SJ Khoza | JH du Preez

Board committees

- Audit Committee
- Capitalisation Committee
- Directors' Affairs Committee
- IT Governance Committee
- Remuneration Committee
- Risk and Capital Committee
- Social and Ethics Committee

JH de Villiers Botha (Chairman)

Independent non-executive director
Appointed 29 November 2005

Qualifications

- BSc (Eng, Civil)
- Almost all course work towards MBA
- Advanced Management Programme
- Registered as a Professional Engineer

Skills

- Engineering
- Human resources
- Urban development
- Development banking
- Project finance
- Change management
- Strategy development and implementation
- Public sector
- Business management

G Briggs

Independent non-executive director
Appointed 1 March 2017

Qualifications

- BSc (Geology and Applied Geology)
- BSc (Hons)

Skills

- Leadership
- Risk management
- Business management
- Strategy development and implementation
- Project management
- Finance

M Lesabe

Non-executive director
Appointed 17 April 2015

Qualifications

- LLB
- Admitted Attorney of the High Court of South Africa

Skills

- Industrial relations
- Legal advice
- Legal drafting
- Legal research
- Compliance
- Litigation
- Human resources

ZN Miya

Independent non-executive director
Appointed 21 June 2010

Qualifications

- BCom (Hons)
- EDP
- CAIB (SA)
- LIB (SA)
- MBL

Skills

- Finance
- Banking
- Asset and liability management
- Investment banking
- Risk management
- Change management
- Policy development
- Strategy development and implementation
- Credit management
- Public sector
- Business management
- Project finance
- Corporate finance
- Marketing
- Turnaround management

R Miyambo

Independent non-executive director
Appointed 17 September 2016

Qualifications

- BSc (Maths and Applied Maths)
- BBA (Hons) (Business Admin)
- MBA

Skills

- Finance and accounting
- Banking
- Investment strategies
- Strategy development and implementation
- Business development
- Business management

K Pillay

Independent non-executive director
Appointed 1 February 2017

Qualifications

- BCom
- Executive Development Programme (WBS)

Skills

- Finance and banking
- Strategy development and implementation
- Banking
- Compliance
- Risk management
- Governance
- Project finance
- Leadership
- Accounting

Board committees

- Audit Committee
- Capitalisation Committee
- Directors' Affairs Committee
- IT Governance Committee
- Remuneration Committee
- Risk and Capital Committee
- Social and Ethics Committee

KP Nkambule

Non-executive director
Appointed 10 July 2017

Qualifications

» BCom (Financial Accounting)
» BCom (Hons)
» MBA

Skills

» Finance
» Leadership
» Risk management
» Public sector

The Board appointed SJ Khoza and MJ Ramataboe as the newly appointed independent directors. Memberships of committees to be resolved.

SJ Khoza

Independent non-executive director
1 February 2019

Qualifications

» MA (Social Science)
» BA (Hons) (Social Work)
» PhD (Social Policy)
» MBA
» Certificate in Economics and Public Finance

Skills

» Strategy development and implementation
» Leadership
» Business management
» Risk management
» Financial management
» Performance management
» Governance and ethics
» Human resources
» Project finance
» Development finance
» Mining infrastructure development
» Governance

MJ Ramataboe

Independent non-executive director
1 February 2019

Qualifications

» MBA
» Chartered Accountant Lesotho
» Accredited Associate of the Institute of Independent Business

Skills

» Financial management
» Risk management
» Mining
» Business management
» Leadership
» Governance

L Vutula

Chief Executive Officer
Appointed 1 November 2012

Qualifications

» BCom (Economics and Accounting)
» BBA (Hons)
» MCom (Development Finance)

Skills

» Banking
» Corporate finance
» Project management
» Finance
» Public sector
» Training and development
» Strategy development and implementation
» Business management

JH du Preez

Chief Financial Officer
Appointed 1 March 2017

Qualifications

» BCom (Accounting)
» BCompt (Hons)
» CA(SA)

Skills

» Finance and accounting
» Leadership
» Strategy development and implementation
» Project management
» Banking
» Risk management
» Asset and liability management

NC Katamzi

Company Secretary
Appointed 1 April 2019

Qualifications

» BA Law
» LLB
» CIBM

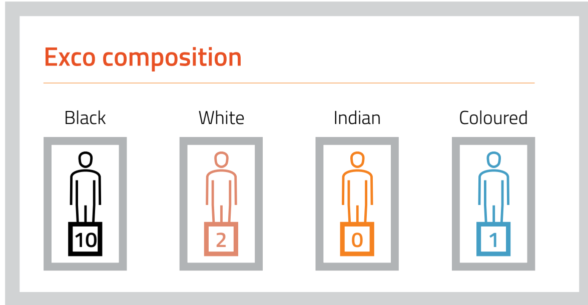
Skills

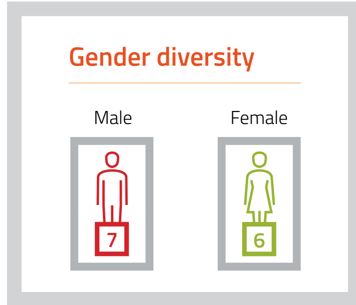
» Company legislation
» Corporate governance
» JSE compliance
» Policies and procedures
» Compliance
» Tax

CONDUCT continued

Our Executive Committee

The Board, as part of evolving best practice, has considered the definition of prescribed officers. The Chief Executive Officer, Chief Financial Officer and Managing Executive of Retail Banking Services have been identified as prescribed officers of Ubank Limited.





Prescribed officers

L Vutula (Chief Executive Officer)
Appointed 1 November 2012

JH du Preez (Chief Financial Officer)
Appointed 1 March 2017

W Mosigi (Managing Executive: Retail Banking Services)
Appointed 1 March 2017

W Mosigi | NC Katamzi | M Petros | JH du Preez | L Havenga | G Tlhapi | F Ntuli | N Ramabi | L Vutula | S Chikane | J Malaza | J Bagley

Absent
T Moutlane

Board responsibilities

Strategic guidance

Upholding governance principles

Responsible decision-making

Delivering strategic objectives

Through ethical leadership

» CARE – Treating colleagues and customers with dignity, integrity and respect;
» HARONA – Protecting and enhancing our reputation. Being proud of who we are;
» ACHIEVE – Driving performance at pace and delivering on our promises;
» NATURE – Actively participating in our communities;
» GROW – Developing ourselves and our people; and
» ENERGISE – Demonstrating positive energy, enthusiasm and passion: Celebrating success

Key areas of deliberation in FY2019 :

» Adoption of a new strategy
» Digitalisation
» Implementation of a new core banking system
» Risk management in respect of SARB requirements
» IFRS accounting principles implementation
» Capitalisation
» Executive level skills base
» Stakeholder engagement

Audit Committee

Mandate

To assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, Ubank's processes for monitoring compliance with laws and regulations, and the accuracy of financial reporting. The Audit Committee is the custodian for financial reporting, accountability and adequacy of efficient controls planning.

Recommended Ubank principles

» Chairman to be a financially qualified person and should be a Chartered Accountant

Risk and Capital Committee

Mandate

To assist the Board in reviewing the overall quality, integrity and reliability of Ubank's risk management process and all significant risks facing the Bank.

Recommended Ubank principles

» Chairman to be a financially qualified person and should be a Risk Management Practitioner
» Chairman to be an independent director
» Ability to chair and must have leadership skills

Remuneration Committee

Mandate

To assist the Board in establishing, overseeing and reviewing remuneration and human resources strategies, policies, guidelines, procedures and practices.

Recommended Ubank principles

» Chairman to be a Human Resources qualified person
» Chairman does not need to be an independent director
» Ability to chair and must have leadership skills

Directors' Affairs Committee

Mandate

To assist the Board in determining, evaluating, and, if necessary, reviewing year-on-year the efficiency, adequacy and appropriateness of Ubank's corporate governance framework and practices.

Recommended Ubank principles

» Chairman to be a Human Resources qualified person
» Chairman does not need to be an independent director
» Ability to chair and must have leadership skills

Social and Ethics Committee

Mandate

To assist the Board with the maintenance of business ethics and ensure that the Bank's ethics are managed effectively, and that compliance with laws, rules, codes and standards is incorporated in the code of conduct of the Bank.

Recommended Ubank principles

» Two NEDs and two prescribed officers
» Chairman to be a NED
» Other executives to attend by invitation

IT Governance Committee

Mandate

To assist the Board in fulfilling its oversight responsibility for the governance of IT and for providing assurance of the effectiveness of IT internal controls.

Recommended Ubank principles

» Chairman to be a NED and an IT specialist
» Ability to chair and must have leadership skills
» All voting members to be NEDs
» Specialists/co-opted directors not to vote

Capitalisation Committee

Mandate

To assist the Board in fulfilling its responsibility of sustainability and ensuring adequate capital for growth in order to fulfil the strategy of Ubank.

Recommended Ubank principles

» All members to be NEDs
» Should consist of at least three members
» The Chairman of the committee should be a NED
» The Board Chairman may be a member
» The Board Chairman may chair invitees/ co-opted directors not to vote

Board attendance

Audit Committee meetings

Name	19 June 2018	13 September 2018	15 November 2018	13 December 2018	14 February 2019
				(S)	
K Pillay (Chairman)	√	√	√	√	√
G Briggs	√	√	√	√	√
R Miyambo	√	√	√	√	√
KP Nkambule	√	√	√	√	√

S = Special AC meeting

Capitalisation Committee meetings

Name	9 April 2018	12 April 2018	3 May 2018	9 May 2018	5 July 2018	7 August 2018
K Pillay (Chairman)	√	√	√	√	√	√
G Briggs	–	–	√	√	√	√
JH de Villiers Botha	√	√	√	√	√	√
R Miyambo	√	√	√	√	√	√
ZN Miya	√	√	√	√	√	√

Directors' Affairs Committee meetings

Name	29 November 2018	26 February 2019
JH de Villiers Botha (Chairman)	–	√
M Lesabe	√	√
ZN Miya	√	√
R Miyambo	√	–
K Pillay	√	√

IT Governance Committee meetings

Name	26 April 2018	20 June 2018	11 September 2018	13 November 2018	12 February 2019
	(S)				
ZN Miya (Chairman)	√	√	√	√	√
G Briggs	√	√	√	√	√
JH de Villiers Botha	√	√	√	√	√
Z Malele	√	√	√	√	√
K Pillay	√	√	√	√	–

S = Special ITGC meeting

*√ = Present   * = Recused   – = Apology   N/A = Not a member   ** = Resigned*

Remuneration Committee meetings

Name	12 April 2018	20 June 2018	11 September 2018	13 November 2018	5 December 2018	12 February 2019
	(S)				(S)	
JH de Villiers Botha (Chairman)	√	√	√	√	√	√
M Lesabe	√	√	√	√	–	√
ZN Miya	√	√	√	√	√	√
R Miyambo	√	–	√	√	√	√

S = Special HR and Remco meeting

Risk and Capital Committee meetings

Name	19 June 2018	13 September 2018	15 November 2018	14 February 2019
R Miyambo (Chairman)	√	√	√	√
JH de Villiers Botha	√	√	√	√
JH du Preez	√	√	√	√
ZN Miya	√	√	√	√
KP Nkambule	√	√	√	√
K Pillay	√	√	√	√
L Vutula	√	√	√	√

Social and Ethics Committee meeting

Name	20 June 2018	11 September 2018	13 November 2018	12 February 2019
M Lesabe (Chairman)	√	√	√	√
JH de Villiers Botha	√	√	√	√
W Mosigi	√	√	√	√
L Vutula	√	√	√	√

Board of Directors meetings

Name	26 June 2018	20 September 2018	25 October 2018	29 November 2018	27 February 2019
			(S)		
G Briggs	√	√	–	√	√
JH de Villiers Botha	√	√	√	–	√
JH du Preez	√	√	√	√	√
M Lesabe	√	√	√	√	√
ZN Miya	√	√	√	√	√
KP Nkambule	√	√	√	√	√
R Miyambo	√	√	√	–	√
K Pillay	√	√	√	√	√
L Vutula	√	√	√	√	√

*(S) = Special Board meeting   √ = Present   * = Recused   – = Apology   N/A = Not a member   ** = Resigned   + Nomination rescinded*

The Board met nine times during the year under review, one of which was a special Board meeting convened after the Annual General Meeting to deal with the election and re-election of the Chairman.

CONDUCT continued

Board assessment

In August 2018, the Bank appointed the Institute of Directors in Southern Africa NPC (IoDSA) to facilitate its Board appraisal, thereby ensuring objectivity and independence of the process. This was an independently facilitated self-appraisal process in respect of the views of the individual directors on the performance of the Board as a whole.

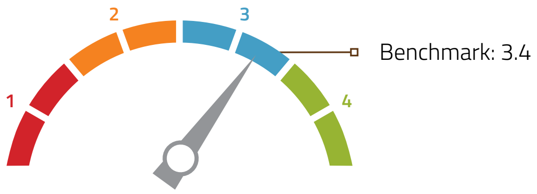
The Board has significantly more areas that are viewed as performing well and should be complimented for this. Key governance issues requiring attention include:

- Developing a rotation and succession plan at Board level in the longer term
- Finalising the appointment of a new Company Secretary
- Review and update of the Board Charter
- Succession planning for management
- Improving processes for communication and consultation with the shareholder and underlying stakeholders

Governance area	Ubank	Benchmark
Board composition	3.3	3.4
Board responsibilities	3.7	3.5
Committees of the Board	3.6	3.7
Relationship with management	3.7	3.3
Stakeholder relationships	3.6	3.3
Board meeting	3.9	3.5
Overall score out of 4	3.6	3.5

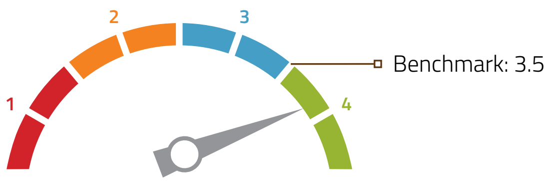
As can be seen from the comparative table, Ubank scored higher than the average private sector benchmark score in most areas. Ubank did exceptionally well in all governance areas covering Board responsibilities, relationship with management, Board meetings, stakeholder relationships and Board responsibilities. The only governance area which scored lower on a comparative basis was composition. The results indicate that the Board is generally perceived to be performing effectively.

Ubank overall Board composition score



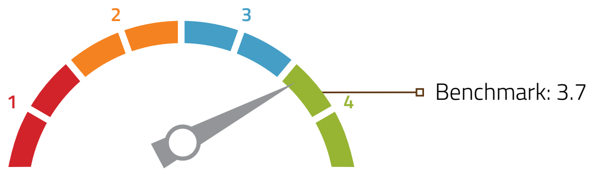
Current score: 3.3

Ubank overall Board responsibilities score



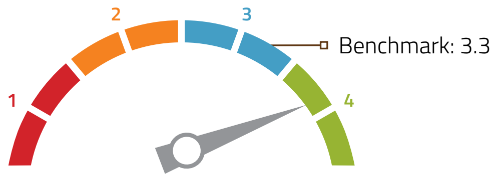
Current score: 3.7

Ubank overall committees of the Board score



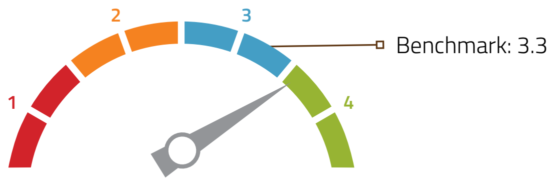
Current score: 3.6

Ubank overall relationship with management score



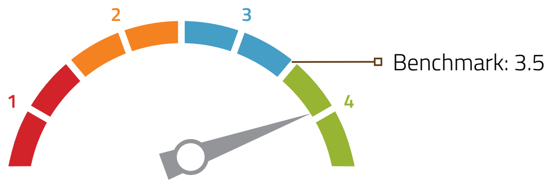
Current score: 3.7

Ubank overall stakeholder relationship score



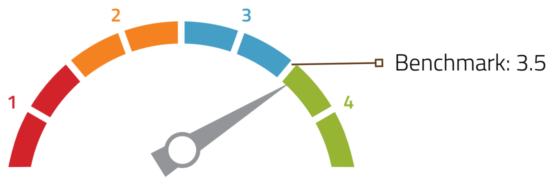
Current score: 3.6

Ubank overall Board meetings score



Current score: 3.9

Ubank overall Board performance score



Current score: 3.6

Appendices

CONTENTS

Directors' responsibilities and approval

FOR THE YEAR ENDED 28 FEBRUARY 2019

In terms of section 29 of the Companies Act, 71 of 2008 (as amended), the annual financial statements have been prepared under the supervision of Mr Henry du Preez CA(SA).

The annual financial statements have been audited by SizweNtsalubaGobodo Grant Thornton Inc. in terms of section 30(2)(a) of the Companies Act, no. 71 of 2008 (as amended).

Directors' approval

The directors whose names appear on page 67 of the annual financial statements are collectively and individually responsible for the preparation, integrity and objectivity of the annual financial statements and the related financial information included in this report, which fairly presents the state of affairs of the Bank at the end of the financial year. In meeting this obligation, they are assisted by management of the Bank. The external auditors are responsible for expressing an opinion on the fair presentation of the financial statements. Internal control and administrative systems, designed to provide reasonable assurance as to the integrity of the financial statements, that assets are adequately safeguarded and that transactions are executed in terms of the Bank's policy and procedures, are in place and duly maintained in a cost-effective manner.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, the provisions of the Companies Act, no. 71 of 2008 (as amended), and the Banks Act, no. 94 of 1990, including complete and responsible disclosure in accordance with the Bank's adopted accounting policies. The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis. As a result of uncertainties inherent in business activities, many items in the financial statements cannot be measured with precision but can be estimated. Estimation involves judgements based on the latest available and reliable information. The use of reasonable estimates is an essential part of the preparation of the financial statements and do not undermine the credibility thereof.

The directors do not have reason to believe that the Bank will not be a going concern in the year ahead, based on forecast and available cash resources. The financial statements have accordingly been prepared on that basis.

Approval of financial statements

The annual financial statements set out on pages 78 to 129 were approved by the Board of Directors on 30 May 2019 and were signed on their behalf by:

JH de Villiers Botha
Chairman

R Miyambo

Company Secretary's certification

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, as amended, I certify that the Company has lodged with the Commissioner all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

NC Katamzi
Company Secretary

Johannesburg

30 May 2019

Directors' report

1. Nature of activities

Ubank Limited is incorporated and domiciled in South Africa and is a financial services company providing savings accounts, loans and other financial products to meet the needs of miners and the wider community in rural areas and mining towns through a network of outlets, agencies and automatic teller machines.

The mandate and plan to service the broader working market in South Africa has become imperative in order to extend affordable financial services to South Africa. Ubank has a strong presence and customer accessibility and is proud of its long association with the mining industry, including mineworkers, mining companies, all labour unions and the Minerals Council South Africa, who have played a significant role in the development of the Bank.

Full details of the financial position, results of operations and cash flows of the Company are set out in these annual financial statements.

2. Going concern

The directors are satisfied that they are in a position to confirm, in terms of Regulation 39(4) of the South African Reserve Bank Regulations to the Banks' Act and International Financial Reporting Standards, that the Bank will be able to continue within the foreseeable future as a going concern based on forecasts and available cash resources. The annual financial statements have accordingly been prepared on that basis.

3. Share capital

On incorporation of the Bank, authorised share capital was 25 000 000 shares of R1 each of which 24 500 000 were issued. There have been no changes to the authorised or issued share capital during the year under review.

4. Holding company

The Company's holding company is Ubank Group Limited, which in turn is wholly owned by Teba Fund Trust, a trust registered in South Africa.

5. Directorate

Details in respect of directors and prescribed officers are as follows:

	Appointment date
Non-executive directors	
JH de Villiers Botha (Chairman)	29 November 2005
G Briggs	1 March 2017
M Lesabe	17 April 2015
ZN Miya	21 June 2010
R Miyambo	17 September 2016
K Pillay	1 February 2017
KP Nkambule	10 July 2017
SJ Khoza	1 February 2019
MJ Ramataboe	1 February 2019
Executive directors	
L Vutula (Chief Executive Officer)	1 November 2012
JH du Preez (Chief Financial Officer)	1 March 2017
Company Secretary	
NC Katamzi	1 April 2019
Prescribed officers	
L Vutula (Chief Executive Officer)	1 November 2012
JH du Preez (Chief Financial Officer)	1 March 2017
W Mosigi (Managing Executive: Retail Banking Services)	1 March 2017

The CEO was acting on behalf of the Company Secretary until this vacancy was filled on 1 April 2019.

The Board, as part of evolving best practice, has considered the definition of prescribed officers and the Chief Executive Officer, Chief Financial Officer and Managing Executive of Retail Banking Services have been identified as prescribed officers of Ubank Limited.

6. Directors' interests in contracts

The directors and prescribed officers had no interest in any third party or company responsible for managing any of the business activities of the Bank. The emoluments and services of the executive directors are determined by the Remuneration Committee and agreed by the shareholders at the Annual General Meeting. All executive directors have standard letters of appointment. (Refer to note 32.)

7. Special resolutions

No special resolutions were passed during the year.

8. Economic overview

Global economy

Growth in 2018

The global economy recorded an estimated growth of 3.7% in 2018, down from 3.8% growth in 2017. The Chinese economy slowed at a faster pace than anticipated, with the Euro area and UK also slowing at a considerable rate. The US and India, on the other hand, recorded impressive growth during the same period.

Growth in major countries

	2019 %	2018 %	2017 %
World output	**3.5**	3.7	3.8
Advanced economies	**2.0**	2.3	2.4
• US	**2.5**	2.9	2.2
• Euro area	**1.6**	1.8	2.4
• Japan	**1.1**	0.9	1.9
• UK	**1.5**	1.4	1.8
Emerging/developing economies	**4.5**	4.6	4.7
• China	**6.2**	6.6	6.9
• India	**7.4**	7.3	6.7
• Russia	**1.6**	1.7	1.5
• Brazil	**2.5**	1.3	1.1
• South Africa	**1.4**	0.8	1.3
Sub-Saharan Africa	**3.5**	2.9	2.9
• Nigeria	**2.0**	1.9	0.8
• Angola	**2.2**	(0.8)	(0.2)
• Botswana	**4.2**	3.2	2.4
• Namibia	**1.6**	(0.1)	(0.9)
• Mozambique	**3.9**	3.5	3.7

Outlook

The growth outlook deteriorated at the start of the 2019 year. The International Monetary Fund (IMF) January update downscaled the global growth forecast for 2019 and 2020 to 3.5% and 3.6% respectively. This is down by 0.2 and 0.1 percentage points from the IMF's October 2018 outlook. The weaker prospects were mainly a function of a downward revision to growth for the Eurozone. Global growth risks are mainly on the downside and emanating from an escalation in global trade tensions, a disorderly UK exit from the Eurozone and a more severe than expected growth slowdown in China.

South African economy

The economy ended 2018 in slightly worse shape than the markets expected, with GDP growing by a further 1.4% quarter-on-quarter (seasonally adjusted and annualised) but slower than the upwardly revised 2.6% (previously 2.2%) in the third quarter. In the first half of the year, the economy was in technical recession led mainly by the decline in agriculture. Manufacturing and mining were also under pressure in the same period.

In the 2018 calendar year, the economy grew by 0.8%; down from an upwardly revised 1.4% in 2017 (previously 1.3%). Primary sector (mining and agriculture) were the main drag to growth in 2018. The sectors that made a meaningful positive growth were finance and government.

Growth by industries

	% of GDP	Annual growth rate (%)	Contribution to GDP (0.8% YoY in 2018)
Agriculture	1	(4.8)	(0.1)
Mining	9	(1.7)	(1.1)
Manufacturing	14	1.0	0.1
Finance	19	1.8	0.4
Personal services	6	1.0	0.1
Trade	16	0.6	0.1
Transport	10	1.6	0.1
Construction	4	(1.2)	(1.2)
Community services	18	(1.7)	0.2
Electricity	3	(1.4)	0.0

Outlook

As mentioned above, in 2018 the economy was confronted by the reality of a technical recession. Government responded with an economic stimulus and recovery plan that re-directed public funding to areas with the greatest potential for growth and job creation. The approach was not to spend our way out of our economic troubles, but to set the economy on a path of recovery. The government introduced a range of measures to ignite economic activity, restore investor confidence, support employment and address the urgent challenges that affect the lives of vulnerable members of our society. The government also made progress in restoring policy certainty on mining regulation and the Visa regime.

While the government's intervention is welcomed, it is unlikely to assist the economy to grow significantly. This year is shaping up to be yet another challenging one for the South African economy. Headwinds include a slowing global economy; Eskom (and other SOE) challenges, adverse domestic weather conditions in the western maize-growing areas of the country; prolonged strike activity in the gold mining sector and the uncertainty associated with the upcoming national election. This suggests that 2019 is likely to be the fifth consecutive year where real GDP growth will be below population growth, implying that the country will suffer a further setback in per capita income terms. However, despite the headwinds, the economy is forecast to pickup in growth momentum at 1.4% from the pedestrian performance in 2018 of 0.8%.

Banking

Against the challenging economic and operating context, SA banks continued to record solid growth in the first half of 2018. Competition remained tough with new banks entering the market. The new entrants were Discovery Bank, Bank Zero and Tyme Bank.

Inflation rates

Consumer price inflation averaged 4.7% in 2018, well within the SARB's target range of 3% to 6%. It ranged between 3.8% and 4.6% in the first half of the year, picking up closer to over 5% in November 2018. It fell to 4.5% and 4.0% in December 2018 and January 2019 respectively as the international oil price fell during the period. In February 2019, inflation increased to 4.1% and is likely to continue to pick up. The main drivers to inflation outlook were the increase in the international oil price and weaker Rand; food price increases; and electricity price hikes.

Interest rates

Interest rates remained generally stable in 2018 with the 25 basis points rate cut in March reversed in November, as the SARB MPC increased rates at the same margin. In 2019, the market is anticipating a 25 basis points rate hike in at least the second half of the year.

Exchange rates

The Rand appreciated in early 2019, after a very volatile 2018. Changes in global investors' risk perceptions of emerging market assets dominated Rand movements last year and are likely to continue to do so in the year ahead. Bouts of risk aversion are expected on underlying concerns about global liquidity conditions; the direction of US monetary policy; significant structural challenges in some emerging economies; increased political polarisation across the globe; and the health of the world economy. Domestic factors are also likely to undermine the upside for the Rand as the risk of further fiscal setbacks and policy disappointments remain high.

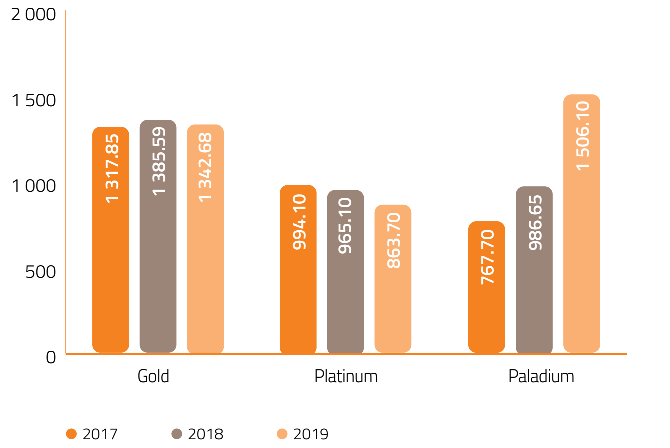
Credit growth
There was a gradual recovery in loans to households in 2018, while credit growth to companies continued to slow. Credit growth to households is expected to edge up as economic activity gradually improves, but slightly higher interest rates, poor employment growth, high indebtedness and modest economic growth will remain inhibiting factors.

Employment
2018 remained a tough and challenging year, with employment growth almost stable at a growth rate of 0.8%. Negative employment growth is forecast for 2019, with a slight increase forecast for 2020 (0.6%).

Mining
Mining performance in 2018
The South African mining industry continues to struggle due to declining commodity prices, policy uncertainty, load shedding as well as high operating costs. These combined factors continued to impact negatively on investment, production and employment in 2018.

Wage negotiations and strikes
Gold mine companies (AngloGold Ashanti, Harmony Gold and Village Main Reef) reached a three-year wage agreement with the unions in November 2018. At Sibanye Gold, the negotiations were concluded with the National Union of Metalworkers (NUM), UASA and Solidarity. The three unions have collective majority, as a result, the wage agreement was to be extended to the Association of Metalworkers and Construction Union (AMCU). AMCU rejected the offer and about 15 000 of the union's members at Sibanye Gold mine downed tools on 21 November 2018 demanding a R1 000 annual wage increase for the next three years. The strike ended in April 2019 after AMCU reached an agreement with Sibanye-Stillwater.

Commodity prices
Commodity prices fell further in the fourth quarter of 2018 as the downward trend that began in mid June persisted. All commodities index shed 2.7% and 9.9% for the quarter and year respectively. The precious metal index lost another 6.8% for the quarter to be down 17.2% for the year. The gold price gained 7.6% in the quarter as financial market volatility rose but it was down by 1.5% for the year, while the platinum price lost 15.6% for the year.



Production
Total mining production was 1.6% lower in 2018 compared with 2017. The 1.6% decrease in annual mining production followed an increase of 3.9% in 2017.

The sector had a poor start in 2019, with production declining by 3.3% year-on-year in January from a 4.1% fall in December, dragged down mainly by decreases in the production of iron ore, gold, diamonds, coal and chromium. On a seasonally adjusted basis, mining production increased by 0.2% month on month.

Employment
In the nine months to September 2018, the gold and platinum sector, (representing 58% of the total employment) shed almost 12 000 jobs in the same period. These sub-sectors continue to face challenges; with gold struggling against high operational costs and strikes, and with platinum, the main concern being low demand with the price currently below US$850.

Job gains were reported in coal, chrome, iron ore and manganese, almost enough to counter the massive job cuts recorded in gold and platinum. As a result, total mining employment decline by 633 net jobs.

Employment	Q4 2017	Q3 2018	Change
Total mining	457 429	456 796	(633)
Platinum Group Metals (PGMs)	170 445	166 294	(4 151)
Gold	105 945	98 226	(7 719)
Coal	85 202	91 547	6 345
Diamond	16 815	16 284	(531)
Chrome	17 970	19 248	1 278
Iron ore	17 608	18 882	1 274
Manganese	7 617	9 702	2 085
Others	35 827	36 613	786

Outlook
The possibility of mining production staging a convincing recovery has faded in recent months given the general loss of global economic momentum as well as stagnant commodity prices. Demand for commodities out of the likes of China is likely to ease as that country experiences slowing economic growth. On the supply side, domestic cost pressures such as the higher electricity tariffs and generally difficult operating conditions will also serve to add to the downside risks.

Strategic implementation overview
The Bank's stated mission to be the Workers' Bank of Choice remains and the focus on "workers" has not changed. The six strategic objectives continue to be the key drivers when prioritising project and investment resource deployment.

The strategic objectives of the Bank have continued to drive the ethos of the organisation and remain a core focus area for executive management:
- Diversify revenue streams
- Embed a high-performance culture
- Inculcate strong, Bank-wide compliance
- Leverage our stakeholder base
- Strengthen leadership
- Recapitalise the Bank

A corporate scorecard was rolled out across the Bank for the first time as the strategy performance management tool to be used by managers to keep track of the execution of activities in different departments. The scorecard provides a balanced view of performance for the Bank in five areas: Company; Customers; Colleagues; Communities; and Control. Over the year the corporate scorecard was used in conjunction with rolling 90-day plans to monitor and report the progress on the Bank's strategic goals.

Although the capitalisation process was not concluded during the financial year, the Bank continued to implement its long-term strategy according to key milestones. For the period under review the Bank prioritised six key areas:

1) Capitalisation
Capitalisation of the Bank remains a key focus area and will continue in the new financial year.

2) Digital transformation (DX)
The blueprint for the digitalisation journey was concluded and we now look forward to determining how we implement this using various phases and tying them to specific initiatives.

3) Small business
Development of our small business value proposition is ongoing and will be fully resourced with both human capital and CVP elements during the new financial year.

4) Open market strategy
Our open market strategy has begun to unfold in the initiatives we are rolling out in our aggressive customer acquisition and in our ability to leverage our digital presence through the mobile banking platform. We have also begun to aggressively target customers, in line with our strategic intent.

5) Human capital
Some key appointments have been made over this past year including to Exco.

6) Customer acquisition
Our aggressive customer acquisition drive was to acquire a net of one hundred and fifty thousand (150 000) new customers as a stretch target for the financial year. We closed off the year having acquired 58 361 new customers compared to 41 911 in the previous financial year. For the first time in 10 years the Bank has registered a net customer gain.

Strategic initiatives prioritised during the financial year include:

1) Digital channels
Our collaboration with our fintech partner at a technical level continued and laid the foundation for us to leverage their expertise. The focus in the past year was on fixing the technical build to launch our mobile banking platform and this launch happened in the third quarter of 2018. We currently have over 25 000 customers who have registered on our mobile banking platforms for mobile app, internet and USSD. We also ran a proof-of-concept for an international money transfer service.

2) Bancassurance (partnership with insurer)
Discussions with our preferred partner are ongoing.

3) SME value proposition
Work has commenced in preparation for our small business value proposition for lending products, whereby the Bank would be able to insure their loan book on all loans extended to small businesses.

4) Project Khulula (core banking system upgrade)
We kicked off our most ambitious project yet – the upgrade of our core banking system – to much fanfare in the third quarter of 2018.

Key strategic objectives achieved during the year include:

1) Cash management
Cash forecasting is active and being monitored for project closure. ATM monitoring configuration is in progress.

2) Bank-on-Wheels
We took delivery of our first Bank-on-Wheels truck in October 2018.

Key areas of significant estimate

(a) CMM Investment carrying value
During the current financial year, the arbitration process regarding the Corporate Money Managers' Fund (CMM) investment was concluded. The carrying value of the Bank's outsourced investment to CMM as at 28 February 2018 was therefore derecognised. Further details of the recovery are disclosed within the notes to the financial statements.

In terms of comparative information disclosed, management revalued the on-balance sheet investment by using the latest financial information available. The impairment estimate was calculated by taking into account the following significant estimates:

- **Realisable amount**
  The curators remained confident of a partial recovery of the assets within CMM, taking into account the underlying assets, the difficulty in validating security of the assets, the validity of the liability listing excluding opportunistic claims and the risks associated with a curatorship process. Management estimated this recoverable amount at 27.0% in 2018. This percentage was highly judgemental as it estimated the costs to complete certain developments, the costs to market, the costs to sell, the effects of the conclusion of the curator investigations into exposures and underlying cash flows.
- **Discount rate**
  The discount rate of 16.0% as applied to the realisable amount was based on the estimate of an appropriate rate to discount the cash flows, taking into account the specific risks for the type of underlying assets.
- **Realisation period**
  The realisation period for the final payment was estimated at one year. Management had based this period on the expected timing around finalising the arbitration process, in consultation with its legal advisors. This was aligned to market trends to finalise similar processes at that time.

(b) Impairment of loans and advances
Impairments of loans and advances are now measured on a forward-looking basis under IFRS 9. For further detail refer to note 2.2 – Significant accounting judgements and estimates and note 18.

9. Events after the reporting period

On 26 April 2019, the Company concluded a supplementary settlement agreement entitling it to the recovery of legal fees, relating to its CMM investment, for R30 million. This has been adjusted for in the financial statements – refer to note 10.

After the reporting period, the Bank proposed a dividend to the Group of R24.6 million. This was approved by the Board on 30 May 2019. No additional disclosures have been included within the financial statements as there is no obligation at the end of the financial year.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

Audit Committee report

FOR THE YEAR ENDED 28 FEBRUARY 2019

The Audit Committee (Committee) provides oversight of the financial reporting, accountability and adequacy of efficient controls planning functions. The Committee, which met five times during the financial year under review, is tasked by the Board with oversight of the Bank's internal controls, internal and external audits, risk and compliance functions. The committee's responsibilities included, among other, reviewing and recommending appropriate accounting policies for the Bank; reviewing annual and quarterly financial reports prior to approval by the Board, and reviewing filings with the regulators, approval of the appointment and discharge of external auditors and related audit fees as well as reviewing internal audit and external audit mandates for independence, objectivity and effectiveness.

The Committee ensured co-operation between the internal audit function and the external auditors in relation to: the external auditors relying on work done by the internal auditor for purposes of work set out in the external audit plan; risk areas of the entity's operations being covered in the scope of both internal and external audits; and the adequacy, reliability and accuracy of financial information provided by management and other users of such information.

The Committee is composed of non-executive directors of the Board, with the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Managing Executive Retail, Head of Internal Audit, Head of Compliance, the Company Secretary and external auditors being invitees to the meetings.

1. Members of the Audit Committee

The members of the Audit Committee are:

Name	Qualification
K Pillay	BCom (UDW); Executive Development Programme (WBS)
R Miyambo	BSc (Maths and Applied Maths); BBA (Hons) (Business Admin); MBA (Finance)
G Briggs	BSc (Geology and Applied Geology); BSc (Hons)
KP Nkambule	BCom (Financial Accounting); BCom (Hons)

The Committee is satisfied that the members thereof have the required knowledge and experience as set out in section 94(5) of the Companies Act, 71 of 2008 and Regulation 42 of the Companies Regulation, 2011.

2. Meetings held by the Audit Committee

The Audit Committee performs the duties laid upon it by section 94(7) of the Companies Act, 71 of 2008 by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor.

The Committee held five scheduled meetings during 2019 and attendance was as follows:

Date of meeting	K Pillay	R Miyambo	G Briggs	KP Nkambule
19 June 2018	√	√	√	√
13 September 2018	√	√	√	√
15 November 2018	√	√	√	√
13 December 2018	√	√	√	√
14 February 2019	√	√	√	√

3. External audit

The Audit Committee recommended the reappointment of SizweNtsalubaGobodo Grant Thornton Inc. as sole audit firm for the 2019 financial year and the reappointment was approved at the Annual General Meeting.

The Committee is satisfied that the audit firm is independent from the Bank for the reporting period under review.

The Audit Committee will review the governance component of the external auditors' report on high risks to the Bank. Monitoring and resolving these findings going forward will form a key focus area in the year ahead.

4. Annual financial statements

The Audit Committee confirms that the financial statements have been prepared on a going concern basis and have been reviewed in detail by the Committee, taking into account significant accounting and reporting issues, relevant accounting policies and practices.

5. Internal audit

The Audit Committee regularly assesses the adequacy and effectiveness of the internal audit function.

The internal audit plan for the year focused on the Bank's control environment, with an emphasis on closing outstanding and recurring audit issues and improving the overall risk profile of the Bank within the risk tolerance limits. The Audit Committee reviewed the reports by Internal Audit as well as management's actions in remedying control deficiencies. The Audit Committee is pleased with improvement in the control environment, but is of the view that further improvements can be made to ensure that the control environment is suitable, effective and efficient. It also seeks continuous improvement in the Bank's overall control environment.

6. Compliance

The Compliance Plan and Charter have been reviewed and the functioning of compliance is in line with relevant regulatory requirements. The Audit Committee, however, is continuously seeking to improve the compliance function of the Bank. Compliance reviews are performed on a continuous basis.

During the period under review, the Audit Committee monitored compliance with the Companies Act, the Banks Act, all other applicable legislation and governance codes, and reviewed reports from internal audit, external auditors and compliance detailing the extent of this.

The Audit Committee is satisfied that it has complied with all statutory duties and duties given to it by the Board under its terms of reference.

The Bank continues to proactively perform compliance reviews on new regulations, considering both the industry impact and implications for the Bank. Compliance projects are prioritised and management has stressed the importance of a culture of compliance with staff through regular compliance campaigns, policy and process reviews and policy attestations.

7. Risk

The Audit Committee has considered and reviewed reports from management identifying significant control issues that require or are subject to remedial action and monitor progress against the actions being taken to resolve these matters.

With regard to fraud and its prevention, the Bank was active during the year in raising staff awareness through fraud alerts, including whistleblowing. This has assisted significantly with the identification and prevention of fraud. The main driver of operational losses is card skimming and account takeover fraud whereby fraud is perpetrated through the fraudulent issue of debit cards on accounts for which a savings book is in issue. The Committee, with management, continues to seek opportunities to sustainably mitigate these risks and subsequently reduce the financial impact.

On behalf of the Audit Committee

K Pillay
Chairman, Audit Committee

Independent Auditor's report

FOR THE YEAR ENDED 28 FEBRUARY 2019

To the shareholder of Ubank Limited

Opinion

We have audited the annual financial statements of Ubank Limited (Ubank) set out on pages 76 to 127, which comprise the statement of financial position as at 28 February 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Ubank as at 28 February 2019, and its financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the annual financial statements section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Ubank's directors are responsible for the other information. The other information comprises the Directors' report, as required by the Companies Act of South Africa, and our Audit Committee Report. The other information does not include the annual financial statements and our auditor's report thereon.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the annual financial statements

Ubank's directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with IFRSs and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

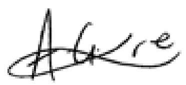
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board of Auditors (IRBA) rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Ubank Limited for 8 years.



Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Registered Auditor

12 June 2019

20 Morris Street East
Woodmead
2191

Statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 28 FEBRUARY 2019

	Notes	2019 R'000	2018 R'000
Interest income		**520 435**	521 158
Interest expense		**(98 748)**	(97 631)
Net interest income	7	**421 687**	423 527
Fees and commission income		**319 179**	338 072
Fees and commission expense		**(70 788)**	(65 311)
Net fees and commission income	8	**248 391**	272 761
Net gain on financial assets designated at fair value through profit or loss	9	**–**	677
Other income	10	**263 237**	35 912
Total income		**933 315**	732 877
Impairment charge on financial assets	11	**(80 945)**	(87 562)
Impairment charge on loans and advances		**(75 140)**	(79 132)
Impairment charge on financial investments		**(5 805)**	(8 430)
Net operating income		**852 370**	645 315
Personnel expenses	12	**(265 531)**	(264 206)
Depreciation of property and equipment	19	**(24 355)**	(19 515)
Amortisation of intangible assets	20	**(13 300)**	(14 685)
Other operating expenses	13	**(291 746)**	(268 181)
Total operating expenses		**(594 932)**	(566 587)
Profit before taxation		**257 438**	78 728
Taxation	14	**(62 553)**	(24 557)
Profit for the year		**194 885**	54 171
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets adjustments		**–**	739
Investments at fair value through other comprehensive income		**1 641**	–
Income tax relating to items that may be reclassified		**(367)**	(1 044)
Total items that may be reclassified to profit or loss		**1 274**	(305)
Other comprehensive income for the year net of taxation		**1 274**	(305)
Total comprehensive income for the year		**196 159**	53 866

Statement of financial position

AS AT 28 FEBRUARY 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Cash and cash balances	15	**507 958**	390 783
Investments	16	**4 261 853**	4 209 448
Trade receivables and other assets	17	**78 455**	64 527
Loans and advances to customers	18	**625 252**	737 178
Property, plant and equipment	19	**90 804**	73 773
Intangible assets	20	**64 211**	35 801
Deferred taxation	21	**19 996**	76 062
Total assets		**5 648 529**	5 587 572
LIABILITIES			
Trade payables and other liabilities	22	**118 037**	115 223
Deposits and savings due to customers	23	**4 753 860**	4 851 293
Provisions	24	**14 152**	29 432
EQUITY			
Share capital and share premium	25	**244 875**	244 875
Unrealised gains/(losses) on investment	26	**2 046**	772
Retained earnings		**515 559**	345 977
Total equity		**762 480**	591 624
Total liabilities and equity		**5 648 529**	5 587 572

Statement of changes in equity

FOR THE YEAR ENDED 28 FEBRUARY 2019

	Share capital R'000	Share premium R'000	Total share capital R'000	Unrealised gains/(losses) on investment R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2017	24 500	220 375	244 875	1 077	291 806	537 758
Profit for the year	–	–	–	–	54 171	54 171
Other comprehensive income	–	–	–	(305)	–	(305)
Total comprehensive income for the year	–	–	–	(305)	54 171	53 866
Balance at 1 March 2018	24 500	220 375	244 875	772	345 977	591 624
Profit for the year	–	–	–	–	194 885	194 885
Other comprehensive income	–	–	–	1 274	–	1 274
Total comprehensive income for the year	–	–	–	1 274	194 885	196 159
IFRS 9 transitional adjustment	–	–	–	–	–	–
– Gross	–	–	–	–	(32 157)	(32 157)
– Tax	–	–	–	–	6 854	6 854
Total adjustments to equity	–	–	–	–	(25 303)	(25 303)
Balance at 28 February 2019	**24 500**	**220 375**	**244 875**	**2 046**	**515 559**	**762 480**
Notes	25	25	25	26		

Unrealised gains/(losses) on investment

This reserve records fair value changes on equity accounted investments. Refer to note 26.

Gains and losses arising from changes in fair value of equity accounted investments are included in this reserve until sale or impairment when the cumulative gain or loss is transferred to the profit and loss section of the statement of comprehensive income.

Statement of cash flows

FOR THE YEAR ENDED 28 FEBRUARY 2019

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Interest and fee income		839 614	859 230
Interest and fee expense		(169 536)	(162 942)
Dividends received		79	4 640
Cash paid to customers and employees		(534 170)	(448 422)
Cash available from operating activities	31	135 987	252 506
Changes in operating funds:			
Increase in income earning assets		(89 649)	(954 085)
(Decrease)/increase in deposits		(97 433)	785 642
Cash available from operating activities after changes in operating activities		(51 095)	84 063
Net cash (outflow)/inflow from operating activities		(51 095)	84 063
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(41 987)	(34 655)
Proceeds from disposal of property and equipment		212	44
Purchase of intangible assets	20	(41 710)	(2 900)
Proceeds on recovery of investment		251 755	–
Net cash generated from/(used in) investing activities		168 270	(37 511)
Total cash movement for the year		117 175	46 552
Cash and cash equivalents at the beginning of the year		390 783	344 231
Total cash and cash equivalents at end of the year	15	507 958	390 783
Cash and cash equivalents comprise:			
Coins and bank notes		67 684	59 606
Balances with other banks		440 274	331 177
	15	507 958	390 783

Accounting policies

1. Corporate information

Ubank Limited is incorporated and domiciled in South Africa and is a financial services company providing savings accounts, loans and other financial products to meet the needs of miners and the wider under-banked community in rural areas and mining towns through a network of outlets, agencies and automatic teller machines. The address of the Bank's registered office is 10 Matuka Close, Erand Garden X49, Midrand, 1685.

The financial statements were approved by the Board of Directors on 30 May 2019.

2. Accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below. The accounting policies adopted are consistent with those of the prior year except where otherwise noted.

2.1 Basis of preparation

The annual financial statements are for the Bank and have been prepared on the historical cost basis except where noted otherwise in the accounting policies. The financial statements have been prepared on the assumption that the entity will continue as a going concern. These financial statements are presented in South African Rand, which is the Bank's functional and presentational currency. All numbers are rounded up to the nearest thousand.

Statement of compliance

The annual financial statements have been prepared in accordance with IFRS and Interpretations (IFRIC) of those standards, as adopted by the International Accounting Standards Board and the Companies Act, 71 of 2008 (as amended).

2.2 Significant accounting judgements and estimates

The preparation of annual financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Bank may undertake in the future, actual results ultimately may differ from those estimates.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Bank is dependant upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Bank's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant use of judgements and estimates are as follows:

Property and equipment

When deciding on depreciation rates and methods, the principal factors the Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets. When reviewing residual values, the Bank annually estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life. Please refer to note 19.

Intangible assets

When deciding on amortisation rates and methods, the principal factors the Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets. Please refer to note 20.

Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Carrying value approximates fair value due to the minimal credit losses and short-term nature of the financial assets and liabilities. Therefore, no comparison by class of the carrying amounts and fair values of the Bank's financial instruments not carried at fair value is given in the financial statements. Fair values are determined according to the fair value hierarchy based on the requirements in IFRS 13. Please refer to the fair value hierarchy in note 16 and 30.

Fair value hierarchy

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1:

Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2:

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3:

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a degree of judgement to estimate probable future cash flows. Future cash flows are discounted using a risk adjusted discount rate. Fair values are disclosed within the valuation hierarchy determined under IFRS 7 in note 16.

Impairment losses on financial assets

Applying IAS 39

Loans and advances to customers

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit/loss and other comprehensive income. Impairment is raised for incurred losses on loans and advances that are deemed to demonstrate objective evidence of impairment. The impairment is based on an assessment of the extent to which customers have defaulted on amounts already due and an assessment of their ability to make payments based on creditworthiness and historical write offs experienced. Should the financial condition of the customers change, actual write offs could differ significantly from the impairment.

Investments

Level 1 and 2 investments are considered against market indicators of impairment. There were no impairments on these categories owing to the nature of these assets in the context of IAS 39.

The level 3 investment is impaired to the extent that its carrying value exceeds its recoverable amount. Recoverable amount is derived using significant assumptions as outlined within the directors' report.

Impairment losses on financial assets are detailed in note 11.

Applying IFRS 9

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and financial asset at fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed below, which also sets out key sensitivities of the ECL to changes in these elements.

The significant judgements required in applying the accounting requirements for measuring ECL are as follows:

- Determining criteria for significant increase in credit risk
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL
- Establishing groups of similar financial assets for the purposes of measuring ECL.This is largely driven by credit scores and types of lending

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

Impairment losses on financial assets (continued)

Applying IFRS 9 (continued)

IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit impaired. See below for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3. See below for a description of how the Bank defines credit impaired and default.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. See below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. We have included an explanation of how the Bank has incorporated this in its ECL models.

(a) Significant increase in credit risk (SICR)

The Bank has applied a practical expedient to investment grade assets, which limits ECL to Stage 1. For all other financial instruments, management considers a significant increase in credit risk to have occurred when one or more of the following quantitative or qualitative events have materialised.

Quantitative criteria:

1. Days past due

- 30 days past due used to transition from Stage 1 to Stage 2. The 30-day rule may be adjusted in certain circumstances due to specific market conditions. The transition from Stage 1 to 2 also includes a scenario where there is a significant increase in risk based on the customers behavioural score on the bureau. So even if the customer is not delinquent in any way, if the bureau score indicates an increase in risk based on behaviour elsewhere, the account will be moved into Stage 2.
- 90 days past due used as the definition of default.

2. Change in credit scores provided credit bureau

- Additional to sourcing credit risk information from credit bureaus as at origination, the Bank sources updated credit scores from bureaus on a quarterly basis. This would have the advantage of allowing the model to be refined so that current external credit risk information is incorporated into the assessment of SICR.

Qualitative criteria:

In addition to the quantitative triggers defined based on arrears amounts, qualitative triggers for the transition of accounts into Stage 2 are also being considered, these include the following:

- Flag for operational issues requiring transition into Stage 2 – e.g. in instances where the account holder has asked their employer to stop deductions. This will allow accounts to move into Stage 2 before instalments start to move into arrears.
- Manual overrides for industries/employers in distress. This would be applicable in cases where Ubank is aware of upcoming retrenchments due to mines in distress.
- Contagion risk – i.e. transitioning all of an account holder's loans into Stage 2 as soon as arrears' amounts accrue on any of the customer's facilities.

(b) Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Loans and advances/receivables

Quantitative criteria

- The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower has indicated to the Bank that he or she will not be able to service the facility.
- A credit judgement has been issued.

The criteria above have been applied to loans and advances/receivables held by the Bank, and are consistent with the definition of default used for internal credit risk management purposes and regulatory reporting. The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Investments in rated assets

Qualitative criteria

The investment institution shows indications of significant financial difficulty, evidenced through media reports.

(c) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL is the discounted product of the PD, EAD, and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss given default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The methodologies applied to the ECL calculation have been split between loans and advances/receivables, and investments in rated assets.

Probability of default

Loans and advances/receivables

Two separate PD measures are to be calculated:

- Lifetime PD (probability of default over the remaining lifetime of the loan); and
- Marginal PD (probability of default in each future month).

PDs are calculated using monthly roll rates, converted into a transition matrix.

Transition matrices are based on the average, exposure weighted movements between the different statuses on a monthly basis. Specifically, these are based on monthly movements between:

- Up to date (performing)
- Arrears 30
- Arrears 60
- Arrears 90+; defined as absorbing

Transition matrices are multiplied out in order to calculate the probability of an account moving into different states over a specified period of time.

Finally, transition probabilities over time are converted into lifetime PDs and marginal PDs.

Investments in rated assets

The Bank measures the PD according to S&P Global's Rating Index. This considers cumulative default rates for sovereign and corporate investments. These ratings are obtained and updated annually.

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

Impairment losses on financial assets (continued)

Applying IFRS 9 (continued)

(c) Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

Loss given default

Loans and advances/receivables

The PD model assumes that all accounts entering the defaulted state remain in that state for the rest of their expected lifetime. Therefore, all recoveries on defaulted exposures are aggregated and allowed for in the LGD calculation.

This includes recoveries from the following sources:
- Unsecured recoveries made on defaulted exposures
- Recoveries made due to standard instalment payments after cures
- Recoveries from insurance policies/collateral – where applicable

Recoveries are aggregated by month of entering into default, and aggregated into development factors summarising how these recoveries develop over time subsequent to the date of entering default. The LGD is then calculated as 100% less the recovery rate.

Investments in rated assets

The Bank has applied a Basel LGD of 45%, which is considered to be an industry-wide application.

Exposure at default

Loans and advances/receivables

In estimating the expected exposure at default for term loans, the contractual rundown of the loan (i.e. as defined by the original amortisation schedule of the loan) is used. At the point of default, the contractual rundown three months prior to the point of default is extracted and used as the expected exposure. Back testing is performed to ensure that this represents an accurate representation of the historical EAD experience on the book. Where necessary, adjustments are made to the expected rundown based on actual historical experience. This is largely driven by historical payment behaviour i.e. trend of instalments in arrears, early settlements, terminations etc. The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. are monitored and reviewed on a quarterly basis.

Investments in rated assets

The Bank measures EAD using the exposure at balance sheet date.

(d) Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio. Forward-looking information macroeconomic information is incorporated in the model through use of the Vasicek model. The model incorporates our view of future macroeconomic conditions and adjusts the parameters in the model such that this is reflected in the impairment results.

Forward-looking macroeconomic information is incorporated in the model through use of the Vasicek model. The model incorporates our view of future macroeconomic conditions and adjusts the parameters in the model so that this is reflected in the impairment results.

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability- weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting
(as opposed to weighting the inputs).

(e) Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.
- Interest rate, given its impact on individuals' likelihood of default.
- Inflation rate, given its impact on individuals' ability to meet their contractual repayments.

Current taxation

The taxation charge in the financial statements for amounts due to fiscal authorities in the various territories in which the Bank operates, includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment for similar classes of transactions, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. Please refer to note 14.

Deferred tax assets

The Bank's accounting policy for the recognition of deferred tax assets is described in note 3.4(b). A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The amount of deferred tax assets recognised is based on the evidence available about conditions at the reporting date, and requires significant judgements to be made by management. Management's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and the availability of assessed losses. The recognition of the deferred tax asset is mainly dependent upon the projection of future taxable profits.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred current tax assets. Please refer to note 21.

3. Summary of significant accounting policies

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

3.1 Revenue

3.1.1 Revenue from contracts with customers

Revenue arises mainly from interest, dividends, fair value adjustment, administration fees, commission fees and service and management fees.

To determine whether to recognise revenue, the Bank applies the following five steps:

1. Identifying the contract with a customer.
2. Identifying the performance obligations. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.
3. Determining the transaction price. The transaction price is the amount of consideration to which the Bank expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, the Bank estimates the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
4. Allocating the transaction price to the performance obligations on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
5. Recognising revenue when/as performance obligation(s) are satisfied, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, the Bank would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Administration fees

The Bank receives administration fees from two sources:

Initiation of loans

This relates to fees earned for various administrative tasks performed in setting up a contract. IFRS 9 indicates that all fees considered to be an integral part of the effective interest rate, should form part of the calculation. Based on the nature of the fees, it is assessed that initiation fees are integral to the loan, and hence will be accounted for over the life of the instrument.

Monthly servicing of loans

These fees relate to ongoing servicing of loans i.e. record-keeping, sending out customer statements, resolving customer queries etc. Monthly service fees are earned for activities completed monthly, and hence will be recognised accordingly when the performance obligation is satisfied at the end of each month in terms of IFRS 15.

Commission income

The Bank earns commission revenue from the following:

- Credit life assurance
- Funeral policies
- Mobile banking transactions
- Payfiles processed on behalf of mines

Service and management fees

The Bank derives the majority of its revenue from transactional income. The different types of transaction fees charged by the Bank relate to:

- ATM transactions
- Electronic banking transactions
- In-branch transactions.

Applying the requirements contained in IFRS 15:

1. The contract in this regard would relate to the documents signed by a customer when opening an account with the Bank. There is no fixed duration hence requirements apply for as long as an account is open.
2. Performance obligations relate to making available the services listed above. The performance obligation is considered to be complete once a customer concludes a transaction.
3. The transaction price that the Bank is entitled to is per the amounts provided to the customer in the Bank's pricing brochure. These differ per type of account and transaction. Any changes in pricing are communicated to customers via sms, posters at branches, radio, the Bank's website etc.
4. The transaction price is clearly stipulated per type of service provided above and thus, separately identifiable for purposes of "allocating the transaction price".
5. Revenue is recognised at a point in time, when the performance obligation is complete per point 2.

3.1.2 Interest and dividends recognised in terms of IFRS 9

The Bank derives interest on the following financial assets:

- Cash and cash balances
- Treasury investments
- Loans and advances to customers

Dividends are received on investments in shares.

All of the above instruments are within the scope of IFRS 9 and are thus accounted for in accordance with that standard. In terms of IFRS 9:

- Interest is calculated using the effective interest method and recognised in profit or loss over the life of the asset.
- Dividends are recognised in profit or loss only when:
  (a) the entity's right to receive payment of the dividend is established;
  (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and
  (c) the amount of the dividend can be measured reliably.

3.2 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. The total minimum lease payments made under operating leases are charged to the statement of profit/loss and other comprehensive income on a straight-line basis over the period of the lease. Any contingent rental payments are expensed when incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.3 Taxation

(a) Current tax

Income tax payable on taxable profits (current tax), is recognised as an expense in the period in which the profits arise. The tax rates and tax laws used to compute the amount are those that are applicable as at the end of the financial year.

Income tax related to items recognised directly in equity is recognised in equity and not in the statement of profit/loss and other comprehensive income.

3. Summary of significant accounting policies (continued)

3.3 Taxation (continued)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantially enacted by the reporting date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. In addition, both deferred tax assets and liabilities are recognised except where the deferred income tax asset/liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised directly in equity is also recognised in equity and not in the statement of profit or loss and other comprehensive income.

3.4 Cash and cash balances

Cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments (less than three months) that are convertible into cash with an insignificant risk of change in value.

3.5 Property, plant and equipment

Property and equipment is initially measured at cost. Subsequent measurement is recorded at cost less accumulated depreciation and accumulated impairment in value, if any. Such cost includes the cost of replacing a part of equipment only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate. All other repairs and maintenance are charged to the profit or loss section of the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the depreciable amount of items of property and equipment, other than land, on a straight-line basis over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

When deciding on depreciation rates and methods, the principal factors the Company takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Company estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Depreciation rates, methods, useful lives and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each financial year end to take account of any change in circumstances. Changes are treated as changes in accounting estimates.

The Company uses the following annual rates in calculating depreciation:

Motor vehicles	5 years
Furniture and fittings	6 years
Computer equipment	3 to 5 years
Office equipment	5 to 6 years
ATMs	7 years
Leasehold improvements	5 years
Fixed property	10 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss section of the statement of profit or loss and other comprehensive income in the year the asset is derecognised. The useful lives presented are consistent with prior years.

3.6 Intangible assets

An intangible asset arising from software/system development expenditure on an individual project, is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Intangible assets are measured on initial recognition at cost.

Costs associated with maintenance and modification of computer software are recognised as an expense as incurred. Costs that are clearly associated with an identifiable and unique product, which will be controlled by the Company and have probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised, on a straight-line basis over the period of expected future use of the asset once the asset is available for use. The useful lives of intangible assets have been assessed as finite and are therefore amortised over the useful economic life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The carrying value of development costs is reviewed for impairment annually, when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year. The amortisation period and method are reviewed annually. Changes in the expected useful life, amortisation period or method are treated as changes in accounting estimates.

The amortisation periods are as follows:

Computer software development costs	3 to 10 years

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gains or losses arising from disposal or derecognition of the intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

3.7 Employee benefits

The Bank and employees make contributions to the following pension funds which are all defined contribution plans: Multicor, Mine Workers Provident Fund and Momentum FundsAtWork Umbrella fund. These pension funds are registered under and governed by the Pension Funds Act, 1956, as amended. Contributions to any defined contribution section of a plan are recorded under "personnel expenses", which is included within operating expenses, as incurred.

Short-term employee benefits, such as salaries, paid absences and other benefits, are accounted for on an accrual basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably. The bonus provision is only recognised when an outflow of economic benefits is probable.

3.8 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

3. Summary of significant accounting policies (continued)

3.9 Financial instruments – Initial recognition and subsequent measurement

Initial recognition and classification

Financial asset and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction cost of financial assets or financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When the fair value of financial assets or financial liabilities differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the differences is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets recognised on the statement of financial position include; cash and cash balances, investments, trade receivables and other assets and loans and advances to customers.

Applying IAS 39

The Bank classifies its financial assets in the following categories:

- financial assets designated at fair value through profit or loss;
- loans and receivables;
- held to maturity investments; and
- available-for-sale financial assets.

(1) Financial instruments at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to the payment has been established.

Included in this classification are certain short-term investments as detailed in note 16. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined according to the fair value hierarchy based on the requirements in IFRS 13. Please refer to the fair value hierarchy in notes 16 and 30.

(2) Loans and receivables

Loans and receivables (including long-term loans, advances and trade receivables and other assets) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "financial assets held for trading", designated as "financial investment – available-for-sale" or "financial assets designated at fair value through profit or loss". They arise when the Company provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(3) Held to maturity investments

Held to maturity investments are non-derivative financial assets (including short-term investments) which carry fixed or determinable payments and have fixed maturities and which the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(4) Available-for-sale investments

Available-for-sale investments are non-derivative financial investments that are designated as available-for-sale or do not qualify to be categorised as held at fair value through profit or loss, loans and receivables or held-to-maturity. They are initially recognised at fair value. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the statement of profit or loss and other comprehensive income. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the statement of profit or loss and other comprehensive income.

Applying IFRS 9

Classification and subsequent measurement of debt instruments depend on:

(a) The Bank's business model for managing the asset; and
(b) The cash flow characteristics of the asset.

(a) Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

(b) Cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with the basic lending arrangement i.e. the interest includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories:

(1) Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

Origination fees are recognised over the term of the financial instrument on a straight-line basis.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities are adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

3. Summary of significant accounting policies (continued)

3.9 Financial instruments – Initial recognition and subsequent measurement (continued)

Applying IFRS 9 (continued)

(b) Cash flow characteristics (continued)

(1) Financial assets at amortised cost (continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit impaired (or classified as Stage 3), for which interest revenue is calculated by applying the effective interest rate to the amortised cost i.e. gross carrying amount net of ECL provision. The differential between contractual interest and amounts recognised to the income statement are recognised as an unwinding of discount within ECL. If and when a loan cures, the unrecognised interest is also released within ECL in the month of curing for that particular loan.

(2) Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in "Net investment income". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

(3) Financial assets at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Management may also elect to designate a portfolio at fair value through profit or loss at initial recognition, if doing so eliminates or significantly reduces a measurement or recognition inconsistency; or where the financial assets form part of a held for trading portfolio. The Bank currently has no financial instruments falling within this category.

The Bank reclassifies its financial assets when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are those instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and reversals are not reported separately from other changes in fair value.

Dividends, when representing a return on such investment, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Financial liabilities

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost.

Financial liabilities recognised on the statement of financial position include: trade payables and other liabilities and deposits and savings due to customers.

3.10 Financial instruments – Derecognition

(a) Financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have:
(a) Expired; or
(b) When they have been transferred and either:
- The Bank transfers substantially all the risks and rewards of ownership, or
- Neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering the following significant factors:
- The customer being on maternity leave (no more than four months).
- A strike at the mine.
- Short-time pay.
- The illness of a customer whose account has been well conducted.
- Withholding payment of instalments by employers (at times employers hold back payments as they have cash flow problems).
- The customer is under an administration order.
- The customer is under debt review.
- The customer is under a garnishee order.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition. These amounts are not expected to be material and will be quantified for the Bank's annual disclosures.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition. The Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

3.11 Financial instruments – Determination of fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market price or asking price (as appropriate) in an active market wherever possible, without any deduction for transaction costs. Where no such active market exists for the particular asset, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the use of prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Please refer to the fair value hierarchy in note 16.

3. Summary of significant accounting policies (continued)

3.12 Impairment of financial instruments

Under IAS 39

(a) Impairment of assets held at amortised cost

Loans and advances to customers

The Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future ECLs that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is included in the statement of profit or loss and other comprehensive income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. Write-off typically occurs when:

- the account is more than 12 cycles past due;
- it is uneconomical to continue trying to recover the debt;
- no security is held or all security has been realised;
- the customer's whereabouts are untraceable; and
- the customer has been formally declared by a court as insolvent.

Before a decision is taken to write off a bad debt, an appropriately mandated official must verify that:

- all security has been realised and credited to the debtor's account; and
- appropriate action has been taken against the principal debtor and sureties.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If an amount previously written-off is later recovered, the recovery is credited to "bad debts recovered" in the profit or loss section of the statement of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Bank assesses individually whether there is objective evidence of impairment. Objective evidence includes analyst ratings and media reports. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the "impairment losses on financial investments".

Trade receivables and other assets

The Bank assesses at each reporting date if there is objective evidence that an impairment loss has been incurred, then the amount of the impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. The amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Trade receivables and other assets are reduced directly with the amount of the impairment loss.

(b) Impairment of assets held as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current value, less any impairment loss on that investment previously recognised in the profit or loss section of the statement of comprehensive income - is removed from other comprehensive income and recognised in the profit or loss section of the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Where applicable future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "interest and similar income".

Under IFRS 9

The Bank assesses on a forward-looking basis the ECLs associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Further details are disclosed within the significant accounting judgements and estimates section of the financial statements. The write-off policy is consistent with that applied under IAS 39.

3.13 Financial instruments – Collateral and netting

The Bank enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

(a) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities. The Bank also receives collateral in the form of cash or securities in respect of other credit instruments, such as advances to customers in order to reduce credit risk. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from banks or other counter parties. Any interest payable or receivable arising is recorded as interest payable or interest income respectively.

(b) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

4. Changes in accounting policy

The annual financial statements have been prepared in accordance with IFRS on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 March 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 March 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 March 2018. Comparatives in relation to instruments that have not been derecognised as at 1 March 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 1 March 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The directors reviewed and assessed the Company's existing financial assets as at 1 March 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards to their classification and measurement:

Cash and cash balances

The Company's cash and cash balances classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost, as they are held within a business model whose objective is to collect the contractual cash flows, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Trade receivables and other assets

Trade receivables and other assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Loans and advances to customers

Loans and advances classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Investments in Central Bank securities

Investments in Treasury Bills designated at fair value through profit or loss under IAS 39 have been de-designated under IFRS 9 as these are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. This is not in contradiction with the selling of these investments in limited circumstances. Accordingly, these investments are accounted for at amortised cost under IFRS 9.

Investments in Capital Market instruments

The Company's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in equity. However, the cumulative amount in equity is no longer reclassified to profit or loss on derecognition of the equity investments.

Investments in Money Market instruments

The Company's investments in fixed deposits classified as held-to-maturity investments under IAS 39 that were measured at amortised cost continue to be measured at amortised cost, as they are held within a business model whose objective is to collect the contractual cash flows, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an ECL model as opposed to an incurred credit loss model under IAS 39. The ECL model requires the Company to account for ECLs and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for ECLs on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECLs if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months, ECLs. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 March 2018, the directors reviewed and assessed the Company's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 28 February 2018. The result of the assessment is as follows:

The additional loss allowance is charged against the respective asset or provision for financial guarantee, except for the investments at fair value through other comprehensive income, the loss allowance for which is recognised against the reserve in equity. The application of the IFRS 9 impairment requirements has resulted in additional loss allowance of R31.1 million to be recognised in the current year (2018: Rnil).

4. Changes in accounting policy (continued)

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS 9

The following table presents a summary of the financial assets as at 1 March 2018. The table reconciles the movement of financial assets from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss" and "FVOCI" denotes "fair value through other comprehensive income."

	Previous measurement	New measurement category: IFRS 9			
	IAS 39 R'000	Amortised cost R'000	FVOCI – equity R'000	Re-measurement changes – Adjustment to equity R'000	Change attributable to:
Previously fair value through profit or loss (designated):					
Investments – Central Bank securities	4 081 249	4 080 213	–	(1 036)	Change in measurement category
Previously loans and receivables:					
Loans and advances to customers	832 745	832 745	–	–	No change
Trade and other receivables	64 527	64 527	–	–	No change
Cash and cash balances	390 783	390 783	–	–	No change
	1 288 055	1 288 055	–	–	
Previously held to maturity:					
Investments – Money Market instruments	84 568	84 568	–	–	No change
Previously available for sale:					
Investments – Capital Market instruments	43 631	–	43 631	–	No change
	5 497 503	5 452 836	43 631	(1 036)	

Application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRSs. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 introduces a five-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Refer to the revenue accounting policy for additional details.

The Company has applied IFRS 15 with an initial date of application of 1 March 2018 in accordance with the cumulative effect method, by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 March 2018. The comparative information has therefore not been restated. As detailed within the summary of significant policies, there were no impacts to revenue arising from IFRS 15 amendments. On application of IFRS 9, the Bank de-designated its investment in Central Bank securities at fair value through profit or loss to be accounted for at amortised cost. Hence revenue from this investment is now of an interest income nature and no longer fair value gains/losses.

5. New Standards and Interpretations

5.1 Standards and interpretations not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 March 2019 or later periods:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 16 Leases	1 January 2019	The new requirements of IFRS 16 are expected to result in an increase in leased assets and financial liabilities

IFRS 16 – Leases

IFRS 16 replaces IAS 17 and related interpretations with effect from 1 January 2019. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represent those transactions. The new standard introduces a single lessee accounting model, requiring lessees to recognise a right-of-use asset (representing its right to use the underlying leased assets) and a lease liability (representing its obligation to make lease payments). The standard contains exemptions in respect of leases with a term of 12 months or less and leases where the underlying asset has a low value.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted, however, the Bank has decided not to early adopt. The Bank is planning to adopt IFRS 16 on 1 January 2019 using the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

The revised standard is expected to have a material impact on the Bank's balance sheet. It is estimated that the capitalisation of right-of-use assets and corresponding lease liabilities will be in the region of R100 million. This, in turn, is expected to reduce the Bank's capital adequacy ratio by 104 basis points on 1 March 2019. There is no phasing-in approach permitted under Basel III.

The Bank has taken significant steps to ready itself for the change in accounting requirements arising from the new standard. Thus far, the Bank:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Bank has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset;
- determined that the most significant impact will be that the Bank will need to recognise a right-of-use asset and a lease liability for the office buildings and IT servers currently treated as operating leases; and
- is implementing a new IT system that will facilitate the recording of accounting transactions.

6. Risk management

The Board acknowledges its ultimate responsibility for the complete process of risk management, as well as for forming its own independent opinion on the effectiveness of the process. The Board has adopted a prudent risk management culture, one which views risk as an inherent part of running a successful business.

The Risk department is an independent function and the vision is to introduce initiatives that go beyond compliance to creating value and building sustainable competitive advantage. These initiatives include building and working towards a more mature risk culture by continuously improving the related risk processes, awareness and training within the Bank.

The Board Risk and Capital Management Committee assists the Board in reviewing the quality, integrity and reliability of the risk management process and reviewing significant risks facing the Bank. The Board Risk and Capital Management Committee charter highlights the roles and responsibilities of this committee to ensure effective discharge of duties and segregation of duties at Board level.

6. Risk management (continued)

Risk governance

The following management committees are in place to support the ExCo and the Board Risk and Capital Management Committee in managing enterprise-wide risks.

- Credit Committee, responsible for credit risk
- Asset and Liability Committee (ALCO), responsible for the management of the following:
  - Solvency risk
  - Liquidity risk
  - Interest rate risk
  - Counterparty risk
- The Enterprise Risk Committee (ERC) monitors the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events including legal risk but excluding strategic risk. All risk related matters from the Credit Committee and ALCO (Assets and Liabilities Committee) respectively are also discussed in the ERC. The ERC serves as an over–arching Executive Committee that addresses all risk matters of the Bank.

The Board Risk and Capital Management Committee, in addition to its responsibilities pertaining to risk management processes within the Bank, is also responsible for oversight of the Bank's capital management process including the approval of the Bank's ICAAP (Internal Capital Adequacy Assessment Process) document as and when it is revised.

From a governance and risk management perspective, ICAAP aims to answer the questions pertaining to whether Ubank identifies all material risks and sets out in detail the range of systems and controls that are effectively in place to mitigate Ubank's risks. ICAAP furthermore demonstrates how it will be ensured, at any point in time, that the Bank holds sufficient capital, given the Bank's risk profile.

Elements of ICAAP, such as stress testing and scenario analysis, stress buffer, target level of capital, adequacy of risk management process and risk appetite are dealt within detail in ICAAP. Ubank endeavours to continuously refine and improve its ICAAP in any areas where it is deemed necessary in order to improve compliance with respect to these matters. Some of these steps and initiatives refer to future activities that will be developed as the sophistication of risk and capital management processes within the Bank increases in order to keep pace with expansion of the Bank's activities and services offered to customers.

By following a structured approach, Ubank is able to identify potential events, in both the internal and external environment, that may affect the entity and can then manage the risks arising therefrom to be within its risk appetite, in order to provide reasonable assurance regarding the achievement of its strategic objectives.

Operational risk

Concerning operational risk, the Bank applies the Basic Indicator Approach for Operational Risk. The Bank has also adopted some qualitative aspects of The Standardised Approach so to ensure that the Bank risk management processes are aligned to best risk management practices. Changes to the approved ERM Framework and related polices are taken into account in endeavouring to improve the risk profile of the Bank. It should be highlighted that the risk frameworks, related policies and initiatives are continuously embedded in the Bank's risk management processes.

The Bank's insurance process is the responsibility of the Enterprise Risk Committee. The Committee ensures that the Bank maintains adequate insurance to cover the key insurable risks in line with the risk appetite and requirements. Operational risk management and the Bank's insurance brokers collaborate to enhance the mitigation of operational risks. Insurance is viewed as a risk transfer mechanism; as an additional tool to having sound internal controls and not as replacement of them.

Fraud risk management

The Bank operates in an environment in which fraud risks, which are very prevalent, have to be managed effectively. In doing so, financial crime must be prevented, detected and investigated. The Bank has a zero tolerance for fraud, meaning that acts of dishonesty or similar unethical behaviour are not tolerated and consistent consequence management is applied in line with internal policies as well as the laws of our country that govern criminal activity.

An end-to-end fraud risk solution is applied in the fraud risk management framework, to proactively and reactively manage the fraud risks impacting the Bank. The fraud risk management framework includes the following:

- Prevention: Fraud policies (including fraud prevention policy and whistleblowing policy) , controls and initiatives that contribute to reduce the risk of fraud, prevent fraud and misconduct before it occurs, and provide platforms for reporting fraud occurrences.
- Detection: Detection of fraud occurs as part of a proactive investigation approach, and where business is also vigilant in detecting fraud. This is informed by forensic analysis and data analytics.
- Investigation: The investigation of fraud includes the establishment of investigation protocols, increased turnaround time, conducting investigations without favour or prejudice, to report on investigations, and to provide recommendations on findings.
- Remediation: During the course of investigations, certain relevant shortcomings in the control environment are identified and recommendations are provided to correct flaws.
- Monitoring: Continuous monitoring to improve the control environment after recommendations were implemented.

The zero tolerance approach of the Bank focuses on the mitigation of fraud risk and other criminal activities before it occurs. This is supported by initiatives such as promoting honesty and ethical conduct; educating employees on matters relating to financial crime; establishing procedures that govern the escalation of fraud allegations; providing support to whistleblowers. Further communications are focused on raising awareness of fraud scenarios, the identification of common types of fraud, the education of employees on the Fraud Prevention and Whistleblowing policies and to determine whether controls are sufficient to reduce the risks associated with fraud.

Internal audit

Internal Audit is an independent assurance function and operates in terms of an audit charter approved by the Board. The Audit Committee accordingly approves the Internal Audit Plan. The Head of Internal Audit has a functional reporting line to the Chairperson of the Audit Committee and an operational reporting line to the Chief Executive Officer. Internal Audit has full and unrestricted access to all organisational activities, records, property and personnel under review.

Audit results are reported to management, who are responsible for implementing corrective action to remediate deficiencies noted in the system of internal control or risk management processes. Internal Audit conducts follow-up procedures to verify that the corrective actions implemented by management are adequate and effective in strengthening internal controls.

The Basel capital accord

The Board has approved and adopted a standardised approach for credit risk and basic indicator approach for operational risk. In addition, the Board monitors compliance with Basel III.

Code of ethics

The code of ethics commits staff and management to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. Staff at all levels participated in the drafting of a code of ethics, which reflects the Bank's diversity and unique culture. Staff are expected to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices and to observe the Bank's values in their interaction with others and specifically with customers.

6. Risk management (continued)

6.1. Financial risk management

Introduction and overview

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit risk management

Credit risk is the risk of financial loss resulting from a customer or counterparty failing to meet an obligation under a contract. Loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of the Bank, including in the banking book. Credit risk inherent in the entire credit portfolio as well as the risk in individual credits or transactions is actively managed. The relationships between credit risk and other risks are considered as part of the ongoing credit risk management process within the Bank.

Potential concentrations of credit risk consist principally of short-term cash investments and loans to the mining sector, including mine workers. The Bank has accepted this concentration risk and manages its risk accordingly. The Bank only deposits short-term cash surpluses with financial institutions of high quality credit standing. Credit limits per financial institution are approved by the Asset and Liability Committee (ALCO) in line with the credit limit methodology approved by the Board Risk Committee.

The Bank's focus over the last financial year has been on improving on collections. This has resulted in improved performance ratios and lower impairments, whilst reducing our dependence on the set-off arrears repayment process.

This financial year, credit risk management continued to be tested from both a customer and regulatory perspective, compounded by added competition (growth). The consumer market still finds itself highly indebted with initiatives being run by banking and mining industry bodies to assist customers in financial distress. Despite the competition in the market, the Bank continues to follow its lending strategies and strives to maintain market share with responsible lending practices. The environmental changes in credit; namely, credit collections' focus, also enables business to increase its agility to respond to the industry.

Credit risk measurement

The Bank's scorecards used to measure the credit risk the Bank will be exposed to when underwriting and managing loans continue to rank customers appropriately. The techniques are integrated with the Bank's risk appetite framework to ensure the credit lifecycle is aligned with the Bank's capital plans. The Bank has also placed a lot of emphasis on arrear loan collections and our ability to reduce forward roll into higher provision attracting buckets. The most important assessment of existing risk exposure used by the Bank is the impairment model; this in turn is impacted by our ability to allocate payments. Bulk upload functionality was implemented to reduce manual intervention and enhance the payments allocation process.

Credit risk mitigation

The Bank uses a risk-focused approach during new loan assessment. This includes credit assessment, affordability assessment and finally fraud assessment. Once credit loans are approved and reside on the Bank's credit portfolio, risk migration is regularly performed on the portfolio to monitor the portions of the Bank's portfolio that are deteriorating. With collection strategies and score capabilities, the deteriorating loans are prioritised to perform different collection strategies. The aim of such strategies are to cure non-performing loans sooner. Impairment limits are monitored by the Bank to ensure the loss targets are maintained. These mitigant results are reported at various committees to manage risk accordingly.

Risk concentration of the maximum exposure to credit risk

Concentration of risk within customer, sector and geography (all within South Africa) is managed by ALCO. The Bank is also exposed to concentration risk specifically within the mining industry.

	2019 R'000	2018 R'000
Loans and advances[1]		
Personal loans to employees of mining industry	**598 669**	724 005
Personal loans to employees of non-mining industry	**26 583**	13 173
Total	**625 252**	737 178
Investments		
Sovereigns	**4 172 206**	4 081 249
InterBank	**84 424**	84 568
Capital Markets	**5 223**	3 581
Investments under curatorship	**–**	40 050
Total	**4 261 853**	4 209 448

1. The above loans (including pension backed lending) are defined as unsecured as per the Banks' Act.

(b) Liquidity risk management

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

A loss of confidence in the Bank or the banking sector could result in a withdrawal of deposits and funding such that the Bank cannot meet its obligations despite being adequately solvent and profitable. The Bank's liquidity risk is monitored by the ALCO that meets monthly and reviews the liquidity position of the Bank including liquidity mismatches in terms of regulatory requirements for Banks and financial institutions. Its objective is to manage and limit the adverse impact of these risks on the Bank's future earnings. Refer to note 29 for a liquidity analysis.

(c) Market risk management

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank does not have a trading book but a banking book, as such it is mainly exposed to interest rate risk.

The ALCO consisting of senior management meets on a monthly basis to review the balance sheet structure, including interest rate exposure and approve management strategies against the considered economic forecasts. Compliance with treasury policies and objectives and exposure limits are reviewed by ALCO on a monthly basis and by the Board Risk Committee on a quarterly basis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Changes in prices are monitored on a ongoing basis.

Currency risk

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Bank has no significant exposure to currency risk at the end of the reporting period.

Market risk measurement

Interest rate risk is being measured through an interest rate gap model, which is the difference between rate sensitive assets and liabilities. In addition, a stress testing model using interest rate shocks, is used to determine potential losses in the event of extreme market conditions. The impact on net interest margins is monitored at the monthly ALCO meetings. Refer to Section 6.5 for the sensitivity analysis.

6. Risk management (continued)

6.2. Capital management

The Bank manages its capital, as an integral part of the ALCO and ICAAP process, to ensure that it holds adequate capital to meet the minimum regulatory requirements as well as internal operational requirements. In line with the Basel III requirements, a capital buffer ratio has been approved by the Board and is reviewed and monitored by both ALCO and the Board Risk Committee. During the past year, the Bank had complied with all its externally imposed capital requirements. No changes were made in the objectives, policies and processes from the previous years.

Basel III

The Bank has fully embraced the Basel III framework and acknowledges that it has further improved the risk management processes. The Basel III capital adequacy ratio is being monitored including the internal capital buffer ratio approved by the Board Risk Committee. The Bank approved and adopted a standardised approach for credit and the basic indicator approach with respect to operational risk.

Minimum banking requirements

Capital adequacy and the use of regulatory capital are determined by employing techniques based on guidelines (i.e. the Basel III capital framework) developed by the Basel Committee on Banking Supervision and implemented by the South African Reserve Bank (SARB). These techniques include the capital adequacy ratio calculation, which the SARB regards as a key prudential supervisory tool.

Risk-weighted assets are determined by applying risk weights to statement of financial position assets and off-statement of financial position financial instruments according to the relative credit risk of the counterparty. The risk weighting for each statement of financial position asset and off-statement of financial position financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended) and Regulations Relating to Banks.

The Bank's regulatory capital position at 28 February was as follows:

	2019 R'000	2018 R'000
Tier 1 capital		
Ordinary share capital	24 500	24 500
Share premium	220 375	220 375
Retained earnings	367 678	336 808
Accumulated other comprehensive reserves	2 046	2 779
Deductions	(78 480)	(59 081)
Total	536 119	525 381
Tier 2 capital[1]	6 563	6 774
Total regulatory capital	542 682	532 155

	Capital requirements		Risk weighted assets	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Risk weighted assets				
Credit	59 393	63 894	659 915	690 751
Banks	14 119	9 692	156 877	104 781
Security firms	–	1 852	–	20 025
SME corporate	147	151	1 631	1 631
Retail	45 127	52 199	501 407	564 314
Operational	114 588	111 564	1 273 201	1 206 102
Market	470	331	5 223	3 581
Equity	470	331	5 223	3 581
Other	18 218	24 566	202 432	265 561
Total	193 139	200 686	2 145 994	2 169 576

1. Allowable portfolio impairment under standardised approach.

	2019 %	2018 %
Capital adequacy		
Capital adequacy	25.29	24.53
Primary capital adequacy	24.98	24.22
Target capital levels		
Target capital levels have been set for the Bank and are above the minimum regulatory requirements set by the SARB		
Regulatory requirements	9.00	9.25

	Capital requirements		Capital position	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Monthly/daily average credit exposure				
Banks	14 119	9 692	156 877	104 781
Security firms	–	1 852	–	20 025
SME corporate	147	151	1 631	1 631
Retail	45 127	52 199	501 407	564 314
	59 393	63 894	659 915	690 751

6.3. Credit risk

(a) Gross maximum exposure

The Bank's objectives and policies in managing the credit risks that arise are set out in note 5.1 under the heading "Credit Risk Management". The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross (net impairment), before the effect of mitigation through the use of master netting and collateral agreements.

	2019 R'000	2018 R'000
Cash and cash balances	507 958	390 783
Investments	4 261 853	4 209 448
Trade receivables and other assets (excluding prepayments)	58 590	40 949
Loans and advances to customers	625 252	737 178
Total credit risk exposure	5 453 653	5 378 358

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(b) Collateral and other credit enhancements

Home loans is a loan scheme where the borrower's provident fund is ceded as security in the event of death or resignation from employment. The Bank's policy and process for valuing collateral, is that the security values must be conservative and give the Bank a margin that takes into account market volatility, the time taken to realise the security and the cost of realisation. The more volatile the value of the security, the more frequent the valuations should be. The policy also manages the frequency of the revaluation of security, based on the nature of the security.

	Notes	2019 R'000	2018 R'000
Secured loans (provident fund ceded)		370	13 173
Other loans (unsecured)		624 882	724 005
Loans and advances to customers	18	625 252	737 178

6. Risk management (continued)

6.3. Credit risk (continued)

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the affordability model of loans and advances. Investment credit exposure is managed by the ALCO per note 6.1. Trade receivables and other assets credit exposure is managed through the Bank's internal control environment. The table below shows the credit quality by class of asset for statement of financial position lines, based on the Bank's current credit risk framework and policies.

	2019 R'000	2018 R'000
Cash and cash balances	507 958	390 783
Investments	4 261 853	4 209 448
Trade receivables and other assets (excluding prepayments)	58 590	40 949
	4 828 401	4 641 180

	Current R'000	30 to 90 days R'000	90 to 180 days R'000	180 to 365 days R'000	> 365 days R'000	Total R'000
2019						
Cash and cash balances	507 958	–	–	–	–	507 958
Investments	4 261 853	–	–	–	–	4 261 853
Trade receivables and other assets (excluding prepayments)	58 590	–	–	–	–	58 590
	4 828 401	–	–	–	–	4 828 401
2018						
Cash and cash balances	390 783	–	–	–	–	390 783
Investments	4 169 398	–	–	40 050	–	4 209 448
Trade receivables and other assets (excluding prepayments)	40 949	–	–	–	–	40 949
	4 601 130	–	–	40 050	–	4 641 180

(d) Age analysis of past due but not impaired per class of financial assets

All financial assets classified as past due are assessed for impairment annually and have an impairment raised. Past due refers to an overdue payment (instalment) which was not recovered on a specific date. When the payment due is not honoured, it becomes a past due financial asset.

(e) Analysis of impaired financial assets per class

The maturity analysis of the gross carrying value of loans and advances that are impaired (note 18) have been reported below. The disclosure reflects the outstanding amounts after risk mitigation.

	Notes	30 to 90 days R'000	90 to 180 days R'000	180 to 365 days R'000	> 365 days R'000	Total R'000
2019						
Loans and advances to customers – impaired		126 652	29 435	37 546	6 600	200 233
Loans and advances to customers – current		–	–	–	–	537 291
Total	18	126 652	29 435	37 546	6 600	737 524
2018						
Loans and advances to customers – impaired		92 065	28 351	43 697	19 510	183 623
Loans and advances to customers – current		–	–	–	–	645 674
Total	18	92 065	28 351	43 697	19 510	829 297

6.4. Liquidity risk

The Bank's objectives and policies in managing the liquidity risks that arise are set out in note 6.1 under the heading "Liquidity risk management". The following table provides detail on the contractual maturity of all financial liabilities including interest accrued to the reporting date and contractual interest which will be accrued after the reporting date until maturity of the financial liability: (Refer to note 29 for liquidity matching).

	On demand R'000	< 3 months R'000	3 to 12 months R'000	1 to 5 years R'000	> 5 years R'000	Total R'000
At 28 February 2019						
Financial liabilities						
Trade payables and other liabilities	108 715	5 780	3 542	–	–	118 037
Deposits and savings due to customers	3 480 500	421 373	724 742	127 245	–	4 753 860
Other liabilities						
Provision for leave pay	–	–	10 205	–	–	10 205
Provision for bonuses	–	–	3 947	–	–	3 947
Total undiscounted liabilities	3 589 215	427 153	742 436	127 245	–	4 886 049
At 28 February 2018						
Financial liabilities						
Trade payables and other liabilities	107 175	–	8 048	–	–	115 223
Deposits and savings due to customers	3 623 214	443 662	681 588	102 829	–	4 851 293
Other liabilities						
Provision for leave pay	–	–	9 432	–	–	9 432
Provision for bonuses	–	–	20 000	–	–	20 000
Total undiscounted liabilities	3 730 389	443 662	719 068	102 829	–	4 995 948

6. Risk management (continued)

6.5. Interest rate and price risk

The Bank's objectives and policies in managing the interest, price and currency risks that arise in connection with the use of financial instruments are set out in note 6.1, under the heading Market risk management. The tables below demonstrate the sensitivity to a reasonable possible change in interest rate and price respectively with all other variables held constant, of the Bank's net interest income based on forecasts. The impact of such changes on equity is not considered to be material. The movements below exclude tax effects.

Interest rate risk

	Net interest income			
	Decrease %	Increase %	Decrease R'000	Increase R'000
2019				
Bp movement				
50bp	**4.58**	**4.34**	**21 303**	**20 573**
100bp	**9.15**	**8.69**	**42 606**	**41 146**
200bp	**18.30**	**17.38**	**85 211**	**82 291**
2018				
Bp movement				
50bp	4.42	4.07	22 361	20 573
100bp	8.85	8.14	44 721	41 146
200bp	17.69	16.28	89 442	82 291

The Bank considers a reasonable expected change to be 50bp.

Price risk (sensitivity analysis based on a 10% increase and decrease in the market price of the underlying shares).

The percentage increase and decrease is management's estimate of a reasonable possible movement in the market price of the underlying instruments. The carrying value of instruments exposed to price risk at the end of the reporting period is R5 222 904 (2018: R3 581 471).

	Pre-tax impact on profit or loss R'000	Carrying value after change R'000
2019		
Increase	**522**	**5 745**
Decrease	**(522)**	**4 701**
2018		
Increase	358	3 939
Decrease	(358)	3 223

The Bank does not undertake any hedging on exposures.

	2019 R'000	2018 R'000
7. Net interest income		
Interest income		
Cash and cash balances	**13 622**	13 527
Loans and advances to customers	**203 712**	256 245
Investments	**303 101**	251 386
– Money Market instruments at amortised cost (previously held to maturity)	**6 204**	5 824
– Capital Market instruments at fair value through OCI	**2 997**	6 615
– Central Bank securities at amortised cost (previously held at FVTPL)	**293 900**	238 947
	520 435	521 158
Interest expense		
Tax authorities	**(31)**	–
Deposits and savings due to customers	**(98 717)**	(97 631)
	(98 748)	(97 631)
Net interest income	**421 687**	423 527
8. Net fees and commission income		
Fees and commission income		
Administration fees	**29 003**	33 862
Commission earnings	**38 061**	42 232
Service and management fees	**252 115**	261 978
	319 179	338 072
Fees and commission expense		
Transaction fee expenses	**(37 091)**	(35 242)
Administration fee expenses	**(20 818)**	(20 754)
ATM expenses	**(10 632)**	(9 315)
Commission paid	**(2 247)**	–
	(70 788)	(65 311)
Net fees and commission income	**248 391**	272 761
9. Net gain on financial assets designated at fair value through profit or loss		
Fair value gains		
Financial instruments at FVTPL		
Designated as such at initial recognition	**–**	677

Included in this total amount are the gains and losses arising from the buying and selling, and changes in the fair value of financial assets designated upon initial recognition as held at fair value through profit or loss.

	2019 R'000	2018 R'000
10. Other income		
Bad debts recovered	**18 864**	30 995
Profit on disposal of assets	**111**	34
Dividends received on investments held at the end of the financial year	**79**	4 640
Recovery on investment	**214 045**	–
Recovery of legal fees	**30 000**	–
Other	**138**	243
	263 237	35 912

During the current financial year, the Bank recovered R251 million on its investment in CMM. This was based on an agreed out-of-court settlement with the third party. Further details are disclosed in note 16.

	Notes	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Total R'000
11. Impairment charge on financial assets					
2019 Net charge to the statement of comprehensive income					
Loans and advances to customers	18	**3 047**	**2 127**	**(86 579)**	**(81 405)**
Unwinding of discount on ECL		**–**	**–**	**6 265**	**6 265**
Investments – other (including cash)		**–**	**–**	**(468)**	**(468)**
Investments – Corporate Money Managers (CMM)**	16	**–**	**(5 337)**	**–**	**(5 337)**
		3 047	**(3 210)**	**(80 782)**	**(80 945)**

	Notes	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2018 Net charge to the statement of comprehensive income				
Loans and advances to customers	18	(75 095)	(4 037)	(79 132)
Investments – Corporate Money Managers (CMM)**	16	(8 430)	–	(8 430)
		(83 525)	(4 037)	(87 562)

*** This impairment was determined taking into account several significant assumptions which have been included within the director's report.*

	2019 R'000	2018 R'000
12. Personnel expenses		
Employee costs		
Salaries and wages	**(243 120)**	(251 876)
Pension costs – defined contribution plan expense	**(22 411)**	(12 330)
	(265 531)	(264 206)
Personnel		
Actual headcount at year-end	**766**	705

	2019 R'000	2018 R'000
13. Other operating expenses		
Operating profit for the year is stated after charging the following:		
Auditors' remuneration		
– Audit services	**(8 058)**	(8 846)
– Other	**(184)**	(350)
Legal fees	**(27 981)**	(24 446)
Loss on sale of assets	**(499)**	(1 227)
Professional fees	**(7 262)**	(10 026)
Operating lease expense	**(39 028)**	(25 646)
Strategic research	**(739)**	(728)
Software licence fees	**(43 553)**	(39 630)
Security expenses	**(12 798)**	(17 857)
Consumables	**(8 876)**	(7 535)
Network costs	**(13 188)**	(13 584)
Maintenance	**(6 176)**	(5 418)
Software expenses	**(15 154)**	(14 544)
Telecommunications	**(2 784)**	(3 011)
Travelling	**(7 334)**	(5 618)
Training	**(4 873)**	(2 970)
Fraud	**(2 933)**	(4 422)
Printing and stationery	**(7 673)**	(4 764)
VAT not recovered	**(3 242)**	(9 664)
Cash delivery costs	**(20 128)**	(14 863)
Consulting fees	**(23 008)**	(20 765)
Marketing	**(19 627)**	(15 119)
Memberships	**(6 323)**	(6 923)
Insurance	**(2 929)**	(2 207)
Bank charges	**(4 810)**	(6 141)
Storage	**(299)**	(264)
Other	**(2 287)**	(1 613)
	(291 746)	(268 181)
14. Taxation		
Major components of the tax (income)/expense		
Deferred		
Originating and reversing temporary differences	**(48 558)**	10 736
Arising from previously unrecognised tax loss/tax credit/temporary difference	**(13 995)**	(35 293)
Taxation (expense)/income recognised in profit for the year	**(62 553)**	(24 557)
Taxation recognised in OCI	**(367)**	(1 044)
Taxation recognised in equity	**6 854**	–
Total taxation in the statement of comprehensive income	**(56 066)**	(25 601)
Reconciliation of the total tax charge		
Reconciliation between accounting profit and tax expense:		
Accounting profit	**257 438**	78 728
Tax at the applicable tax rate of 28% (2018: 28%)	**(72 083)**	(22 044)
Tax effect of adjustments on taxable income		
Non-deductible expenses/impairment reversals	**(4 247)**	(4 508)
Exempt income/non-taxable income	**13 857**	1 670
Other allowances	**88**	325
Prior year correction	**(168)**	–
	(62 553)	(24 557)
Effective income tax rate	**24.30%**	31.19%

	2019 R'000	2018 R'000
15. Cash and cash balances		
Cash and cash equivalents consist of:		
Coins and bank notes	67 684	59 606
Balances with other banks	440 274	331 177
	507 958	390 783
16. Investments		
Designated at fair value through profit or loss		
Central Bank securities	–	4 081 249
Held to maturity		
Money Market instruments*	–	84 568
Available-for-sale		
Capital Market instruments	–	43 631
Amortised cost		
Central Bank securities**	4 173 081	–
Money Market instruments*	84 554	–
	4 257 635	–
Impairment on investments	(1 005)	–
	4 256 630	–
Fair value through other comprehensive income		
Capital Market instrument	5 223	–
Total investments	4 261 853	4 209 448
Included in investments is interest receivable:		
Amortised cost	404	418
– Money Market instruments	404	418
	404	418

* *Money Market instruments of R84.9 million (2019) and R84.9 million (2018) are pledged or encumbered for the purpose of Visa and Mastercard relationship. The pledge and encumberment is for the duration of the working relationship between Ubank, Visa and Mastercard. Ubank cannot cash out this investment without notification of the two entities.*

** *Central Bank securities were reclassified from the FVTPL designation to amortised cost in the current year. The fair value of these instruments was R4 058 billion at year-end which would have yielded a fair value gain of R1 823 million.*

	Level 1 Fair values are based on quoted market prices R'000	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly R'000	Level 3 Fair values are calculated using significant unobservable inputs R'000	Total R'000
2019				
Financial instrument at fair value through OCI	5 223	–	–	5 223

	Level 1 Fair values are based on quoted market prices R'000	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly R'000	Level 3 Fair values are calculated using significant unobservable inputs R'000	Total R'000
2018				
Available-for-sale[1]	3 581	–	40 050	43 631
Designated at FVTPL	–	4 081 249	–	4 081 249
– Central Bank securities	–	4 081 249	–	4 081 249
	3 581	4 081 249	40 050	4 124 880

	2019 R'000	2018 R'000
Reconciliation of level 3 investments		
Balance as at 1 March	40 050	41 865
Impairment charge	(5 337)	(8 429)
Accrued interest	2 997	6 614
Proceeds received	(251 755)	–
Recovery on investment	214 045	–
Balance as at 28 February	–	40 050

[1] *This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment charge of R5.3 million (2018: R8.4 million) was recognised in the profit and loss section of the statement of comprehensive income. There are several significant assumptions applied to the impairment calculation which have been included in the Director's report.*

This level 3 disclosure for available-for-sale assets relates solely to the CMM investment. This investment is considered a level 3 investment as a number of the inputs used in the valuation are dependent on a number of significant assumptions and not solely on observable market data.

This valuation is sensitive to the underlying assumptions applied and by way of a sensitivity analysis:

- A change in the discount rate applied (16%) of 1.0% to 17% would result in a decrease in the valuation of the investment of R410 764 to R39.6 million. A similar change in the discount rate applied (16%) of 1.0% to 15% would result in an increase in the valuation of the investment of R278 605 to R40.3 million.
- A change in the realisable period assumption applied (one year) of one year to two years would result in a decrease in the valuation of the investment of R5.5 million to R34.5 million. A similar change in the realisable period assumption applied (one year) of one year to nil would result in an increase in the valuation of the investment of R6.3 million to R46.3 million.
- A change in the recovery value assumption applied (27%) of 5% to 22% would result in a decrease in the valuation of the investment of R10.2 million to R29.8 million. A similar change in the recovery value assumption applied (27%) of 5% to 32% would result in an increase in the valuation of the investment of R8.8 million to R48.8 million.

	2019 R'000	2018 R'000
17. Trade receivables and other assets		
Interest receivable	13	–
Other accounts receivable	101	284
Operating account – Teba Limited	1 631	1 631
VAT receivable	365	936
Stationery	1 042	2 374
Prepayments	19 865	23 578
Teba Fund Trust	9 527	9 410
Trade debtors	45 911	26 314
	78 455	64 527
18. Loans and advances to customers		
Gross loans and advances to customers	737 524	832 745
Less: Allowances for impairment losses	(112 272)	(95 567)
	625 252	737 178

Expected credit losses

Quantitative information about amounts arising from expected credit losses

The following tables explain the changes in the loss allowance and gross carrying amount of loans between the beginning and the end of the annual period:

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Loss allowance as at 1 March 2018	(19 326)	(34 315)	(72 067)	(125 708)
Financial assets derecognised during the period	3 508	5 800	53 698	63 006
Unwind of discount	(396)	(688)	(422)	(1 506)
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	3 962	(10 357)	–	(6 395)
Transfer from Stage 1 to Stage 3	1 822	–	(13 327)	(11 505)
Transfer from Stage 2 to Stage 1	(9 137)	14 495	–	5 358
Transfer from Stage 2 to Stage 3	–	6 070	(14 857)	(8 787)
Transfer from Stage 3 to Stage 1	(185)	–	1 370	1 185
Transfer from Stage 3 to Stage 2	–	(1 000)	2 162	1 162
Changes in PDs/LGDs/EADs	10 348	589	(11 527)	(590)
New financial assets originated	(7 788)	(14 274)	(6 271)	(28 333)
Modification of contractual cash flows of financial assets	(18)	(2)	–	(20)
Changes to model assumptions and methodologies	930	1 494	(2 563)	(139)
Total net P&L reversal/(charge) during the period	3 046	2 127	8 263	13 436
Loss allowance as at 28 February 2019	(16 280)	(32 188)	(63 804)	(112 272)

Gross carrying amount

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Outstanding balance as at 1 March 2018	470 925	251 435	110 385	832 745
Movements with P&L impact				
New financial assets originated or purchased	172 746	91 247	13 470	277 463
Financial assets derecognised during the period	(95 029)	(51 616)	(78 990)	(225 635)
Interest accruals and payments received	(102 097)	(47 698)	2 888	(146 907)
Modification of contractual cash flows of financial assets	(20)	(10)	(112)	(142)
Changes to model assumptions and methodologies	(277)	(71)	348	–
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(115 625)	115 625	–	–
Transfer from Stage 1 to Stage 3	(36 028)	–	36 028	–
Transfer from Stage 2 to Stage 1	101 161	(101 161)	–	–
Transfer from Stage 2 to Stage 3	–	(33 960)	33 960	–
Transfer from Stage 3 to Stage 1	2 370	–	(2 370)	–
Transfer from Stage 3 to Stage 2	–	3 681	(3 681)	–
Outstanding balance as at 28 February 2019	398 126	227 472	111 926	737 524

Sensitivity analysis

	Sensitivity	ECL Impact R'000
Macroeconomic variables		
%YoY GDP	100bps	(5 179)
	-100bps	5 701
%YoY CPI	100bps	(833)
	-100bps	889
Change in seasonally adjusted unemployment level	10%	(312)
	-10%	314
Prime Rate	-100bps	(13 787)
	100bps	18 238
USD Gold Price	10%	582
	-10%	(523)
Number of working days lost due to strikes	-10%	(1 385)
	10%	1 420
Significant increase in credit risk		
Optimistic		(3 891)
Prudent		2 646

18. Loans and advances to customers (continued)

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	Notes	Pension backed loans R'000	Other loans R'000	Total R'000
At 1 March 2018		(6 020)	(89 547)	(95 567)
IFRS 9 transitional adjustment		(388)	(29 753)	(30 141)
Net charge for the year	11	3 288	(84 693)	(81 405)
Amounts written off		1 357	93 484	94 841
At 28 February 2019		**(1 763)**	**(110 509)**	**(112 272)**
At 1 March 2017		(6 020)	(96 981)	(103 001)
Net charge for the year	11	–	(79 132)	(79 132)
Amounts written off		–	86 566	86 566
At 28 February 2018		(6 020)	(89 547)	(95 567)

The following is a reconciliation of the specific and portfolio allowances for impairment losses on loans and advances:

	Notes	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2019				
At 1 March 2018		(73 418)	(22 149)	(95 567)
IFRS 9 transitional adjustment		(32 964)	2 823	(30 141)
Net charge for the year	11	(84 451)	3 046	(81 405)
Amounts written off		94 841	–	94 841
At 28 February 2019		**(95 992)**	**(16 280)**	**(112 272)**
2018				
At 1 March 2017		(84 889)	(18 112)	(103 001)
Net charge for the year	11	(75 095)	(4 037)	(79 132)
Amounts written off		86 566	–	86 566
At 28 February 2018		(73 418)	(22 149)	(95 567)

19. Property, plant and equipment

	2019			2018		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	70 053	(46 034)	24 019	66 990	(46 663)	20 327
Freehold land	810	–	810	1 171	–	1 171
Buildings	361	(361)	–	–	–	–
Motor vehicles	2 510	(895)	1 615	1 950	(1 474)	476
Furniture and fittings	23 217	(10 619)	12 598	22 488	(11 351)	11 137
Office equipment	26 784	(19 331)	7 453	23 409	(18 016)	5 393
Computer equipment	169 503	(141 684)	27 819	159 285	(135 078)	24 207
ATMs	33 054	(16 564)	16 490	24 324	(13 262)	11 062
Total	**326 292**	**(235 488)**	**90 804**	299 617	(225 844)	73 773

Reconciliation of property, plant and equipment – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Buildings	–	–	–	361	(361)	–
Leasehold improvements	20 327	12 764	(165)	–	(8 907)	24 019
Freehold land	1 171	–	–	(361)	–	810
Motor vehicles	476	1 602	(361)	–	(102)	1 615
Furniture and fittings	11 137	4 148	(25)	–	(2 662)	12 598
Office equipment	5 393	3 666	–	–	(1 606)	7 453
Computer equipment	24 207	11 781	(50)	–	(8 119)	27 819
ATMs	11 062	8 026	–	–	(2 598)	16 490
Total	**73 773**	**41 987**	**(601)**	**–**	**(24 355)**	**90 804**

Reconciliation of property, plant and equipment – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Leasehold improvements	19 675	8 746	(17)	(8 077)	20 327
Freehold land	1 171	–	–	–	1 171
Motor vehicles	476	–	–	–	476
Furniture and fittings	3 100	9 236	(17)	(1 182)	11 137
Office equipment	4 728	1 717	(2)	(1 050)	5 393
Computer equipment	19 385	11 345	(31)	(6 492)	24 207
ATMs	11 336	3 611	(1 171)	(2 714)	11 062
Total	59 871	34 655	(1 238)	(19 515)	73 773

In terms of the Companies Act, details regarding freehold property are kept at the Company's registered office and this information will be made available to shareholders on the written request. No property and equipment is pledged as security for liabilities.

20. Intangible assets

	2019			2018		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Software development cost	159 405	(95 194)	64 211	117 817	(82 016)	35 801

Reconciliation of intangible assets – 2019

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Software development cost	35 801	41 710	(13 300)	64 211

Reconciliation of intangible assets – 2018

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Software development cost	47 586	2 900	(14 685)	35 801

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2019			2018		
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	5 176	–	5 176	9 529	–	9 529
Straight-lining of lease and admin fees	1 328	–	1 328	1 716	–	1 716
Impairments – loans and advances	11 810	–	11 810	6 202	–	6 202
Prepaid expenses	–	(3 144)	(3 144)	–	(3 536)	(3 536)
Impaired available-for-sale investment	–	–	–	42 377	–	42 377
Investment securities – fair value adjustments (OCI)	–	(1 170)	(1 170)	–	(802)	(802)
Provisional assessed loss	5 996	–	5 996	19 990	–	19 990
Capital gains tax loss on disposal of assets	–	–	–	586	–	586
Net tax assets/(liabilities)	24 310	(4 314)	19 996	80 400	(4 338)	76 062

Movements in deferred tax assets and liabilities during the year

	Company	
	2019 R'000	2018 R'000
Provisions	(4 353)	6 804
Investment securities – fair value adjustments (OCI)	(368)	(1 044)
Straight-lining of lease and admin fees	(387)	(1 942)
Impairments – loans and advances	5 608	1 131
Prepaid expenses	392	(837)
Impaired available-for-sale investment	(42 377)	5 580
CGT loss on disposal of assets	(586)	–
Provisional assessed loss	(13 995)	(35 293)
Net movement in deferred tax assets/(liabilities)	(56 066)	(25 601)
Deferred tax movement through profit and loss	62 553	24 557
Deferred tax movement through other comprehensive income	367	1 044
Deferred tax movement through equity	(6 854)	–
	56 066	25 601

There was no tax rate change during 2019.

	2019 R'000	2018 R'000
22. Trade payables and other liabilities		
Unallocated deposits	229	126
Liabilities under operating leases	2 712	752
Deferred income – administration fees	2 032	5 376
Sundry accruals	4 332	4 600
Trade creditors	26 483	34 146
System clearing accounts	44 552	36 987
Electronic banking	979	1 777
Teba Limited	1 281	4 055
Accruals and other creditors	29 460	19 154
Sundry creditors	5 977	8 250
	118 037	115 223
23. Deposits and savings due to customers		
Deposits and savings due to customers	4 721 475	4 822 166
Interest accrued	32 385	29 127
	4 753 860	4 851 293

The average interest rate during 2019 for deposits by customers was 2.02% (2018: 2.25%).

24. Provisions

Reconciliation of provisions – 2019

	Opening balance R'000	Provision raised during the year R'000	Provision utilised during the year R'000	Total R'000
Provision for leave pay	9 432	7 961	(7 188)	10 205
Bonus provision	20 000	3 947	(20 000)	3 947
	29 432	11 908	(27 188)	14 152

Reconciliation of provisions – 2018

	Opening balance R'000	Provision raised during the year R'000	Provision utilised during the year R'000	Total R'000
Provision for leave pay	9 734	6 312	(6 614)	9 432
Bonus provision	–	20 000	–	20 000
	9 734	26 312	(6 614)	29 432

	2019 R'000	2018 R'000
25. Share capital and share premium		
Authorised		
25 000 000 ordinary shares of R1 each	**25 000**	25 000
There were no changes to authorised share capital during the year.		
Issued and fully paid		
24 500 000 ordinary shares of R1 each	**24 500**	24 500
Share premium	**220 375**	220 375
	244 875	244 875

	2019 R'000	2018 R'000
26. Unrealised gains/(losses) on investment		
These gains relate to the investment in Visa shares as disclosed under Level 1 financial instruments in note 16.		
Unrealised gain on investment held at fair value through OCI	**2 046**	772

27. Commitments

The following tables summarise the nominal principle amount of commitments with off-statement of financial position risk.

	2019 R'000	2018 R'000
Authorised capital expenditure		
Capital expenditure authorised but not contracted		
– Property, plant and equipment	**59 223**	123 814
– Intangible assets	**165 158**	17 271
	224 381	141 085
Capital expenditure authorised and committed	**20 771**	38 716

During the financial year, capital projects were reassessed and strategic projects were committed to, in order to enhance current business with a focus on information technology. The Bank will fund authorised and committed capital expenditure from operating cash flows and existing cash resources. Authorised and committed capital expenditure relates to provisional orders that have been placed with suppliers.

Operating leases – commitments

	2019 R'000	2018 R'000
Minimum lease payments due		
– Within one year	**35 362**	6 258
– After one year but not more than five years	**86 318**	8 908
	121 680	15 166

The Bank is the lessee in several operating leases; the future minimum lease payments under non-cancellable operating leases are as detailed above.

Contingent liability

On 16 April 2019, the Prudential Authority (PA) notified the Bank of its intention to impose administrative sanctions in terms of section 45C of the Financial Intelligence Centre (FIC) Act. This relates to non-compliance with cash threshold reporting requirements applicable to the Bank. The intended financial penalty is R0.5 million. The Bank has, within the rights afforded by the FIC Act, appealed this intended penalty on the basis of significant strides made in streamlining the reporting process since January 2018. We are still awaiting a response from the PA on the outcome of this appeal.

Contingent asset

Ubank had disclosed a contingent asset in the prior year due to the fact that there was more probable than not likelihood of recovery of impairments on certain investments. The contingent asset arose through Ubank's institution of a legal process to recover these losses (relating to the CMM investment) from a third party in prior periods. The contingent asset has thus been disclosed in the prior year due to the progression of the legal process at that stage. The existence of the contingent asset was due to the fact that all parties were involved in an arbitration process and the assessment by Ubank's lawyers that the possibility of a loss in this case was remote. The Bank had not been able to quantify the amount to be recovered as this was not wholly within the control of the Bank but up to the Judge in the arbitration process. The total exposure was estimated to be R220 million. In the current year, the Bank recovered R251 million based on an agreed settlement with the third party.

28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both.

Ubank Group Limited

Ubank Limited is a wholly owned subsidiary of Ubank Group Limited.

The balance payable by Ubank Group Limited to Ubank Limited relates to group mobilisation costs paid in prior periods. Interest is not levied on the receivable balance; has no fixed maturity date and is unsecured. The debtor is recorded in trade receivables note 17.

Teba Fund Trust

Teba Fund Trust is the ultimate parent of Ubank Limited.

In the current year, related party transactions relating to trust costs of R1.7 million (2018: R1.5 million) were paid by the Bank. Interest is not levied on the receivable balance; has no fixed maturity and is unsecured. Balances between Ubank Limited and Teba Fund Trust are disclosed in note 17.

All transactions between related parties were at arm's length. There were no other related party transactions during the year. No related party loans are considered to be impaired.

Transactions with directors and key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Ubank Limited (directly or indirectly) and comprise the directors and officers of Ubank Limited. Refer to note 32 for directors' and prescribed officers' remuneration.

Details of transactions between directors and other key management personnel (and their connected persons) and the Bank are as follows:

Related party transactions

	2019 R'000	2018 R'000
Loans and advances		
Other key management personnel – ExCo		
Opening balance	**183**	98
Loans granted during the year	**200**	150
Interest income	**25**	10
Repayments	**(89)**	(75)
	319	183

Loans granted to key management personnel are unsecured and qualify for preferential staff interest rates.

No provision for doubtful debts relating to loans to key management personnel was raised during the year.

Please refer to note 32 for further detail of key management personnel remuneration.

29. Liquidity analysis

The liquidity analysis below includes discounted balances and separately represents future interest so as to present the undiscounted value, as reported within the ALCO risk management process.

	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
2019					
Financial assets					
Cash and cash balances	507 958	–	–	–	507 958
Trade receivables and other assets	10 032	47 151	–	–	57 183
Loans and advances to customers	9 298	160 229	455 725	–	625 252
Investments	–	4 261 853	–	–	4 261 853
Total financial assets	527 288	4 469 233	455 725	–	5 452 246
Future interest*	–	235 059	165 063	–	400 122
Total financial assets including future interest	527 288	4 704 292	620 788	–	5 852 368
Other assets					
Property and equipment	–	–	–	–	90 804
Intangible assets	–	–	–	–	64 211
Stationery	–	–	–	–	1 042
VAT	–	–	–	–	365
Deferred taxation	–	–	–	–	19 996
Prepayments	–	–	–	–	19 865
Total other assets	–	–	–	–	196 283
Total assets	527 288	4 704 292	620 788	–	6 048 651
Financial liabilities					
Trade payables and other liabilities	108 715	9 322	–	–	118 037
Deposits and savings due to customers	3 480 500	1 146 115	127 245	–	4 753 860
Total financial liabilities	3 589 215	1 155 437	127 245	–	4 871 897
Future interest**	–	33 981	12 475	–	46 456
Total financial liabilities including future interest	3 589 215	1 189 418	139 720	–	4 918 353
Other liabilities					
Provisions	–	–	–	–	14 152
Total other liabilities	–	–	–	–	14 152
Total liabilities	3 589 215	1 189 418	139 720	–	4 932 505
Equity					
Share capital and share premium	–	–	–	–	244 875
Available-for-sale reserve	–	–	–	–	2 046
Retained earnings	–	–	–	–	515 559
Total equity	–	–	–	–	762 480
Total liabilities and equity	3 589 215	1 189 418	139 720	–	5 694 985

** The future interest relates only to loans and advances to customers.*
*** The future interest relates only to deposits and savings due to customers.*

	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
2018					
Financial assets					
Cash and cash balances	390 783	–	–	–	390 783
Investments	–	4 209 448	–	–	4 209 448
Trade receivables and other assets	–	37 639	–	–	37 639
Loans and advances to customers	4 984	173 636	558 558	–	737 178
Total financial assets	395 767	4 420 723	558 558	–	5 375 048
Future interest*	–	195 913	204 845	–	400 758
Total financial assets including future interest	395 767	4 616 636	763 403	–	5 775 806
Other assets					
Property and equipment	–	–	–	–	73 773
Intangible assets	–	–	–	–	35 801
Stationery	–	–	–	–	2 374
VAT	–	–	–	–	936
Deferred taxation	–	–	–	–	76 062
Prepayments	–	–	–	–	23 578
Total other assets	–	–	–	–	212 524
Total assets	395 767	4 616 636	763 403	–	5 988 330
Financial liabilities					
Trade payables and other liabilities	107 175	8 048	–	–	115 223
Deposits and savings due to customers	3 623 214	1 125 250	102 829	–	4 851 293
Total financial liabilities	3 730 389	1 133 298	102 829	–	4 966 516
Future interest**	–	31 292	7 261	–	38 553
Total financial liabilities including future interest	3 730 389	1 164 590	110 090	–	5 005 069
Other liabilities					
Provisions	–	–	–	–	29 432
Total other liabilities	–	–	–	–	29 432
Total liabilities	3 730 389	1 164 590	110 090	–	5 034 501
Equity					
Share capital and share premium	–	–	–	–	244 875
Available-for-sale reserve	–	–	–	–	772
Retained earnings	–	–	–	–	345 977
Total equity	–	–	–	–	591 624
Total liabilities and equity	3 730 389	1 164 590	110 090	–	5 626 125

** The future interest relates only to loans and advances to customers.*
*** The future interest relates only to deposits and savings due to customers.*

30. Classification of assets and liabilities

	Amortised cost R'000	Fair value through OCI R'000	Non-financial assets R'000	Total R'000
2019				
Financial assets				
Cash and cash balances	507 958	–	–	507 958
Investments	4 256 630	5 223	–	4 261 853
Trade receivables and other assets	57 183	–	–	57 183
Loans and advances to customers	625 252	–	–	625 252
Prepayments	–	–	19 865	19 865
Intangible assets	–	–	64 211	64 211
Property and equipment	–	–	90 804	90 804
Stationery	–	–	1 042	1 042
VAT	–	–	365	365
Deferred taxation	–	–	19 996	19 996
Total assets	5 447 023	5 223	196 283	5 648 529

	Loans and receivables R'000	Held to maturity R'000	Designated at fair value through profit and loss R'000	Held as available for-sale R'000	Non-financial assets R'000	Total R'000
2018						
Financial assets						
Cash and cash balances	390 783	–	–	–	–	390 783
Investments	–	84 568	4 081 249	43 631	–	4 209 448
Trade receivables and other assets	37 639	–	–	–	–	37 639
Loans and advances to customers	737 178	–	–	–	–	737 178
Prepayments	–	–	–	–	23 578	23 578
Intangible assets	–	–	–	–	35 801	35 801
Property and equipment	–	–	–	–	73 773	73 773
Stationery	–	–	–	–	2 374	2 374
VAT	–	–	–	–	936	936
Deferred taxation	–	–	–	–	76 062	76 062
Total assets	1 165 600	84 568	4 081 249	43 631	212 524	5 587 572

	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
2019			
Financial liabilities			
Deposits and savings due to customers	4 753 860	–	4 753 860
Trade payables and other liabilities	118 037	–	118 037
Other non-financial liabilities	–	14 152	14 152
Total liabilities	4 871 897	14 152	4 886 049

	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
2018			
Financial liabilities			
Deposits and savings due to customers	4 851 293	–	4 851 293
Trade payables and other liabilities	115 223	–	115 223
Other non-financial liabilities	–	29 432	29 432
Total liabilities	4 966 516	29 432	4 995 948

Fair value hierarchy

The table below analyses financial instruments measured at amortised cost. Carrying amounts are assessed to approximate fair value. The level of fair value hierarchy is dependent on the extent to which quoted prices are used in determining the fair value of the specific instruments. During the year under review, there have been no movements between any of the levels (2018: none). Please refer to note 16 for the hierarchy on Investments.

	Level 1 Fair values are based on quoted market prices R'000	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly R'000	Level 3 Fair values are calculated using significant unobservable inputs R'000	Total R'000
2019				
Assets (excluding investments)				
Cash and cash balances	–	507 958	–	507 958
Loans and advances	–	625 252	–	625 252
Trade receivables	–	78 455	–	78 455
	–	1 211 665	–	1 211 665
Liabilities				
Trade payables	–	118 037	–	118 037
	–	118 037	–	118 037
2018				
Assets (excluding investments)				
Cash and cash balances	–	390 783	–	390 783
Loans and advances	–	737 178	–	737 178
Trade receivables	–	64 257	–	64 257
	–	1 192 218	–	1 192 218
Liabilities				
Trade payables	–	115 223	–	115 223
	–	115 223	–	115 223

31. Cash generated from operations

	2019 R'000	2018 R'000
Profit before taxation	257 438	78 728
Loss on disposal of property and equipment	388	1 193
Amortisation of intangible assets	13 300	14 685
Recovery of investment	(214 045)	–
Straight-lining of operating lease	2 084	(1 421)
Net gain on short-term investments	–	(677)
Impairment on investments	5 805	8 430
Straight-lining of admin fees received	(3 344)	(5 516)
Depreciation of property and equipment	24 355	19 515
Impairment charge on loans and advances	75 140	79 132
Movement in working capital:		
Increase in trade receivables and other assets	(13 928)	(15 677)
(Decrease)/increase in trade payables and other liabilities	(11 206)	74 114
	135 987	252 506
Taxation paid/received:		
Balance at beginning of the year	76 062	(24 557)
Statement of changes in equity movement – IFRS 9 transition	6 854	–
Available-for-sale reserve movement	(367)	(1 044)
Deferred taxation balance movement	(62 553)	25 601
Assessed loss carried forward	(19 996)	–
	–	–

32. Directors' emoluments

	Fees R'000	Short-term employee benefits R'000	Post-employment benefits R'000	Other benefits# R'000	Total R'000
2019					
Non-executive					
JH de Villiers Botha	660	–	–	–	660
G Briggs	348	–	–	–	348
M Lesabe	325	–	–	–	325
ZN Miya	492	–	–	–	492
R Miyambo	462	–	–	–	462
K Pillay	464	–	–	–	464
KP Nkambule	286	–	–	–	286
MJ Ramataboe^	38	–	–	–	38
SJ Khoza^	38	–	–	–	38
Executive					
L Vutula (Chief Executive Officer)	–	4 185	220	2 640	7 045
JH du Preez (Chief Financial Officer)	–	2 288	120	1 442	3 850
Co-opted					
GZ Malele	106	–	–	–	106
Prescribed officers					
W Mosigi (Managing Executive: Retail Banking Services)	–	2 501	184	1 315	4 000
Other executive management personnel	–	11 521	720	4 428	16 669
	3 219	20 495	1 244	9 825	34 783

Other benefits, among others, include incentive retainers, leave pay, travel allowances, acting allowance, medical aid benefits and disability insurances.
^ Appointed 1 February 2019.

	Fees R'000	Short-term employee benefits R'000	Post-employment benefits R'000	Other benefits# R'000	Total R'000
2018					
Non-executive					
JH de Villiers Botha	535	–	–	–	535
G Briggs*	218	–	–	–	218
M Lesabe	271	–	–	–	271
ZN Miya	355	–	–	–	355
R Miyambo	344	–	–	–	344
K Pillay	377	–	–	–	377
KP Nkambule**	161	–	–	–	161
R Garach***	10	–	–	–	10
Executive					
L Vutula (Chief Executive Officer)	–	3 821	336	1 997	6 154
JH du Preez (Chief Financial Officer)	–	1 939	183	1 004	3 126
Co-opted					
GZ Malele****	52	–	–	–	52
Prescribed officers					
W Mosigi (Managing Executive: Retail Banking Services)	–	2 110	280	1 040	3 430
Other executive management personnel	–	10 708	1 234	2 095	14 037
	2 323	18 578	2 033	6 136	29 070

Other benefits, among others, include incentive retainers, leave pay, travel allowances, acting allowance, medical aid benefits and disability insurances.
* Appointed 1 March 2017.
** Appointed 10 July 2017.
*** Resigned March 2017.
**** Co-opted to ITGC for the financial year.

Service contracts

Service contracts are aligned with the general conditions of services applicable to all Ubank Limited staff members, except for termination provisions.

Service contracts are subject to the following conditions:

	Termination clause	Retirement age	No fault termination arrangements
Non-executive directors	One month	Not applicable	
Chief Executive Officer	Three months	60 years	No entitlement to a severance pay
Chief Financial Officer	Three months	60 years	Entitlement for previous long-term incentive plan on termination are dealt with under the relevant scheme rules
Prescribed officers	One to three months	60 years	
Other executives	One to three months	60 years	

33. Events after the reporting period

On 26 April 2019, the Company concluded a supplementary settlement agreement entitling it to the recovery of legal fees, relating to its CMM investment, for R30 million. This has been adjusted for in the financial statements – refer to note 10.

After the reporting period, the Bank proposed a dividend to the Group of R24.6 million. This was approved by the Board on 30 May 2019. No additional disclosures have been included within the financial statements as there is no obligation at the end of the financial year.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

Glossary of terms and definitions

FOR THE YEAR ENDED 28 FEBRUARY 2019

AMCU	Association of Mineworkers and Construction Union
APP	Application
ALCO	Asset and Liability Committee
ATM	Automated teller machine
Banks Act	Banks Act, 94 of 1990
bps	Basis points
Brexit	The withdrawal of the United Kingdom from the European Union
CAR	Capital adequacy ratio
CCTV	Closed-circuit television
CEO	Chief Executive Officer
CMM	Corporate Money Managers' Fund
Companies Act	Companies Act of South Africa, 71 of 2008
COSATU	Congress of South African Trade Unions
CV	Curriculum vitae
CVP	Customer value proposition
EAD	Exposure at Default
EAP	Economically Active Population
ECL	Expected credit loss
EE	Employment equity
ERMF	Enterprise Risk Management Framework
EVP	Employee value proposition
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FY	Financial Year
GDP	Gross domestic product
HR	Human resources
ICAAP	Internal Capital Adequacy Assessment Process
ID	Independent Director
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IoDSA	Institute of Directors in Southern Africa
IT	Information Technology
King IV	King IV Code on Corporate Governance for South Africa
LGD	Loss given Default

NED	Non-executive director
NUM	National Union of Mineworkers
OCI	Other comprehensive income
PASAS	People Against the Spread of Aids and Starvation
PD	Probability of Default
PGMs	Platinum Group Metals
PMI	Purchasing Managers' Index
POS	Point of sale
ROA	Return on Assets
ROE	Return on Equity
SABC	South African Broadcasting Council
SARB	South African Reserve Bank
SASBO	South African Society of Bank Officials
SASSA	South Africa Social Security Agency
SMMEs	Small, medium and micro enterprises
SMS	Short Message Service
SOE	State Owned Enterprise
UBPL	Ubank Personal Loan
US	United States
USSD	Unstructured Supplementary Service Data
VUCA	Volatility, Uncertainty, Complexity and Ambiguity
YoY	Year-on-year

U are ...

You are Africa

You are her mothers, her fathers, her sons and daughters

You are her past, her present and her future

You are the dreamers and the doers

You are the passion, the pride

You are the heart of a country

You are what can be, what will be

You are the voices raised in a single song

You are the house that becomes a home

You are the power that changes the world

You are the breath that breathes new life

You are the people we serve

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