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

ubank
Growing with You

UBANK INTEGRATED REPORT 2018

INTEGRATED REPORT 2018

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GROWING WITH U

Start banking with ubank today. Together we can be part of the journey to create a bank that understands your unique needs.

CONTENTS

01 OUR APPROACH

We are proud to present our first integrated report, and its aim is to provide all our stakeholders with a balanced and integrated insight into our ability to create value in the short, medium and long term. With this report, we have taken an important step forward in endeavouring to provide a more complete picture of our strategy, governance and performance, with the aim of assisting all our stakeholders to gain a fuller understanding of the Bank's aims, objectives and ability to create value.

REPORTING BOUNDARY

This report covers the financial year 1 March 2017 to 28 February 2018 and focuses on the material matters relating to our strategy, business model, operating context, performance, governance, material risks and opportunities arising from them, that we have identified in line with best practice, and which we outline on pages 36 to 60.

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 Integrated Reporting <IR> framework. Our annual financial statements pages 61 to 112 were prepared in accordance with 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.

HOW WE MEASURE THE VALUE WE CREATE

We recognise that value is created through our business model, outlined on page14 and 15, and which takes inputs from the five capitals, as described in the International Integrated Reporting Council (IIRC) framework – transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create value for the Bank, its stakeholders, society and the environment.

We have thus identified the material issues that have a bearing on the Bank's ability to create value and we report upon them with regard to the five capitals, which we reference in this report with the following icons:

	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 (IP) 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

01 OUR APPROACH CONTINUED

Ubank's positioning in the market is unique. The Bank was founded and built upon the deposits of our original mineworker customers, and from that base, is expanding to serve all workers. Our primary stakeholders are our customers and the communities they originate from, where we base our operations.

COMPANY SCORECARD

Our corporate social responsibility, initiatives, investment and grasp of the social realities of our market are therefore of fundamental importance, something that permeates our entire way of doing business. 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 what we call our five Cs Form the basis of our ability to create value, and as such, the basis and framework for this report. Our five Cs underpin our Company scorecard and have defined 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 as follows, and identify them throughout the report with the icons below:

COMPANY – Ubank in its entirety, which operates and functions in terms of the five capitals and creates value for our stakeholders
CUSTOMERS – Our customers are the core reason for our existence, and are in essence our shareholders
COMMUNITIES – The social base from where our customers originate, and among whom we operate, and whose wellbeing is of central concern to us
COLLEAGUES – The people whom we employ in our organisation, and work together to provide the products and services we offer
CONTROL – The frameworks, policies, structures and bodies that together enable the ethical, transparent, efficient and effective creation of value

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. 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 44 to 46, 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.

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.

DIRECTORS' STATEMENT OF RESPONSIBILITY

The Board of Directors (the Board), supported by the Audit Committee, acknowledges the 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 and has applied its collective mind to its 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 on 20 September 2018.

JH de Villiers Botha
Chairman

02 HIGHLIGHTS

ROE
9.2%

ROA
1.0%

Profit before tax
R78.7 million

Gross customer assets
R832.7 million

Deposit book
R4.8 billion

Number of physical channels
66

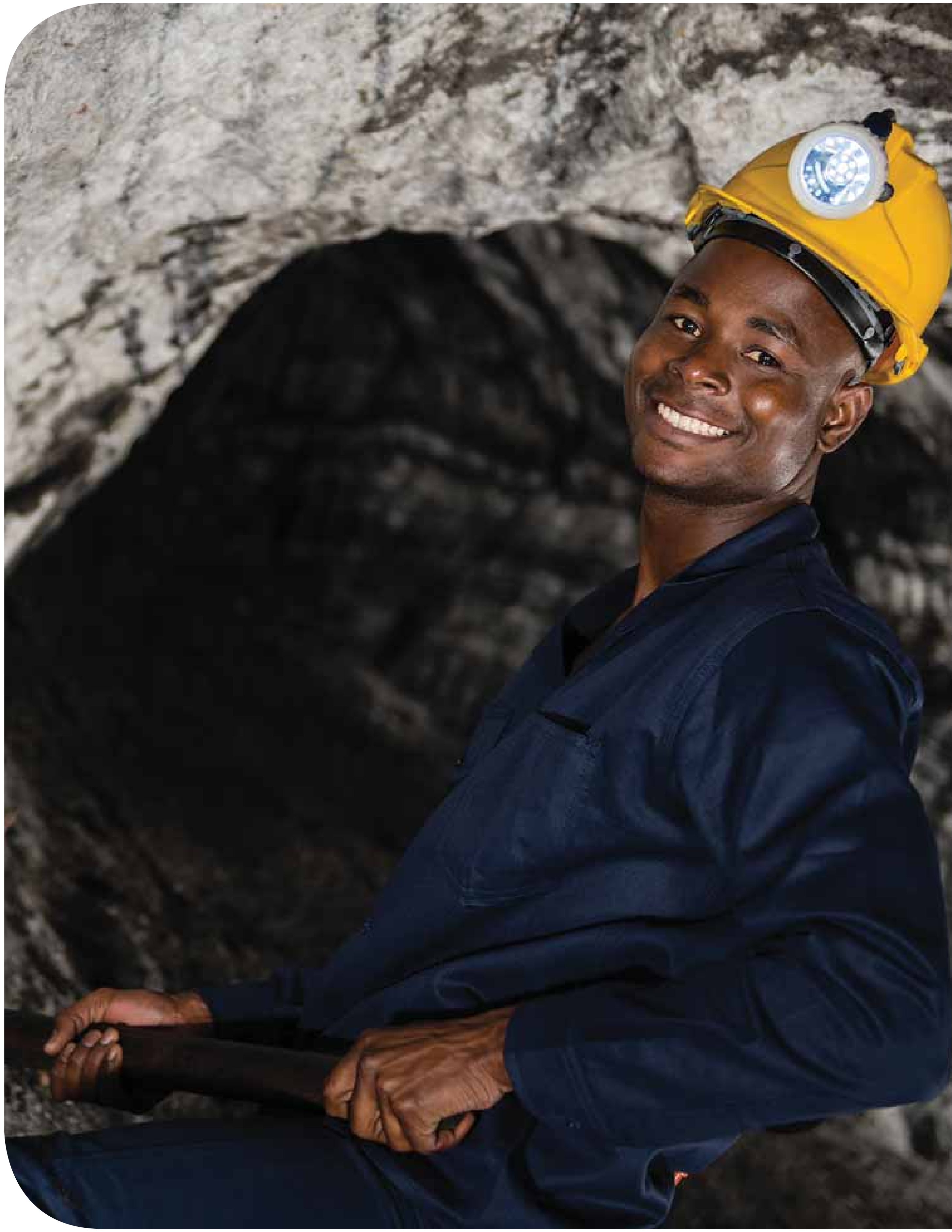
Number of Ubank ATMs
92

Number of other channels
38

Permanent employees
705

Brand affinity rating
9.35/10

Customer satisfaction rating
8.58/10



03 THE UBANK STORY

EVOLVING TO GROWING WITH YOU

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 changed 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 of South Africa

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
Driven by a strategy for the future to expand into the open market and to attract a younger, technologically active segment of our society, 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 immersed in our communities to the extent that the people in our organisation completely reflect the demographics of our country. Our logo reflects our history of involvement with our customers – their fingerprints inspired the design and are literally and figuratively all over the Bank.

We are very proud that Ubankers – the people who work together to make the Bank what it is – fully represent in their diversity the demographics of South Africa. We embrace inclusivity and our colleagues at all levels participated in the drafting of a code of ethics which reflects this diversity and our unique culture. This code commits all of us who work at Ubank to the highest standards of integrity, behaviour and ethics in dealing with all our stakeholders. We understand that we are all expected to observe our ethical obligation in such a way as to carry on business through fair commercial competitive practices and to observe the Bank's values in our interaction with others and specifically with our customers. We are committed to realising the true meaning of our brand promise – "Growing with you".

WE ARE DRIVEN BY A SOCIAL CONSCIOUSNESS THAT UNDERPINS ALL WE DO. 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 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 – truly **Growing with You**

OUR MISSION
To be a provider of sustainable and affordable financial services to workers and their families, and uplift and develop their communities

OUR VISION
To be the Bank of choice for workers and their families, and communities

OUR VALUES
Passion
Empowering
Excellence
Respect
Sincerity

OUR BRAND
The essence of our brand is:
Real
Spirited
Partnerships

OUR BRAND PROMISE
Growing with You

OUR BRAND DIFFERENTIATORS
Community-immersed
Nurturing relationships
Educating and empowering

03 THE UBANK STORY CONTINUED

OUR OPERATING CONTEXT

As a bank whose customers and shareholders are drawn primarily from the mining sector, and in particular from the gold and platinum segments within it, we are particularly exposed to economic conditions and the social realities emerging from them. The South African economy, in turn, is sensitive to developments on the global stage, with commodity prices and growth in both developed and emerging economies having an effect on our domestic conditions.

Aspect	Salient features	Impact on our value creation	Strategic response
Global economy (See Figure 1)	▪ Strengthening – gathering momentum in 2017 ▪ Political uncertainty in the US, Eurozone and Asian markets ▪ Optimism looking forward ▪ Firm domestic demand in advanced economies ▪ Improved performance in large emerging markets ▪ Stronger than expected growth in Eurozone, Japan and the US	▪ Resulting volatility in South African markets negatively affected our customers' finances	▪ Financial education of our customers ▪ Competitive and value-adding product offerings
South Africa (See Figure 2)	▪ Economy downgraded by Standard & Poor's ▪ Agriculture the main driver of growth ▪ Positive contribution from mining, finance, transport and personal services ▪ Decline in manufacturing and construction ▪ 4% decline in trade ▪ GDP growth shed -0.1%	▪ Unemployment and the lack of job creation are logical drivers of the future performance of our loan and deposit book	▪ Diversify revenue streams to change the composition of the top line i.e. less reliance on Interest income ▪ Competitive and value-adding product offerings
Banking and inflation **Political uncertainty, and new governmental leadership** **Mining Charter uncertainties** **Precious metals prices (See Figure 3)** **Mining production** **Employment**	▪ Industry resilience ▪ CPI within SARB target range pf 3%-6% ▪ Inflation slowed to 4.0% in February 2018, expected to pick up ▪ The election of a new President generated positive political and social sentiment ▪ General mining house consensus that there will be no new investment during 2018 ▪ Consensus that the publication of the new Mining Charter placed added pressure on the industry, with the Minerals Council of South Africa estimating in October 2017 that R50 billion wiped off companies' market value ▪ A generally strong year except for lacklustre platinum prices following lack of auto industry demand ▪ Total mining production increased year-on-year in February 2018 by 3.1%, following a 2.9% year-on-year growth in January 2018 ▪ Mining industry lost 30 000 jobs since 2014 ▪ Overall employment increased by 1.1% in 2017 ▪ Platinum group metals (PGMs) employment remained stable	▪ Positive sector outlook, with loan customers experiencing relief in second half of 2017. ▪ Customers nevertheless adversely affected by petrol and food prices ▪ Less economic leeway means less saving, less propensity to seek loans ▪ Job losses could translate into customer attrition, or customer inactivity and dormancy	▪ Diversify revenue streams to change the composition of the top line i.e. less reliance on Interest income ▪ Competitive and value-adding product offerings ▪ Financial education of our customers

Figure 1
Growth in major countries

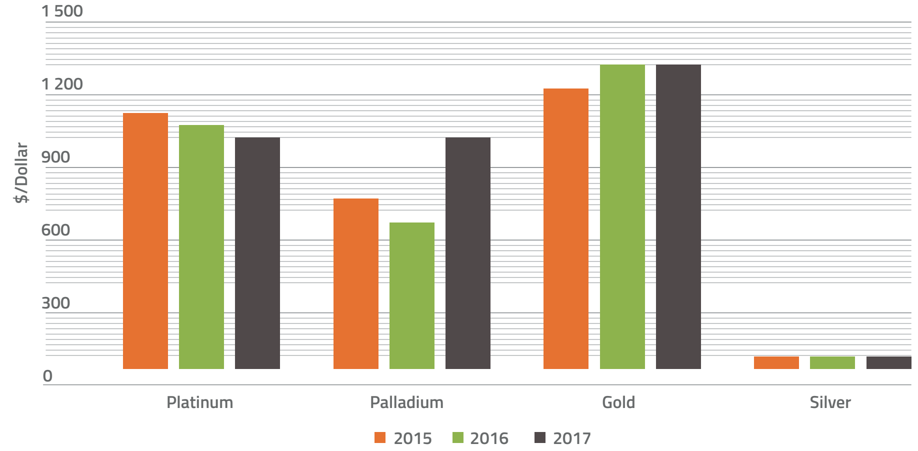
	2016	2017
World output	**3.2**	3.8
Advanced economies	**1.7**	2.3
US	**1.5**	2.3
Euro area	**1.8**	2.4
Japan	**1.0**	1.8
UK	**1.8**	1.7
Emerging/developing economies	**4.3**	4.7
China	**6.7**	6.8
India	**7.1**	6.7
Russia	**(0.2)**	1.8
Brazil	**(3.5)**	1.1
SA	**(0.3)**	1.3

INTAKA YAKHA NGOBOYA BENYE
A bird builds its nest with the feathers of another (people help one another)

Figure 2
Growth rate and GDP in various South African industries

	% of GDP	Growth rate	Contribution to GDP of 1.3% in 2017 %	Comments
Agriculture	1	17.1	0.4	Growth attributed mainly to better weather conditions
Mining	8	4.6	0.3	The growth partly attributed to the improvement in commodity prices
Manufacturing	14	(0.2)	0.0	The sector struggled in 2017 partly due to weak domestic demand
Finance	20	1.9	0.4	
Personal services	6	1.2	0.1	
Trade	16	(4.8)	(0.1)	
Transport	10	2.8	0.2	
Construction	4	(1.3)	0.0	
Community services	18	0.3	0.1	
Electricity	3	0.2	0.0	

Figure 3
Precious metals prices year-on-year



03 THE UBANK STORY CONTINUED

THE ROAD AHEAD

GLOBALLY
Despite its slow start, a steady and solid growth is projected for 2018. Uncertainty, particularly in the political arena, exemplified by the US-China trade war, and US-Russia sanctions, is a major risk to the global economic growth outlook.

SOUTH AFRICA
Supported by improved domestic confidence and political landscape, lower inflation profile, accommodative monetary policy, and favourable global demand conditions, the economy is forecast to grow by around 1.9% in 2018. This will have a positive effect on the socio-economic conditions of our target market.

OUR TRADITIONAL MARKET SEGMENT
The Minerals Council of South Africa and its members are cautiously optimistic about initial signals emanating from the new leadership of South Africa's ruling party, and have expressed hope for a renewed focus on responsible and ethical leadership in the national interest. Ethical leadership, good governance and the adoption of competitive, stable and predictable policies would mean considerable new investment in mining. This would in turn create huge economic and transformation benefits for the country, with a sizeable increase in jobs, export earnings, GDP and transformation – all of which would contribute positively to our business.

THE OPEN MARKET
With the proposed recapitalisation of the Bank we anticipate that we will be able to realise and implement our strategic aim of expanding into the open market, with a particular focus on blue-collar workers. With our expertise and experience, we will be able to compete increasingly as we expand our footprint and reduce our concentration risk.

REMITTANCES AS A PRODUCT
We believe that remittances, a multi-billion-dollar market, can become a major focus for the Bank in the medium to long term. While many people from the rest of Africa work in South Africa, sending money home remains a costly exercise, with South Africa being one of the most expensive countries for this economic driver. Our aim is to introduce remittances as a product, and at the same time to bring down those costs.

OPPORTUNITIES WITHIN THE AFRICAN CONTEXT
Mozambican and Lesotho-based mineworkers are active in the country, as well as entrepreneurs from as far afield as Somalia and Pakistan, and while we have agencies that serve them via Teba Limited, we are still looking for alternatives to serve this market more broadly.

The middle-class that is being built in African countries has resulted in great economic improvements and a middle market that needs access to credit. With these social developments in mind, we are looking to bank the members of these communities who are legally employed and resident in South Africa, and to facilitate the credit, transactional accounts and remittances that they require.

HARONA
Our home, our pride

04 ROADMAP TO OUR BUSINESS MODEL

The inputs of our capitals are transformed by our business model into the outcomes that comprise our 5 Cs – Company, Customers, Communities, Colleagues and Control, and these are further detailed in their own sections in this report. The outcomes of this business process together comprise our key performance measures.

THE CAPITALS OUR INPUTS

FINANCIAL CAPITAL
» Financial performance
» Total assets
» Deposit book

SOCIAL & RELATIONSHIP CAPITAL
» Strong social mandate
» Investment in CSI and financial education
» Key partnerships with community organisations

HUMAN CAPITAL
» Number of employees
» Investment in training and development
» Employment equity status
» Our values and behaviours
» Staff turnover and regretted losses

INTELLECTUAL CAPITAL
» Strong brand in our communities
» Prominence amongst gold and platinum mineworkers
» Strategic partnerships

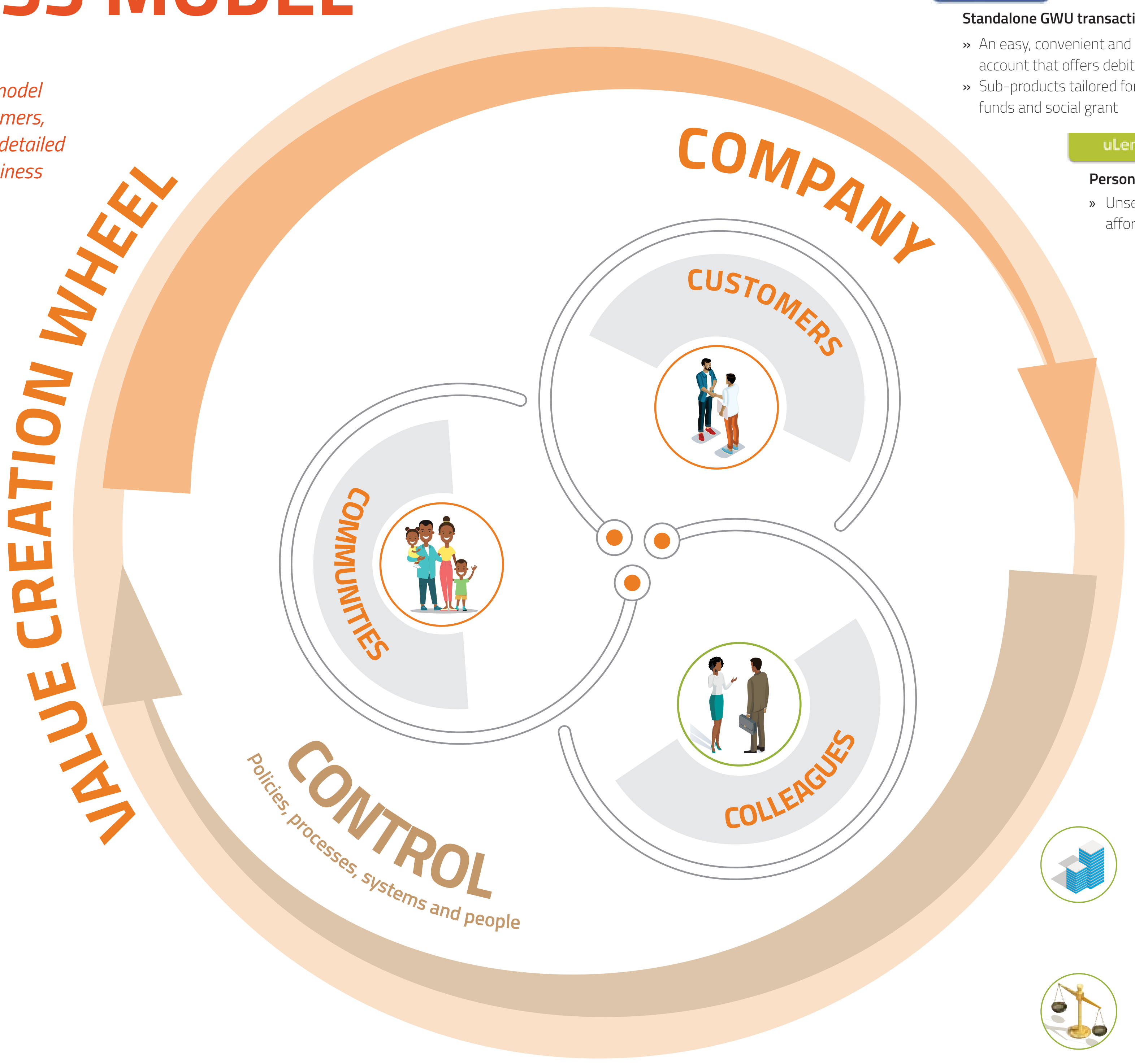
MANUFACTURED CAPITAL
» Points of presence

For more information see pages 40 to 41.

OUR TOP 5 RISKS

» Capital risk
» People risk
» Customer risk
» Concentration risk
» Information technology risk

For more information see pages 44 to 46.



VALUE CREATING ACTIVITIES – OUR OUTPUTS

Ubank offers a basic product range catering to the target market's need for simplicity, access and affordability.

uSpend

Standalone GWU transaction accounts
» An easy, convenient and flexible day-to-day banking account that offers debit card and debit order access
» Sub-products tailored for beneficiaries of mining provident funds and social grant

uLend

Personal loans
» Unsecured personal loans up to R180 000 depending on affordability and needs; payable over 1-72 months

uSave

Eezisave
» Demand savings account with debit card access for convenience or a savings book if preferred

Save Together
» Demand savings account for savings groups with savings book access

Fixed Deposits
» Fixed term (3-60 months) savings for those with R1 000 or more to save

uSecure

Funeral Plan
» Options available depending on the type of cover needed for the principal and family members

Credit Life Assurance
» Specific to covering outstanding loans against the risk of retrenchment, death and disability

KEY PERFORMANCE MEASURES OUR OUTCOMES

COMPANY
» 211% increase in profit before tax resulting from non-interest revenue initiatives
» 10.8% decline in net loan book
» 19.4% balance sheet growth

CONTROL
» 29% decrease in debit card fraud incidents
» IFRS 9 implementation

CUSTOMER
» Customer propensity to stay increased to 91%
» 8.58/10 customer satisfaction rating
» 4.8% decline in distinct customer base

COMMUNITIES
» Increased brand affinity by our customers

COLLEAGUES
» Headcount increase from 689 (FY2017) to 705 (FY2018)
» 2.4% of annual TGP was spent on training
» Exceeding the 2016/2017 EAP targets for Africans as a company
» Staff turnover below the financial industry benchmark

For more information see pages 36 to 60.

05 OUR STAKEHOLDERS AND THEIR NEEDS

At Ubank, stakeholder engagement forms part of our social and relationship capital, and as such is an essential aspect of our brand positioning and differentiation in the marketplace. Accordingly, we have a Stakeholder Engagement Model in place.

We present a stakeholder engagement report quarterly for consideration by the Social and Ethics Committee as part of our internal Sustainability Report, and we utilise a six-step framework.

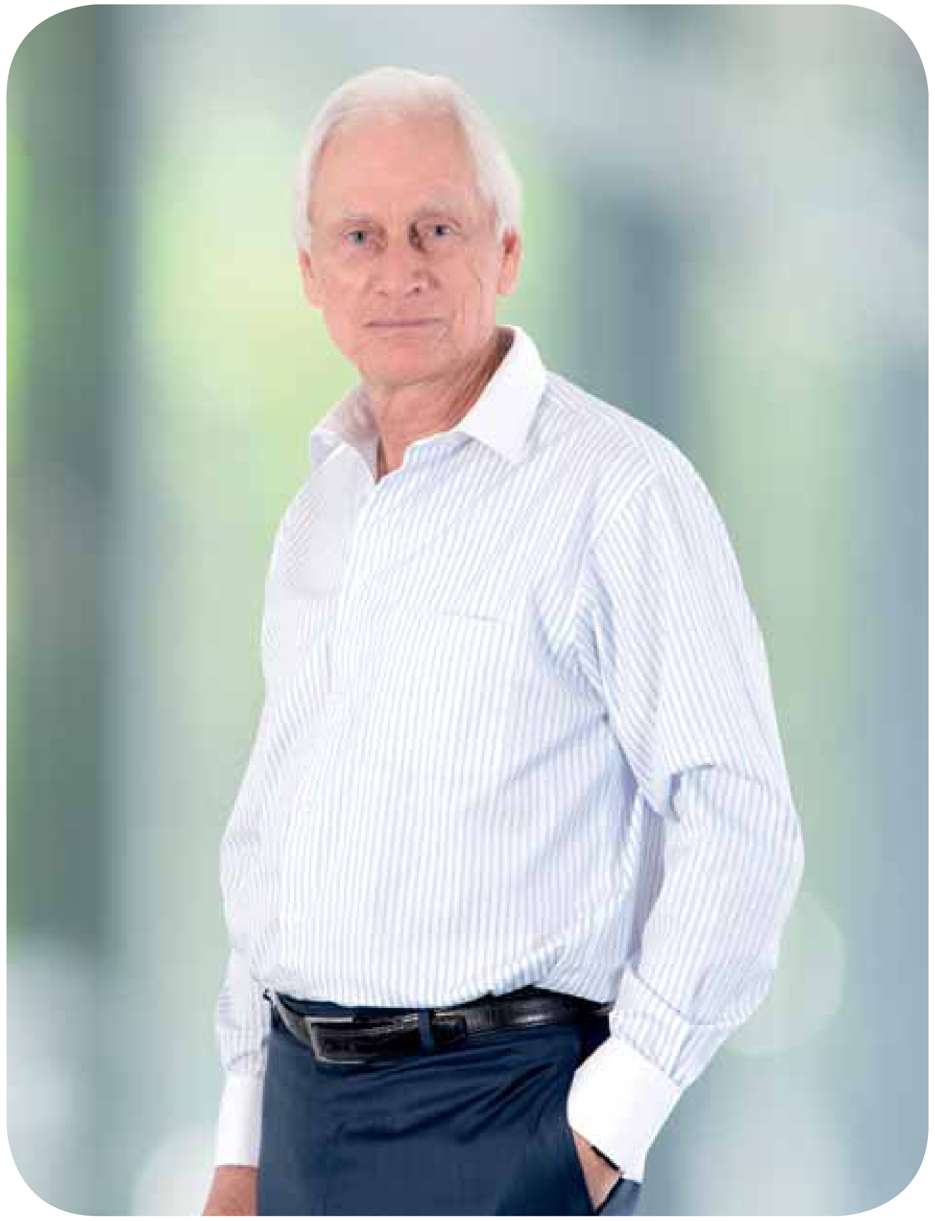
Stakeholder	Engagement channel	Engagement/Matters discussed
Management and colleagues 	▪ The CEO engages via regular roadshows across the network and at head office, via closed television broadcasts to all staff, and through a monthly blog called Thetha Nam'. Thetha Nam' encourages ongoing direct engagement 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, on which anyone can publish a blog across a number of categories. Senior management demonstrated usage by blogging about issues relating to their departments such as marketing, credit and customer	▪ Information on strategic projects, capitalisation, operational issues, community engagements, workplace policies and practices, and employee wellness and support channels ▪ There was a special project with a full change management plan to implement the head office move from Sunninghill to Midrand and employees were kept informed and engaged throughout the process ▪ The primary focus on Uchat during the year under review was "My Ubank Story", a platform that encouraged colleagues to tell their Ubank stories. Many inspirational examples were shared, with comments and likes from other colleagues. Colleagues were incentivised to document their stories via a competition
Regulators 	▪ Scheduled prudential meetings are held with SARB and other business-as-usual engagements with various regulators occur on an ongoing basis	▪ Matters discussed included strategy, capitalisation, anticipated challenges to business objectives, 12-month projections, funding, financial performance, capital management, credit risk management, the SARB's view on Ubank's risk profile, risk data aggregation and risk reporting and the implementation of King IV requirements

SIX-STEP FRAMEWORK

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 a member of the community. Engagements are held at various levels throughout the organisation from branches to the executive suite as appropriate to the issue being addressed.

We perceive that our engagement with stakeholders on specific stakeholder interest or issues is adequate to reach shared goals but we remain committed and continue to identify strategic responses to improve the level of engagement.

Stakeholder	Engagement channel	Engagement/Matters discussed
Shareholders **Trustees** **Board** 	▪ Relationships are managed at CEO level with engagements occurring as and when required, covering issues relevant to the relationship between the organisations ▪ Board meetings occur as scheduled and special Board meetings are held as and when required	▪ Engagements with the Trust with regard to capitalisation ▪ Strategy reviews ▪ Budget approvals
Unions **Community associations** **Municipalities** **Wards** 	▪ We maintain relationships with the unions on the mines as well as with mine management to ensure that stakeholder inter-relationships, particularly with regard to issues important to customers' financial arrangements, are closely managed	▪ Our branch representatives engage with unions and mine management at branch level on a regular basis, and report on these engagements on a quarterly basis
Our customers 	▪ We maintain regular contact with our customers through our branches, and conduct quantitative and qualitative surveys and focus groups to ensure our understanding of our customer's needs, wants and issues is relevant and up to date	▪ 91% of our customers indicated that they intend staying with the Bank for the foreseeable future ▪ Our customers believe that the Bank treats them with dignity and respect and understands their specific needs ▪ In FY2017 customers remained strongly engaged and emotionally attached to the Bank, and rated it 9.35 out of 10 ▪ Customers rated their satisfaction with the bank at 8.58 out of 10 ▪ Only 14% of customers experienced problems at the Bank



06 CHAIRMAN'S MESSAGE

As a bank, it is of crucial importance that we comply with the Banks Act and other regulations, which provide for the control and oversight of the way in which deposits are received from the public, and require us to report on our activities regularly.

For this to occur, we need to closely examine our governance structures on an ongoing basis, as there are very specific requirements from the South African Reserve Bank (SARB) which need to be fulfilled. We also need to constantly review the nature and focus of the sub-committees that the Board of Directors (the Board) needs to have in order to function effectively. In addition, we need to continuously ensure that the skills that are represented on the Board are such that it can fulfil its required functions.

I am gratified to say that during the year under review, and prior to it, our governance structure, an important part of our human capital, fulfils the various legislative and regulatory requirements. We maintained our best-of-breed governance oversight, with our Board committees' performance being reviewed on an annual basis. Their composition was carefully scrutinised in our annual review, and was discussed in the Directors' Affairs Committee to ensure that we continued to have the necessary skills on those committees. (For more on our governance structure and focus, see pages 48 to 53.)

UNIQUE OWNERSHIP AND LEADERSHIP

There is a certain uniqueness at Ubank, in that the ownership of the Bank resides in a Trust, the two trustees of which are the NUM and the Minerals Council of South Africa.

This arrangement constitutes a fundamental point of difference for us within the South African banking landscape because the Trust, unlike shareholders at other institutions, is not in a position to inject capital should the Bank require it. Although this is not always a favourable position to be in, it is part of our history as detailed on page 8 of this report, that has given rise to this unique situation of our shareholder being a Trust, representing the depositors of the Bank. Furthermore, any distribution to the Trust is made in the form of a dividend, which is then used to fund socio-economic development work undertaken by the Trust, with the result that while neither of the trustees benefits at any time, the rural communities at large do.

BOARD COMPOSITION AND DIVERSITY

With NUM and the Minerals Council of South Africa each entitled to nominate three representatives on the Board, the Board can also appoint three independent members, together with the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) comprising the Board membership. I am pleased to note that, although black membership is well-reflected in the composition of our Board, we continue to address adequate female representation. (For more on the Board composition and skills, see pages 48 to 50.)

During the year under review, two vacancies for independent members remained on the Board, and while we conducted interviews with black female candidates, we have delayed any appointment until the recapitalisation process we are undertaking is completed. We understand that it is important that the new Board participates in this development.

DELEGATION AND RISK MANAGEMENT

During the year under review we continued to review our delegations on a regular basis, and it is gratifying that these continued to function in the desired way, with the separation of powers and directives very ably conveyed to, and executed by, management. While every Board member continues to have unrestricted access to any information and reporting within the Bank, the Board and its committees continued to focus on the key material matters affecting the Bank in the short, medium and long term.

We have now successfully integrated the separate top-down and bottom-up approaches to risk management that previously prevailed, so that we currently have an integrated framework, which I believe is a far more representative one for our organisation going forward. It is our risk framework that provides a very clear indication of what the respective responsibilities of the Board and management are in this regard.

Our concentration risk continues to be one of our major risks, throughout our sphere of operations being limited not just to the mining industry, but to even more specific segments of it – those of gold and platinum. (For more on risk, see pages 42 to 47.)

MABOGO DINKU A THEBANA
Working together a community is bound to bring greater results

06 CHAIRMAN'S MESSAGE CONTINUED

STRENGTHS

During the year under review, the Board composition demonstrated a level of skills unprecedented at the Bank. While robust discussions took place at Board level that were of great benefit to the Bank, we understand that we need to strengthen our profile with additional human resources (HR) skills, and additional financial skills. Board members, regardless of their fields of expertise, take collective decisions affecting all areas of the Bank's business, and I am pleased to say that the profile of our present incumbents shows the expected extensive exposure to the different dimensions of the Bank's activities, significantly adding value to our intellectual capital. (For more on the skills represented on the Board, see pages 48 to 50.)

BOARD FOCUS AND SARB THEMES

The recapitalisation initiative and retention of staff, as well as the annual SARB themes of risk, governance and compliance, all featured as areas of focus for the Board during the year under review. We saw the retention of staff in particular become an important issue as a result of the financial situation that developed during the prior year. I am pleased to observe that the retention strategy that we devised and implemented for the Bank during the course of the year has proved successful. This is reflected in our turnover, at around 13%, being lower than the approximately 14% of the industry in general.

ACKNOWLEDGEMENTS

I would like to thank our Board members, whose input during the past year has continued to add value to the Bank and whose commitment makes such a valuable contribution, not just to conscientious governance, but to our trustees, our business as a whole, and ultimately to our customers.

JH de Villiers Botha
Chairman

07 CHIEF EXECUTIVE OFFICER'S MESSAGE

To all our stakeholders and colleagues, I am proud to be able to present our first integrated report for the 2018 financial year. I am proud too, of the dedicated effort that all our Ubankers have put in, to help us deliver our best results yet. It is also very pleasing to note that our diverse management and staff is a reflection of the diversity of our country's demographics – a real tribute to our commitment to inclusivity!

07 CHIEF EXECUTIVE OFFICER'S MESSAGE CONTINUED

To our customers, whose concerns, needs and well-being are so close to our hearts, I would like to say that this report is yet another confirmation of the respect in which we hold you and your communities. As one who comes from a small rural Eastern Cape village in a mine-sending area, I can confidently say that as a bank, we take everything you say very seriously. When I visit the branches, as I regularly do, talking to you as individuals, I am representing our Bank, to hear your concerns, making a concerted effort to help frame our policies, products and services in the best way possible to suit some of the needs you share with me.

OUR OPERATING CONTEXT

In the process of reviewing our past financial year, our local and global economy must be the starting point. Geopolitical developments across Europe, cross-country migrant issues, Brexit, questions about the future of the EU, as well as election results in the United States, have all had their influence on our domestic economy. All these, mostly, have an impact on our ability to create value for both our customers and shareholders.

During the review period, there were issues that were not encouraging at all: domestic growth of just 1.3%, political uncertainty, general concern about corruption, and the performance of the mining sector that greatly affects us as a bank; Mining Charter matters that remain unresolved, while the mining houses all continue to look at lowering production costs, job creation, unemployment and inflation that all affect our business – all these and any other negative trends are reflected in the number of bank accounts we open, and the number of customers approaching us for credit. These factors all combined made the 2018 financial year a challenging one for us. (For more on our operating context, see pages 10 to 13.)

RISK AND COSTS

During the last five years, we have been drawing on our human and intellectual capitals to develop a plan to reduce our concentration risk. This risk consists of our footprint being centred around the gold and platinum mines. Geographically and socially, these constitute only a small part of our natural target market – South African blue-collar workers. Moreover, historical incidents such as Marikana in 2012 and the Platinum strike of 2014, have had a negative impact over time and do not bode well for us in terms of the timing of our strategic implementation.

We have therefore, over the last 18 months, been seeking innovative ways of looking at our top line, and managing our costs, as well as for ways to increase our non-interest income. Our motto for the last three years has been "to do more with less", and we have urged our colleagues to manage costs in order to maintain a sustainable business.

While our cost-to-income ratio remains high, we continue to find innovative ways of dealing with this, especially from a revenue point of view, since our cost base is stable and well managed. I am pleased to say that we have already made strides in containing revenue leakages. We address the subject of risk on pages 42 to 47 of this report.

TALENT RETENTION

A key issue during the year under review has been how we nurture and retain our people, our fundamental human capital. We place great value on our colleagues, our Ubankers, as we understand that to take the Bank to the next level, we need to have the right people in appropriate roles. We continue to work hard to reach these goals. (For more on our human capital, see pages 58 to 60.)

SUCCESSFUL PROJECTS

We have undertaken several projects during the year; and while we would have liked to have done more, I am pleased to note that those we have initiated and are implementing have borne fruit. In our information technology (IT) area, where an important part of our intellectual capital resides, we have looked at our infrastructure, and signed new service contracts with the aim of making the service that we provide to our customers as seamless as possible. We have revisited contracts with some of the agencies with whom we work, whilst compliance matters have continued to be top of mind. We know that our biggest cost into the future is going to be associated with compliance – something that will be true for every bank.

KGETSI YA TSIE E KGONWA KE GO TSHWARAGANELWA
If we work together it makes the work easy

The past financial year was the best that we have had as a bank

A key focus during the year under review has been on digitalisation, a process that is of growing importance for our operations and customer relations. We initiated our mobile banking application project, with the aim of launching it during FY2019. Our aim for the increased manufactured and intellectual capitals that we introduce with this technology, is to deliver three things for our customers – simplicity, convenience and reduced costs.

STRATEGY AND RECAPITALISATION

A basic component of our intellectual capital – our strategy – is founded on our aim of truly becoming the Bank of choice for workers. Furthermore, we include the self-employed and the small, medium and micro enterprises (SMMEs) and their workers. Our goal is to provide solutions that respond to the needs of these market segments. While we have significant expertise and a great legacy within the mining industry, we understand that the open market is more complex; so concerted efforts and acquiring the right skills will ensue. A huge focus in this market will be on loan collections – an aspect that is central to sustainable business for us.

A basic component of our intellectual capital – our strategy – is founded on our aim of truly becoming the Bank of choice for workers.

Importantly, during the year under review, we initiated the process of achieving a recapitalisation of the Bank, an initiative that will add significant value to our financial capital. When this is accomplished, the shareholding that will be held in time by a new shareholder will of necessity, change the nature of our governance structure. In anticipation of this development, and in order to oversee the negotiation process effectively, we established the Capitalisation Committee during the prior financial year – an interim body that will be disbanded once the recapitalisation has taken place.

The recapitalisation of the Bank is a necessity for us in order to facilitate growth, which, in turn, is dependent on competitiveness in the open market. It will relieve the pressure we continually face of preserving capital, the constraints on the growth of our book, and our low-yielding investments.

The capital injection that we seek will undoubtedly change the nature of the Bank and, importantly, its risk profile in the medium- to long-term. This development is thus of strategic importance in terms of our medium- to long-term sustainability, both financially and geographically.

GOVERNANCE AND ETHICS

Our governance and ethics continue to be fundamental to our culture; we work hard to ensure that as concepts, they cascade through the organisation and cement an important aspect of our social and relationship capital. Our emphasis on good communication plays a key role in this – we value and nurture the relationships we have with our colleagues, our customers and our regulators.

ACKNOWLEDGEMENTS

And when I speak of colleagues – it remains for me to commend you all. Your commitment has been central in delivering the pleasing results we have achieved during this past year. In addition, thank you for your efforts resulting in the successful initiation and implementation of the projects that we have undertaken, including the successful move of our head offices from Sunninghill to Midrand. It is your efforts which reflect our ongoing ability to create value for our trustees and our customers, and inspire us all to continue to realise our purpose of being a provider of sustainable and affordable financial services to the workers and their families that we serve, and to uplift and develop their communities.

L Vutula
Chief Executive Officer

08 CHIEF FINANCIAL OFFICER'S REPORT

In terms of our financial capital, during the year under review the Bank delivered another resilient performance despite an external environment characterised by significant economic and policy uncertainty in South Africa, alongside currency fluctuations, low GDP growth and subdued business confidence.

HIGH-LEVEL FINANCIAL RESULTS

KHULA NATHI
Grow up with us

SUMMARY STATEMENT OF PROFIT AND LOSS

	2018 R'm	2017 R'm	Change R'm	Change %
Net interest income	**423.5**	407.4	16.1	3.9
Net fees and commission income	**272.8**	173.4	99.4	57.3
Other income	**36.6**	31.9	4.7	14.6
Total operating income	**732.9**	612.7	120.1	19.6
Impairment charge on financial assets	**(87.6)**	(114.9)	27.3	-23.8
Net operating income	**645.3**	497.9	147.4	29.6
Total operating expenses	**(566.6)**	(472.6)	(94.0)	19.9
Net profit before tax	**78.7**	25.3	53.4	211.0
Taxation	**(24.6)**	4.6	(29.1)	-638.8
Net profit after tax	**54.2**	29.9	24.3	81.3
Dividend	**–**	–	–	–
Net profit after tax and dividend	**54.2**	29.9	24.3	81.3

The Bank continued to create value for all our stakeholders during the financial year. Profit before tax for the year increased by 211.0% to R78.7 million (FY2017: R25.3 million) which translated to an improvement in our return on equity (ROE) by 3.6% from 5.6% (FY2017) to 9.2% (FY2018) while the return on assets (ROA) increased from 0.6% (FY2017) to 1.0% this financial year.

SUMMARY STATEMENT OF FINANCIAL POSITION

	2018 R'm	2017 R'm	Change R'm	Change %
ASSETS				
Non-current assets	**185.6**	209.1	(23.5)	(11.2)
Current assets	**5 401.9**	4 471.8	930.2	20.8
Total assets	**5 587.6**	4 680.9	906.7	19.4
EQUITY				
Equity	**591.6**	537.8	53.9	10.0
LIABILITIES				
Non-current liabilities	**4 851.3**	4 065.7	785.6	19.3
Current liabilities	**144.7**	77.5	67.2	86.7
Total equity and liabilities	**5 587.6**	4 680.9	906.7	19.4

We managed to continue to grow our balance sheet by 19.4% year-on-year, totalling R5.6 billion (FY2017: R4.7 billion) at year-end.

08 CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

KEY PERFORMANCE INDICATORS AND RATIOS

		2018	2017	Change
Profit before tax	Rm	**78.7**	25.3	↑
Cost to income ratio (including impairments)	%	**87.8**	94.9	↑
Cost to income ratio (excluding impairments)	%	**77.3**	77.1	↓
Total assets	Rm	**5 587.6**	4 680.9	↑
Return on equity	%	**9.2**	5.6	↑
Return on assets	%	**1.0**	0.6	↑
Impairment coverage	%	**11.5**	11.1	↓

INKUNZI ISEMATHOLENI
Leaders of tomorrow come from the youth

FINANCIAL OVERVIEW

ULEND

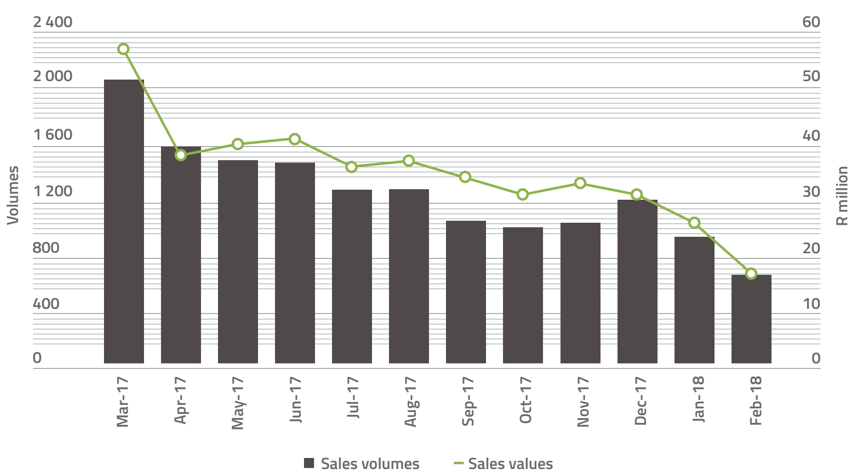
The net loan book has deteriorated by 10.8% (R89.0 million) during this financial year, from R826.2 million (Feb 2017) to R737.2 million (Feb 2018). While average balances increased by 25.2%, the number of loans declined by 27.8%.

Loan products	2018 R'm	2017 R'm	Change R'm	Change %
Makoya	**707.2**	788.8	(81.6)	(10.3)
UBPL	**11.4**	14.6	(3.1)	(21.4)
Secured homebuilder loans	**1.7**	7.3	(5.5)	(76.0)
Staff loans	**16.8**	15.6	1.2	7.8
Total	**737.2**	826.2	(89.0)	(10.8)

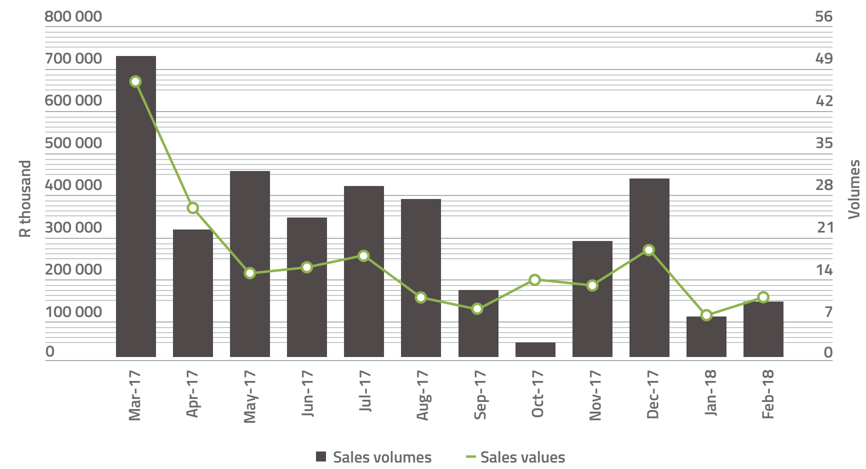
LOAN SALES

The Bank achieved total loan sales of R406.9 million (FY2017: R578.9 million) for the year. Total sales for Makoya reached R384.2 million (13 915 loans) while UBPL reached R4.0 million (171 loans), both attaining peak sales during March 2017.

Makoya sales



UBPL sales

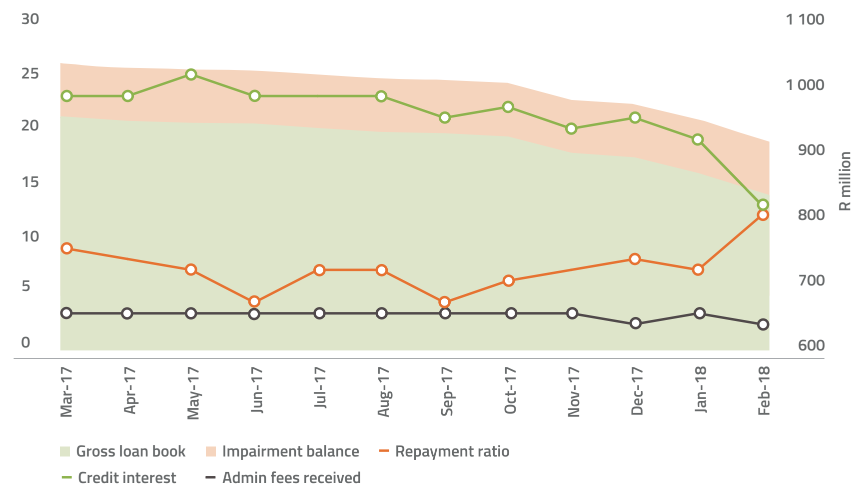


LOAN REVENUE

In line with the loan book's downward trend, loan revenue declined year-on-year by R14.7 million (4.7%). The average credit interest yield on the loan book improved from 31.5% (FY2017) to 33.0% (FY2018) despite a repo rate drop of 25bp in July 2017. The increase in average loan balances was the main contributor to the improvement in the interest yield.

Loan revenue	2018 R'm	2017 R'm	Change R'm	Change %
Credit interest	**256.2**	259.9	(3.7)	(1.4)
Admin fee received	**33.9**	36.3	(2.4)	(6.7)
CLA income	**6.2**	14.8	(8.6)	(58.0)
Total	**296.3**	311.0	(14.7)	(4.7)

Loan book performance



08 CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

KUHLONISHWA KABILI
If you want respect, you have to give it

CREDIT RISK INDICATORS

During the year under review, credit risk management continued to be tested from both a customer and regulatory perspective, compounded by added competition. The consumer market remains highly indebted, with banking and mining industry bodies running initiatives to assist customers in financial distress. Despite the competition in the market we continue to follow our lending strategies and strive to maintain our market share using responsible lending practices.

Our scorecards continue to rank clients appropriately. The techniques are integrated with our risk appetite framework to ensure that the credit lifecycle is aligned with the Bank's capital plans. We have also placed significant emphasis on arrear loan collections and our ability to reduce forward roll into higher provision-attracting buckets.

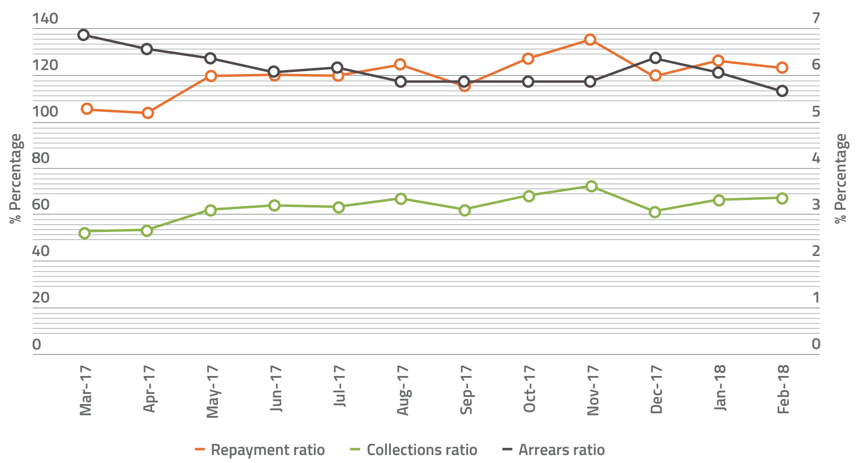
The loan book-related impairment charge in the income statement for FY2018 totalled R79.1 million (FY2017: R112.4 million). The impairment charge must be viewed in conjunction with the decline in the loan book (11.9%).

Post write-off recoveries have however improved by 192.5% year-on-year from R10.6 million to R31.0 million – mainly as a result of a R6.3 million reclassification to post write-off recoveries due to an allocation mapping error.

As a result of the declining loan book, the balance sheet coverage ratio has marginally decreased from the prior year's 11.1% (Feb 2017) to 11.5% (Feb 2018).

Despite the declining loan book trend, the arrears ratio (arrears balance to total loan book balance) improved year-on-year from 6.7% (Feb 2017) to 5.3% at February 2018. This is evidenced by the collections ratio improving from 48.2% to 63.3%. In addition, the repayment ratio increased from 100.6% to 119.1%.

Credit risk indicators



USAVE

The deposit book has increased year-on-year by 19.3% (R785.6 million) to end at R4,851.3 million (FY2017: R4,065.7 million). The growth is mainly as a result of continued retrenchments at the mines, with customers more inclined to deposit their retrenchment packages in term deposit accounts. In addition, the Eezisave and Save Together campaigns which were held during the year also contributed to the increase in the deposit book. The growth trend in the deposit balances remained positive over the past two financial years.

The main growth in the deposit book balances has been in the transactional product (R557.6 million; 33.2%) as well as in fixed deposits (R131.8 million; 12.2%) and Eezisave (R37.6 million; 48.8%). The 32-day notice account was discontinued until further notice during the financial year to improve operational challenges on the product.

Major products	2018 R'm	2017 R'm	Change R'm	Change %
UBFS	**2 234.8**	1 677.1	557.6	33.2
GWU	**509.6**	480.9	28.7	6.0
Save Together	**259.0**	230.4	28.6	12.4
Eezisave	**114.6**	77.0	37.6	48.8
IGF and related accounts	**299.4**	282.3	17.1	6.1
Term Deposit	**1 209.6**	1 077.7	131.8	12.2
Total	**4 626.9**	3 825.6	801.4	20.9

The main movements in savings balances were noted in the Gauteng and North regions respectively. Deposit balances in the Gauteng region increased by 28.1% (R288.9 million) and 23.5% (246.0 million) in the North region. The large movement in these regions can be attributed to the rise in retrenchments in the gold and platinum mining sectors.

Changes by region	2018 R'm	2017 R'm	Change R'm	Change %
Eastern Cape	**896.9**	770.3	126.5	16.4
Free State	**1 142.9**	1 030.8	112.1	10.9
Gauteng	**1 316.9**	1 028.0	288.9	28.1
North	**1 290.7**	1 044.7	246.0	23.5
Total	**4 647.4**	3 873.8	773.6	20.0

SAVINGS AND DEPOSIT BOOK REVIEW

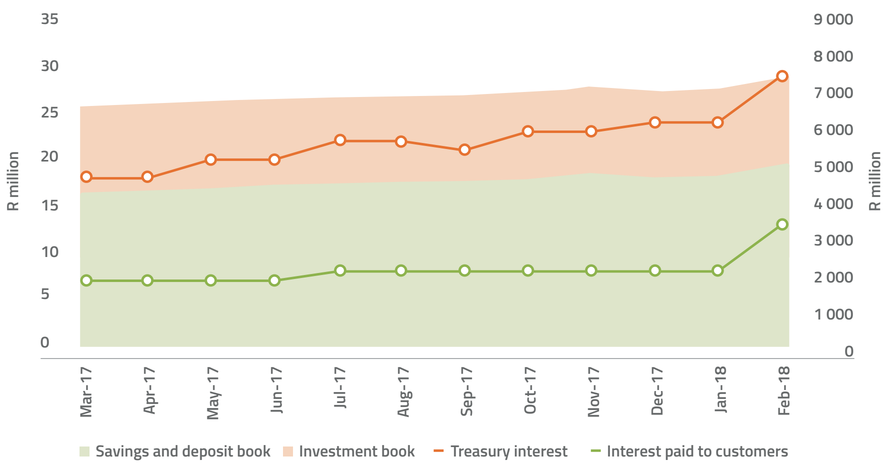
In line with the growth trend in deposit book balances, net interest received increased year-on-year by R19.8 million (13.4%). The average investment interest yield on the investment book remained fairly stable at 7.1% (FY2017: 6.8%) from the previous financial year, despite the 25bp repo rate decrease in July 2017. Moreover, R300.0 million worth of investments were reinvested in lower risk-weighted assets, thereby earning lower yields.

Interest paid to our customers increased by R19.6 million (25.1%), despite the repo rate cut in July 2017. This is mainly due to the Bank's strategy of aligning rate changes to our customer value proposition and competitors' rates, as opposed to linking with repo rate adjustments.

08 CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

Net revenue	2018 R'm	2017 R'm	Change R'm	Change %
Treasury interest received	**264.9**	225.6	39.3	17.4
Interest paid to customers	**(97.6)**	(78.1)	(19.6)	25.1
Total	**167.3**	147.5	19.8	13.4

Investment and deposit book performance



USPEND

Our distinct active customer base declined by 4.8% during the financial year. Historically, the long-term attrition trend broke in February 2017 starting the new financial year off in a net growth position albeit one that was relatively small and intermittent.

The number of active transacting customers has reduced year-on-year from 55.0% to 53.8% of the active distinct customer book. The number of pay file customers has also reduced annually from 23.8% to 20.6%. This is of concern as it will impact our non-interest revenue initiatives negatively.

TRANSACTIONAL REVENUE

Transactional income has increased by 60.0% year-on-year, totalling R295.2 million (FY2017: R184.5 million). This positive performance is mainly due to the strategic change in the timing of the annual price increase (moved from August annually to March annually), as well as the pricing strategy on certain transactions (Saswitch transactions and cash withdrawals over the counter).

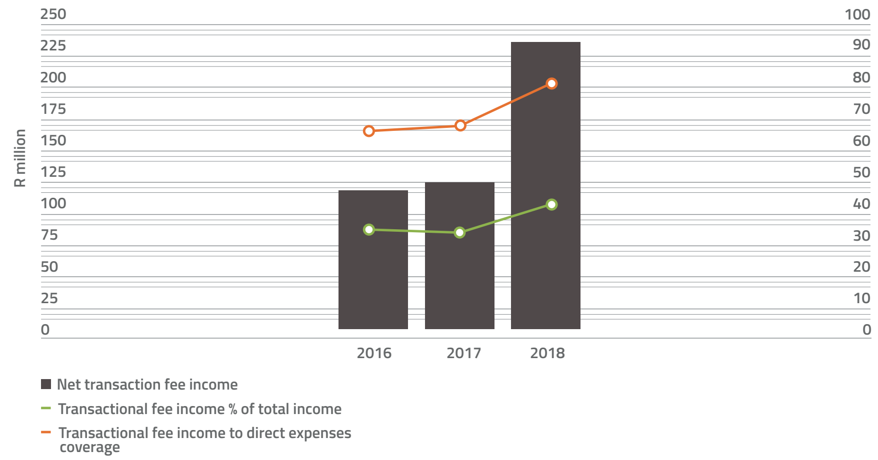
During the financial year all revenue lines were investigated for any revenue leakage and subsequently corrected. The verification of pricing to customers remains an ongoing review process.

Fee income	2018 R'm	2017 R'm	Change R'm	Change %
Transactional income	**72.4**	59.4	12.9	21.8
ATM income	**14.9**	14.4	0.5	3.8
Payroll fees	**33.3**	35.5	(2.2)	(6.3)
Service fees	**174.7**	75.2	99.5	132.2
Total	**295.2**	184.5	110.7	60.0

The net transactional fee income increased by 95.7% year-on-year from R116.1 million in FY2017 to R227.2 million in FY2018. The net transactional fee income to direct expenses coverage improved from 62.9% in FY2017 to 77.0%. The net transactional fee income as a percentage of total income (excluding impairment charge) improved to 37.0% (2017: 27.6%).

Non-interest revenue growth remains a key strategic objective for the Bank. We therefore continue to explore new revenue opportunities and diversify transactional types while also prioritising the full digital transformation of all channels.

Transactional fee income



POINTS OF REPRESENTATION

The number of points of representation decreased from 209 to 207 during the year under review. The ATM channel remained stable year-on-year with a total of 106 ATMs at the end of February 2018 across the network. The physical branch network (all branches including those in mining towns and front ends) decreased by eight branches, mainly due to forced mine closures. (For more on our operating context, see pages 11 to 13.)

Points of representation	2018	2017
Physical branches (including front ends)	**58**	66
Bank-owned ATMs	**91**	92
ATM Solutions ATMs	**15**	13
Teba Limited agencies	**43**	38
Total	**207**	209

DIPHOROGANA TSA PULA DI BAAKANGWA GO SA LE GALE
We prepare for the 'rain' in good time

08 CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

OPERATING EXPENDITURE

Operating expenses increased 20.1% year-on-year to total R566.6 million (FY2017: R472.6 million) for the financial year, mainly resulting from a 63.9% increase in project costs of R15.8 million (FY2017: R9.6 million).

Total staff cost increased by 18.7% to end at R264.2 million (FY2017: R222.6 million) for the financial year. The growth in staff cost is mainly due to a growth in headcount (FY2018: 705; FY2017: 689) as well as increased investment on the development of the Bank's human capital. The impact of the annual salary increases as well as the new appointments made during the financial year amounted to R28.3 million.

Expenditure type	2018 R'm	2017 R'm	Change R'm	Change %
Staff and staff-related costs*	**264.2**	222.6	41.6	18.7
Other operating expenses	**302.4**	250.0	52.4	21.0
– Business as usual cost	**286.6**	240.3	46.3	19.3
– Project cost	**15.8**	9.6	6.2	63.9
Capital expenditure	**34.6**	23.8	10.8	45.4

**Staff and staff-related costs comprise total guaranteed package, overtime, temp cost and training cost.*

OPERATIONAL LOSSES

The number of debit card incidents for the year decreased by 29.0%, and the value of debit card-related losses by 26.5%. The main reason for the decline in incidences of debit card fraud is the conversion of all card holders to chip cards. In addition, extensive campaigns were implemented in collaboration with SABRIC, with the key focus on the education of our customers in card safety and card device usage.

The value and number of other fraud incidents and operational losses increased year-on-year by 47.0% and 40.7% respectively, resulting mainly from account-takeover fraud in the agency network.

	2018	2017	Change	Change %
Number of incidents				
– Debit card	**311**	438	(127)	(29.0)
– Other	**38**	27	11	40.7
Value of operational losses (R'000)				
– Debit card	**697**	947	(251)	(26.5)
– Other	**1 367**	931	437	47.0

CORPORATE MONEY MANAGER'S FUND (CMM) INVESTMENT

During the current financial year further clarity was obtained regarding the CMM investment and the curatorship process that is currently underway. The carrying value of the Bank's outsourced investment to CMM at February 2018 was R40.1 million (FY2017: R41.9 million). Final arguments in the arbitration process, running parallel to the curatorship process, were heard on 28 and 29 May 2018. Management remains hopeful of recovery of the investment.

CAPITAL EXPENDITURE

Capital expenditure increased by 45.2%, a direct result of implementing our prioritised strategic initiatives as well as various IT-related internal initiatives.

Capital expenditure	2018 R'm	2017 R'm	Change R'm	Change %
Leasehold improvements	**8.7**	7.2	1.5	20.7
Furniture and fittings	**9.2**	0.8	8.4	1070.6
Office equipment	**1.7**	4.3	(2.6)	(60.4)
Computer equipment	**11.3**	9.9	1.5	15.0
ATMs	**3.6**	1.6	2.0	121.5

PROJECT EXPENDITURE

During the financial year total funding of R97.9 million was released for Bank initiatives through the Investment Committee.

TYPE OF PROJECTS RECEIVING FUNDING IN FY2018

CHANNEL PROJECTS

- Branch-of-the-future concept branch in Klerksdorp
- Bank-on-Wheels
- ATM expansion (10 ATMs)
- ATM replacement (32 ATMs)
- Head office relocation

SYSTEM-RELATED PROJECTS

- IT Enterprise-wide scheduler
- SAS server replacement
- Fraud management tool implementation
- IFRS 9 implementation

ONGOING ROLLOVER PROJECTS

- Cash forecasting and ATM monitoring tool
- Mobile banking application
- PASA Authenticated collections
- Electronic records management system phase 2 (Biometrics implementation)

The Bank has remained diligent in continuing to prioritise and implement projects and initiatives that align to the 2023 Bank strategic roadmap. (For more on our strategy, see pages 36 to 38.)

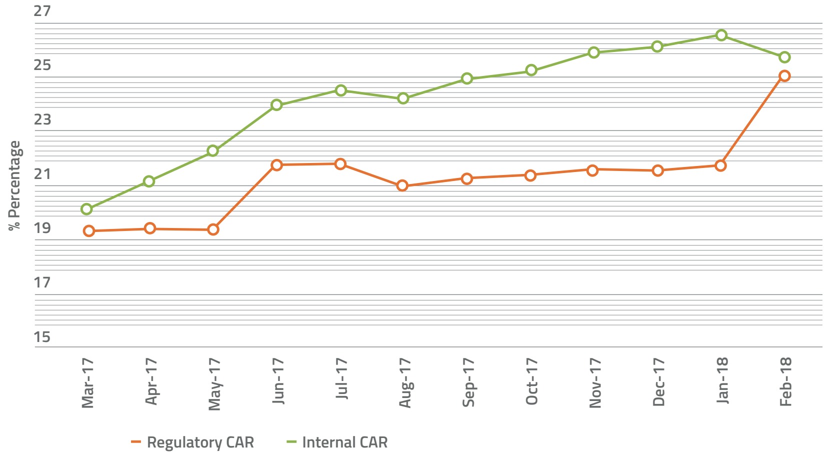
CAPITAL ADEQUACY

The Bank's capital adequacy ratio (CAR) measured 24.53% (FY2017: 18.64%) at 28 February 2018, above the SARB regulatory limit and the Bank's internal limit.

During the year investments to the amount of R300 million were disinvested into lower risk-weighted assets in order to improve capital adequacy levels. Although this improved the Bank's capital adequacy levels this is not the ideal investment strategy in terms of achieving the optimal return on investment. In addition, interim profits to the total of R45 million were appropriated at the end of February 2018.

08 CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

CAR position – 12-month view



HO BEA DITHO HO HLAHISA KHOMO
Patience is a virtue

Capitalisation remains a key success factor in the quest to maintain cost-effective and adequate capital levels. (For more on capital risk management, see page 47.)

REGULATION AND COMPLIANCE

We continue to prioritise the importance of a culture of compliance. Significant compliance activities performed during the financial year under review include:

- Structural monitoring of 16 branches including the Teba Limited agencies in Lesotho
- A compliance risk management plan completed for nine Acts
- Completing preparation for the implementation of the FICA Amendment Act
- Industry participation
- Continued reporting to governance structures and committees

Overall, the compliance status of the Bank is green, although items that are not yet fully compliant are managed and tracked through the breaches log. This information is based upon known breaches.

INTERNAL AUDIT

	2018	2017	Change	Change %
Number of significant audit issues outstanding	**32**	11	21	190.9
Number of overdue audit issues	**9**	6	3	50.0

There has been a decrease in the number of significant audit findings during the year under review, as compared to the previous year, particularly with regard to FICA and credit. Great strides have been made in the front-end environment to improve capacity in order to ensure adherence to processes and procedures.

Finally, I want to take this opportunity to thank the Audit Committee and the Board for their guidance and support as well as the Financial Solutions team for their commitment to constantly delivering a high standard of financial reporting.

H du Preez
Chief Financial Officer

09 COMPANY

OUR STRATEGY

With our mission to be a provider of sustainable and affordable financial services to workers and their families, and to uplift and develop their communities, it is our strategic roadmap, part of our intellectual capital that enables us to drive all the Bank's initiatives and activities. Our strategy, known as Ubank Tshutsheka 2023 (Ubank Unleashed) is 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.

HOLA LE RONA
Grow with us

OUR STRATEGIC OBJECTIVES...

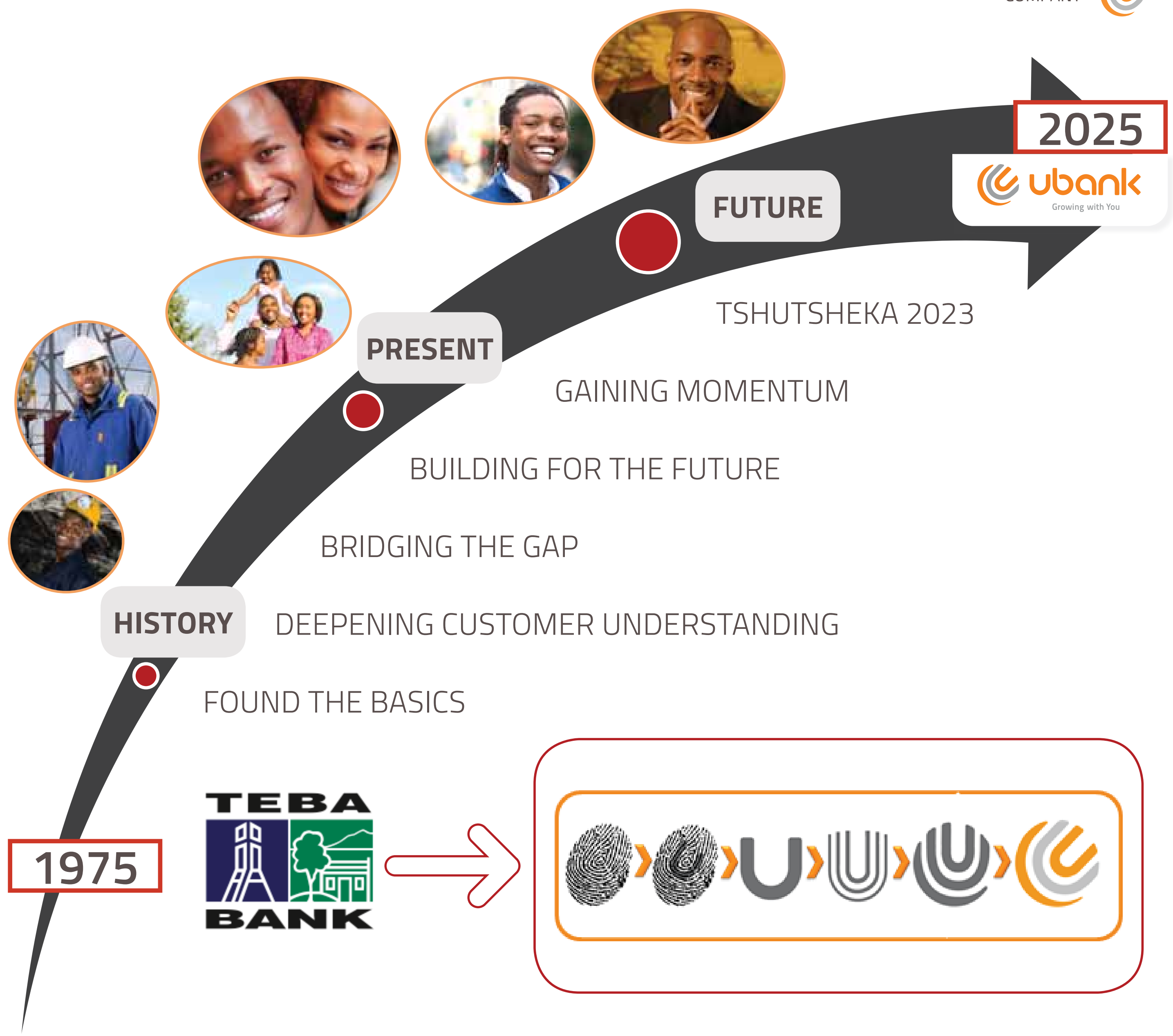
1. Diversify revenue streams
2. Embed a high-performance culture
3. Inculcate strong, Bank-wide compliance
4. Leverage our stakeholder base
5. Strengthen leadership
6. Recapitalise the Bank

...ARE LINKED TO OUR MATERIAL MATTERS

Our growth strategy to the year 2023 leverages our core strengths in the mining industry. It requires us to retain and grow our mining customers in tandem with their growing social and income base, while simultaneously expanding into non-mining markets.

OUR STRATEGIC ROADMAP

Our strategy recognises a roadmap to address the risks associated with implementation as laid out below. The roadmap for the Ubank of tomorrow will require a number of strategic steps, and that entails fixing the basics, building capacity and focusing on growth.



Our key differentiator is our strong community focus and relationship-based banking approach. During the year under review, we continued to explore ways of leveraging strategic partners as potential opportunities for alternative revenue streams. We are establishing key relationships with Fintech and Bancassurance partners.

OUR STRATEGIC ENABLERS

Our strategy is a fundamental aspect of our intellectual and financial capitals. It is comprehensive and has a compelling customer value proposition (CVP), which incorporates and addresses many of the current shortcomings, in particular customer attrition and capabilities. Recapitalisation underpins the strategy and the capital required for fixing the basics of our regulatory capital and growth.

In addition to the recapitalisation project that is in progress, we are in the process of implementing strategic projects such as authenticated collections, mobile banking and digital transformation.

As a bank we appreciate the centrality of the efficiency, security and relevance of our Information technology. It forms a fundamental part of our intellectual capital, and is a vital platform for the successful, appropriate and forward-looking approach to growing with our customers, providing them with the services and products that they require.

09 COMPANY CONTINUED

Two key themes have emerged in the implementation of our strategy...

- Building the bank of the future
- Managing the Bank

Building the Bank means enhancing and adding value across our five capitals ...

- ***Recapitalisation*** – Investors, providing capital, will enable us to grow the organisation, and we are revisiting our branch model in order to make our branches more profitable and fully optimised to ensure that they are sustainable
- ***Changing how we do business*** – The Ubank Targeted Operating Model (UTOM) will be implemented to ensure that our systems, technology and people are aligned to fulfil our strategic objectives
- ***Recruiting key staff for critical positions*** – It is only with the correct people with specific skills in the right positions that we will achieve our goals
- ***Providing suitable banking products*** – We will devise and implement these to ensure that Ubank becomes the Bank of choice for our chosen target market
- ***Implementing the Change Management Strategy*** – This includes aligning the organisational structure in order to implement the strategic plan effectively
- ***Monitoring and tracking progress*** – This is effected by the Strategic Projects Office and will ensure that the outcomes that we've earmarked will be delivered
- ***Improving our distribution model*** – This will allow an expansion of the Bank's current network and enable the development of new channels

...while managing the Bank means that in order to achieve our annual budget, a targeted monthly profit before tax (PBT) run rate must be monitored and maintained, with specific issues requiring attention and focus...

- Top-line growth
- Cost containment
- Impairment movement and post write-off recoveries

During the year under review there were a number of important IT-related initiatives in various aspects of our business, towards our evolution into a competitive and notable player in the retail banking sector...

- **IT SECURITY**
- **SERVICE AND SUPPORT**
- **HARDWARE AND DATA CENTRE HOSTING**
- **FILLING PRIORITISED POSITIONS**
- **UPGRADING SYSTEMS**
- **MOBILE BANKING TESTING AND PILOT**

09 COMPANY CONTINUED

We create value for our stakeholders through our business model, detailed on pages 14 to15. 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.

CREATING VALUE AND THE TRADE-OFFS

	FINANCIAL CAPITAL	MANUFACTURED CAPITAL	INTELLECTUAL CAPITAL	SOCIAL AND RELATIONSHIP CAPITAL	HUMAN CAPITAL
KEY INPUTS	▪ Improved financial performance ▪ R5.6 billion Total assets ▪ R4.9 billion Deposit book	▪ 58 physical channels ▪ 91 Ubank ATMs ▪ 58 other channels (including agencies)	▪ Strong brand in our communities ▪ Prominence amongst gold and platinum workers ▪ Strategic partnerships	▪ Strong social mandate ▪ Investment in CSI and financial education to customers ▪ Key partnerships with community organisations	▪ 705 employees ▪ Investment in training and development ▪ Employment equity (EE) status ▪ Our values and behaviours ▪ Staff turnover ▪ Regretted losses
TRADE-OFFS	▪ Balance sheet management to optimise capital reserves impacting revenue streams	▪ Balance sheet management to optimise capital reserves impacting rollout of channels ▪ Customer preference for face-to-face engagement as well as a demand for savings books has a negative impact on financial capital from a cost perspective. Bricks-and-mortar branches that are less cost efficient than digital channels as well as savings books compared to debit cards			▪ A "do more with less" culture was adopted to manage costs ▪ During the year under review we engaged in streamlining our capabilities. The closure of some branches due to retrenchments of mineworkers in Rustenburg and Carletonville led to the redeployment of employees to nearby branches

	FINANCIAL CAPITAL	MANUFACTURED CAPITAL	INTELLECTUAL CAPITAL	SOCIAL AND RELATIONSHIP CAPITAL	HUMAN CAPITAL
KEY OUTCOMES	▪ 211.0% increase in profit before tax resulting from non-interest revenue initiatives ▪ 10.8% decline in net loan book ▪ 19.4% balance sheet growth	▪ Branch-of-the-future launched at Klerksdorp ▪ Revamp and relocation of branches in progress to optimise footprint ▪ New mobile banking platform pilot with staff	▪ Increased brand affinity by our customers	▪ Customer propensity to stay increased to 91% ▪ Improvement in customer satisfaction rating	▪ Headcount increase from 689 (FY2017) to 705 (FY2018) ▪ 2.4% of annual TGP was spent on training ▪ We exceed the 2016/2017 EAP targets for Africans as a company ▪ Ubank values and behaviours incorporated into individual performance scorecards ▪ Staff turnover below the financial industry benchmark
ACTIONS TO ENHANCE OUTCOMES	▪ Implementation of the long-term strategy by utilising capital effectively	▪ Full-on digital transformation ▪ Introduction of other cost-effective channels like Bank-on-Wheels ▪ Rollout of Mobile banking platform ▪ Explore more strategic partnerships	▪ Increased brand awareness and strategic partnerships in the adjacent markets that are aligned to our long-term strategy	▪ Increase percentage spend on CSI and financial education initiatives ▪ Expanding our customer value proposition to create a balanced profile of customers in terms of age	▪ The Bank remains focused on retaining and recruiting top talent to adequately support the growth ambitions of the Bank as and when key positions become vacant ▪ Embed the employee value proposition and retention strategy
LINKED STRATEGIC OBJECTIVE	▪ Recapitalise the Bank ▪ Diversify revenue streams	▪ Recapitalise the Bank ▪ Diversify revenue streams	▪ Leverage the stakeholder base	▪ Leverage the stakeholder base	▪ Embed a high-performance culture ▪ Strengthen leadership

Our value creators are linked to our capitals, and to trade-offs where they occur, while our actions enhance outcomes, and drive the Bank's strategic objectives. The risks associated with these value creators are assessed and mitigated through our three-lines-of-defence risk-management structure.

10 CONTROL

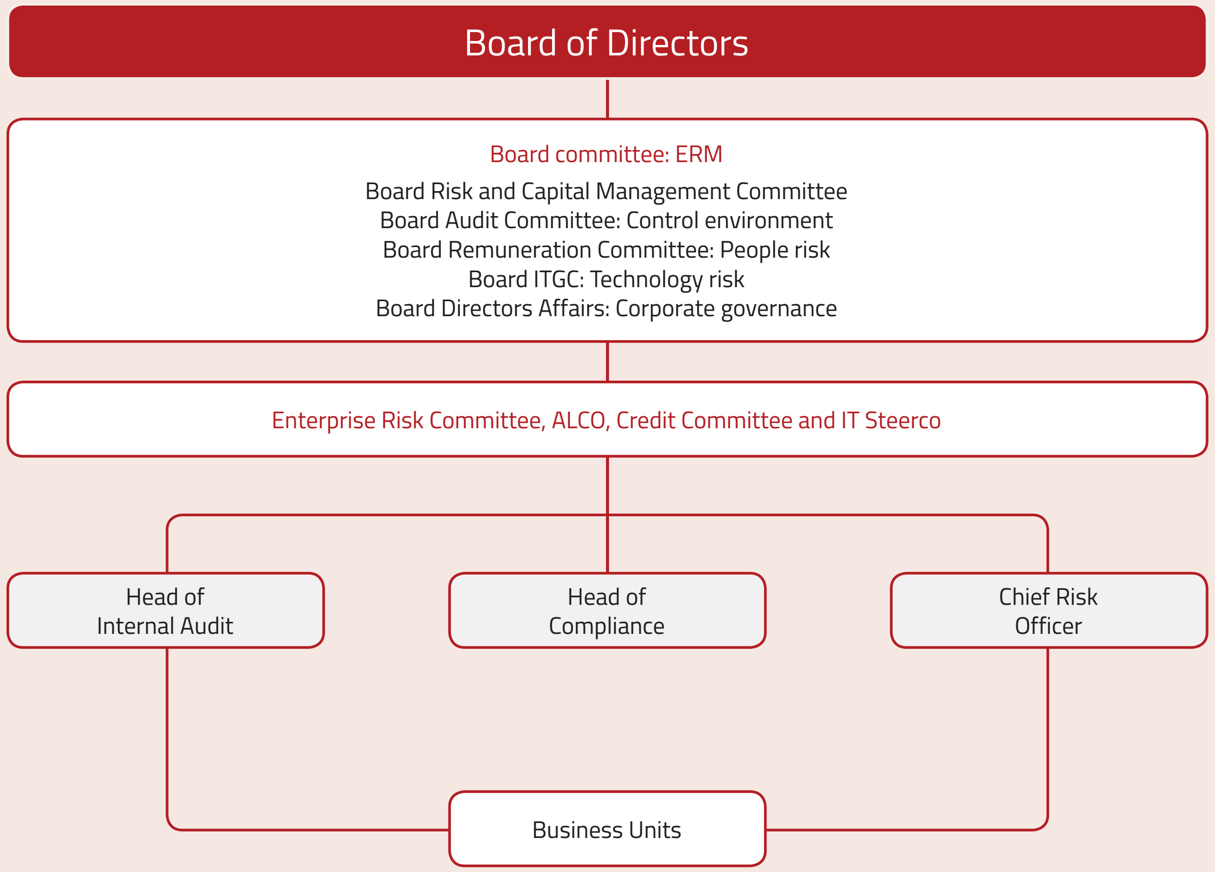
RISK MANAGEMENT

We have a strong risk management strategy in place which forms part of our intellectual capital. It deals with the material risks to which the Bank is exposed, and we apply it to manage the material risks that we identify. We formally capture our approach to each risk within our Enterprise-wide Risk Management Framework (ERMF).

Our ERMF was approved by the Board in June 2017, and the process of embedding it is on track. It is one of the six key strategic objectives of the Bank and the Risk department.

The ERMF reflects the Bank's risk universe, and comprises three layers – our three lines of defence

OUR RISK GOVERNANCE STRUCTURE



The RAF includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those overseeing its implementation and monitoring. As part of our RAF, and in line with the Financial Stability Board's November 2013 publication setting out principles for an effective risk appetite statement, we approved a risk appetite statement document in September 2017. This document sets out maximum threshold levels for each of our material risk items.

RISK THRESHOLDS

The risk thresholds that we set are both quantitative (in terms of risk measures such as qualifying capital) and qualitative (in terms of policies or controls meant to limit risks that may or may not be quantifiable and include zero tolerance policies). In addition, in line with our approved Key Risk Indicator (KRI) policy, we collect various key risk indicator measures, in order to facilitate the objective measurement of risk levels. These risk indicator levels are reported to, and discussed at, the monthly Credit Committee, Assets and Liability Committee (ALCO) as well as in the Enterprise Risk Committee meetings and the quarterly Board risk and capital management meetings.

RISK IMPACT

Risk impact is the potential magnitude of the effect on the Bank's operations should any given risk actually be realised. We assess this by asking, if there were no controls in place, what the impact of the risk would be on the Bank's ability to achieve its strategic objectives. The parameters we use to assess the impact of the risk are illustrated below on a scale of one to five.

OUR RISK PARAMETERS

Rating	Expression	Attributes
5	Critical	Very serious incident with huge potential loss value above R5 000 000 Potential breakdown
4	Major	Major incident with significant potential loss value between R500 000 and R5 000 000 Failure to deliver
3	Moderate	Standard incident. Potential loss value between R100 000 and R500 000 Delays or down-scaling
2	Minor	Minor incident. Financial loss between R10 000 and R100 000 Ability to manage
1	Insignificant	Insignificant. Below R10 000 Negligible event

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 (RAF) provides an overall approach for this. It includes policies, processes, controls, and systems through which we establish, communicate and monitor our risk appetite.

RISK CLASSES

The overall risk rating of the Bank is based on the combination of the residual risk rating for all Business Units (BUs), which is the inherent risk with mitigating factors or controls applied to the risk. The risk classes of the Bank are represented in the matrix alongside.

Impact \ Likelihood	Rare (1)	Unlikely (2)	Moderate (3)	Likely (4)	Very likely (5)
Critical (5)	Moderate	High	High	Catastrophic	Catastrophic
Major (4)	Low	Moderate	High	High	Catastrophic
Moderate (3)	Low	Moderate	Moderate	High	High
Minor (2)	Low	Low	Moderate	Moderate	High
Insignificant (1)	Low	Low	Low	Low	Moderate

10 CONTROL CONTINUED

Value creation is maximised through a clear strategy and objectives that strike an optimal balance between growth, return goals and related risks or material matters. 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.

KEY ENTERPRISE RISKS

Our material matters are evident in our key enterprise risks and are representative of the issues that impact the Bank's ability to create value. The Bank's risk identification process that ascertains the types of risks that have the potential of affecting the Bank's endeavours to deliver on its mandate is centred on the Risk and Control Self Assessments (RCSAs) technique, with the risk register as an output.

Risk	Risk rating	Capital treatment	Measurement	Governing policies/ framework	Mitigating steps	Linked strategic initiative
Capital risk The risk of the Bank having insufficient qualifying capital and consequently being in breach of the minimum CAR (capital adequacy ratio) it is required to maintain in terms of its banking licence	High	Not capitilised	Capital adequacy ratio (CAR)	▪ Assets and Liability Management Policy (ALM) ▪ Capital Management Framework ▪ Internal capital adequacy assessment process (ICAAP)	▪ A capital-raising project is in the finalisation stage ▪ Appropriation of FY2018 half-year profits , to fund priority strategic projects, thus ensuring that key strategic/compliance projects are executed ▪ ALCO process reviews and manages capital in conjunction with strategic initiatives ▪ Tactical capital plans to ensure regulatory CAR is maintained (i.e. the movement of the Investment Portfolio to Sovereigns with a zero risk weighting) ▪ Capital adequacy is assessed on an ongoing basis and monitored in line with the approved internal capital adequacy ratio	Recapitilise the bank
People risk Risk of the Bank failing to meet its objective due to inadequate skills capacity	High	Capitalised and included as part of operational risk	No separate capital measurement (included in operational risk capital charge)	▪ Non-Financial Risk Policy ▪ HR Policies	▪ Double-hatting (i.e. staff placed in acting positions) ▪ Identification of critical and scarce skills areas for implementation of Dual Career Paths ▪ Rotation and multi-skilling of staff to minimise customer and business impact ▪ Implementation of a culture change plan ▪ Staff change management initiatives undertaken to address employee queries and manage potential anxiety due to the current capitalisation project and related organisational change	▪ Embed a high-performance culture ▪ Strengthen the leadership by recruiting key staff for critical positions

Risk classes

Low | Moderate | High | Catastrophic

Risk	Risk rating	Capital treatment	Measurement	Governing policies/ framework	Mitigating steps	Linked strategic initiative
Customer risk The risk of loss of customers and inability to attract new ones, thereby resulting in profitability decline, due to the Bank's products and services being inadequate	High	Not capitalised	Monthly tracking of increases or decreases in the number of customers and trends	▪ Stakeholder Engagement Framework	▪ Increased focus on customer service and retention; acquisition of open-market customers as well as various initiatives for diversification of income streams and alternative sources of growth ▪ Key initiatives for open-market customer acquisition ▪ The Bank's 2023 strategy focuses on customer centricity within the current, adjacent and new markets. The strategy further considers significant levels of sophistication in the development of a comprehensive customer value proposition (CVP) to address the issue of diversification and concentration ▪ Implementation of a mobile and digital banking platform as well as continuous research and evaluation of existing products and services for relevance and expansion	▪ Diversify revenue streams ▪ Leverage our stakeholder base ▪ Providing suitable banking products ▪ Improving our distribution model
Concentration risk The risk resulting from: ▪ in terms of market risk and credit risk: – an excessive concentration of exposure to a single customer or group of related customers, specific financial instrument(s), an individual transaction, a specific industry sector or – geographical location; and the degree of positive correlation between customers and groups of customers as well as between financial instruments/markets under stressed economic conditions; and ▪ in terms of liquidity risk: – reliance on funding or liquidity from a depositor or small group of depositors	High	Could attract a Pillar 2 capital charge	Industry/sector, Geographical	▪ Non-Financial Risk Policy ▪ Strategic and Operational Plans	▪ Key initiatives for open-market customer acquisition ▪ The refined 2023 strategy document considers significant levels of sophistication in particular the development of a CVP to address the issue of diversification and concentration risk ▪ Focused actions on the following core areas that continues to lay the groundwork for open-market targeting: – IT systems stabilisation; – Customer data clean-up; – Credit collections optimisation; – Customer acquisition and sales; and – Alternative growth opportunities	▪ Diversify revenue streams ▪ Accelerate strategy to move into adjacent markets

10 CONTROL CONTINUED

Risk	Risk rating	Capital treatment	Measurement	Governing policies/ framework	Mitigating steps	Linked strategic initiative
Information and Technology risk Risk that the Bank's information assets might be compromised, resulting in unauthorised use, loss, damage, disclosure or modification Risk of failure of systems, technologies and processes required to facilitate effective management and monitoring of the Bank's activities so as to ensure that it remains sustainable		Capitalised and included as part of operational risk	No separate capital measurement (included in operational risk capital charge)	▪ Non-Financial Risk Policy ▪ IT Policies	▪ Processes are in place for ongoing maintenance of applications systems and technology infrastructure. ▪ All critical application systems have disaster recovery failover ▪ IT architecture forum in place to monitor the performance of the Bank's architecture in line with the Bank's strategy ▪ Outdated applications systems have been identified and plans are underway to ensure these are upgraded to the latest software versions. However, this requires the capital injection, time and human resources ▪ A project to upgrade the Bank's core banking system was approved ▪ Cyber risk is monitored within the Bank's Information Security function and reported to various Board and Executive sub-committees ▪ Measures implemented to improve current controls and mitigate the impact of potential cyber threats	▪ Implement the IT roadmap ▪ Recapitalise the Bank

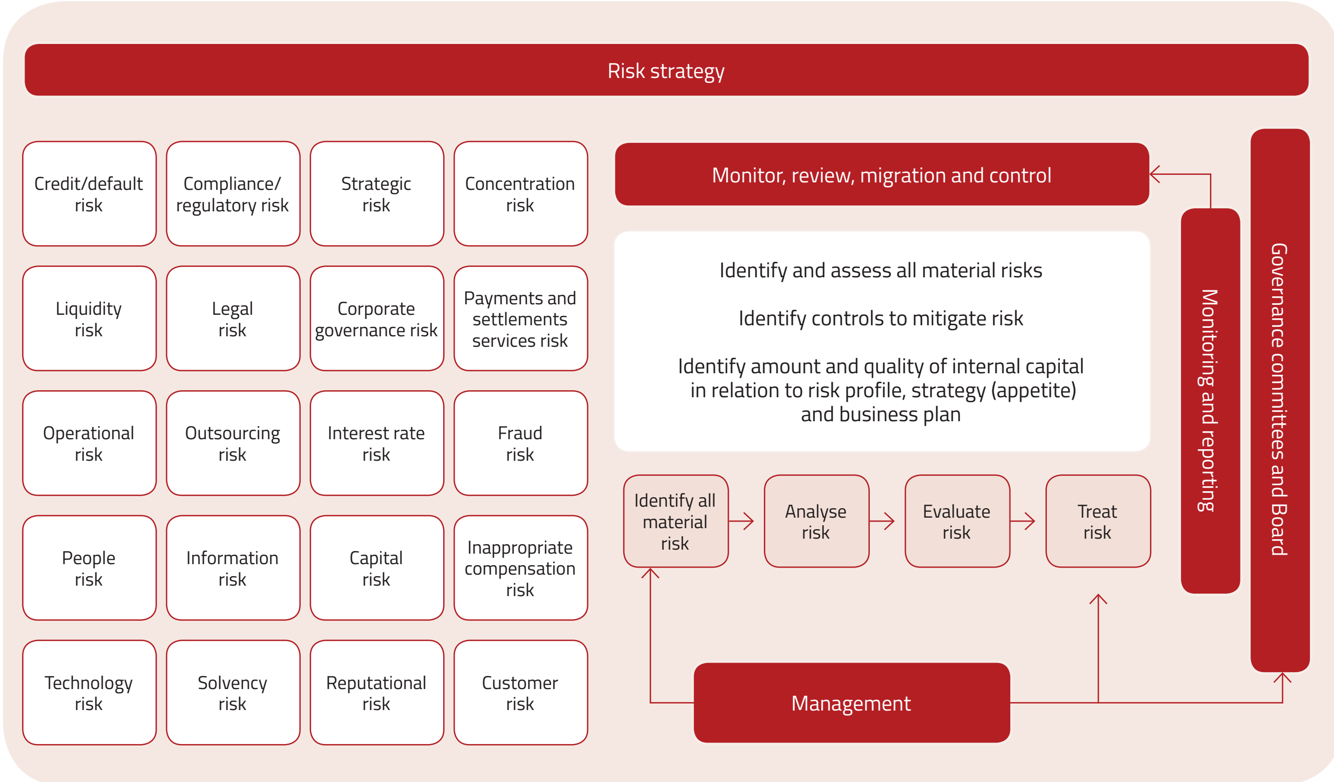
Risk classes

Low | Moderate | High | Catastrophic

CAPITAL MANAGEMENT AND ICAAP GOVERNANCE

In addition to the Banks Act, our internal capital adequacy assessment process (ICAAP) is governed by our ERM Framework, Board of Directors Charter, and Corporate Governance Report which, amongst others, set out the Bank's organisational structure, reporting lines, roles and responsibilities, risk management, sustainability as well as governance attestation.

These frameworks are supported by the overall ICAAP, including frameworks, policies and committee terms of references. Risk management practice and governance follow the prescriptions laid down in the ERMF as approved by the Board.



THE BASEL CAPITAL ACCORD

The Board has approved and adopted a standardised approach for credit risk and a basic indicator approach for operational risk. In addition, the Board is preparing for compliance with Basel III against the time when it will be required.

10 CONTROL CONTINUED

OUR BOARD

JH DE VILLIERS BOTHA (CHAIRMAN)

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

Independent Director (ID)
Appointed 29 November 2005

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

G BRIGGS

BSc (Geology and Applied Geology); BSc (Hons)

Independent Director (ID) nominated by Minerals Council of South Africa
Appointed 1 March 2017

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

M LESABE

LLB; Admitted Attorney of the High Court of South Africa

Independent Director (ID) nominated by NUM
Appointed 17 April 2015

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

ZN MIYA

BCom (Hons); EDP (WBS); CAIB (SA), LIB (SA); MBL

Independent Director (ID) nominated by Minerals Council of South Africa
Appointed 21 June 2010

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

BSc (Maths and Applied Maths); (Hons B) (B and A); MBA (Finance)

Independent Director (ID) nominated by Minerals Council of South Africa
Appointed 17 September 2016

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

K PILLAY

BCom (UDW); Executive Development Programme (WBS)

Independent Director (ID) nominated by NUM
Appointed 1 February 2017

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

10 CONTROL CONTINUED

OUR BOARD

P NKAMBULE

BCom Financial Accounting; BCom (Hons); MBA

Independent Director (ID) nominated by NUM
Appointed 10 July 2017

Skills:
- Finance
- Leadership
- Risk management
- Public sector

L VUTULA (CHIEF EXECUTIVE OFFICER) (ACTING COMPANY SECRETARY)

Masters degree in Development Finance; Bachelor of Business Administration (Hons); Bachelor of Economics and Accounting

Appointed 1 November 2012

Skills:
- Banking
- Corporate finance
- Project management
- Finance
- Public sector
- Training and development
- Strategy development and implementation
- Business management

The CEO is acting on behalf of the Company Secretary until this vacancy has been filled.

Appointed 1 April 2018

H DU PREEZ (CHIEF FINANCIAL OFFICER)

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

Appointed 1 March 2017

Skills:
- Finance and accounting
- Leadership
- Strategy development and implementation
- Project management
- Banking
- Risk management
- Asset and liability management

BOARD COMPOSITION

BOARD COMMITTEES

The Board, in ensuring the effective delivery of its mandate, has delegated certain functions to the Board committees as set out in the relevant committee Terms of Reference.

Below are the recommended principles for consideration, subject to the re-election of Mr. JH De Villiers Botha as Chairman of the Board, by the Directors' Affairs Committee, in recommending the composition of the committees to the Board:
- Skills and qualifications for the Chairpersons of Board committees
- Number of members
- Skills required and the recommended Directors
- Ex-officio members from the Executive Team and Co-opted Directors/Members/Invitees

10 CONTROL CONTINUED

BOARD COMMITTEES – SKILLS, PRINCIPLES AND RESPONSIBILITIES

Committee	Skills required	Recommended Ubank principles	Membership
Audit Committee The committee is the custodian of the financial reporting, accountability and adequacy of efficient controls planning functions	▪ Financial skills ▪ Understanding of: – Integrated reporting – Internal and external audit process – Corporate law – Risk management – Sustainability issues – IT governance – Ubank governance processes and best practice – Interpretation of financial statements – Policy development	Chairman to be a financially qualified person and should be a Chartered Accountant Chairman to be an independent non-executive Director (NED) Ability to chair and must have leadership skills	**Five IDs** K Pillay (Chairman) N Miya R Miyambo G Briggs P Nkambule
Risk and Capital Management Committee This 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	▪ Risk management – Banking – Internal financial and general controls – External audit process – Internal audit process; – Ubank governance processes and best practice – Policy development	Chairman to be a financially qualified person and should be a Risk Management Practitioner Chairman to be an independent NED Ability to chair and must have leadership skills	**Five IDs and one ED** R Miyambo (Chairman) JH de Villiers Botha K Pillay N Miya P Nkambule L Vutula
Remuneration Committee This committee assists the Board in establishing, overseeing and reviewing remuneration and human resource strategies, policies, guidelines, procedures and practices	▪ Labour relations/law – Human resources – Remuneration specialist – Employment equity and skills retention – Policy development	Chairman to be a Human Resources qualified person Ability to chair and must have leadership skills Chairman does not need to be an independent NED	**Four IDs** JH de Villiers Botha (Chairman) M Lesabe R Miyambo N Miya
Directors' Affairs Committee This committee assists the Board in determining, evaluating and reviewing the adequacy, efficiency and appropriateness of the Bank's corporate governance frameworks and practices	▪ Ubank governance processes and best practice – Corporate governance – Understanding of labour law	Chairman to be an independent NED with knowledge of governance Ability to chair and must have leadership skills All voting members to be NED Specialists/co-opted directors not to vote	**Five IDs** JH de Villiers Botha (Chairman) K Pillay R Miyambo N Miya M Lesabe
Social and Ethics Committee This committee assists the Board in the role of oversight of, and reporting on responsible corporate citizenship, sustainable development, stakeholder relationships and organisational ethics	▪ Corporate governance - Ubank governance structure and processes - Corporate social responsibility - Ethics - Labour - Banking - Policy development - Environmental, health and safety matters - Marketing	Two NEDs and two Prescribed Officers Chairman to be a NED Other executives to attend by invitation	**Two IDs, one ED and two officers** M Lesabe (Chairman) JH de Villiers Botha L Vutula W Mosigi
IT Governance Committee This committee assists the Board in fulfilling its oversight responsibility for the governance of IT and for providing assurance of the effectiveness of IT internal controls	▪ IT governance - Risk management - Banking (an advantage) - Corporate governance - Ubank governance structure and processes	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	**Four IDs** N Miya (Chairman) Z Malele K Pillay G Briggs
Capitalisation Committee This is a temporary and ad hoc committee that guides the Board with the process and governance of the capitalisation process	▪ Corporate governance - Financial skills - Ubank governance structure and processes - Strategic thinking	All members to be NEDs Should consist of at least three members The chair 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	**Five IDs** K Pillay (Chairman) R Miyambo G Briggs JH de Villiers Botha N Miya

OUR EXECUTIVE MANAGEMENT

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

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

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

11 CUSTOMERS

For almost half a century, Southern African workers have been invited to unite behind an organisation nurtured by their peers. The mineworkers of South Africa are our founding customers and their fingerprints are prominent throughout Ubank, from the logo design, to the quiet dignity and respect that permeates the brand blueprint, to our hardworking colleagues who serve at the frontline.

Ubank's customers are attracted to the brand by the rich history that the Bank has as an integral part of their communities. Our deep understanding of our customers stems from the relationships built over the past 43 years and is reflected in the Brand Affinity rating which continues to improve year-on-year.

We are focused on retaining our existing customers in our core segments as well as on acquiring new customers in the primary salaried worker market segment. At the same time we welcome all community members wishing to join the Ubank family.

In essence, our pledge to our customers is an acknowledgement of their potential to grow together with a promise that we will "grow with you". The Bank's aspirations are as bold as those of our customers – as we assist them to achieve their life goals, improve their lives and those of their families – our commitment is to match their changing needs and grow with them.

We understand that the customer experience is paramount and that every experience must have relevance to the individuals we are serving. We are strongly focused on *ukukhuluma isintu*, on striving to speak the languages of our customers both literally and figuratively, with consideration and reverence. We monitor key customer metrics on a regular basis to ensure that we remain customer solution focused in all we do.

Due to the nature of our traditional target market, our customer profile skews towards older, male customers who prefer savings books over debit cards. We are working towards creating a balanced profile by expanding our customer value proposition by, amongst others:

- Strengthening our mobile banking offering
- Enabling remote account opening
- Piloting the 'Branch-of-the-future' concept in our Klerksdorp branch.

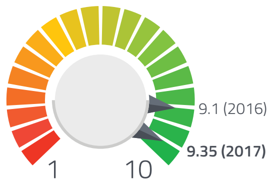
These initiatives are aimed at attracting and including a younger, tech-savvy customer who seeks to support an organisation that embodies African vibrancy, demonstrates *Ubuntu* principles and exists due to a unique collaborative effort of the workers of southern Africa.

UMUNTU NGUMUNTU NGABANTU

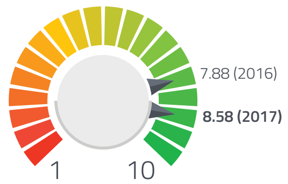
I am, because you are

Brand affinity

Engaged customers (Love the bank)



Customer satisfaction



CUSTOMER VIEWS ON SAVINGS AND BUDGETING

- "We struggle to save money at the end of each month because things are very expensive" – Brits branch customer
- "It is difficult to save on a monthly basis because once we encounter emergency challenges, we end up using the savings money" – Westonaria branch customer
- "Opening the account with a lot of money will encourage us to save as we be able to get good interest and see the money grow." – Employed Brits branch customer
- "We want to open the account with minimal money and we can deposit more money later" – Unemployed Westonaria branch customer

CUSTOMER VIEWS ON CREDIT

- "Overdraft facility will be abused by customers and land them in financial difficulties" – Rustenburg branch customer
- "We would prefer to have a loan as opposed to an overdraft facility" – Rustenburg branch customer
- "It will be suitable for people who are running a business instead of using overdraft for personal usage" – Westonaria branch customer
- "Ubank should provide us with other types of products that are offered by other banks such as revolving loan and payday loan" – Brits branch customer

WHAT CUSTOMERS WOULD LIKE TO SEE OFFERED

- "We want to be able to buy airtime and electricity using our mobile phones" – Klerksdorp branch customer
- "Ubank should address the issue of long queues during month-end and peak times of the year such as Easter period" – Westonaria branch customer
- "Improve the queue management system inside the branch" – Rustenburg branch customer
- "The costs associated with withdrawing cash from Ubank are too high and almost similar to bank charges from other banks" – Brits branch customer
- "There should be more ATMs for Ubank and in many areas" – Westonaria branch customer
- "It should improve its image so that it can't be perceived as a bank which serves only old customers" – Rustenburg branch customer
- "Speedily resolve customer queries that are caused by the Bank's system failures" – Rustenburg branch customer

Images from our new "Branch of the future"

CUSTOMER EXPERIENCE AFTER THE OPENING OF "BRANCH OF THE FUTURE" IN KLERKSDORP

- "We like it very much"
- "There is no chance that a customer can skip the queue"
- "The service is efficient"
- "The new branch is fast and convenient"
- "We like the fact that there are wet wipes in the branch to clean our hands"
- "They welcome us at the entrance"
- "The branch is beautiful overall"

12 COMMUNITIES

The communities we serve are an integral part of our social and relationship capital. We have a strong social mandate to improve their lives, and we do so not only through formal projects implemented by our Community Social Investment (CSI) department and the community involvement of the Trust, but also throughout our operations on a daily basis. Every colleague within the organisation is contracted in their annual performance scorecard to participate in fund raising and the carrying out of Khula Nathi community projects. We perform these tasks with much gratitude to the communities who have provided us with such a compelling purpose in our daily work.

RE A LEBOHA | ENKOSI | DANKIE | INKOMU | RO LIVHUWA | NDZA NKHENSA | RE ITUMETSE | OBRIGADO | SIYABONGA | THANK YOU

The formal community projects implemented either via the Trust or our CSI department focus on education as a priority highlighted by the communities we serve. These range across primary and secondary schools, tertiary education and children/adult financial literacy initiatives. In addition, we have created key partnerships with other community organisations to ensure that we achieve a maximum impact in uplifting and nurturing these communities.

Our key formal initiatives include:

WHAT WE DID	WHAT IT IS
Strategic partnership with Operation Hope	Financial education and entrepreneurship workshops for mineworkers
Strategic partnership with Royal Bafokeng	A back-to-school campaign and Thutopele Leadership programme where Ubank employed 15 learners from the Bafokeng community for a year to ensure they obtain work experience
Banking Association of South Africa StarSaver programme	A programme focusing on teaching children to save
Regional Project with People Against the Spread of Aids and Starvation (PASAS)	This NGO, which provides a home-based care centre, needed its Community Centre rebuilt and secured
Spelling Bee competition in the Eastern Cape	This initiative was coupled with donations of books and training for librarians

KHULA NATHI PROJECTS – HIGHLIGHTS OF UBANKERS IN THE COMMUNITY

Khula Nathi projects are initiatives chosen and implemented by teams of colleagues across Ubank, with no project being too big or too small. Colleagues fundraise with enthusiasm and implement their projects in the community with great joy and a profound sense of gratitude. These initiatives are too plentiful to feature the entire year's projects so we have chosen to feature here the ones that touched our hearts the most.

The Evander team handed over 144 pairs of school shoes to learners in their communities.

The Beatrix team provided uniforms, shoes and stationery to the learners of Adamsvlei Farm School in their community.

The Rudo Home-based Care Centre at Kokosi township in Fochville provides home-based care for terminally ill patients and support to vulnerable families with terminally ill loved ones. The Ubank team painted the home's dining hall, delivered food parcels and joined in singing to the patients to boost their spirits.

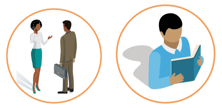
Community members approached our Marikana and Karee branches when one of their own was in dire need. They asked our colleagues to assist a destitute mother who is without family members and had just lost her six-month-old baby daughter. The teams consulted with the bereaved mother and supported her by making funeral arrangements and taking care of catering and mortuary costs to ensure she could grieve her loss with dignity.

The Burgerfort team donated food items to members of their community.

The Rustenburg team reached out to a hawker outside their branch who had lost his leg in an accident in 1981 but still supports his wife and two children. They provided him with a new set of crutches and groceries.

The Boitekong team provided school bags to 66 learners from the Marikana Combined School, and a stove and other necessities to the St Anthony Pre-school in Kanana village.

13 COLLEAGUES



Human resources forms part of both our human and intellectual capitals, and with the Bank showing a significant increase in profit during the year under review, it is encouraging to note that this was achieved with a stable headcount. While the number of employees on 1 March was 689, at 28 February 2018 this total had slightly increased to 705. Most importantly, our diversity continues to reflect the demographics of our country, a unique and distinguishing point of pride for all Ubankers.

CHANGE – The way we formulate our behaviours underpins

C ARE	– Treating colleagues and customers with dignity and respect
H ARONA	– Protecting and enhancing our reputation
A CHIEVE	– Driving performance at pace | Delivering on promises | Celebrating success
N URTURE	- Actively participating in our communities
G ROW	– Developing ourselves and our people
E NERGISE	– Demonstrating positive energy, enthusiasm, pride, passion and integrity

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

P ASSION	– Commitment with pride and enthusiasm
E MPOWERING	– Enabling and supportive to all
E XCELLENCE	– Growing the business through performance
R ESPECT	– Remaining open-minded and considerate
S INCERITY	– Having caring open conversations

We believe in proudly advocating our values and behaviours.
We are committed to continuously embedding them.
We nominate and reward colleagues on a monthly basis for displaying them.

What's more – the values and behaviours feature on our individual performance scorecards and account for 20% of the overall performance rating of each colleague.

STAFF TURNOVER AND REGRETTED LOSSES

Staff turnover for FY2018, combined for both voluntary and involuntary departures, was 12.9% – below the financial industry benchmark, for which Gartner Corporate Executive Board's 2016 global financial services indicates an average of 14.2%. Only 17.3% of all terminations were considered regretted losses.

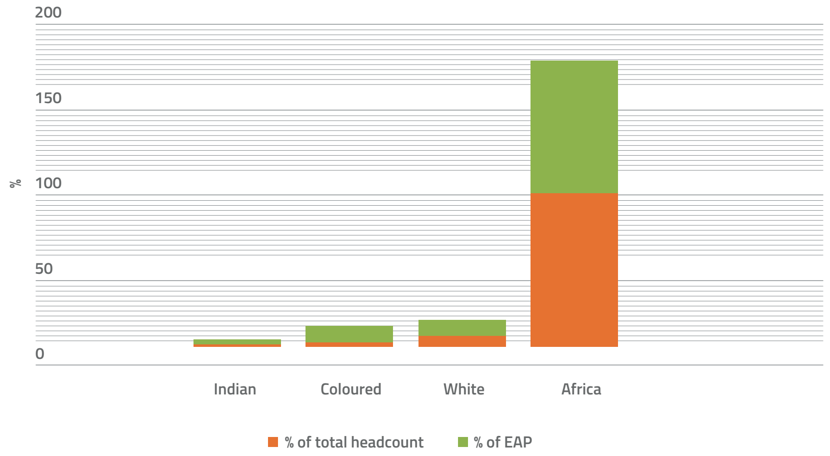
INVESTMENT IN TRAINING AND DEVELOPMENT

An amount of 2.4% of Annual TGP was spent on training during FY2018. In addition, 190 employees, representing a significant 27% of staff, made use of the Bank's study assistance scheme with studies at Universities and other accredited training institutions. In return these employees each committed themselves to a specified work-back period calculated on the amount invested in them.

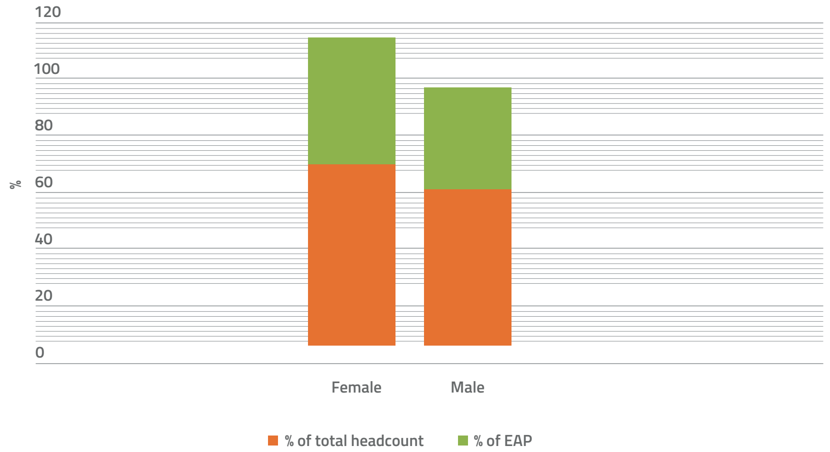
THE UBANK LEADERSHIP DEVELOPMENT PROGRAMME

This programme facilitates career growth and subsequent retention of talent, and comprises formal learning through the Wits Business School and UNISA School of Business Leadership, as well as mentoring, coaching, job shadowing and job rotation. When the closing ceremony took place in November 2017, it featured 31 participants – 10 at junior level, 9 at middle level and 12 at senior level. Of the 31 participants, 11 (35.5%) have since been promoted within the Bank. In another training initiative, the Chief Information Officer (CIO) completed the International Executive Development programme in conjunction with BankSETA in 2017.

As a company, we exceed the 2016/17 Economically Active Population (EAP) targets for Africans...



...and we exceed the 2016/17 EAP targets for females...



...while significantly exceeding the figures for the banking industry.

Ubank senior and middle management composition vs the banking industry

Management level/gender	Ubank (%)	Banking industry 2018 (%)
Black people in senior management	78.1	36.7
Black women in senior management	28.1	15.2
Black people in middle management	87.9	60.2
Black women in middle management	41.9	31.8

13 COLLEAGUES CONTINUED

RETENTION STRATEGY

Remuneration practices

During the year under review the Board approved the Remuneration Strategy, the first phase of which entails the introduction of job grades and pay scales to facilitate internal and external pay equity. Implementation of this will take place during FY2019.

The approved strategy also incorporates reward and retention practices such as short- and long-term incentive schemes as well as work-life balance initiatives. We have also put practices in place to ensure good quality of life for our colleagues. These include:

- Time off in-lieu
- A health initiatives/employee wellness programme
- Life-skills training
- Flexi working arrangements pending business needs.

In September 2017 we also made an ex-gratia payment to all colleagues, with the exception of executives, for performance results they achieved.

Staff growth and succession planning

During the year under review we focused on the growth of internal staff and succession planning in terms of our recruitment policy, which states that when a vacancy arises, preference is given to internal employees. A high percentage of positions were thus filled by internal incumbents, in turn facilitating career growth and retention. In line with our performance and talent management policies succession plans are reviewed every six months.

LONG-SERVICE AWARDS

We recognise the long service of all our colleagues, with long-service awards, and we make both monetary and non-monetary awards in acknowledgment of exceptional contributions.

CHANGE MANAGEMENT AND STAFF MORALE

An initiative was undertaken during FY2018 to develop and realise leadership capabilities through a leadership skills audit based on the Bank's leadership competency model. The objective was to empower managers to create a more conducive and productive environment in the workplace. In addition, resilience/change workshops for managers were conducted across the Company during FY2018 in order to facilitate and upskill their capabilities in the light of various change initiatives taking place within the Bank.

Employee value proposition (EVP)

Our EVP is implicitly contained in our talent management and performance management 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 our colleagues' capabilities so that we can meet the Bank's strategic objectives.

14 APPENDICES

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2018

CONTENTS

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Holding company	Ubank Group Limited incorporated in South Africa

DIRECTORS' RESPONSIBILITIES AND APPROVAL

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 Inc. in terms of section 30(2)(a) of the Companies Act no. 71 of 2008 (as amended), (Companies Act).

DIRECTORS APPROVAL

The directors whose names appear on page 4 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, and the Banks Act ,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 74 to 112 were approved by the Board of Directors on 26 June 2018 and were signed on their behalf by:

Director **Director**

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.

Company Secretary

Johannesburg

26 June 2018

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 Chamber of Mines, 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 Trust Fund, a trust registered in South Africa.

5. DIRECTORATE

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

	Appointment date	Resignation 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	
P Nkambule	10 July 2017	
Executive directors		
L Vutula (Chief Executive Officer)	1 November 2012	
H du Preez (Chief Financial Officer)	1 March 2017	
Company Secretary		
M Naidoo	1 July 2015	31 March 2018
L Vutula (Acting)	1 April 2018	
Prescribed Officers		
L Vutula (Chief Executive Officer)	1 November 2012	
H du Preez (Chief Financial Officer)	1 March 2017	
W Mosigi (Managing Executive: Retail)	1 March 2017	

The CEO is acting on behalf of the Company Secretary until this vacancy has been filled.

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.

DIRECTORS' REPORT CONTINUED

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 31.)

7. SPECIAL RESOLUTIONS

No special resolutions were passed during the year.

8. ECONOMIC OVERVIEW

Global growth moved from strength to strength in 2017, with activity picking up in most country groupings. However, amidst political infighting and policy uncertainty South Africa (SA) was in no position to take advantage of the upturn in global growth. Developments since the ruling party's elective conference in December 2017 have led to increased optimism that overall economic activity might surprise on the upside going forward.

Global economy

Growth in 2017

The pick-up in global growth that started in 2016 gathered momentum in the first half of 2017 and was sustained into the second half of 2017. There was firm domestic demand in advanced economies and an improved performance in other large emerging market economies resulted in better-than-expected growth outcomes.

Growth in major countries

	2016 %	2017 %
World output	**3.2**	3.8
Advanced economies	**1.7**	2.3
US	**1.5**	2.3
Euro area	**1.8**	2.4
Japan	**1.0**	1.8
UK	**1.8**	1.7
Emerging/developing economies	**4.3**	4.7
China	**6.7**	6.8
India	**7.1**	6.7
Russia	**(0.2)**	1.8
Brazil	**(3.5)**	1.1
SA	**(0.3)**	1.3

- Developed economies: There was stronger than expected growth in the Eurozone (EZ), Japan and the US.
- Emerging/developing economies: China continued its faster expansion, Russia and Brazil recorded positive growth, and conditions for commodity exporters improved.

Outlook

Recent data suggests a slow start in 2018. However, steady and solid growth is projected for 2018. Uncertainty particularly in the political arena (US/China trade war, US/Russia sanctions) is a major risk to the global economic growth outlook.

South African economy

2017 was a tough year, especially in the political arena. As a result, Standard & Poor's downgraded SA's local currency debt to junk status in November. At least the economy surprised on the upside, recording an annual GDP growth of 1.3% in 2017 compared to a forecast of 0.9% and 0.6% growth in 2016. But the growth remained low, not enough to reduce the country's high unemployment rate and improve the government's fiscus which continued to deteriorate.

Growth by industry

	% of GDP	Growth rate	Contribution to GDP of 1.3% in 2017 %	Comments
Agriculture	1	17.1	0.4	Growth attributed mainly to better weather conditions
Mining	8	4.6	0.3	The growth partly attributed to the improvement in commodity prices
Manufacturing	14	(0.2)	0.0	The sector struggled in 2017 partly due to weak domestic demand
Finance	20	1.9	0.4	
Personal services	6	1.2	0.1	
Trade	16	(4.8)	(0.1)	
Transport	10	2.8	0.2	
Construction	4	(1.3)	0.0	
Community services	18	0.3	0.1	
Electricity	3	0.2	0.0	

- Agriculture was the main driver of growth in 2017. Other sectors that contributed positively to the growth were Mining, Finance, Transport and Personal services
- Small growth decline in Manufacturing and Construction in 2017, leading to 0% contribution to GDP
- Trade declined by 4.8%, shedding (0.1)% from GDP growth

Outlook

The economy is forecasted to grow by around 1.9% in 2018; supported by improved domestic confidence and political landscape, lower inflation profile, accommodative monetary policy, and favourable global demand conditions.

Banking

Against an external environment characterised by significant economic and policy uncertainty in the country, alongside currency fluctuations, low GDP growth and subdued business confidence, the major banks' combined results have shown remarkable resilience and reflect a solid trajectory of performance in 2017. Combined headline earnings of major banks grew by a resilient 5.2% year on year (y-on-y) compared to 2016. A notable contributor of the earnings growth was lower than expected bad debts. Combined net interest income (NII) of the major banks grew by 3.8% y-on-y compared to 2016 – an impressive performance considering the challenging market conditions over the period.

Inflation rates

Consumer price index (CPI) inflation slowed and remained within the SARB's target range of 3% to 6% in 2017. The average CPI for 2017 was 5.3%, down from 6.3% in 2016. In February 2018, CPI inflation slowed to 4.0% from 4.4% in January 2018. It is expected to pick up from April 2018 due to high international oil price, VAT increase from 14% to 15%, fuel and Road Accident Fund levy increase of 52 cents, etc. to an average of 4.8% in 2018.

Interest rates

Despite Standard & Poor's downgrade of SA's local currency debt to junk status, the SARB Monetary Policy Committee (MPC) only reduced the repo rate by 50 basis points in the second half of 2017 (25 basis points each in July and November). The baseline view is for Interest rate to remain stable in 2018 after a 25 basis point rate cut in March 2018.

Rand vs US Dollar

The rand exchange rate remained volatile in 2017, driven mainly by political uncertainty. It has, however, recovered to R13.31 in 2017 from its lows seen in 2016 (R14.70). The Rand exchange rate has strengthened substantially in early 2018 on the back of a weaker US Dollar, positive developments on the domestic political front, favourable international financial conditions, and firmer commodity prices. It averaged R12.20, R11.82 and R11.83 in January, February and March 2018 respectively. It is forecast to average R12.02 in 2018.

Impact of the economy on the consumer

2017 was a mixed bag for South African consumers. Our loan clients have experienced some relief in the second half of 2017 as interest rates were reduced by 50 basis points. On the other hand, they were adversely affected by the increase in petrol and food prices, impacting on their ability to repay loans. Household debt to disposable income remained high, but slowed to 72.5% in Quarter 3 2017 from 74.0% in Quarter 3 2016. A logical driver on the future performance of the loan book is unemployment and the lack of job creation. Statistics SA indicates that at the end of Quarter 4 2017 the official unemployment rate was 26.7%, with the expanded definition at above 35%. The likelihood for either of these rates to reduce in a significant manner in the next 12 months is low.

DIRECTORS' REPORT CONTINUED

Mining

The Importance of mining to South Africa

In 2017, the industry constituted 7.2% of the economy. In real terms, the industry expanded by 4.6% , with a contribution of R334 billion to the economy. The direct contribution of mining to fixed investment amounted to R93.4 billion, while total primary mineral sales reached R424 billion. The industry represents 90% of SA's mineral production and contributed R16.0 billion in taxes in 2017. Furthermore, mining exports amounted to R307 billion, 27% of the country's R1.1 trillion export book.

Policies

Policy uncertainty in the sector remained one of the biggest challenges in 2017. Investor confidence in SA and mining in particular remained low. At the Mining Indaba 2018, investors warned that SA needs to offer a more conducive business environment to investors or they will turn to opportunities elsewhere. In fact, the survey (2017) of 16 companies accounting for over 80% of SA national mining output (included all of the big players such as Anglo American and Sibanye-Stillwater) said there will be no new investment in 2018.

Mining Charter III

The Department of Mineral Resources (DMR) published the Revised Mining Charter (RMC) on 15 June 2017.

Ownership

- New prospecting rights – Applications for new prospecting rights must have a minimum of 50% plus 1 black person shareholding, which shares must have voting rights attached to them.
- New mining rights – Applications for new mining rights must have a 30% black person shareholding which must be held in a separate entity from the holder of the right, up from 26%.

Chamber of Mines (COMs) on Mining Charter III

Due to lack of consultation with the industry on the contents of the Charter gazetted, combined with its vague, ambiguous and confusing wording, COMs applied to the Gauteng High Court to seek to interdict the DMR from implementing the Charter in its current form. Some of the elements of great concern to the industry were:

- The issue of continuing consequences has not been adequately addressed;
- Future exploration permits will only be granted to companies that are at least 50% black owned;
- 1% of mining revenues shall be paid preferentially to BEE shareholders;
- Foreign suppliers of capital goods shall pay 1% of the value of their supply contracts; and
- Of the 5% of payroll currently spent on employee training, 1% of payroll would in future be paid to tertiary institutions and 2% to a new and undefined Mining Transformation and Development Agency (MTDA), an entity that has yet to be formed and whose structure and mandate is unclear.

The impact of Mining Charter III

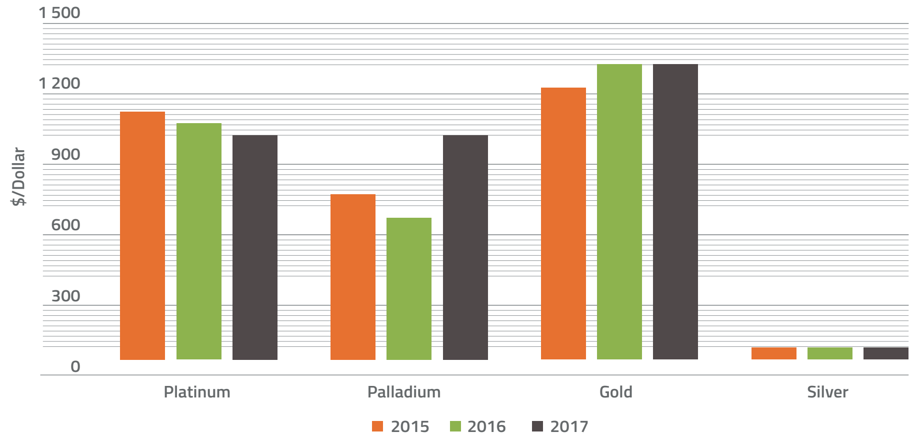
In its current form, the consensus among industry leaders is that DMRs' Mining Charter III will jeopardise the viability of an industry that is already under significant economic pressure. By way of example, some 60% of the platinum sector remains loss-making and labour-intensive mines might face closure.

The COMs' estimates in October 2017 is that R50 billion has been wiped off market value of listed mining companies since the Mining Charter III was published.

New leadership in the country

The election of Cyril Ramaphosa, first as ruling party president in December 2017 and then as President of South Africa in mid-February 2018, and the early steps he has taken since his appointment, including the cabinet reshuffle, has been positive for both the country and for the industry. The Reviewed Mining Charter (RMC) lawsuit initiated by the Chamber of Mines was eventually postponed towards the end of February after a commitment by President Ramaphosa in his State of the Nation address to engagement on a new charter. The new charter will now be developed through a process of negotiation between all stakeholders, under the co-ordination of the Mineral Resources Ministry. The minister's first engagement was initiated the weekend of 17-18 March with the industry and the unions. While the initial talks were said to be robust, as would be expected, the consensus was that transformation, competitiveness and growth are and should be mutually reinforcing goals. The RMC is expected to be finalised at the end of June 2018.

Precious metals prices



2017 was another strong year for precious metals prices, except for platinum. Platinum had a lacklustre 2017 as prices fell on lower demand from the auto industry. The metal is primarily used in catalytic converters for diesel-powered vehicles, however, a lack of demand for diesel-powered cars in Europe and China in 2017 led to a rise in price for its sister metal, palladium, which is used mainly in catalytic converters for gasoline-powered cars.

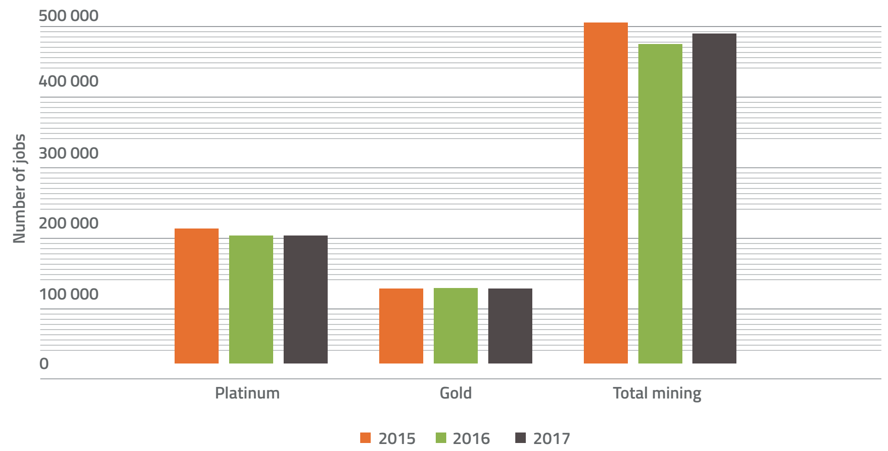
Production

In 2017, total mining production increased by 4.0% y-o-y following a -4.0% recorded in 2016. The growth was driven mainly by the strong global demand and higher commodity prices. Total mining production increased by 3.1% y-o-y in February 2018 following a 2.9% y-o-y growth in January 2018.

Employment

Although the industry has lost almost 30 000 jobs since 2014, employment increased by 1.1% to 462 871 during 2017. This can be attributed partially to the growth experienced in the industry. Among the major commodities, the gold sector shed about 3 600 jobs between 2016 and 2017; while platinum group metals' employment remained stable in the same period.

Sector shed on employment



Outlook

In conclusion, the COM and its members are cautiously optimistic about initial signals from the new leadership of the ruling party. The Chamber expressed hope for a renewed focus on responsible and ethical leadership in the national interest. Ethical leadership, good governance and adoption of competitive, stable and predictable policies would mean considerable new investment in mining, creating huge economic and transformation benefits for the country and a sizeable increase in jobs, export earnings, GDP and transformation.

DIRECTORS' REPORT CONTINUED

Strategic implementation overview

Ubank's mission, to be a provider of sustainable and affordable financial services to workers and their families and uplift and develop their communities, has not changed and in the medium to long-term this will continue to drive all our initiatives and activities.

The strategic objectives of the bank remain unchanged:
- Diversify revenue streams;
- Embed a high performance culture;
- Inculcate strong, Bank-wide compliance;
- Leverage the stakeholder base;
- Strengthen leadership; and
- Recapitalise the Bank.

Ubank's growth strategy for the 2017/18 financial year leverages its core strengths in the mining industry and requires it to retain and grow its mining customer base while simultaneously expanding into non-mining markets. Our key differentiator is our strong community focus and relationship–based banking approach.

The Bank's implementation of priority initiatives and projects was done using short-term intervals of 90-day time horizons from March 2017.

The Bank's strategy is 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. The focus areas for the financial year were categorised along the following core areas:
- Fixing the basics: Stabilising our core IT systems which support the operations of the Bank;
- Optimising operational efficiency: Customer data clean-up to provide better information and data on our customers to support better decision making for service and acquisition;
- Customer acquisition: A focused drive to grow top-line and acquire primary bank customers;
- Developing and launching new products and sales effectiveness and capability;
- Credit collections: To optimise and sustain collections on our loan product portfolio;
- Alternative growth opportunities: Leveraging strategic partnerships with key players to enable our growth in non-mining markets;
- Channel: Expanding both our digital and physical channel footprint and capability; and
- Human resource enablement and support: Expedite the filling of critical vacant roles to ensure priority initiatives are appropriately resourced.

The Bank continued to explore ways of leveraging strategic partners as potential opportunities for alternative revenue streams.

Strategic initiatives prioritised during the financial year include:

- **eTranzact (prepaid card sponsorship)**

The pilot for launching this initiative was moved to January 2018 pending the approval of the prepaid programme by MasterCard.

- **Wizzit (fintech partner)**

We worked with Wizzit to develop a comprehensive mobile banking offering for customers as well as international money transfer services. The first phase will be piloted in the first quarter 2018. This collaboration also formed part of our drive to digitally transform the Bank.

- **Bancassurance (partnership with insurer)**

We continued to make strides in finalising our strategy on Bancassurance with a suitable insurer.

- **Small Enterprise Finance Agency (SEFA) (credit partner)**

The focus of discussions with SEFA has shifted to exploring the Khula Credit Guarantee Scheme which many of the retail banks seem to leverage as part of their lending portfolio with SEFA.

- **Ex-miners consumer outreach**

The MBOD (Medical Bureau for Occupational Diseases) has, to date, completed two outreach programmes with the assistance of Ubank. The first event took place in Mqanduli, Eastern Cape where over 4 000 people were attended to over a three-day period. Ubank staff were able to open over 160 accounts during that period. The Mqanduli outreach was followed by another successful outreach in Klerksdorp on 6 and 7 December 2017, where 34 accounts were opened and 15 reactivated.

Ubank was able to make good on its promise to the MBOD to assist by hiring 10 unemployed graduates to help and ensure that the outreach was a success.

The MBOD will be engaging in more outreaches during 2018, together with its banking partners. The plan is to carry out one outreach per month in the Eastern Cape in April and May 2018. The Department is planning over 5 000 medical examinations during that period. A 30% success rate will see over 2 000 individual accounts being credited with on average R60 000 each.

Ubank is now part of the working committee on the MBOD outreach initiative and will benefit from this programme through increased brand awareness, community participation and new business generation.

Ubank was well represented despite the presence of both Absa and Nedbank, with the marketing team making sure the events were well branded.

Key strategic objectives achieved during the year include:

- **IT (Enterprise Wide Scheduler)**

The purpose of this initiative was to implement a workload scheduling tool that automates IT jobs across the bank.

- **Channel (Branch of the future concept)**

The relocation of the Klerksdorp branch in the municipal area to a prominent area in the City Centre. This branch aligns to our 2023 Bank Strategy "The Branch of the future" which will address maximum customer needs such as seating space, well managed queues and easy access to all banking facilities.

- **Credit (IFRS 9 – International Financial Reporting Standard)**

The purpose of the project was to facilitate the implementation of IFRS 9 (new accounting standards) into the Bank. Due to the onerous nature of the standard and its requirement for impairments, and in order to ensure high-quality and consistent implementation of the standard across the Bank, a coordinated approach to implementation was used.

- **Special Projects (Ex-miners medical benefits)**

Concluded three successful outreaches in the Eastern Cape, Klerksdorp and Botswana over the last six months. Ubank managed to employ 30 unemployed graduates to assist the MBOD execute its mandate. The Bank managed to open over 200 accounts in total. The schedule for 2018 has just been made available by the MBOD and will cover the Eastern Cape, Free State, Western Cape and the Northwest province.

The Bank has remained diligent in sticking to its strategic roadmap and continued to prioritise and implement projects and initiatives that align to the roadmap.

Key areas of significant estimate

CMM Investment carrying value

During the current financial year further clarity has been obtained regarding the Corporate Money Managers' Fund (CMM) investment and the curatorship process that is currently underway. The carrying value of the Bank's outsourced investment to CMM as at 28 February 2018 was R40.1 million and reported as Investments (note 15) under the available-for-sale designation.

Management, revalued the on balance sheet CMM investment by using the latest financial information available and observed an impairment, after interest accrual for accounting purposes, to the value of R8.4 million (2017: R2.4 million impairment). To date the investment has been impaired by R237.1 million. The impairment estimate is calculated by taking into account the following significant estimates:

- **Realisable amount**

The curators remain 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% (2017: 28%). This percentage is highly judgemental as it estimates 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% (2017: 16%) applied to the realisable amount is 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 is estimated at one year (2017: one year). Management has based this period on the expected timing around finalising the arbitration process, in consultation with its legal advisors. This is aligned to current market trends to finalise similar processes.

The impairment charge of R8.4 million (2017: R2.4 million impairment charge) reported on the face of the statement of profit/loss and other comprehensive income has resulted in the net carrying value of the investment of R40.05 million (2017: R41.8 million). Since it is intended to hold the asset for the foreseeable future, an appropriate deferred tax asset has been raised for the temporary difference between accounting and tax carrying values. During the year, the Bank received no hardship payments from the curators. Management remains hopeful of recovery of the investment and is actively engaged with the curators through the Investor Forum to explore all recovery opportunities over the remainder of the curatorship period.

Impairment of loans and advances

Impairments on loans and advances are considered to be business as usual for the Bank. For further detail refer to note 2.2 – Significant accounting judgements and estimates and note 17.

9. EVENTS AFTER THE REPORTING PERIOD

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

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) is the custodian of the financial reporting, accountability and adequacy of efficient controls planning functions. The Committee, which met six times during the financial year under review, is tasked by the Board with oversight of the Bank's internal controls, internal and external audits and risk and compliance functions. The Committee's responsibilities included (amongst others) 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 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.

MEMBERS OF THE AUDIT COMMITTEE

The members of the Audit Committee are:

Name	Qualification
Keshan Pillay	BCom (UDW); Executive Development Programme (WBS)
Nelson Miya	BCom (Hons); EDP(WBS); CAIB(SA); LIB(SA); MBL
Ronny Miyambo	Bsc (Maths and Applied Maths); Hons B (B and A); MBA (Finance)
Graham Briggs	Bsc (Geology and Applied Geology); Bsc (Hons)
Petrus Nkambule	BCom Financial Accounting; BCom (Hons). Financial Accounting; MBA

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 and Regulation 42 of the Companies Regulation, 2011.

MEETINGS HELD BY THE AUDIT COMMITTEE

The Audit Committee performs the duties laid upon it by section 94(7) of the Companies Act 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 six scheduled meetings during 2018 and attendance was as follows:

Date of meeting	Keshan Pillay	Nelson Miya	Ronny Miyambo	Graham Briggs	Petrus Nkambule
6 April 2017	Attended	Attended	Attended	N/A	N/A
19 June 2017	Attended	Attended	Attended	Attended	N/A
12 July 2017	Attended	**	Attended	Attended	Attended
14 September 2017	Attended	**	Attended	Apology	Attended
15 November 2017	Attended	**	Attended	Attended	Attended
15 February 2018	Attended	**	Attended	Attended	Attended

*** Resigned from Committee*

N/A = Not yet appointed

EXTERNAL AUDIT

The Audit Committee recommended the re-appointment of SizweNtsalubaGobodo Inc. (SNG), as sole audit firm for the 2018 financial year and the re-appointment was approved at the annual general meeting.

The Committee is satisfied that the audit firm is independent of the Bank for the financial year 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.

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.

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.

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.

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

Keshan Pillay
Chairman Audit Committee

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF UBANK LIMITED OPINION

I have audited the annual financial statements of Ubank Limited set out on pages 74 to 112, which comprise the statement of financial position as at 28 February 2018, 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 my opinion, the annual financial statements present fairly, in all material respects, the financial position of Ubank Limited as at 28 February 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of my report. I am 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. I have fulfilled my 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). I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Audit Committee's report and the Company Secretary's certification as required by the Companies Act 71 of 2008 of South Africa, which we obtained prior to the date of this report. Other information does not include the annual financial statements and my auditor's report thereon.

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

In connection with my audit of the annual financial statements, my 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 my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the directors for the annual financial statements

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008, 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 the Company or to cease operations, or have no realistic alternative but to do so.

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

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, I exercise professional judgement and maintain professional scepticism throughout the audit. I 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern; and
- 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.

I 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 I identify during my audit.

SizweNtsalubaGobodo Inc
Agnes Dire
Director
Chartered Accountant (SA)
Registered Auditor

26 June 2018

Johannesburg

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note (s)	2018 R'000	2017 R'000
Interest income		**521 158**	485 498
Interest expense		**(97 631)**	(78 058)
Net interest income	6	**423 527**	407 440
Fees and commission income		**338 072**	238 743
Fees and commission expense		**(65 311)**	(65 377)
Net fees and commission income	7	**272 761**	173 366
Net gain on financial assets designated at fair value through profit or loss	8	**677**	651
Other operating income	9	**35 912**	31 272
Total operating income		**732 877**	612 729
Impairment charge on financial assets	10	**(87 562)**	(114 853)
Impairment charge on loans and advances		**(79 132)**	(112 450)
Impairment charge on financial investments		**(8 430)**	(2 403)
Net operating income		**645 315**	497 876
Personnel expenses	11	**(264 206)**	(222 610)
Depreciation of property and equipment	18	**(19 515)**	(18 485)
Amortisation of intangible assets	19	**(14 685)**	(14 180)
Other operating expenses	12	**(268 181)**	(217 286)
Total operating expenses		**(566 587)**	(472 561)
Profit before taxation		**78 728**	25 315
Taxation	13	**(24 557)**	4 557
Profit for the year		**54 171**	29 872
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets adjustment – current year		**739**	(22)
Income tax relating to items that may be reclassified		**(1 044)**	4
Total items that may be reclassified to profit or loss		**(305)**	(18)
Other comprehensive income for the year net of taxation		**(305)**	(18)
Total comprehensive income for the year		**53 866**	29 854

STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2018

	Note (s)	2018 R'000	2017 R'000
ASSETS			
Cash and cash balances	14	**390 783**	344 231
Investments	15	**4 209 448**	3 252 511
Trade receivables and other assets	16	**64 527**	48 850
Loans and advances to customers	17	**737 178**	826 176
Property and equipment	18	**73 773**	59 871
Intangible assets	19	**35 801**	47 586
Deferred taxation	20	**76 062**	101 663
Total Assets		**5 587 572**	4 680 888
LIABILITIES			
Trade payables and other liabilities	21	**115 223**	67 744
Deposits and savings due to customers	22	**4 851 293**	4 065 652
Provisions	23	**29 432**	9 734
EQUITY			
Share capital and share premium	24	**244 875**	244 875
Available-for-sale reserve	25	**772**	1 077
Retained earnings		**345 977**	291 806
Total equity		**591 624**	537 758
Total liabilities and equity		**5 587 572**	4 680 888

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2018

	Share capital R'000	Share premium R'000	Total share capital R'000	Available-for-sale reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2016	24 500	220 375	244 875	1 095	261 934	507 904
Profit for the year	–	–	–	–	29 872	29 872
Other comprehensive income	–	–	–	(18)	–	(18)
Total comprehensive income for the year	–	–	–	(18)	29 872	29 854
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 28 February 2018	**24 500**	**220 375**	**244 875**	**772**	**345 977**	**591 624**
Note(s)	24	24	24	25		

Available-for-sale (AFS) reserve

This reserve records fair value changes on available-for-sale financial assets. Please refer to note 25.

Gains and losses arising from changes in fair value of available-for-sale investments are included in the available-for-sale 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 2018

	Note (s)	2018 R'000	2017 R'000
Cash flows from operating activities			
Interest and fee income		**859 230**	724 241
Interest and fee expense		**(162 942)**	(143 434)
Dividends received		**4 640**	19 685
Cash paid to customers and employees		**(448 422)**	(431 182)
Cash available from operating activities		**252 506**	169 310
Changes in operating funds:	30		
Decrease in income-earning assets		**(954 085)**	(125 336)
Increase/(decrease) in deposits		**785 642**	(24 648)
Cash available from operating activities after changes in operating activities		**84 063**	19 326
Net cash inflow/(outflow) from operating activities		**84 063**	19 326
Cash flows from investing activities			
Purchase of property and equipment	18	**(34 655)**	(23 870)
Proceeds from disposal of property and equipment		**44**	571
Purchase of intangible assets	19	**(2 900)**	(3 184)
Net cash used in investing activities		**(37 511)**	(26 483)
Total cash movement for the year		**46 552**	(7 157)
Cash and cash equivalents at the beginning of the year		**344 231**	351 388
Total cash and cash equivalents at the end of the year	14	**390 783**	344 231
Cash and cash equivalents comprise:			
Coins and bank notes		**59 606**	69 591
Balances with other banks		**331 177**	274 640
	14	**390 783**	344 231

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 26 June 2018.

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.

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 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 International Financial Reporting Standards (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 dependent 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 uses 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 18.

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 19.

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 notes 15 and 29.

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 15.

Impairment losses on financial assets

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 are currently no impairments on these categories owing to the nature of these assets.

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 10.

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 13.

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 20.

ACCOUNTING POLICIES CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Recognition of income and expenses

Revenue is measured at the fair value of consideration received or receivable and to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

Interest income or expenses for all interest-bearing financial instruments classified as held to maturity, loans and receivables is recognised in the profit and loss component of the statement of profit/loss and other comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be reliably measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Unless included in the effective interest calculation, fees and commissions earned are recognised on an accrual basis in the period in which the services are rendered. Initiation fees are accounted for on a straight-line basis over the term of the loan.

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

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.

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/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 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 and 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 vehicle	5 years
Furniture and fittings	6 years
Computer equipment	3 years
Office equipment	5 years
ATMs	7 years
Leasehold improvements	5 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 and loss section of the statement of profit/loss and other comprehensive income in the year the asset is derecognised. The useful lives presented are consistent with prior years.

ACCOUNTING POLICIES CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is 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:

Software development costs	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/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 Chamber of Mines Retirement 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/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.

3.9 Financial instruments – Initial recognition and subsequent measurement

Initial recognition and classification

Financial instruments are recognised initially when the Company becomes a party to the contractual provisions of the instruments. All purchases and sales of financial instruments are recognised on the trade date i.e. the date that the Bank commits to purchase the financial asset or assume the financial liability.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

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.

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.

Financial liabilities recognised on the statement of financial position include Deposits and savings due to customers and Trade payables and other liabilities. Financial liabilities, other than trading liabilities and financial liabilities designated at fair value through profit and loss, are carried at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

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 operating income when the right to the payment has been established. Included in this classification are certain short-term investments as detailed in note 15. 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 15 and 29.

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.

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/loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

ACCOUNTING POLICIES CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 and 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 /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/loss and other comprehensive income.

3.10 Financial instruments – Derecognition

Financial assets

The Bank derecognises financial assets (or where applicable, a part of a financial asset or part of a group of similar financial assets) where:

(a) the rights to receive cash flows from the asset has expired; or

(b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either:

- has transferred substantially all the risks and rewards of the asset; or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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.

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 15.

3.12 Impairment of financial instruments

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 expected credit losses 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/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. 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 and 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/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, 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/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 and loss section of the statement of comprehensive income – is removed from other comprehensive income and recognised in the profit and loss section of the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of profit/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.

ACCOUNTING POLICIES CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 counterparties. Any interest payable or receivable arising is recorded as interest payable or interest income respectively.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. NEW STANDARDS AND INTERPRETATIONS

4.1 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 2018 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 9 Financial Instruments	1 January 2018	The new requirements of IFRS 9 are expected to result in a decrease to equity and financial assets on transition. See below for further detail
• IFRS 15 Revenue from Contracts with Customers	1 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	Unlikely there will be a material impact

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 represents 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.

The Bank is in the process of assessing the impact IFRS 16 will have on its financial statements. Until the process has been completed, the Bank is unable to determine the significance of the impact.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) with effect from 1 January 2018. IFRS 9 includes revised requirements for the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. The Bank will not restate comparatives on initial application of IFRS 9 on 1 March 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in the carrying value of financial instruments upon initial application of IFRS 9 will be recognised in equity.

The Bank has assessed that the new classification and measurement requirements under IFRS 9 will only impact its accounting treatment of Investments in Central Bank securities. Under IAS 39, this was accounted for at fair value through profit or loss. Under IFRS 9, this changes to a financial asset measured at amortised cost. The change in classification was based on management's intention to hold the asset as well as the fact that cashflows meet the SPPI criteria contained in the standard.

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses (ECL) based on unbiased forward-looking information. The measurement of expected loss will involve increased complexity and judgement including estimation of lifetime probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39. It is estimated that the increase on IAS 39 impairment will be between the range of R31 – R32 million, on a pre-tax basis. Based on the current requirements of Basel III, the increase in the accounting impairment provisions is not expected to reduce the Bank's Common Equity Tier 1 (CET1) capital ratio by more than 75 basis points on 1 March 2018, after taking into account the impact of the regulatory transitional arrangement.

The Bank has elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9. IFRS 9 has been considered in the Bank's capital planning.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

4. NEW STANDARDS AND INTERPRETATIONS (continued)

4.1 Standards and interpretations not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The reasons for the increase in impairment provisions are:

- The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12-month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months;
- The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39; and
- The inclusion of forecasted macroeconomic scenarios into the expectation of credit losses.

The Bank is well positioned to implement IFRS 9 for the financial year ending 28 February 2019.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, IAS 18 and all associated interpretations with effect from 1 January 2018. IFRS 15 introduces a single, principles-based five-step model to be applied to all contracts with customers, to achieve greater consistency in the recognition and presentation of revenue. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also provides guidance for transactions that were not previously comprehensively addressed and improves guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue.

The Bank has assessed the impact of IFRS 15 as part of its IFRS 9 project. The only revenue stream expected to be impacted relates to fair value adjustments on Central Bank securities, which will no longer be fair-valued. This instrument will now be accounted for at amortised cost, with the result that the revenue recognised is limited to interest income only. The impact is not expected to be material, and no other significant changes are expected to the current accounting for the Bank's revenue streams.

5. 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.

Risk governance

The following management committees are in place to support the Exco and the Board Risk and Capital Management Committee in managing enterprise 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 respectively are also discussed in the ERC. The ERC serves as an over–arching Executive Committee that addresses all risk matters of the Bank.

In addition, a Board Large Exposures Committee ensures oversight and approval of large exposures.

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 with in 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 expansion of the Bank's activities and services offered to clients.

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 are taken into account in endeavouring to improve the risk profile of the Bank. It should be highlighted that a number of these frameworks and initiatives are being embedded in the Bank risk management processes over a period.

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 prevention policies, controls and initiatives contribute to reduce the risk of fraud and to prevent fraud and misconduct before it occurs;
- 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; and
- 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 Policy 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

5. RISK MANAGEMENT (continued)

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 is preparing for compliance with Basel III when required.

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 clients.

5.1. 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.

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 mineworkers. 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 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 strive to maintain market share with responsible lending practices. The environmental changes in Credit; namely, credit collections' focus, also enable 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 clients 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 considerable 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. The Bank reviewed and increased its resources allocated to the allocation process. This added significant value in managing payment allocations.

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 is 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 the ALCO. The Bank is also exposed to concentration risk specifically within the mining industry.

	2018 R'000	2017 R'000
Loans and advances[1]		
Personal loans to employees of mining industry	**724 005**	804 361
Personal loans to employees of non-mining industry	**13 173**	21 815
Total	**737 178**	826 176
Investments		
Sovereigns	**4 081 249**	2 824 949
InterBank	**84 568**	79 206
Capital markets	**3 581**	306 491
Investments under curatorship	**40 050**	41 865
Total	**4 209 448**	3 252 511

[1] *The above loans (including pension-backed lending) are defined as unsecured as per the Banks Act.*

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. Please refer to note 28 for a liquidity analysis.

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 an ongoing basis.

Currency risk

Currency risk is the risk 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

Market 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. Please refer to note 5.5 for the sensitivity analysis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

5. RISK MANAGEMENT (continued)

5.2. 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 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, 94 of 1990 (as amended) and Regulations Relating to Banks.

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

	2018 R'000	2017 R'000
Tier 1 capital		
Ordinary share capital	**24 500**	24 500
Share premium	**220 375**	220 375
Retained earnings	**336 808**	261 934
Other accumulated other comprehensive reserves	**2 779**	1 077
Deductions	**(59 081)**	(107 867)
Total	**525 381**	400 019
Tier 2 capital[1]	**6 774**	8 792
Total regulatory capital	**532 155**	408 811

[1] *Allowable portfolio impairment under standardised approach.*

	Capital requirements		Risk-weighted assets	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Risk-weighted assets				
Credit	**63 894**	84 515	**690 751**	889 626
Banks	**9 692**	22 466	**104 781**	236 487
Security firms	**1 852**	2 467	**20 025**	25 964
SME Corporate	**151**	155	**1 631**	1 631
Retail	**52 199**	59 427	**564 314**	625 544
Operational	**111 564**	104 194	**1 206 102**	1 096 774
Market	**331**	270	**3 581**	2 842
Equity	**331**	270	**3 581**	2 842
Other	**24 566**	19 057	**265 561**	200 595
Total	**200 686**	208 306	**2 169 576**	2 192 679

	2018 %	2017 %
Capital adequacy		
Capital adequacy	**24.53**	18.64
Primary capital adequacy	**24.22**	18.24
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	**9.25**	9.50

	Capital requirements		Capital position	
Monthly/daily average credit exposure	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Banks	**9 692**	22 466	**104 781**	236 487
Security firms	**1 852**	2 467	**20 025**	25 964
SME Corporate	**151**	155	**1 631**	1 631
Retail	**52 199**	59 427	**564 314**	625 544
	63 894	84 515	**690 751**	889 626

5.3. Credit risk

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.

	2018 R'000	2017 R'000
Cash and cash balances	**390 783**	344 231
Investments	**4 209 448**	3 252 511
Trade receivables and other assets (excluding prepayments)	**40 949**	31 275
Loans and advances to customers	**737 178**	826 176
Total credit risk exposure	**5 378 358**	4 454 193

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.

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.

	Note(s)	2018 R'000	2017 R'000
Secured loans (Provident fund ceded)		**13 173**	21 815
Other loans (Unsecured)		**724 005**	804 361
Loans and advances to customers	17	**737 178**	826 176

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

5. RISK MANAGEMENT (continued)

5.3. Credit risk (continued)

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 5.1. 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.

	2018 R'000	2017 R'000
Cash and cash balances	**390 783**	344 231
Investments	**4 209 448**	3 252 511
Trade receivables and other assets (excluding prepayments)	**40 949**	31 275
	4 641 180	3 628 017

	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
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**
2017						
Cash and cash balances	344 231	–	–	–	–	344 231
Investments	3 210 646	–	–	41 865	–	3 252 511
Trade receivables and other assets (excluding prepayments)	31 275	–	–	–	–	31 275
	3 586 152	–	–	41 865	–	3 628 017

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.

Analysis of impaired financial assets per class

The maturity analysis of the gross carrying value of loans and advances that are impaired (note 17) have been reported below. The disclosure reflects the outstanding amounts after risk mitigation.

	Note(s)	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
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	17	**92 065**	**28 351**	**43 697**	**19 510**	**829 297**
2017						
Loans and advances to customers – impaired		124 907	41 150	54 130	12 722	232 909
Loans and advances to customers – current		–	–	–	–	696 268
Total	17	124 907	41 150	54 130	12 722	929 177

5.4. Liquidity risk

The Bank's objectives and policies in managing the liquidity risks that arise are set out in note 5.1 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 28 for liquidity matching).

	On demand R'000	< 3 months R'000	3 – 12 months R'000	1 to 5 years R'000	> 5 years R'000	Total R'000
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**
At 28 February 2017						
Financial liabilities						
Trade payables and other liabilities	–	–	20 611	–	–	20 611
Deposits and savings due to to customers	2 964 664	437 186	598 815	64 987	–	4 065 652
Other liabilities						
Other trade liabilities	–	–	47 132	–	–	47 132
Provision for leave pay	–	–	9 734	–	–	9 734
Total undiscounted liabilities	2 964 663	437 186	676 292	64 987	–	4 143 128

5.5. 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 5.1, 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
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**
2017				
Bp movement				
50bp	4.00	3.45	18 913	16 321
100bp	7.99	6.90	37 826	32 641
200bp	15.98	13.79	75 652	65 282

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

Interest rate 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 R3 581 471 (2017: R2 842 372).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

5. RISK MANAGEMENT (continued)

5.5. Interest rate and price risk (continued)

Interest rate risk

	Pre-tax impact on profit and loss R'000	Carrying value after change R'000
2018		
Increase	**358**	**3 939**
Decrease	**(358)**	**3 223**
2017		
Increase	284	3 124
Decrease	(284)	2 556

The Bank does not undertake any hedging on exposures.

6. NET INTEREST INCOME

	2018 R'000	2017 R'000
Interest income		
Cash and cash balances	**13 527**	13 743
Loans and advances to customers	**256 245**	259 912
Investments	**12 439**	11 164
– Debt instruments held to maturity	**5 824**	5 728
– Debt instruments available for sale	**6 615**	5 436
Interest income from assets not measured at fair value through profit or loss	**282 211**	284 819
– Financial assets designated at fair value through profit or loss	**238 947**	200 679
	521 158	485 498
Interest expense		
Deposits and savings due to customers	**(97 631)**	(77 750)
Banking facilities	**–**	(308)
	(97 631)	(78 058)
Net interest income	**423 527**	407 440

7. NET FEES AND COMMISSION INCOME

	2018 R'000	2017 R'000
Fees and commission income		
Administration fees	**33 862**	36 302
Commission earnings	**42 232**	53 413
Service and management fees	**261 978**	149 028
	338 072	238 743
Fees and commission expense		
Transaction fee expenses	**(35 242)**	(36 172)
Administration fee expenses	**(20 754)**	(21 202)
ATM expenses	**(9 315)**	(8 003)
	(65 311)	(65 377)
Net fees and commission income	**272 761**	173 366

8. NET GAIN ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 R'000	2017 R'000
Fair value gains		
Financial instruments at fair value through profit or loss:		
Designated as such at initial recognition	**677**	651

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.

9. OTHER OPERATING INCOME

	2018 R'000	2017 R'000
Bad debts recovered	**30 995**	10 554
Other	**243**	611
Profit on disposal of assets	**34**	422
Dividends received	**4 640**	19 685
	35 912	31 272

10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	Note(s)	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	17	**(75 095)**	**(4 037)**	**(79 132)**
Investments – Corporate Money Managers (CMM)**	15	**(8 430)**	**–**	**(8 430)**
		(83 525)	**(4 037)**	**(87 562)**
2017				
Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(117 757)	5 307	(112 450)
Investments – Corporate Money Managers (CMM)**	15	(2 403)	–	(2 403)
		(120 160)	5 307	(114 853)

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

11. PERSONNEL EXPENSES

	2018 R'000	2017 R'000
Employee costs		
Salaries and wages	**(251 876)**	(210 223)
Pension costs – Defined contribution plan expense	**(12 330)**	(12 387)
	(264 206)	(222 610)

	2018	2017
Personnel		
Actual headcount at year-end	**705**	689

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

12. OTHER OPERATING EXPENSES

	2018 R'000	2017 R'000
Operating profit for the year is stated after (charging)/crediting the following:		
Auditor's remuneration		
– Audit services	**(8 846)**	(8 540)
– Other	**(350)**	(591)
Legal fees	**(24 446)**	(9 591)
Loss on sale of property and equipment	**(1 227)**	(583)
Professional fees	**(10 026)**	(7 210)
Operating lease expense	**(25 646)**	(22 713)
Strategic research	**(728)**	(594)
Software licence fees	**(39 630)**	(33 077)
Security expenses	**(17 857)**	(19 131)
Consumables	**(7 535)**	(7 673)
Network costs	**(13 584)**	(13 529)
Maintenance	**(5 418)**	(4 361)
Software expenses	**(14 544)**	(13 329)
Telecommunications	**(3 011)**	(2 491)
Travelling	**(5 618)**	(5 553)
Training	**(2 970)**	(3 799)
Fraud	**(4 422)**	(3 366)
Printing and stationery	**(4 764)**	(5 884)
VAT not recovered	**(9 664)**	7 271
Cash delivery costs	**(14 863)**	(12 324)
Consulting fees	**(20 765)**	(23 355)
Marketing	**(15 119)**	(12 053)
Memberships	**(6 923)**	(6 142)
Insurance	**(2 207)**	(1 966)
Bank charges	**(6 141)**	(5 996)
Storage	**(264)**	(141)
Other	**(1 613)**	(565)
	(268 181)	(217 286)

13. TAXATION

	2018 R'000	2017 R'000
Major components of the tax expense		
Deferred		
Originating and reversing temporary differences	**10 736**	7 875
Arising from previously unrecognised tax loss/tax credit/temporary difference	**(35 293)**	(3 318)
Taxation (expense)/income recognised in profit for the year	**(24 557)**	4 557
Taxation recognised in other comprehensive income	**(1 044)**	4
Total taxation in the statement of comprehensive income	**(25 601)**	4 561
Reconciliation of the total tax charge		
Reconciliation between accounting profit and tax expense.		
Accounting profit	**78 728**	25 315
Tax at the applicable tax rate of 28% (2017: 28%)	**(22 044)**	(7 088)
Tax effect of adjustments on taxable income		
Non-deductible expenses	**(4 508)**	(1 213)
Exempt income/non-taxable income	**1 670**	7 034
Change in capital gains tax rate	**–**	6 277
Other allowances	**325**	–
	(24 557)	5 010
Effective income tax rate	**31.19%**	19.79%

14. CASH AND CASH BALANCES

	2018 R'000	2017 R'000
Cash and cash equivalents consist of:		
Coins and bank notes	**59 606**	69 591
Balances with other banks	**331 177**	274 640
	390 783	344 231

15. INVESTMENTS

	2018 R'000	2017 R'000
At fair value through profit or loss – designated		
Capital market instruments	**–**	303 649
Central Bank securities	**4 081 249**	2 824 949
	4 081 249	3 128 598
Available for sale		
Capital market instruments	**43 631**	44 707
Held to maturity		
Money market instruments	**84 568**	79 206
Total investments	**4 209 448**	3 252 511
Included in investments is interest receivable:		
Held to maturity	**418**	406
– Money market instruments	**418**	406
Designated at fair value through profit and loss	**–**	3 649
– Capital market instruments	**–**	3 649
	418	4 055

* *Money market instruments of R84.9 million (2018) and R79.6 million (2017) 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.*

	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 fair value through profit and loss	**–**	**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**
2017				
Available for sale[1]	2 842	–	41 865	44 707
Designated at fair value through profit and loss	–	3 128 598	–	3 128 598
– Capital market instruments	–	303 649	–	303 649
– Central Bank securities	–	2 824 949	–	2 824 949
	2 842	3 128 598	41 865	3 173 305

[1] *This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment charge of R8.4 million was recognised in the profit and loss section of the statement of comprehensive income (2017: R2.4 million). There are several significant assumptions applied to the impairment calculation which have been included in the director's report.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

15. INVESTMENTS (continued)

	2018 R'000	2017 R'000
Reconciliation of Level 3 investments		
Balance as at 1 March	**41 865**	38 832
Impairment	**(8 429)**	(2 403)
Accrued interest	**6 614**	5 436
Balance as at 28 February	**40 050**	41 865

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 years would result in an increase in the valuation of the investment of R6.3 million to R46.3 million; and
- 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.

16. TRADE RECEIVABLES AND OTHER ASSETS

	2018 R'000	2017 R'000
Interest receivable	**–**	18
Other accounts receivable	**284**	165
Operating account – Teba Limited	**1 631**	1 631
VAT receivable	**936**	11 970
Stationery	**2 374**	129
Prepayments	**23 578**	17 575
Teba Fund Trust	**9 410**	9 395
Trade debtors	**26 314**	7 967
	64 527	48 850

17. LOANS AND ADVANCES TO CUSTOMERS

	2018 R'000	2017 R'000
Gross loans and advances to customers	**832 745**	929 177
Less: Allowances for impairment losses	**(95 567)**	(103 001)
Loans and advances to customers	**737 178**	826 176

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	Note (s)	Pension backed loans R'000	Other loans R'000	Total R'000
At 1 March 2017		**(6 020)**	**(96 981)**	**(103 001)**
Net charge for the year	10	**–**	**(79 132)**	**(79 132)**
Amounts written off		**–**	**86 566**	**86 566**
At 28 February 2018		**(6 020)**	**(89 547)**	**(95 567)**
At 1 March 2016		(6 003)	(97 231)	(103 234)
Net charge for the year	10	(17)	(112 433)	(112 450)
Amounts written off		–	112 683	112 683
At 28 February 2017		(6 020)	(96 981)	(103 001)

The following is a reconciliation of the specific and portfolio allowances for impairment losses on loans and advances:

	Note (s)	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2018				
At 1 March 2017		**(84 889)**	**(18 112)**	**(103 001)**
Net charge for the year	10	**(75 095)**	**(4 037)**	**(79 132)**
Amounts written off		**86 566**	**–**	**86 566**
At 28 February 2018		**(73 418)**	**(22 149)**	**(95 567)**
2017				
At 1 March 2016		(79 815)	(23 419)	(103 234)
Net charge for the year	10	(117 757)	5 307	(112 450)
Amounts written off		112 683	–	112 683
At 28 February 2017		(84 889)	(18 112)	(103 001)

18. PROPERTY AND EQUIPMENT

	2018			2017		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold improvements	**66 990**	**(46 663)**	**20 327**	59 888	(40 213)	19 675
Freehold land	**1 171**	**–**	**1 171**	1 171	–	1 171
Motor vehicles	**1 950**	**(1 474)**	**476**	1 950	(1 474)	476
Furniture and fittings	**22 488**	**(11 351)**	**11 137**	13 642	(10 542)	3 100
Office equipment	**23 409**	**(18 016)**	**5 393**	21 953	(17 225)	4 728
Computer equipment	**159 285**	**(135 078)**	**24 207**	154 188	(134 803)	19 385
ATMs	**24 324**	**(13 262)**	**11 062**	22 588	(11 252)	11 336
Total	**299 617**	**(225 844)**	**73 773**	275 380	(215 509)	59 871

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

18. PROPERTY AND EQUIPMENT (continued)

Reconciliation of property 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**
	59 871	**34 655**	**(1 238)**	**(19 515)**	**73 773**

Reconciliation of property and equipment – 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Leasehold improvements	17 592	7 249	(58)	(5 108)	19 675
Freehold land	1 171	–	–	–	1 171
Motor vehicles	567	–	–	(91)	476
Furniture and fittings	3 408	789	(63)	(1 034)	3 100
Office equipment	1 632	4 333	(421)	(816)	4 728
Computer equipment	17 974	9 869	(50)	(8 408)	19 385
ATMs	12 873	1 630	(139)	(3 028)	11 336
	55 217	23 870	(731)	(18 485)	59 871

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 written request. No property and equipment is pledged as security for liabilities.

19. INTANGIBLE ASSETS

	2018			2017		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation	Accumulated amortisation	Carrying value
Software development cost	**117 817**	**(82 016)**	**35 801**	114 794	(67 208)	47 586

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**

Reconciliation of intangible assets – 2017

	Opening balance	Additions	Amortisation	Total
Software development cost	58 582	3 184	(14 180)	47 586

Other information

The remaining amortisation period for the Flexcube software is 23 months as at 28 February 2018.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2018			2017		
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	**9 529**	**–**	**9 529**	2 726	–	2 726
Straight-lining of lease and admin fees	**1 716**	**–**	**1 716**	3 658	–	3 658
Impairments – Loans and advances	**6 202**	**–**	**6 202**	5 071	–	5 071
Prepaid expenses	**–**	**(3 536)**	**(3 536)**	–	(2 699)	(2 699)
Impaired available-for-sale investment	**42 377**	**–**	**42 377**	36 797	–	36 797
Investment securities – fair value adjustments (OCI)	**–**	**(802)**	**(802)**	241	–	241
Provisional assessed loss	**19 990**	**–**	**19 990**	55 283	–	55 283
CGT loss on disposal of assets	**586**	**–**	**586**	586	–	586
Net tax assets/(liabilities)	**80 400**	**(4 338)**	**76 062**	104 362	(2 699)	101 663

Movements in deferred tax assets and liabilities during the year

	Company	
	2018 R'000	2017 R'000
2018		
Provisions	**6 804**	(1 667)
Investment securities – fair value adjustments (OCI)	**(1 044)**	214
Straight-lining of lease and admin fees	**(1 942)**	(53)
Impairments – loans and advances	**1 131**	4 181
Prepaid expenses	**(837)**	(410)
Impaired available-for-sale investment	**5 580**	5 598
CGT loss on disposal of assets	**–**	16
Provisional assessed loss	**(35 293)**	(3 318)
Net movement in deferred tax assets/(liabilities)	**(25 601)**	4 561
Deferred tax movement through other comprehensive income	**1 044**	(4)
Deferred tax movement through profit and loss	**24 557**	(4 557)
	25 601	(4 561)

There was no tax rate change during 2018.

21. TRADE PAYABLES AND OTHER LIABILITIES

	2018 R'000	2017 R'000
Unallocated deposits	**126**	112
Liabilities under operating leases	**752**	2 173
Deferred income – administration fees	**5 376**	10 892
Sundry accruals	**4 600**	3 792
Trade creditors	**34 146**	10 526
System clearing accounts	**36 987**	16 088
Electronic banking	**1 777**	1 512
Teba Limited	**4 055**	2 124
Accruals and other creditors	**19 154**	16 517
Sundry creditors	**8 250**	4 008
	115 223	67 744

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

22. DEPOSITS AND SAVINGS DUE TO CUSTOMERS

	2018 R'000	2017 R'000
Deposits and savings due to customers	**4 822 166**	4 042 754
Interest accrued	**29 127**	22 898
	4 851 293	4 065 652

The average interest rate during 2018 for deposits by customers was 2.25% (2017: 3.5%).

23. PROVISIONS

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**

Reconciliation of provisions – 2017

	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	8 902	4 939	(4 107)	9 734

24. SHARE CAPITAL AND SHARE PREMIUM

	2018 R'000	2017 R'000
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

25. AVAILABLE-FOR-SALE RESERVE

These gains relate to the investment in Visa shares as disclosed under Level 1 financial instruments in note 15.

	2018 R'000	2017 R'000
Unrealised gain on available-for-sale financial instrument	**772**	1 077

26. COMMITMENTS

The following tables summarise the nominal principle amount of commitments with off-statement of financial position risk.

	2018 R'000	2017 R'000
Authorised capital expenditure		
Capital expenditure authorised but not contracted		
– Property, plant and equipment	**123 814**	53 662
– Intangible assets	**17 271**	10 883
	141 085	64 545
Capital expenditure authorised and committed	**38 716**	7 533

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

Minimum lease payments due	2018 R'000	2017 R'000
– Within one year	**6 258**	13 560
– After one year but not more than five years	**8 908**	9 139
	15 166	22 699

The Bank is the lessee in several operating leases, the future minimum lease payments under non-cancellable building operating leases are as detailed above.

Contingent asset

Ubank has disclosed a contingent asset in the current year due to the fact that there is a 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 current year due to the progression of the legal process. The existence of the contingent asset is due to the fact that all parties are currently involved in an arbitration process and the assessment by Ubank's lawyers of the possibility of a loss in this case is remote. The Bank has not been able to quantify the amount to be recovered as this is not wholly within the control of the Bank but up to the Judge in the arbitration process. The total exposure is estimated to be R220 million.

27. 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 16.

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 R1.5 million (2017: R9.4 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 16.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

27. RELATED PARTY TRANSACTIONS (continued)

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 31 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

	2018 R'000	2017 R'000
Loans and advances		
Other key management personnel – Exco		
Opening balance	**98**	136
Loans granted during the year	**150**	–
Interest income	**10**	17
Repayments	**(75)**	(55)
	183	98

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 31 for further detail of key management personnel remuneration.

28. 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
2018					
Financial assets					
Cash and cash balances	**390 783**	**–**	**–**	**–**	**390 783**
Trade receivables and other assets	**–**	**37 639**	**–**	**–**	**37 639**
Loans and advances to customers	**4 984**	**173 636**	**558 558**	**–**	**737 178**
Investments	**–**	**4 209 448**	**–**	**–**	**4 209 448**
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**

	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 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	**–**	**–**	**–**	**–**	**345 828**
Total equity	**–**	**–**	**–**	**–**	**591 475**
Total liabilities and equity	**3 730 389**	**1 164 590**	**110 090**	**–**	**5 625 976**

* *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
2017					
Financial assets					
Cash and cash balances	344 231	–	–	–	344 231
Investments	–	3 252 511	–	–	3 252 511
Trade receivables and other assets	–	19 176	–	–	19 176
Loans and advances to customers	12 544	208 703	604 929	–	826 176
Total financial assets	356 775	3 480 390	604 929	–	4 442 094
Future interest*	–	233 486	257 323	–	490 809
Total financial assets including future interest	356 775	3 713 876	862 252	–	4 932 903
Other assets					
Property and equipment	–	–	–	–	59 871
Intangible assets	–	–	–	–	47 586
Stationery	–	–	–	–	129
VAT	–	–	–	–	11 970
Deferred taxation	–	–	–	–	101 663
Prepayments	–	–	–	–	17 575
Total other assets	–	–	–	–	238 794
Total assets	356 775	3 713 876	862 252	–	5 171 697

* *The future interest relates only to loans and advances to customers.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

28. LIQUIDITY ANALYSIS (continued)

	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
2017					
Financial liabilities					
Trade payables and other liabilities	–	20 611	–	–	20 611
Deposits and savings due to customers	2 964 663	1 036 001	64 987	–	4 065 651
Total financial liabilities	2 964 663	1 056 612	64 987	–	4 086 262
Future interest**	–	26 736	6 645	–	33 381
Total financial liabilities including future interest	2 964 663	1 083 348	71 632	–	4 119 643
Other liabilities					
Trade payables and other liabilities	–	–	–	–	47 132
Provisions	–	–	–	–	9 734
Total other liabilities	–	–	–	–	56 866
Total liabilities	2 964 663	1 083 348	71 632	–	4 176 509
Equity					
Share capital and share premium	–	–	–	–	244 875
Available-for-sale reserve	–	–	–	–	1 077
Retained earnings	–	–	–	–	291 807
Total equity	–	–	–	–	537 759
Total liabilities and equity	2 964 663	1 083 348	71 632	–	4 714 268

*** The future interest relates only to deposits and savings due to customers.*

29. CLASSIFICATION OF ASSETS AND LIABILITIES

	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**

	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
2017						
Financial assets						
Cash and cash balances	344 231	–	–	–	–	344 231
Investments	–	79 206	3 128 598	44 707	–	3 252 511
Trade receivables and other assets	31 146	–	–	–	–	31 146
Loans and advances to customers	826 176	–	–	–	–	826 176
Prepayments	–	–	–	–	17 575	17 575
Intangible assets	–	–	–	–	47 586	47 586
Property and equipment	–	–	–	–	59 870	59 870
Stationery	–	–	–	–	129	129
Deferred taxation	–	–	–	–	101 663	101 663
Total assets	1 201 553	79 206	3 128 598	44 707	226 823	4 680 887

	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**
2017			
Financial liabilities			
Deposits and savings due to customers	4 065 651	–	4 065 651
Trade payables and other liabilities	20 611	47 131	67 742
Other non-financial liabilities	–	9 734	9 734
Total liabilities	4 086 262	56 865	4 143 127

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 (2017: none). Please refer to note 15 for the hierarchy on investments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

29. CLASSIFICATION OF ASSETS AND LIABILITIES (continued)

	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				
Assets (excluding investments)				
Cash and cash balances	**–**	**390 783**	**–**	**390 783**
Loans and advances	**–**	**737 178**	**–**	**737 178**
Trade receivables	**–**	**64 527**	**–**	**64 527**
	–	**1 192 488**	**–**	**1 192 488**
Liabilities				
Trade payables	**–**	**115 223**	**–**	**115 223**
	–	**115 223**	**–**	**115 223**
2017				
Assets (excluding investments)				
Cash and cash balances	–	344 231	–	344 231
Loans and advances	–	826 176	–	826 176
Trade receivables	–	48 850	–	48 850
	–	1 219 257	–	1 219 257
Liabilities				
Trade payables	–	55 774	–	55 774
	–	55 774	–	55 774

30. CASH GENERATED FROM OPERATIONS

	2018 R'000	2017 R'000
Profit before taxation	**78 728**	25 315
(Profit)/loss on disposal of property and equipment	**1 193**	162
Amortisation of intangible assets	**14 685**	14 180
Straight-lining of operating lease	**(1 421)**	256
Net (gain)/loss on short-term investments	**(677)**	(651)
Impairment charge in available-for-sale investment	**8 430**	2 403
Straight-lining of admin fees received	**(5 516)**	(447)
Depreciation of property and equipment	**19 515**	18 485
Impairment charge on loans and advances	**79 132**	112 450
Movement in working capital:		
Trade receivables and other assets	**(15 677)**	5 069
Trade payables and other liabilities	**74 114**	(7 912)
	252 506	169 310
Taxation paid/received:		
Balance at the beginning of the year	**(24 557)**	4 557
Available-for-sale reserve movement	**(1 044)**	4
Deferred taxation balance movement	**25 601**	(4 561)
	–	–

31. DIRECTORS' EMOLUMENTS

	Fees R'000	Gross pay R'000	Pension and Retirement 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**
P Nkambule**	**161**	**–**	**–**	**–**	**161**
R Garach***	**10**				**10**
Executive					
L Vutula (Chief Executive Officer)	**–**	**3 821**	**336**	**1 997**	**6 154**
H 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)	**–**	**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 amongst 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.*

	Fees R'000	Gross pay R'000	Pension and Retirement Benefits R'000	Other benefits R'000#	Total R'000
2017					
Non-executive					
JH de Villiers Botha	577	–	–	–	577
R Miyambo^	92	–	–	–	92
K Pillay^^	29	–	–	–	29
M Lesabe	322	–	–	–	322
ZN Miya	343	–	–	–	343
S Ntsaluba****	127	–	–	–	127
P Molefe****	47	–	–	–	47
R Garach	331	–	–	–	331
Executive					
L Vutula (Chief Executive Officer)	–	3 542	196	126	3 864
Prescribed Officers					
H du Preez (Acting Chief Financial Officer)^^^	–	–	–	415	415
W Mosigi (Acting Managing Executive: Retail)^^^^	–	–	–	245	245
Other executive management personnel	–	14 956	1 792	537	17 285
	1 868	18 498	1 988	1 323	23 677

 # Other benefits amongst others include incentive retainers, leave pay, travel allowances, acting allowance, medical aid benefits and disability insurances.
^ Appointed 17 September 2016
^^ Appointed 1 February 2017
***** Resigned 27 September 2016.*
^^^ Acting Chief Financial Officer appointed 1 January 2016 - 28 February 2017. Remuneration disclosed relate to acting allowance.
^^^^ Acting ME Retail appointed 14 December 2015 - 28 February 2017. Remuneration disclosed relate to acting allowance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

31. DIRECTORS' EMOLUMENTS (continued)

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	No entitlement to severance pay. Entitlement for previous long-term incentive plan on termination are dealt with under the relevant scheme rules.
Chief Executive Officer	Three months	60 years	
Chief Financial Officer	Three months	60 years	
Prescribed Officers	One to three months	60 years	
Other executives	One to three months	60 years	

GLOSSARY OF TERMS AND DEFINITIONS

ALCO	Assets and Liability Committee
AMCU	The Association of Mineworkers and Construction Union
ANC	African National Congress
ATM	Automated Teller Machine
Banks Act	Banks Act, 94 of 1990
bp	Basis points
Brexit	The proposed exit of the UK from the European Union
BU	Business Unit
CA	Chartered accountant
CAR	Capital adequacy ratio
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGT	Capital gains tax
CIO	Chief Information Officer
CLA	Credit life assurance
CMM	Corporate Money Managers Fund
COM	Chamber of Mines
Companies Act	Companies Act of South Africa, 71 of 2008
COSATU	Congress of South African Trade Unions
CPI	Consumer price index
CSI	Corporate Social Investment
CVP	Customer value proposition
DMR	Department of Mineral Resources
EAP	Economically Active Population
ED	Executive director
EE	Employment equity
ERC	Enterprise Risk Committee
ERMF	Enterprise-wide Risk Management Framework
ERMS	Electronic Records Management System
EU	European Union
EVP	Employee value proposition
Exco	Executive committee
FICA	Financial Intelligence Centre Act
Five Cs	Company Control Customers Community Colleagues
FY	Financial Year
GDP	Gross domestic product
GWU	Growth with Us transactional product
HR	Human Resources
ICAAP	Internal capital adequacy assessment process
ID	Independent Director
IFRS	International Financial Reporting Standard
INED	Independent Non-executive Director
IT	Information technology
ITGC	Information Technology Governance Committee

GLOSSARY OF TERMS AND DEFINITIONS CONTINUED

King IV	King Report on Corporate Governance for South Africa
KRI	Key risk indicator
LekgotlaNews	Ubank email communication channel
Makoya	Unsecured personal loan
MBOD	Medical Bureau for Occupational Diseases
ME	Managing executive
MoU	Memorandum of understanding
MPC	Monetary Policy Committee
NED	Non-executive Director
NGO	Non-governmental organisation
NII	Net interest income
NUM	National Union of Mineworkers
PASA	Payments Association of South Africa
PBT	Profit before tax
PGM	Platinum group metal
PriorityComms	Ubank email communication channel
RAF	Risk appetite framework
RCSA	Risk Control and Self Assessment
REMCO	Remuneration Committee
Repo rate	The rate at which the Reserve Bank lends money to commercial banks
ROA	Return on Assets
ROE	Return on Equity
SABRIC	South African Banking Risk Information Centre
SARB	South African Reserve Bank
SASBO	The South African Society of Bank Officials
Saswitch	Switching system allowing payments between South African banks
SEFA	Small Enterprise Finance Agency
SMME	Small, medium and micro enterprise
TGP	Total guaranteed package
Thetha Nam'	Ubank CEO's monthly blog
Ubankers	People employed by Ubank
UBFS	Transactional bank account
UBPL	Unsecured personal loan
Uchat	Ubank intranet blog spot
UTOM	Ubank Targeted Operating Model
VDP	Voluntary deferment of pay
y-o-y	year-on-year

NOTES

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CONTACT INFORMATION

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