Ubank Limited
(Registration number 2000/013541/06)
Annual Financial Statements
for the year ended 28 February 2018

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 no. 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).

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

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

Approval of financial statements

The annual financial statements set out on pages 19 to 68 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:

Non - executive directors	Appointment Date	Resignation Date
J.H. De Villiers Botha (Chairman)	29 November 2005	
G. Briggs	01 March 2017	
M. Lesabe	17 April 2015	
Z.N Miya	21 June 2010	
R. Miyambo	17 September 2016	
K. Pillay	01 February 2017	
P. Nkambule	10 July 2017	
Executive Directors		
L. Vutula (Chief Executive Officer)	01 November 2012	
H. du Preez (Chief Financial Officer)	01 March 2017	
Company secretary		
M. Naidoo	01 July 2015	31 March 2018
L. Vutula (Acting)	01 April 2018	
Prescribed officers		
L. Vutula (Chief Executive Officer)	01 November 2012	
H. du Preez (Chief Financial Officer)	01 March 2017	
W. Mosigi (Managing Executive: Retail)	01 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.

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

a) 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.

b) 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.

c) 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.

Directors' Report

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.

a) Growth by industries

	% of GDP	Growth Rate	Contribution to GDP 0f 1.3 % in 2017	Comments
Agriculture	1%	17.1%	0.4 % points	Growth attributed mainly to better weather conditions
Mining	8%	4.6%	0.3 % points	The growth partly attributed to the improvement in commodity prices
Manufacturing	14%	-0.2%	0.0 % points	The sector struggled in 2017 partly due to weak domestic demand
Finance	20%	1.9%	0.4 % points	
Personal Services	6%	1.2%	0.1 % points	
Trade	16%	-4.8%	-0.1 % points	
Transport	10%	2.8%	0.2 % points	
Construction	4%	-1.3%	0.0% points	
Community Services	18%	0.3%	0.1% points	
Electricity	3%	0.2%	0.0 % points	

- 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

b) 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.

Directors' Report

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.

(a) Inflation rates

Consumer price inflation (CPI) 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.

(b) 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 rates rate to remain stable in 2018 after a 25 basis point rate cut in March 2018.

(c) 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.

(d) 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 contrary, 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 Q32017 from 74.0% in Q32016. 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

Mining

a) 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 represent 90% of SA's mineral production and contributed R16.0bn in taxes in 2017. Furthermore, mining exports amounted to R307 billion, 27% of the country's R1.1 trillion export book.

b) Policies

Policy uncertainty in the sector remained one of the biggest challenges in 2017. Investors 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 Resource's (DMR) published the Revised Mining Charter (RMC) on the 15th 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 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.
- 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:

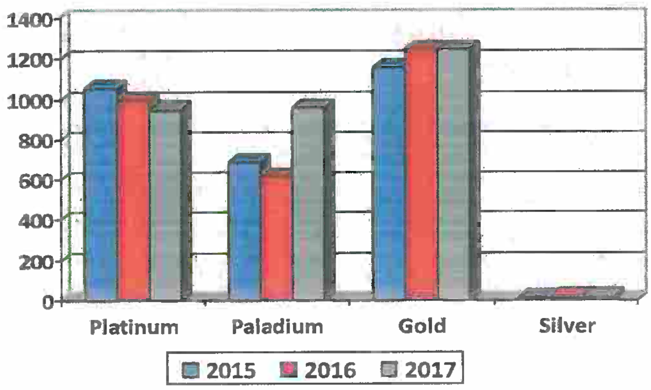
In its current form, the consensus among industry leaders is that Department of Mineral Resources' Mining Charter III will jeopardise the viability of an industry that is already under significant economic pressure. By way of example, some 60% of the platinum sector remains loss-making and labour intensive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

c) 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.

d) 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.



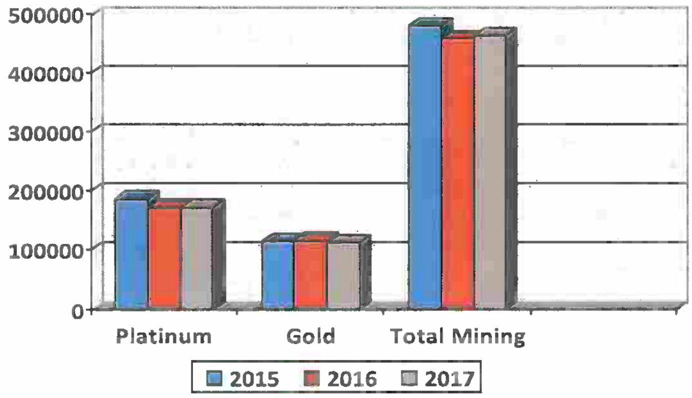
e) Production

In 2017, total mining production increased by 4.0% year-on-year (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.

Directors' Report

f) 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.



g) Outlook

In conclusion, the Chamber of Mines 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

Strategic implementation overview

Ubank's mission, to be a provider of sustainable and affordable financial services to workers, 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 required 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 to not only entrench our position as a Tier 2 retail bank of choice for workers but also 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 optimize 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
- 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 programs with the assistance of Ubank. The first event took place in Mqanduli, Eastern Cape where over 4000 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 the 6th and 7th 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 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 5000 medical examinations during that period. A thirty percent success rate will see over 2000 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 program 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:

1) IT (Enterprise Wide Scheduler): The purpose of this initiative was to implement a workload scheduling tool that automates IT jobs across the bank.

2) 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 ensure maximum customer needs such as seating space, well managed queues and easy access to all banking facilities.

3) Credit (IFRS9 - 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.

4) Special Projects (Ex-miners medical benefits): Concluded three successful outreaches in the Eastern Cape, Klerksdorp and Botswana over the last 6 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

(a) 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 R40.1m 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 R8.4m (2017: R2.4m impairment). To date the investment has been impaired by R237.1m. The impairment estimate is calculated by taking into account the following significant estimates into account:

• 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 27.0% (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 16.0% (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 1 year (2017: 1 years). 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 R8.4m (2017: R2.4m 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 R40.5m (2017: R41.8m). 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 remain hopeful of recovery of the investment and are actively engaged with the Curators through the Investor Forum to explore all recovery opportunities over the remainder of the curatorship period.

(b) 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, risk and compliance functions. The committee's responsibilities included (amongst other) reviewing and recommending appropriate accounting policies for the Bank; reviewing annual and quarterly financial reports prior to approval by the board and reviewing filings with the regulators, approval of the appointment and discharge of external auditors and related audit fees as well as reviewing internal audit and external audit mandates for independence, objectivity and effectiveness.

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

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

1. Members of the Audit Committee

The members of the audit committee are:

Name	Qualification
Keshan Pillay	B.Com (UDW); Executive Development Programme (WBS)
Nelson Miya	B.Com (Hons); EDP(WBS); CAIB(SA); LIB(SA); MBL
Ronny Miyambo	Bsc (Maths and Applied Maths); Hons B (B and A); MBA (Finance)
Graham Briggs	B.sc (Geology and Applied Geology); B.sc (Hons)
Petrus Nkambule	B.Com Financial Accounting; B.Com 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 71 of 2008 and Regulation 42 of the Companies Regulation, 2011.

2. Meetings held by the Audit Committee

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

The committee held 6 scheduled meetings during 2018 and attendance was as follows:

Date of meeting	Keshan Pillay	Nelson Miya	Ronny Miyambo	Graham Briggs	Petrus Nkambule
06 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

3. 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 from 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.

Audit Committee Report

4. Annual Financial Statements

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

5. Internal Audit

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

The internal audit plan for the year focused on the Bank's control environment, with an emphasis on closing outstanding and recurring audit issues and improving the overall risk profile of the Bank within the risk tolerance limits. The Audit Committee reviewed the reports by Internal Audit as well as management's actions in remedying control deficiencies. The Audit Committee are pleased with improvement in the control environment but are 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.

With regard to fraud and its prevention, the Bank was active during the year in raising staff awareness through fraud alerts, including encouraging 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.

6. Compliance

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

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

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

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

7. Risk

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

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

On behalf of the audit committee

Keshan Pillay
Chairman Audit Committee

Sizwe Ntsaluba Gobodo

AUDIT • ADVISORY • FORENSICS

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF UBANK LIMITED

Opinion

We have audited the financial statements of Ubank Limited (Ubank), set out on pages 19 to 68, 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 the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ubank as at 28 February 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Other information.

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

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

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

Responsibilities of directors for the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board of Auditors ('IRBA') rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of Ubank Limited for 7 years.

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

26 June 2018
Johannesburg

Statement of Profit or Loss and Other Comprehensive Income

	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

	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 01 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 01 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

	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	30	252 506	169 310
Changes in operating funds:			
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	18	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 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 no. 71 of 2008 (as amended).

2.2 Significant accounting judgements and estimates

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

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

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

Property and equipment

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

2.2 Significant accounting judgements and estimates (continued)

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 IFRS13. Please refer to the fair value hierarchy in note 16 & 31.

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.

2.2 Significant accounting judgements and estimates (continued)

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.

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:

(a) 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.

3 Summary of significant accounting policies (continued)

3.1 Recognition of income and expenses (continued)

(b) 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

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

3.3 Taxation

(a) Current tax

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

Income tax related to items recognised directly in equity is recognised in equity and not in the Statement of Profit/Loss and other Comprehensive Income.

(b) Deferred tax

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

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

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

Deferred tax relating to items recognised directly in equity is also recognised in equity and not in the Statement of Profit/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 3 months) that are convertible into cash with an insignificant risk of change in value.

Accounting Policies

3 Summary of significant accounting policies (continued)

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
ATM's	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.

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.

3 Summary of significant accounting policies (continued)

3.6 Intangible assets (continued)

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 Summary of significant accounting policies (continued)

3.9 Financial instruments - Initial recognition and subsequent measurement

(a) 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.

(b) 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 note 15 and 29.

(c) Loans and receivables

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

3 Summary of significant accounting policies (continued)

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

(d) 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.

(e) 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

(a) 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.

(b) 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 Summary of significant accounting policies (continued)

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 arms' 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

(a) Impairment of assets held at amortised cost

Loans and advances to customers

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

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future 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.

3 **Summary of significant accounting policies (continued)**

3.12 **Impairment of financial instruments (continued)**

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".

3.13 **Financial instruments - Collateral and netting**

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

a) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

The Bank also receives collateral in the form of cash or securities in respect of other credit instruments, such as advances to customers in order to reduce credit risk. Collateral received in the form of cash is recorded on the Statement of Financial Position with a corresponding liability. These items are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest payable or interest income respectively.

(b) Offsetting financial instruments

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

4. 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 01 March 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 16 Leases	01 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	01 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	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	01 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 represent those transactions. The new standard introduces a single lessee accounting model, requiring lessees to recognise a right-of-use asset (representing its right to use the underlying leased assets) and a lease liability (representing its obligation to make lease payments). The standard contains exemptions in respect of leases with a term of 12 months or less and leases where the underlying asset has a low value.

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.

4. New Standards and Interpretations (continued)

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 judgment 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.

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.
- 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 assist 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 (Assets and Liabilities Committee) respectively are also discussed in the ERC. The ERC serves as an over–arching Executive Committee that addresses all risk matters of the Bank.

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 within detail in ICAAP. Ubank endeavours to continuously refine and improve its ICAAP in any areas where it is deemed necessary in order to improve compliance with respect to these matters. Some of these steps and initiatives refer to future activities that will be developed as the sophistication of Risk and Capital Management processes within the bank increases in order to keep pace expansion of the banks 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.

5. Risk management (continued)

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.
- 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 whistle-blowers. 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.

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. Risk management (continued)

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.

(a) Credit risk management

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

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

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

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

Credit risk measurement

The Bank's scorecards used to measure the Credit risk the Bank will be exposed to when underwriting and managing loans continue to rank 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 a lot of emphasis on arrear loan collections and our ability to reduce forward roll into higher provision attracting buckets. The most important assessment of existing risk exposure used by the Bank is the impairment model; this in turn is impacted by our ability to allocate payments. The Bank reviewed and increased its resources allocated to the allocation process. This added significant value in managing payment allocations.

5. Risk management (continued)
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's deteriorating. With collection strategies and score capabilities the deteriorating loans are prioritised to perform different collection strategies. The aim of such strategies are to cure non-performing loans sooner. Impairment limits are monitored by the Bank to ensure the loss targets are maintained. These mitigant results are reported at various committees to manage risk accordingly.

Risk concentration of the maximum exposure to credit risk

Concentration of risk within customer, sector and geography (all within South Africa) is managed by 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	13 173	21 815
Personal loans to employees of non-mining industry	724 005	804 361
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 Bank's Act.

(b) Liquidity risk management

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

A loss of confidence in the Bank or the banking sector could result in a withdrawal of deposits and funding such that the Bank cannot meet its obligations despite being adequately solvent and profitable. The Bank's liquidity risk is monitored by the ALCO that meets monthly and reviews the liquidity position of the Bank including liquidity mismatches in terms of regulatory requirements for Banks and financial institutions. Its objective is to manage and limit the adverse impact of these risks on the Bank's future earnings. Please refer to note 28 for a liquidity analysis.

(c) Market risk management

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

The ALCO consisting of senior management meet 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.

5. Risk management (continued)

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 is monitored on a ongoing basis.

Currency risk

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

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

Market risk measurement

Interest rate risk is being measured through an interest rate gap model, which is the difference between rate sensitive assets and liabilities. In addition, a stress testing model using interest rate shocks, is used to determine potential losses in the event of extreme market conditions. The impact on net interest margins is monitored at the monthly ALCO meetings. Please refer to Section 5.5 for the sensitivity analysis.

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, No 94 of 1990 (as amended) and Regulations Relating to Banks.

5. Risk management (continued)

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**

Risk weighted assets	**Capital requirements 2018 R'000**	**Capital requirements 2017 R'000**	**Risk weighted assets 2018 R'000**	**Risk weighted assets 2017 R'000**
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**

[1]Allowable portfolio impairment under standardised approach.

5. **Risk management (continued)**

	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 %

Monthly/Daily Average Credit Exposure	**Capital requirements**		**Capital position**	
	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. Risk management (continued)

5.3. Credit risk

(a) Gross maximum exposure

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

	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.

(b) Collateral and other credit enhancements

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

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**

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the affordability model of loans and advances. Investment credit exposure is managed by the ALCO per note 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.

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**

5. **Risk management (continued)**

2018	**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**
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	**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**
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**

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

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

(e) Analysis of impaired financial assets per class

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

2018 R'000		**30 to 90 days**	**90 to 180 days**	**180 to 365 days**	**> 365 days**	**Total**
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 R'000		**30 to 90 days**	**90 to 180 days**	**180 to 365 days**	**> 365 days**	**Total**
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. Risk management (continued)

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)

At 28 February 2018 R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
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 R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	-	-	20 611	-	-	20 611
Deposits and savings due to customers	2 964 663	437 186	598 815	64 987	-	4 065 651
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. Risk management (continued)

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

2018	**Net interest income**			
Bp movement	**Decrease %**	**Increase %**	**Decrease R '000**	**Increase R '000**
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	**Net interest income**			
Bp movement	**Decrease %**	**Increase %**	**Decrease R '000**	**Increase R '000**
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.

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

The percentage increase and decrease is management's estimate of a reasonable possible movement in the market price of the underlying instruments. The carrying value of instruments exposed to price risk at the end of the reporting period is R3 581 471 (2017: R2 842 372).

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

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

The Bank does not undertake any hedging on exposures.

	2018 R '000	2017 R '000

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 FV 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.

	2018 R '000	2017 R '000

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
Investment income	4 640	19 685
	35 912	**31 272**

10. Impairment charge on financial assets

	Note	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)**

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
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 Director's 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)**

Personnel

	2018	2017
Actual headcount at year end	705	689

12. Other operating expenses

	2018 R '000	2017 R '000
Operating profit for the year is stated after (charging)/ crediting the following:		
Auditors 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 license 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)**

Notes to the Annual Financial Statements

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.

	2018 R '000	2017 R '000
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 CGT rate	-	6 277
Other allowances	325	-
	(24 557)	**5 010**
Effective income tax rate	31.19%	19,79%

14. Cash and cash balances

Cash and cash equivalents consist of:

	2018 R '000	2017 R '000
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

15. Investments (continued)

	2018 R '000	2017 R '000
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 R84.9m (2018) and R79.6mil (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.

2018 R'000	Level 1 Fair values are based on quoted market prices	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly	Level 3 Fair values are calculated using significant unobservable inputs.	Total
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 R'000	Level 1 Fair values are based on quoted market prices	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly	Level 3 Fair values are calculated using significant unobservable inputs.	Total
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

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**

[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.

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 (1 year) of 1 year to 2 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 (1 year) of 1 year to 0 year would result in an increase in the valuation of the investment of R6.3 million to R46.3 million.
- A change in the recovery value assumption applied (27%) of 5% to 22% would result in a decrease in the valuation of the investment of R10.2 million to R29.8 million. A similar change in the recovery value assumption applied (27%) of 5% to 32% would result in an increase in the valuation of the investment of R8.8 million to R48.8 million.

Notes to the Annual Financial Statements

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

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**

17. Loans and advances to customers (continued)

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

	Note	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:

2018	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
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		Specific impairment R'000	Portfolio impairment R'000	Total R'000
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	Accumulated depreciation	Carrying value	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
ATM's	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**

Reconciliation of property and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
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
ATM's	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	Additions	Disposals	Depreciation	Total
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
ATM's	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 the written request. No property and equipment is pledged as security for liabilities.

19. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	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	Additions	Amortisation	Total
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**
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	(215)
Deferred tax movement through profit and loss	24 557	(4 346)
	25 601	**(4 561)**

There was no tax rate change during 2018.

Notes to the Annual Financial Statements

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**

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.

	2018 R '000	2017 R '000
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

	2018 R '000	2017 R '000
Minimum lease payments due		
- 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 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 assets 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 R1.5m (2017: R9.4m) 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 arms length. There were no other related party transactions during the year. No related party loans are considered to be impaired.

Transactions with Directors and Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Ubank Limited (directly or indirectly) and comprise the Directors and Officers of Ubank Limited. Refer to note 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 qualifies 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.

2018	On demand	Within 1 year	From 1 year to 5 years	More than 5 years	Total
	R '000	R '000	R '000	R '000	R '000
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**
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.

28. Liquidity analysis (continued)

2017	On demand	Within 1 year	From 1 year to 5 years	More than 5 years	Total
	R '000	R '000	R '000	R '000	R '000
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**
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 loans and advances to customers.

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

29. Classification of assets and liabilities

2018

	Loans and receivables	Held to Maturity	Designated at fair value through profit and loss	Held as Available for sale	Non-financial assets	Total
	R'000	R'000	R'000	R'000	R'000	R'000
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**

2017

	Loans and receivables	Held to Maturity	Designated at fair value through profit and loss	Held as Available for sale	Non-financial assets	Total
	R'000	R'000	R'000	R'000	R'000	R'000
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**

2018

	Held at amortised cost	Non-financial liabilities	Total
	R'000	R'000	R'000
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**

29. Classification of assets and liabilities (continued)

2017

	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
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.

2018 R'000	Level 1 Fair values are based on quoted market prices	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly	Level 3 Fair values are calculated using significant unobservable inputs.	Total
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 R'000	Level 1 Fair values are based on quoted market prices	Level 2 Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly	Level 3 Fair values are calculated using significant unobservable inputs.	Total
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 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

Executive

2018

	Fees	Gross pay	Pension and Retirement Benefits	Other benefits #	Total
	R '000	R '000	R '000	R '000	R '000
Non-executive					
J.H. De Villiers Botha	535	-	-	-	535
G. Briggs*	218	-	-	-	218
M. Lesabe	271	-	-	-	271
Z.N Miya	355	-	-	-	355
R. Miyambo	344	-	-	-	344
K. Pillay	377	-	-	-	377
P. Nkambule**	161	-	-	-	161
GZ Malele	52	-	-	-	52
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
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 25 April 2017.
**Appointed 23 June 2017.
***Resigned March 2017.

31. Directors' emoluments (continued)

2017

	Fees	Gross pay	Pension and Retirement Benefits	Other benefits #	Total
	R'000	R'000	R'000	R'000	R'000
Non-executive					
J.H. De Villiers Botha	577	-	-	-	577
R. Miyambo^	92	-	-	-	92
K. Pillay^^	29	-	-	-	29
M. Lesabe	322	-	-	-	322
Z.N 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 01 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

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	1 month	Not applicable	No entitlement to a severance pay. Entitlement for previous long term incentive plan on termination are dealt with under the relevant scheme rules.
Chief Executive Officer	3 months	60 years	
Chief Financial Officer	3 months	60 years	
Prescribed officers	one to three months	60 years	
Other Executives	one to three months	60 years	