UBANK LIMITED

REGISTRATION NUMBER: 2000/013541/06

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2017

UBANK LIMITED

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 3 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 and the provisions of the Companies Act no. 71 of 2008 (as amended), and Banks Act, 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 a 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 3 to 77 were approved by the Board of Directors of Ubank Limited and are signed on their behalf by:

Director	Director

Johannesburg
23 June 2017

Certificate of the company secretary

In my capacity as company secretary I certify that in terms of the Companies Act no. 71 of 2008 (as amended), this Bank submitted all returns and notices for the year ended 28 February 2017, as required by a public company, in terms of the Companies Act, and that all returns are correct and up to date.

Company secretary
Johannesburg
23 June 2017

DIRECTOR'S REPORT FOR THE YEAR ENDED 28 FEBRUARY 2017

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.

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.

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 were no changes to share capital during the year.

Holding company

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

Directors

Since the date of the previous directors' report the following changes to the board occurred:

Non-executive directors	Appointment date	Resignation date
J.H. De Villiers Botha (Chairman)	29 November 2005	
Z.N Miya	21 June 2010	
H. Groenewald	01 September 2011	31 December 2016
S. Ntsaluba	10 December 2013	27 September 2016
P. Molefe	27 August 2014	27 September 2016
R. Garach	01 August 2014	28 February 2017
M. Lesabe	17 April 2015	
R. Miyambo	17 September 2016	
K. Pillay	01 February 2017	
G. Briggs	01 March 2017	
Executive directors		
L. Vutula (Chief Executive Officer)	01 November 2012	
H. du Preez (Chief Financial Officer)	01 March 2017	

Company Secretary	Appointment date	Resignation date
M. Naidoo	01 July 2015	

The board, as part of evolving best practice, has considered the definition of prescribed officers and resolved that the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Managing Executive of Retail Banking Services will be identified as Prescribed Officers of Ubank Limited.

Prescribed officers	Appointment date	Resignation date
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	

Interests of directors

The directors 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.

Special resolutions

No special resolutions were passed during the financial year.

Economic Overview

Global economy

Following the United States Federal Reserve's increase of the Fed funds rate by 25bps in December 2016, there was an expectation that further increases will occur in 2017. This has, however, reduced to some extent. Furthermore, the IMF has forecasted world GDP to be 3.4% in 2017 and whilst this is an improvement on 2016 (3.1%), it does not signal significant market confidence that global growth will filter to South Africa in any material scale.

Global economic growth slowed to 3.1% in 2016 from 3.4% in 2015, dragged mainly by the developed economies where growth fell from 2.1% in 2015 to 1.7% in 2016. Over the same period, growth in the United States slowed from 2.6% to 1.6% , while the Euro Area slowed from 2.0% to 1.7%. And following the Brexit vote, the UK economy slowed from 2.2% in 2015 to 1.8% in 2016.

This trend in growth decline was also evident in developing and emerging economies where the rate slowed marginally from 4.2% in 2015 to 4.1% in 2016. Brazil and Russia remained in recession; but there was a significant improvement in the Russian economy. China's economy also slowed from 6.9% in 2015 to 6.7% in 2016 as the country continues its transition from a manufacturing focus towards consumption.

Global growth, however, appears to be on a stronger footing in early 2017. The Manufacturing Purchasing Manager's index points to improving growth prospects in the developed world, where the United States is expected to be the main driver of growth. Growth in some emerging economies is also expected to pick up in 2017 following lower than expected growth. India, in particular, is forecast to perform very well with Brazil and Russia expected to exit recession.

US policies (mainly their potential effect on trade) and Brexit provide uncertainty, although the Bank of England has forecasted a smooth Brexit process. These two factors remain the main downside risks to global growth.

Economic Overview (continued)

Global economy (continued)

IMF Economic Growth Outlook (y-o-y)	2016	2017
World output	**3.1%**	**3.4%**
Developed Economies	**1.6%**	**1.9%**
USA	1.6%	2.3%
Euro Area	1.7%	1.7%
Japan	1.0%	1.2%
UK	1.8%	2.0%
Developing/Emerging Economies	**4.1%**	**4.5%**
China	6.7%	6.6%
India	6.8%	7.2%
Russia	-0.2%	1.4%
Brazil	-3.6%	0.2%

South African economy

South Africa's economic growth slowed to 0.3% in 2016, down from 1.3% in 2015. Domestic constraints appear to be preventing the economy from fully benefiting from global growth prospects. The uncertainty surrounding the recall of the Finance Minister dominated the news and market in 2016, creating uncertainty on policy direction. Business confidence remained at depressed levels, while fixed investment by firms declined by 6.7% in 2016 from -1.9% in 2015. On the demand side, subdued employment growth, high inflation and tighter fiscal and monetary policy constrained consumer spending.

The continued weak outlook for economic growth is not conducive to job creation, which in the current financial year translated into job losses due to retrenchments and companies closing down. Whilst GDP growth is expected to increase in the 2017 calendar year, this is not expected to materially alter the number of jobs created.

Further, under normal circumstances, the SA economy should reap the rewards of improving global economic growth in 2017. However, domestic factors have once again come into play and are likely to prevent the local economy from fully benefiting from global upside conditions. Renewed political turmoil (cabinet reshuffle) has resulted in a weak and volative Rand exchange rate and credit rating downgrades to junk status by Standard and Poor and Moody's. As a result, the economy is forecast to increase by only 0.6% y-o-y in 2017.

Banking

Within an eventful and turbulent operating environment, local major banks produced commendable results in the second half of 2016. On aggregate, they reported a combined growth in headline earnings of 11.0% y-o-y compared to the same period in 2015.

Banking (continued)

Net interest income remained a key revenue driver contributing to earnings growth of the major banks, and grew by 4.6% in second half of 2016 compared to the same period in 2015. Combined Non-interest revenue (NIR) growth was 0.9% higher over the same period. NIR continued to be primarily supported by growth in fee and commission income, which represents 73% of total NIR revenue for the second half of 2016. Earnings growth continued to be underpinned by solid operating drivers and well-diversified products.

Inflation outlook

As per the table below, consumer price inflation is expected to moderate in 2017 to be within the SARB's target range of 3% to 6%. However, currency volatility as well as forecast risk associated with an uncertain global political and economic environment can have a material impact on the expected economic outcomes.

	2016	2017 (forecast)
GDP growth	0.5	1.3
CPI (%)	6.4	6.4

Base interest rates

Due to the lowered expectations of inflation in 2017, there is no significant movement in base interest rates forecasted for the next year.

Currency expectation

The Rand will always remain a volatile currency and can be affected significantly by external political factors. The risk of these factors has heightened in the past year and there is more uncertainty than there was a year ago. Naturally, major swings in the currency, should they occur on a persistent basis, will affect inflation and thus interest rates.

Impact of the economy on the consumer

Our loan clients will experience the direct impact of increases in interest rates as their Ubank loans may be at floating rates. Changes in transport, energy and food inflation have a greater impact on their ability to repay loans when compared to movements in interest rates. A logical driver on the future performance of the loan book is unemployment and the lack of job creation. Stats SA indicates that at the end of Quarter 4 2016, the official unemployment rate was 26.5%, an increase of 2.0% from Quarter 4 2015, with the expanded definition at 35.6%. The likelihood for either of these rates to reduce in a significant manner in the next 12 months is low.

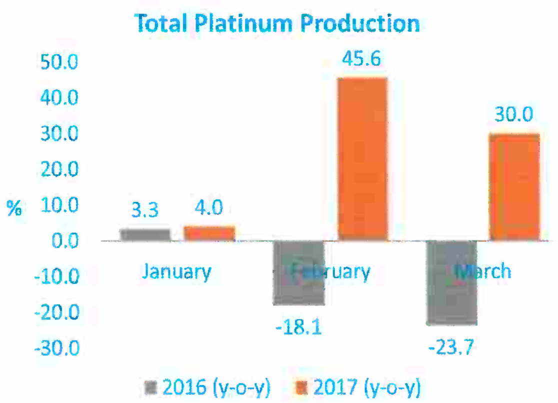
Overall, the South African consumer was faced with many challenges in 2016, with inflation and unemployment impacting severely on households' disposable income. Consumer confidence remained low throughout the year. Household debt to disposable income decreased from 78.3% in the third quarter of 2015 to 75.1% in the third quarter of 2016 (Source: SARB Quarterly Bulletin December 2016).

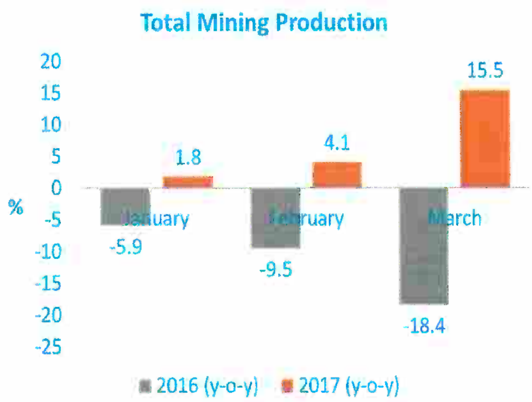
Mining

The South African mining industry continues to struggle due to declining commodity prices, policy uncertainty (Mining Charter and Mineral and Petroleum Resources Development Act) as well as high operating costs. These combined factors continued to impact negatively on investment, production and employment in 2016. On the costs, electricity costs have trebled over the past eight years, while wages and storage have risen by 10% per annum over the past five years. On mining policy and uncertainty, the Mineral Resources Minister assured investors and stakeholders at the mining indaba early in 2017 that government would act on finalizing outstanding mining legislation by the middle of the year and deal with uncertainty in the mining industry. He said the government has been working hard to improve regulatory efficiency through integration of the application for mining and related rights, water use and environmental permits.

On a positive note, there was a peaceful settlement of wage negotiation in the platinum sector in 2016, an indication (according to analysts) that different stakeholders are starting to work together to ensure the sustainability and resilience of the industry. At the Mining Indaba, the minister said that beneficiation remains the government priority. He said government believe that most job opportunities lay with small and medium companies hence in 2017, the focus is on the promotion of investment, with special focus on junior mines.

Overall mining production declined by 4.9% y-o-y in 2016 from 4.3% growth in 2015. The decline was led mainly by Copper (-15.5%), Manganese ore (-12.9) Nickel (-12.7%), Iron ore (-7.7%), and Chromium ore (-5.6%). Gold and platinum also declined by 0.4% and 3.9% respectively

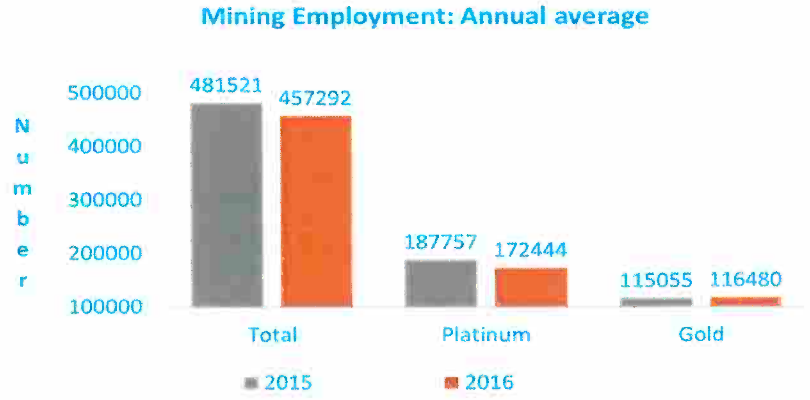




On a positive note, mining production was off to a good start in the first three months of 2017. The growth was driven mainly by recovery in the Platinum sub-sector following a weak start in 2016.

Mining (continued)

The sector continued to shed jobs, with 24 229 (-5%) average net jobs lost in 2016 alone compared to 2015. The decline was led by the platinum sub-sector, which lost 15 313 jobs (representing over 60% of the total job losses). Gold sub-sector added 1 425 jobs in the same period



In 2017, commodity prices are forecast show a moderate improvement. This will create a much needed boost to the mining firms.

Performance

The Bank has posted a profit before taxation of R25.3m, which is better than the budget expectation of R16.1m. The profit reflects an improvement from the profits reported for 2016. The balance sheet decreased marginally by R2.9m year on year totaling R4.68bn, the decrease was mainly driven by a decrease in savings deposits which decreased to R4.06bn compared to R4.09bn in 2016.

Costs containment remained a focus area during the financial year and operating expenses remained stable year on year totalling R472.6m for the year compared to R472.7m reported for the 2016 financial year.

The net loan book has increased by 12.4% to R826.2m (FY2016 – R734.8m).

The deposit book (R4.06bn) is R54.3m below of budget expectation (R4.12bn), and showed 0.6% year-on-year reduction.

Impairment charges on loans and advances increased by 37.8%. The impairment percentage decreased by 1.2% to 11.1% (FY2016: 12.3%).

The Bank's capital adequacy ratio remains a focus area and has improved year on year. As at year end the capital adequacy ratio was at 18.64% (FY2016: 18.52%).

Strategic implementation overview

Following the reaffirmation of Tshutsheka Vision 2023 in 2015 and the engagement of an external consulting firm to do work on fixing retail branch operations, a project called Siya Tshutsheka Manje (STM) was launched in May 2015 with three (3) objectives:

- to fix branch/frontline operations;
- improve credit sales effectiveness; and
- optimize credit on-boarding.

The project concluded successfully in the first quarter of 2016.

All this was done as part of Wave 1 of the ten year strategy (fixing the basics). The new management operating system (MOS) methodology deployed during the initiative will continue being embedded as the new way of doing business. STM has yielded positive results on both a qualitative and monetary benefit perspectives.

The Bank's stated mission to be the "workers' bank of choice" (WOBOC) remains and the focus on "workers" has not changed. The six strategic objectives continue to be the key drivers when prioritising project and investment resource deployment.

The strategic objectives of the bank have continued to drive the ethos of the organisation and remain a core focus area for executive management:

- Diversify revenue streams;
- Embed a high performance culture;
- Inculcate strong, bank-wide compliance;
- Leverage the stakeholder base;
- Strengthen leadership; and
- Recapitalise the bank.

The bank embarked on short-term interval execution of its priorities and implemented 90-Day Rolling Plans from May 2016 to drive its strategic objectives. At the close of the year six priority areas were the sole focus of the entire bank:

1. Stabilising our core IT systems which support the operations of the bank
2. Customer data clean-up: better information and data on our customers which enables better decision making for service and acquisition
3. Credit collections: to optimize and sustain collections on our loan product portfolio
4. Customer acquisition: a focused drive to grow topline and acquire primary bank customers
5. Alternative growth opportunities: leveraging strategic partnerships with key players to enable our growth from non-core mining markets. The initiatives being pursued are at different stages of negotiations and include: eTranzact; Student Value Proposition; Small Business Value Proposition; and National Student Financial Aid Scheme
6. Human Resource Enablement and Support: expedite the filling of critical vacant roles to ensure priority initiatives are appropriately resourced

Strategic implementation overview (continued)

<u>Key Strategic Objectives Achieved</u>

1) Branch security upgrades phase 2: Enhancing physical security of branches for staff and customers on incremental batch of branches

2) Digitial security: End-point security to secure bank proprietary information

3) Compliance initiatives:

'i. AML/CFT: Deployment of Anti-Money Laundering tools and systems; Cash Forecasting

'ii. FATCA phase 2: Combating Anti-Terrorism funding

'iii. BoPCard Reporting: Balance of Payments reporting to SARB for cross-border transactions regularised and made compliant for all historical data to end 2016. Vendor appointed to deploy in-house system for on-going reporting

4) Credit/Loan Data migration: Migration of the CIF and loan payment profile data from two legacy credit lending systems to the new credit lending system (FinnOne)

5) Branch connectivity: Implementation of firewall and enhancement of connectivity of branches for speed and stability

6) Data Analytics: Optimising and cleaning customer data to enable effective collections by credit department

7) Customer Relationship Management: Creation of single-view of the customer across channels to enhance excellent customer service

8) Payfile Enhancements: Streamlining the Payfile process thereby reducing cost and risk and giving miners and other employers an advanced service.

9) Siya Tshutsheka Manje: Siya Tshutsheka Manje project to optimise branch efficiency and improve sales effectiveness rollout concluded in all 4 regions

The Bank remains committed in its strategic roadmap and in the absence of capital, it selects to implement only projects which it can self-fund or partner for solutions where there is no capital outlay requirement.

Key areas of significant estimates

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 2017 was R41.8m 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 R2.4m (2016: R5.2m impairment). To date the investment has been impaired by R228.7m. 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 if the liability listing excluding opportunistic claims and the risks associated with a Curatorship process. Management estimated this recoverable amount at 28.0% (2016: 32.8%). 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% (2016: 13.8%) 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 (2016: 1 years). This is aligned to current market trends to finalise similar processes.

The impairment charge of R2.4m (2016: R5.2m 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 to R41.8m (2016: R38.8m). 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.

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.

Audit Committee Report for the financial year 2017

The Audit Committee (Committee) is the custodian for financial reporting, accountability and adequacy of efficient controls planning. The Committee met five times during the financial year under review, tasked by the board with oversight of Ubank'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 filing 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 invitees to the meetings.

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.

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 reports by Internal Audit have been reviewed as well as management's actions in remedying control deficiencies. The Audit Committee can see the progress made in the control environment but there remains some way to go to ensure that it is suitable, effective and efficient. It also seeks continuous improvement in the Banks' overall control environment.

Audit Committee Report for the financial year 2017 (continued)

External audit

The Audit Committee recommended the re-appointment of SizweNtsalubaGobodo Inc. (SNG), as sole audit firm for the 2017 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.

Compliance

The Compliance Plan and Charter have been reviewed and the functioning of Compliance is in line with relevant regulatory requirements. However, the Audit Committee 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, external auditors and compliance detailing the extent of this.

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

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

Risk

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

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

Audit Committee Report for the financial year 2017 (continued)

Membership and attendance of the Audit Committee :

The members of the Audit Committee are:

Rakesh Garach: Bachelor of Commerce (Accounting); Post Graduate Diploma in Accounting (Honours); CA(SA)
Harry Groenewald: MBL (Unisa SBL); Management Development Program (Unisa); B. Com (University of Pretoria)
Sango Ntsaluba: B.Com Degree; B.Compt (Hons); H.DipTax; CA(SA)
Nelson Miya: MBL; B.Com Hons; EDP (WBS); CAIB (SA); LIB (SA)
Ronny Miyambo: MBA (Finance), Hons B (B and A), BSc (Maths and Applied Maths)
Keshan Pillay: B.Com (UDW), Executive Development Programme (WBS)

Meeting	Rakesh Garach	Harry Groenewald	Sango Ntsaluba	Nelson Miya	Ronny Miyambo	Keshan Pillay
June 9, 2016	Attended	Attended	Attended	Attended	N/A	N/A
July 27, 2016	Attended	Attended	Apology	Attended	N/A	N/A
September 6, 2016	Attended	Attended	Apology	Attended	N/A	N/A
November 24, 2016	Attended	Apology	Resigned	Attended	Apology	N/A
February 14, 2017	Apology	Resigned	Resigned	Attended	Attended	Attended

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 (the Company), set out on pages 17 to 77, which comprise the statement of financial position as at 28 February 2017, 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 the Company as at 28 February 2017, 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

The Company'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

The Company'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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting

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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 scepticism 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 the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If 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 the Company 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 6 years.

SizweNtsalubaGobodo Inc.
Director: Agnes Dire
Registered Auditor
Chartered Accountant (SA)
23 June 2017
Johannesburg

UBANK LIMITED

STATEMENT OF PROFIT/LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2017

	Notes	2017 R'000	2016 R'000
Interest income		485,498	418,494
Interest expense		(78,058)	(55,966)
Net interest income	6	**407,440**	**362,528**
Fees and commission income	7	238,743	240,956
Fees and commission expense		(65,376)	(66,716)
Net fees and commission income		**173,367**	**174,240**
Net (loss)/gain on financial assets designated at fair value through profit or loss	8	651	(748)
Other operating income	9	31,272	38,675
Total operating income		**612,730**	**574,695**
Impairment charge on financial assets	10	**(114,853)**	**(86,819)**
Impairment charge on loans and advances		(112,450)	(81,600)
Impairment charge on available for sale investment		(2,403)	(5,219)
Net operating income		**497,877**	**487,876**
Personnel expenses	11	(222,610)	(226,168)
Depreciation of property and equipment	18	(18,485)	(18,767)
Amortisation of intangible assets	19	(14,180)	(14,668)
Other operating expenses	12	(217,286)	(213,093)
Total operating expenses		**(472,561)**	**(472,696)**
Profit before tax		**25,316**	**15,180**
Taxation	13	4,557	(1,483)
Profit for the year		**29,873**	**13,697**
Other comprehensive income:			
Post-employment medical benefits reserve		-	-
Taxation		-	-
Post-employment medical benefits reserve movement for the year		-	-
Fair value adjustment on available-for-sale investments		(18)	(4,125)
Available-for-sale-reserve movement for the year		**(18)**	**(4,125)**
Other comprehensive income for the year		**(18)**	**(4,125)**
Total comprehensive income for the year		**29,855**	**9,573**

UBANK LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2017

	Notes	2017 R'000	2016 R'000
ASSETS			
Cash and cash balances	14	344,231	351,389
Trade receivables and other assets	16	48,850	53,919
Investments	15	3,252,511	3,332,750
Loans and advances to customers	17	826,176	734,825
Property and equipment	18	59,870	55,216
Intangible assets	19	47,586	58,582
Deferred taxation	20	101,663	97,102
TOTAL ASSETS		**4,680,887**	**4,683,783**
LIABILITIES			
Deposits and savings due to customers	22	4,065,651	4,090,299
Trade payables and other liabilities	21	67,744	76,679
Provisions	23	9,734	8,902
TOTAL LIABILITIES		**4,143,129**	**4,175,880**
EQUITY			
Share capital and share premium	24	244,875	244,875
Available-for-sale reserve	25	1,076	1,094
Retained earnings		291,807	261,934
		537,758	**507,903**
TOTAL LIABILITIES AND EQUITY		**4,680,887**	**4,683,783**

STATEMENT OF CHANGES IN EQUITY AT 28 FEBRUARY 2017

	Notes	Share capital	Share premium	Available-for-sale reserve *	Retained earnings	Total
		R'000	R'000	R'000	R'000	R'000
Balance at 1 March 2015		24,500	220,375	5219	248,237	498,331
Profit for the year		-	-	-	13,697	13,697
Other comprehensive income for the year		-	-	(4,125)	-	(4,125)
Total comprehensive income for the year		-	-	(4,125)	13,697	9,572
Balance at 29 February 2016	24	**24,500**	**220,375**	**1,094**	**261,934**	**507,904**
Profit for the year		-	-	-	29,873	29,873
Other comprehensive income for the year		-	-	(18)	-	(18)
Total comprehensive income for the year		-	-	(18)	29,873	29,855
Balance at 28 February 2017	24	**24,500**	**220,375**	**1,076**	**291,807**	**537,759**

Nature and purpose of reserves

*** 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.

UBANK LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2017

	Notes	2017 R'000	2016 R'000
OPERATING ACTIVITIES			
Interest and fee income		724,241	659,451
Interest and fee commission expense		(143,434)	(122,682)
Investment income		19,685	22,492
Cash paid to customers and employees		(431,182)	(423,292)
Cash available from operating activities	28	169,310	135,968
Changes in operating funds:			
Decrease in income earning assets		(125,336)	(643,051)
Increase/(Decrease) in deposits and savings due to customers		(24,648)	364,503
Cash utilised from operating activities after changes in operating activities		19,326	(142,580)
Tax paid	28	-	-
Net cash outflow from operating activities		**19,326**	**(142,580)**
INVESTING ACTIVITIES			
Additions to intangible assets		(3,184)	(4,444)
Additions to property and equipment (maintaining of operating activities)		(23,870)	(14,281)
Proceeds from disposal of property and equipment		571	1,339
Net cash used in investing activities		**(26,483)**	**(17,386)**
Net decrease in cash and cash balances		(7,157)	(159,966)
Cash and cash balances at beginning of year		351,389	511,355
Cash and cash balances at end of year	14	**344,231**	**351,389**
Cash and cash balances comprise:			
Coins and bank notes		69,591	56,194
Balances with other banks		274,640	295,195
	14	**344,231**	**351,389**

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 Sanhill Park, No 1 Eglin Road, Sunninghill, 2157.

The financial statements were approved by the Board of Directors on 23 June 2017.

2. Accounting policies

2.1 Basis of preparation

The annual financial statements are for the Ubank company and have been prepared on the historical cost basis except where noted otherwise in the accounting policies. The presentation currency is South African rand and 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).

CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the prior year. There were no new standards, amendments and interpretations that were effective for the financial year.

New standards and interpretations not yet adopted

The Bank has not applied the following IFRS's or amendments to IFRS's and IFRIC interpretations that have been issued and could be applicable to the Bank but are not yet effective. The Bank does not intend to adopt and rectify any of these early:

2.1 Basis of preparation (continued)

IFRS 9 Financial Instruments

IFRS 9 as issued replace IAS 39 and applies to classification and measurement of financial assets and liabilities. It also replaces the IAS 39 incurred loss model from an impairment perspective and impairment requirements will be based on an expected credit loss model. Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, can be qualitative. The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Bank will also start to quantify the effect of IFRS 9 adoption for the financial year starting 1 March 2018.

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. When reviewing residual values, the Bank annually estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life. Please refer to note 19.

2.2 Significant accounting judgements and estimates (continued)

Impairment of intangible assets (continued)

Where impairment indicators exist, the determination of the recoverable amount requires management to make assumptions to determine the fair value less cost to sell or value in use. Key assumptions on which management has based its determination of value in use include projected revenues, capital expenditure, and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment. No impairment was recognised during the year (2015: nil).

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 15 & 30.

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 of CMM investment

The following significant judgements were made in the calculation of impairment of the CMM investment (refer to note 15):

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 if the liability listing excluding opportunistic claims and the risks associated with a Curatorship process. Management estimated this recoverable amount at 28% (2016: 32.81%). 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% (2016: 13.75%) 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 of the realisable amount (excluding short term payments) is estimated at 1 year (2016: 1 year) taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an of impairment charge of R2.4m (2016: R5.2m) reported on the face of the Statement of Profit/Loss and Other Comprehensive Income. The cumulative impairment of R228.7m (2016: R226.3m) results in a net carrying value of R41.8m (2016: R38.8m). Since management had intended on holding 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 payment (2016: Rnil) from the Curators. Management remains hopeful for a better recovery rate and is actively engaged with the Curators through the Investor Forum to explore all remaining recovery opportunities.

2.2 Significant accounting judgements and estimates (continued)

Financial assets

At each statement of financial position date, management assesses whether there are indicators of impairment of financial assets. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management's judgement is required when determining the expected future cash flows. Impairments of financial assets are detailed in note 10 and within the Director's report.

Impairment losses on 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. Please refer to note 10.

Current taxation

The taxation charge in the financial statements for amounts due to fiscal authorities in the various territories in which the Bank operates, includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment for similar classes of transactions, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. Please refer to note 13.

Deferred tax assets

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

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

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred current tax assets. Please refer to note 20.

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 shall be 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.

(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 as an adjustment to effective interest.

3. Significant accounting policies (continued)

3.2 Foreign currency transactions

The financial statements are presented in South African Rand, which is the Bank's functional and presentational currency. Foreign currency transactions are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses on foreign exchange transactions are recognised in the statement of profit/loss and other comprehensive income in the period in which they arise. Non-monetary items carried at historical cost shall be reported using the exchange rate at the date of the transaction and non-monetary items carried at fair value shall be reported at the rate that exists when the fair values were determined.

3.3 Leases

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

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

3.4 Taxation

(a) Current tax

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

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

3. Significant accounting policies (continued)

(b) Deferred tax

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

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

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

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

(c) Dividends withholding taxation

Dividends withholding tax became effective from 22 February 2017. Dividends are taxed at 20% in the hands of certain of the recipients of the dividends, rather than in the hands of the declarer of the dividend.

3.5 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.

3. Significant accounting policies (continued)

3.6 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 vehicles	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. Significant accounting policies (continued)

3.7 Intangible assets

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

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

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

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

The amortisation periods are as follows:

Computer software development costs	3 years
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. Significant accounting policies (continued)

3.8 Impairment of property, equipment and intangible assets

At each reporting date or more frequently where events or changes in circumstances dictate; indicators of impairment of property and equipment and intangible assets are assessed. If there is an indication of impairment, a review is performed which comprises a comparison of the carrying amount of the asset with its recoverable amount which is the higher of the asset's or the cash-generating unit's fair value less costs to dispose, and its value in use. Fair value less costs to dispose is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtained as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

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

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the Statement of Profit/Loss and other Comprehensive Income in the period in which it occurs.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

3.9 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.

3.10 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.

3. Significant accounting policies (continued)

3.10 Provisions and contingent liabilities (continued)

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.

3.11 Financial instruments - Initial recognition and subsequent measurement

(a) Initial recognition

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.

(b) Date of recognition

Financial instruments are recognised when the Bank becomes party to the contractual provisions of the financial instrument. 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.

(c) Financial assets

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. Management determines the classification of financial assets at initial recognition.

(d) Financial liabilities

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.

3. Significant accounting policies (continued)

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

(e) 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 30.

(f) 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.

(g) 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.

3. Significant accounting policies (continued)

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

(h) 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.

3.12 Financial instruments - Derecognition of financial assets and financial liabilities

(a) Financial assets

The Bank de-recognises 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. Significant accounting policies (continued)

3.13 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.

3.14 Impairment of financial instruments

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the bank about the following loss events:

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
v) the disappearance of an active market for that financial asset because of financial difficulties; or
vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- Adverse changes in the payment status of borrowers in the portfolio; and
- National or local economic conditions that correlate with defaults on the assets portfolio.

(a) Loans and advances to customers

For loans and advances to customers carried at amortised cost, 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.

3. Significant accounting policies (continued)

3.14 Impairment of financial instruments (continued)

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 a future write-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.

(b) Held-to-maturity financial investments

For 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. Significant accounting policies (continued)

3.14 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".

(c) Available-for-sale investments

For available-for-sale investments, 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".

(d) Trade receivables and other assets

For 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.

3.15 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.

3. Significant accounting policies (continued)

3.15 Financial instruments - Collateral and netting

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.

3.16 Share-based payments

- *Cash-settled share-based payment transactions with employees*

The Bank has two cash-settled share-based payment transactions with key selected employees (collectively referred to as *cash-settled instruments*), namely:

- share appreciation rights; and
- share performance rights.

The Bank grants cash-settled instruments to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the financial performance of the Bank from a specified level over a specified period of time.

The Bank measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Bank remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The Bank recognises the services received, and a liability to pay for those services, as the employees render service. The Bank recognises immediately the services received and a liability to pay for them. The cash-settled instruments do not vest until the employees have completed a specified period of service, thus, the Bank recognise the services received, and a liability to pay for them, as the employees render service during that period.

The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the cash-settled instruments, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights and share performance rights were granted, and the extent to which the employees have rendered service to date.

The valuation model used is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the cash-settled instruments.

4. 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) serves as an over-arching executive committee that adresses all risk matters of the bank. All risk related matters from the Credit Committee and ALCO (Assets and Liabilities Committee), respectively, are also discussed in the ERC. The committee also reviews all policy documents prior to their being submitted to Exco and the relevant board sub committees for final approval.

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 AdequacyAssessment 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.

4. Risk management (continued)

Elements of ICAAP, such as Stress Testing and Scenario analysis, Buffer, adequacy of Risk Management Process and Risk Appetite are dealt within detail in ICAAP. Ubank endeavours to continuously refine its ICAAP in areas that aim to comply with these matters. Some of these steps and initiatives refer to future activities that will be developed in line with the increasing sophistication of Risk and Capital Management within the Bank.

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, such as an Internal Loss Database, to bring the Bank in line with best risk management practice. Future developments will include enhanced reporting capability. Changes to the approved ERM Framework as discussed above, were taken into account in endeavouring to improve the Risk Profile of the Bank, therefore potentially reducing capital allocation. It should be highlighted that a number of these factors, frameworks and initiatives will be embedded in the Bank over a period.

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

Fraud Risk Management

Ubank 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. Ubank 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.

4. Risk management (continued)

Fraud Risk Management (continue)

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 focus 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.

4. Risk management (continued)

The Basel capital accord

The board has approved and adopted a standardised approach for credit risk and basic indicator approach for operational risk. In addition, the board is monitoring 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.

4.1 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 predominately 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.

4.1 Financial risk management (continued)

(a) Credit risk management

The Bank's focus over the last financial year has been on stabilising the portfolio following the migration of data from Bridge and CreditEase to FinnOne lending system. Simultaneously, we have worked on collections that 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 with banking and mining industry bodies being run 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

Ubank'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 undertook independent review of the allocation process. This added significant value in managing payment allocations- with a view to timelously clear any backlogs.

(a) Credit 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 maximum credit exposure to any individual customer as of 28 February 2017 was Rnil (2016:Rnil). The Bank is also exposed to concentration risk specifically within the mining industry.

	2017 R'000	2016 R'000
Loans and advances[1]		
Personal loans to employees of mining industry	21,815	699,837
Personal loans to employees of non-mining industry	804,361	34,988
Total	826,176	734,825
Investments		
Sovereigns	2,824,949	2,807,979
Interbank	79,206	197,202
Capital markets	306,491	306,737
Investments under curatorship	41,865	38,832
Total	3,252,511	3,350,750

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

(b) Liquidity risk management

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfill 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 29 for a liquidity analysis.

(c) Market risk management

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

The ALCO consisting of senior management 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.

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 4.5 for the sensitivity analysis.

4.2 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. 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.

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4.2 Capital management (continued)

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on guidelines 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 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).

The Bank's regulatory capital position at 28 February 2017 was as follows:

	2017 R'000	2016 R'000
Tier 1 capital		
Ordinary share capital	24,500	24,500
Share premium	220,375	220,375
Retained earnings	261,934	261,934
Other accumulated other comprehensive reserves	1,076	1,095
Deductions	(107,867)	(118,003)
Total	400,018	389,901
Tier 2 capital[1]	8,792	7,872
Total regulatory capital	408,810	397,773

Risk weighted assets	Capital requirements		Risk weighted assets	
	2017	2016	2017	2016
Credit	84,515	82,149	889,626	842,551
Sovereign	-	-	-	-
Banks	22,466	24,713	236,487	253,470
Security Firms	2,467	2,383	25,964	24,446
SME Corporate	155	159	1,631	1,631
Retail	59,427	54,893	625,544	563,004
Operational	104,194	106,838	1,096,774	1,095,775
Market	270	279	2,842	2,860
Equity	270	279	2,842	2,860
Other	19,057	19,872	200,595	203,811
Total	208,306	209,416	2,192,679	2,147,857

[1]Allowable portfolio impairment under standardised approach.

*Risk weighted assets at 9.5%	2017	2016
Capital adequacy	18.64%	18.52%
Primary capital adequacy	18.24%	18.15%

Target Capital Levels

Target capital levels have been set for the Bank and are above the minimum regulatory requirements set by the SARB.

	2017	2016
Regulatory requirements	9.5%	9.8%

4.2 Capital management (continued)

Monthly/Daily Average Credit Exposure

	Capital requirements		Capital position	
	2017	2016	2017	2016
Banks	22,466	24,713	236,487	253,470
Security Firms	2,467	2,383	25,964	24,446
SME Corporate	155	159.0225	1,631	1,631
Retail	59,427	54,893	625,544	563,004
	84,515	82,149	889,626	842,551

4.3 Credit risk

(a) Gross maximum exposure

The Bank's objectives and policies in managing the credit risks that arise are set out in note 4.1 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.

	2017 R'000	2016 R'000
Cash and cash balances	344,231	351,389
Investments	3,252,511	3,332,750
Trade receivables and other assets (excluding prepayments)	31,275	36,549
Loans and advances to customers	826,176	734,825
Total credit risk exposure	**4,454,194**	**4,455,514**

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 an employee deduction scheme where the loan-holder has ceded their provident fund as security in the event of death or resignation from employment. The Banks 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.

		2017 R'000	2016 R'000
Secured loans (Provident fund ceded)		21,815	15,806
Tirisano loans (30% secured)		-	14
Other loans (Unsecured)		804,361	719,006
Loans and advances to customers	17	826,176	734,826

4.3 Credit risk (continued)

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the affordability model of loans and advances. Investment credit exposure is managed by the ALCO per note 4.1. Trade receivables and other assets credit exposure is managed through the banks 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.

	2017	2016
	R'000	R'000
Cash and cash balances	344,231	351,389
Investments	3,252,511	3,332,750
Trade receivables and other assets (excluding prepayments)	31,275	36,549
	3,628,018	3,720,688

2017	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
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
	3,586,153	-	-	41,865	-	3,628,018

2016	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Cash and cash balances	351,389	-	-	-	-	351,389
Investments	3,293,918	-	-	-	38,841	3,332,759
Trade receivables and other assets (excluding prepayments)	36,540	-	-	-	-	36,540
	3,681,847	-	-	-	38,841	3,720,688

(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 (installment) which was not recovered on a specific date. When the payment due is not honored, it becomes a past due financial asset.

4.3 Credit risk (continued)

(e) Analysis of impaired financial assets per class

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

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	**Note 17**	**124,907**	**41,150**	**54,130**	**12,722**	**929,177**

2016 R'000		30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Loans and advances to customers-impaired		286,753	44,652	52,562	15,602	399,569
Loans and advances to customers-current						438,489
Total	**Note 17**	**286,753**	**44,652**	**52,562**	**15,602**	**838,058**

4.4 Liquidity risk

The Bank's objectives and policies in managing the liquidity risks that arise are set out in note 4.1 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 30 for liquidity matching)

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	-	-	-	-	-	-
Total undiscounted liabilities	**2,964,663**	**437,186**	**666,558**	**64,987**	**-**	**4,133,394**

At 29 February 2016

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	-	-	34,393	-	-	34,393
Deposits and savings due to customers	3,094,070	402,617	538,636	54,976	-	4,090,299
Other liabilities						
Other trade liabilities	-	-	42,285	-	-	42,285
Provision for leave pay	-	-	8,902	-	-	8,902
Total undiscounted liabilities	**3,094,070**	**402,617**	**624,216**	**54,976**	**-**	**4,175,879**

4.5 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 4.1 (c), 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

2017

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

2016

Net interest income				
Bp movement	**Decrease**	**Increase**	**Decrease**	**Increase**
	%	%	R'000	R'000
50bp	4.84%	4.17%	18,754	16,131
100bp	9.69%	8.33%	37,508	32,262
200bp	19.37%	16.66%	75,015	64,523

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 R2 842 372 (2016: R2 859 616).

2017

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

2016

	Pre tax impact on profit and loss	**Carrying value after change**
	R'000	**R'000**
Increase	186	2,046
Decrease	(186)	1,674

The Bank does not undertake any hedging on exposures.

5. Financial assets and liabilities

Fair value of financial assets and liabilities

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 15 & 30.

6. Net interest income

	2017 R'000	2016 R'000
Interest income		
Cash and cash balances - Amortised cost	13,743	12,370
Loans and advances to customers - Amortised cost	259,912	230,799
Investments	11,164	10,202
- *Held-to-maturity*	5,728	4,877
- *Interest on impaired asset (designated as available for sale)*	5,436	5,325
Interest income from assets not measured at FV through profit or loss	284,819	253,371
Investments		
- *Financial assets designated at fair value through profit or loss*	200,679	165,123
	485,498	**418,494**
Interest expense - Amortised cost		
Deposits and savings due to customers	(77,750)	(55,507)
Banking facilities	(308)	(459)
	(78,058)	**(55,966)**
Net interest income	**407,440**	**362,528**

7. Fee and commission income

	2017 R'000	2016 R'000
Administration fees	36,302	48,331
Commission earnings	53,413	50,198
Service and management fees	149,028	142,427
	238,743	**240,956**

8. Net (loss)/gain on financial assets designated at fair value through profit or loss

	2017 R'000	2016 R'000
Fair value movements for the year	651	(748)
	651	**(748)**

Included in this total amount are the changes in the fair value of financial assets designated upon initial recognition as held at fair value through profit or loss.

9. Other operating income

	2017 R'000	2016 R'000
Bad debts recovered	10,554	15,155
Other	611	408
Profit on disposal of assets	422	620
Investment income from preference shares	19,685	22,492
	31,272	**38,675**

10. Impairment charge on financial assets

	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)**
2016 Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(73,440)	(8,160)	(81,600)
Investments - Corporate Money Managers (CMM)**	15	(5,219)	-	(5,219)
		(78,659)	**(8,160)**	**(86,819)**

** This impairment was determined taking into account several significant assumptions which have been included within the Director's report and in the accounting policies section relating to significant estimates.

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11. Personnel Expenses

	2017 R'000	2016 R'000
Pension costs - Defined contribution plan expense	(12,387)	(18,934)
Salaries and wages	(210,223)	(207,234)
	(222,610)	(226,168)
Personnel - Actual headcount at year end*	689	723

*Excluding executives, temporary staff & contractors

12. Other operating expenses

Significant operating expenses comprise of:

	2017 R'000	2016 R'000
Auditors remuneration		
Audit services	(8,540)	(4,440)
Other	(591)	208
Legal fees	(9,591)	(3,566)
Loss on sale of property and equipment	(583)	(1089)
Professional fees	(7,210)	(3,803)
Operating lease expense	(22,713)	(20,612)
Strategic research	(594)	(212)
Software license fees	(33,077)	(29,706)
Security expenses	(19,131)	(14,908)
Consumables	(7,673)	(6,988)
Network costs	(13,529)	(16,261)
Maintenance	(4,361)	(3,800)
Software expenses	(13,329)	(12,619)
Telecommunications	(2,491)	(2,384)
Travelling	(5,553)	(6,508)
Training	(3,799)	(2,689)
Fraud	(3,366)	(9,386)
Printing and stationary	(5,884)	(4,451)
VAT not recovered	7,271	(9,856)
Cash delivery costs	(12,324)	(9,090)
Consulting fees	(23,355)	(26,410)
Marketing	(12,053)	(9,654)
Memberships	(6,142)	(5,209)
Insurance	(1,966)	(2,109)
Bank charges	(5,996)	(6,174)
Storage	(141)	(210)
Other	(565)	(1,168)
	(217,286)	(213,093)

13. Taxation

The components of the tax expense for the years ended :

	Notes	2017 R'000	2016 R'000
Current tax			
Current income tax income/(expense)		-	-
Adjustment in respect of re-estimation of prior year		-	-
Deferred tax			
Adjustment in respect of re-estimation of prior year		-	-
Origination and reversal of temporary differences	20	(4,557)	(1,483)
Taxation (expense)/income recognised in profit/(loss) for the year		(4,557)	(1483)
Taxation (expense)/income recognised in other comprehensive income:	20	(4)	946
Fair value adjustment on available-for-sale investments		(4)	946
Total taxation in the statement of comprehensive income		(4,561)	(537)

Reconciliation of the total tax charge

A reconciliation between the tax benefit and the accounting loss is as follows:

	2017 R'000	2016 R'000
Accounting profit/(loss) before tax	**25,316**	**15,180**
At domestic corporate tax rate of 28% (2016: 28%)	(7,088)	(4,251)
Non-deductible and Non-taxable items	(1,213)	(1,506)
Income not subject to tax	7,034	6,298
Change in CGT tax rate	6,277	-
Taxation income reported in the statement of comprehensive income	5,010	**541**
Effective income tax rate	19.79%	(9.77%)

14. Cash and cash balances

	2017 R'000	2016 R'000
Coins and bank notes	69,591	56,194
Balances with other banks	274,640	295,195
	344,231	351,389

All cash and cash balances are available for use by the Bank.

15. Investments

	2017 R'000	2016 R'000
Available-for-sale[1]	44,707	41,691
Held to maturity	79,206	78,984
*- Money market instruments**	79,206	78,984
Designated at fair value through profit and loss	3,128,598	3,212,073
- Capital market instruments	303,649	303,878
- Money market instruments	-	100,218
- Central bank securities	2,824,949	2,807,977
	3,252,511	3,332,750
Included in investments is interest receivable:		
Held to maturity	406	184
- Money market instruments	406	184
Designated at fair value through profit and loss	3,649	5,482
- Capital market instruments	3,649	3,878
- Money market instruments	-	256
- Central bank securities	-	1,349
	4,055	5,667

*** Money Market instruments of R79.6mil (2017) and R79.1mil (2016) 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 can not cash out this investment without notification of the two entities.**

	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
2017				
Available-for-sale[1]	2,842	-	41,865	44,708
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	3,173,306
2016				
Available-for-sale[1]	2,860	-	38,832	41,690
Designated at fair value through profit and loss	-	3,212,072	-	3,212,072
- Capital market instruments	-	303,878	-	303,878
- Money market instruments	-	100,218	-	100,218
- Central bank securities	-	2,807,977	-	2,807,977
	2,860	3,212,072	38,832	3,253,763

15. Investments (continued)

Reconciliation of level 3 investments	2017	2016
Balance as at 1 March	38,832	38,726
Recoveries	-	-
Impairment (charge)/reversal	(2,403)	(5,219)
Accrued interest	5,436	5,325
Balance as at 28 February	41,865	38,832

[1] This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment charge of R2.4 million was recognised in the profit and loss section of the statement of comprehensive income (2016: R5.2 million). There are several significant assumptions applied to the impairment calculation which have been included in the Director's report. Please also refer to section 2.3 relating to significant judgements and estimates.

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 R358 000 to R41.5 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 R365 000 to R42.2 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 R5.7 million to R36.1 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 R6.6 million to R48.4 million.

- A change in the recovery value assumption applied (28%) of 5% to 23% would result in a decrease in the valuation of the investment of R9.5 million to R32.3 million. A similar change in the recovery value assumption applied (28%) of 5% to 33% would result in an increase in the valuation of the investment of R9.5 million to R51.3 million.

16. Trade receivables and other assets

	2017	2016
	R'000	R'000
Interest receivable	18	20
Other accounts receivable	165	4809
Operating account - Teba Ltd	1,631	1,631
VAT receivable	11,970	-
Stationery	129	9
Prepayments	17,575	17,369
Ubank Group Limited	4,696	4,696
Teba Fund	9,305	9,396
Trade debtors	3,271	15,989
	48,850	53,919

17. Loans and advances to customers

	2017 R'000	2016 R'000
Gross loans and advances to customers	929,177	838,058
Less: Allowances for impairment losses	(103,001)	(103,232)
Loans and advances to customers	**826,176**	**734,825**

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

	Note	Pension Backed loans	Other loans	Total
At 1 March 2016		(6,003)	(97,229)	(103,232)
Net charge for the year	10	(17)	(112,433)	(112,450)
Amounts written off		-	112,681	112,681
At 28 February 2017		**(6,020)**	**(96,981)**	**(103,001)**
At 1 March 2015		(5,948)	(110,959)	(116,907)
Net charge for the year	10	(55)	(81,545)	(81,600)
Amounts written off		-	95,275	95,275
At 29 February 2016		**(6,003)**	**(97,229)**	**(103,232)**

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

	Note	Specific impairment	Portfolio impairment	Total
Balance at 1 March 2016		(79,813)	(23,419)	(103,232)
Net charge for the year	10	(117,757)	5,307	(112,450)
Amounts written off		112,681	-	112,681
At 28 February 2017		**(84,889)**	**(18,112)**	**(103,002)**
Balance at 1 March 2015		(101,648)	(15,259)	(116,907)
Net charge for the year	10	(73,440)	(8,160)	(81,600)
Amounts written off		95,275	-	95,275
At 28 February 2016		**(79,813)**	**(23,419)**	**(103,232)**

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18. Property and equipment

	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
2017			
Leasehold improvements	59,888	(40,213)	19,675
Freehold land	1,171	-	1,171
Motor vehicles	1,950	(1,474)	476
Furniture and fittings	13,642	(10,542)	3,100
Office equipment	21,953	(17,225)	4,727
Computer equipment	154,188	(134,803)	19,385
ATM's	22,588	(11,252)	11,336
	275,380	(215,509)	59,870
2016			
Leasehold improvements	52,906	(35,314)	17,592
Freehold land	1,171	-	1,171
Motor vehicles	1,950	(1,383)	566
Furniture and fittings	15,039	(11,631)	3,408
Office equipment	20,820	(19,187)	1,632
Computer equipment	158,259	(140,285)	17,974
ATM's	21,530	(8,658)	12,873
	271,675	(216,458)	55,216

	Opening net carrying value	Additions	Disposals	Depreciation	Closing net carrying value
2017	R'000	R'000	R'000	R'000	R'000
Leasehold improvements	17,592	7,249	(58)	(5108)	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	4333	(422)	(816)	4,727
Computer equipment	17,974	9,869	(50)	(8,408)	19,385
ATM's	12,873	1630	(139)	(3,028)	11,336
	55,216	23,870	(732)	(18,485)	59,870
2016					
Leasehold improvements	18,115	5,707	(953)	(5,277)	17,592
Freehold land	1,955	-	(784)	-	1,171
Motor vehicles	676	-	-	(109)	567
Furniture and fittings	4,197	452	(19)	(1,222)	3,408
Office equipment	2,917	200	(11)	(1,474)	1,632
Computer equipment	20,197	5,804	(29)	(7,998)	17,974
ATM's	13,454	2118	(12)	(2,688)	12,873
	61,511	14,281	(1,808)	(18,767)	55,216

In terms of the Companies Act, details regarding freehold property are kept at the company's registered office and this information will be made available to shareholders on written request.

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19. Intangible assets

	Cost R'000	Accumulated amortisation R'000	Net carrying value R'000
2017			
Software development cost	114,794	(67,208)	47,586
	114,794	**(67,208)**	**47,586**
2016			
Software development cost	111,610	(53,028)	58,582
	111,610	**(53,028)**	**58,582**

	Opening net carrying value R'000	Additions R'000	Disposals R'000	Amortisation R'000	Closing net carrying value R'000
2017					
Software development cost	58,582	3,184		(14,180)	47,586
	58,582	**3,184**	**-**	**(14,180)**	**47,586**
2016					
Software development cost	68,806	4,444	-	(14,668)	58,582
	68,806	**4,444**	**-**	**(14,668)**	**58,582**

The remaining amortisation period for the Flexcube software is 35 months as at 28 February 2017.

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2017			2016		
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	2,725	-	2,725	4,393	-	4,393
Straight lining of lease and admin fees	3,658	-	3,658	3,712	-	3,712
Impairments - Loans and advances	5,071	-	5,071	890	-	890
Prepaid expenses	-	(2,699)	(2,699)	-	(2,289)	(2,289)
Impaired available-for-sale investment	36,797	-	36,797	31,199	-	31,199
Investment securities - fair value adjustments (OCI)	241	-	241	27	-	27
Provisional assessed loss	55,283	-	55,283	58,601	-	58,601
CGT loss on disposal of assets	586	-	586	571	-	571
Net tax assets/(liabilities)	**104,362**	**(2,699)**	**101,663**	**99,392**	**(2,289)**	**97,102**

Movements in deferred tax assets and liabilities during the year

	2017 R'000	2016 R'000
Provisions	(1,667)	1,683
Investment securities - fair value adjustments (OCI)	214	(945)
Investment securities adjustments (Comprehensive Income)	-	-
Straight lining of lease and admin fees	(53)	(1,636)
Impairments - Loans and advances	4,181	(3,379)
Prepaid expenses	(410)	(615)
Impaired available for sale investment	5,598	(20)
CGT loss on disposal of assets	16	(113)
Provisional assessed loss	(3,318)	4,490
Net movement in deferred tax assets/(liabilities)	**4,561**	**(537)**
Deferred tax movement through other comprehensive income	(215)	(946)
Deferred tax movement through profit and loss	(4,346)	1,483
	(4,561)	537

21. Trade payables and other liabilities

	2017 R'000	2016 R'000
Unallocated deposits	112	672
Liabilities under operating leases	2,173	1,916
Deferred income - Administration fees	10,892	11,339
Sundry accruals	3,792	1,482
Trade creditors	10,526	26,554
System clearing accounts	16,088	16,450
VAT payable	-	774
Electronic banking	1,512	1537
Teba Ltd	2,124	1,917
Accruals and other creditors	16,517	10,269
Sundry creditors	4,008	3,769
	67,744	76,679

22. Deposits and savings due to customers

	2017 R'000	2016 R'000
Deposits and savings due to customers	4,042,753	4,073,158
Interest accrued	22,898	17,141
	4,065,651	4,090,299

The average interest rate during 2017 for deposits by customers was 3.5% (2016: 2.7%).

23. Provisions

	Opening balance	Provision raised during the year	Provision utilised/reversed during the year	Closing balance
2017	R'000	R'000	R'000	R'000
Provision for Leave pay	8,902	4,939	(4,107)	9,734
	8,902	4,939	(4,107)	9,734
2016				
Provision for Leave pay	8,578	7,636	(7,312)	8,902
Bonus provision	-	3,495	(3,495)	-
Long term incentive provision	1,102	-	(1,102)	-
	9,680	11,131	(11,909)	8,902

24. Share capital and share premium

	2017 R'000	2016 R'000
Authorised		
25 000 000 ordinary shares of R1 each	25,000	25,000
Issued and fully paid		
24 500 000 ordinary shares of R1 each	24,500	24,500
Share premium		
Ordinary shares less share issue expense	**220,375**	**220,375**

All unissued shares are under the control of the directors.

25. Available-for-sale reserve

	2017 R'000	2016 R'000
Unrealised gain on available-for-sale investment	1,076	1,094

26. Commitments

The following tables summarise the nominal principal amount of commitments with off-Statement of Financial Position risk.

	2017 R'000	2016 R'000
Commitments		
Capital expenditure authorised but not contracted	64,545	41,490
- Property and equipment	53,662	29,866
- Intangible assets	10,883	11,624
Capital expenditure authorised and committed	7,533	16,641
	72,078	58,131

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 lease commitments

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

	2017 R'000	2016 R'000
Within one year	13,560	13,564
After one year but not more than five years	9,139	16,654
	22,699	30,218

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 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 because all the parties' concerned have reached an agreement to an arbitration process and the assessment by Ubank lawyers on the possibility of a loss in this case is remote. The bank has not 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 Group Limited is the 100% shareholder of Ubank Limited.

In the current year related party transactions relating to group mobilisation costs of Rnil (2016: Rnil) were paid by the Bank. 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

Teba Fund is the trust which is the ultimate parent of Ubank Limited.

In the current year related party transactions relating to trust costs of R9.4 million (2016: R9.4 million) were paid by the Bank. 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.

All transactions between related parties were on an arms length basis. 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.

Details of transactions between Directors and other Key Management Personnel (and their connect persons) and the Bank are as follows:

	Directors and Key Management Personnel	
	2017	**2016**
	R'000	**R'000**
Loans and advances		
Other key management personnel - Exco		
Opening balance	136	320
Loans granted during the year	-	-
Interest income	17	20
Loans reallocated due staff resignation	-	(103)
Repayments	(55)	(101)
	98	**136**

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 32 for further detail of Key management personnel remuneration.

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28. Reconciliation of operating profit to net cash flow from operating activities

	2017 R'000	2016 R'000
Profit before tax	25,316	15,180
Adjustments for non-cash flow items:		
(Profit)/Loss on disposal of property and equipment	162	469
Amortisation of intangible assets	14,180	14,668
Straight-lining of operating lease	256	430
Net (gain)/loss on short term investments	(651)	748
Impairment charge on available for sale investment	2,403	5,219
Straight-lining of admin fees received	(447)	(6,273)
Depreciation of property and equipment	18,485	18,767
Impairment charge on loans and advances	112,450	81,600
	172,154	130,808
Movement in working capital:		
Decrease in trade receivables and other assets	5,069	(7,783)
Decrease in trade payables and other current liabilities	(7,913)	12,945
Cash available from operating activities	**169,307**	**135,970**
Taxation (paid)/received:		
Statement of comprehensive income	4,557	(1,483)
Available for sale reserve tax movement	4	946
Deferred taxation balance movement	(4,561)	537
Current tax asset movement	-	-
	-	-

29. Liquidity analysis

The liquidity analysis below includes discounted balances and separately represents future interest so as to present the undiscounted value, as reported within the ALCO risk management process.

2017	On demand R'000	Within 1 year R'000	From 1 year to 5 R'000	More than 5 years R'000	Total 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**	**3,713,877**	**862,252**	**-**	**4,932,903**
Other assets					
Property and equipment	-	-	-	-	59,870
Intangible assets	-	-	-	-	47,586
Stationey	-	-	-	-	129
Vat receivable	-	-	-	-	11,970
Deferred taxation	-	-	-	-	101,663
Prepayments	-	-	-	-	17,575
Total other assets	**-**	**-**	**-**	**-**	**238,792**
Total assets	**356,775**	**3,713,877**	**862,252**	**-**	**5,171,695**
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	-	-	-	-	1,076
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.

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29. Liquidity analysis (continued)

2016	On demand R'000	Within 1 year R'000	From 1 year to 5 R'000	More than 5 years R'000	Total R'000
Financial assets					
Cash and cash balances	351,389	-	-	-	351,389
Investments	-	3,332,750	-	-	3,332,750
Trade receivables and other assets	-	36,541	-	-	36,541
Loans and advances to customers	19,914	205,142	509,770	-	734,825
Total financial assets	**371,303**	**3,574,433**	**509,770**	**-**	**4,455,506**
Future interest *	-	216,309	161,131	-	377,440
Total financial assets including future interest	**371,303**	**3,790,743**	**670,900**	**-**	**4,832,946**
Other assets					
Property and equipment	-	-	-	-	55,216
Intangible assets	-	-	-	-	58,582
Stationery	-	-	-	-	9
Deferred taxation	-	-	-	-	97,102
Other trade receivables	-	-	-	-	17,369
Total other assets	**-**	**-**	**-**	**-**	**228,278**
Total assets	**371,303**	**3,790,743**	**670,900**	**-**	**5,061,224**
Financial liabilities					
Trade payables and other liabilities	-	34,393	-	-	35,393
Deposits and savings due to customers	3,094,070	941,251	54,978	-	4,090,299
Total financial liabilities	**3,094,070**	**975,644**	**54,978**	**-**	**4,124,692**
Future interest **	-	16,047	10,123	-	26,170
Total financial liabilities including future interest	**3,094,070**	**991,691**	**65,101**	**-**	**4,150,862**
Other liabilities					
Trade payables and other liabilities	-	-	-	-	42,285
Provisions	-	-	-	-	8,902
Total other liabilities	**-**	**-**	**-**	**-**	**51,187**
Total liabilities	**3,094,070**	**991,691**	**65,101**	**-**	**4,202,049**
Equity					
Share capital and share premium	-	-	-	-	244,875
Available-for-sale reserve	-	-	-	-	1,094
Retained earnings	-	-	-	-	261,933
Total equity	**-**	**-**	**-**	**-**	**507,903**
Total liabilities and equity	**3,094,070**	**991,691**	**65,101**	**-**	**4,709,953**

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

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

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30. Classification of assets and liabilities

Classification of assets

2017	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
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 (excluding prepayments)	31,146	-	-	-	-	31,146
Loans and advances to customers	826,176	-	-	-	-	826,176
Other assets						
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	1,201,554	79,206	3,128,598	44,707	226,822	4,680,887

2016	Loans and receivables R'000	Held to Maturity R'000	Designated at fair value through profit and loss R'000	Held as Available for sale R'000	Non-financial assets R'000	Total R'000
Financial assets						
Cash and cash balances	351,389	-	-	-	-	351,389
Investments	-	78,984	3,212,075	41,691	-	3,332,750
Trade receivables and other assets (excluding prepayments)	36,541	-	-	-	-	36,541
Loans and advances to customers	734,825	-	-	-	-	734,825
Other assets						
Prepayments	-	-	-	-	17,369	14,622
Intangible assets	-	-	-	-	58,582	68,806
Property and equipment	-	-	-	-	55,216	61,511
Stationery	-	-	-	-	9	442
Deferred taxation	-	-	-	-	97,102	97,639
Total assets	1,122,755	78,984	3,212,075	41,691	228,278	4,698,525

30. Classification of assets and liabilities

Classification of liabilities

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	67,744
Other liabilities			
Provisions	-	9,734	9,734
Total liabilities	4,086,262	56,865	4,143,129

2016	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
Financial liabilities			
Deposits and savings due to customers	4,090,299	-	4,090,299
Trade payables and other liabilities	34,393	42,284	76,679
Other liabilities			
Provisions	-	8,902	8,902
Total liabilities	4,124,692	51,186	4,175,880

Fair value hierarchy

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy and depends 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 (2015: none). Please refer to note 15 for the hierarchy on Investments.

	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
2017				
Assets *(Excluding investments)*				
Cash and cash balances	-	344,231	-	344,231
Loans and Advances	-	826,176	-	826,176
Trade receivables	-	48,850	-	48,850
	-	1,219,257	-	1,219,257
Liabilities				
Deposits	-	4,065,651	-	4,065,651
Trade payables	-	55,774	-	55,774
	-	4,121,425	-	4,121,425
2016				
Assets *(Excluding investments)*				
Cash and cash balances	-	351,389	-	351,389
Loans and Advances	-	734,826	-	734,826
Trade receivables	-	53,919	-	53,919
	-	1,140,134	-	1,140,134
Liabilities				
Deposits	-	4,090,299	-	4,090,299
Trade payables	-	76,679	-	76,679
	-	4,166,978	-	4,166,978

31. Share-based payments

The bank has two cash-settled share-based payment transactions with key selected employees (collectively referred to as *cash-settled instruments or Ubank Long Term Incentive Plan ('Ubank LTIP')*, namely:
- share appreciation rights; and
- share performance rights.

The bank grants cash-settled instruments to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the financial performance of the bank from a specified level over a specified period of time.

Description of cash-settled instruments:

Schemes	Share appreciation rights (SARs); and share performance rights (SPRs).
Description	Selected employees are granted SARs and SPRs. SARs and SPRs are similar to options in that SARs and SPRs are granted at a predetermined exercise price vesting and expiry dates. When the participant elects to exercise SARs and / or SPRs, the employer settles the difference between the current market price and the exercise price in cash.
Vesting requirements	SARs: Completion of three years' service, from grant date, subject to corporate targets being met. Participants must remain in service for three years, and there after, 1/3 of the SARs become unrestricted and 1/3 of the SARs vest. SPRs: Completion of three years' service, from grant date, subject to corporated targets being met. Participants must remain in service for three years, and there after, 3/3 of the SPRs become unrestricted and 3/3 of the SPRs vest.
1st allocation date	1 March 2008
Final allocation date	1 March 2018
Frequency of allocations	Annually. Thus, maximum term of the cash-settled transaction arrangment is 10 years.

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31. Share-based payments (continued)

	Share-based payment expense 2017 R'000	Share-based payment expense 2016 R'000	Share-based payment liability 2017 R'000	Share-based payment liability 2016 R'000
Cash-settled instruments	000	(1102)	-	-

Movement in number of instruments

Cash-settled instruments	Number of instruments 2017	Weighted average exercise price 2017	Number of instruments 2016	Weighted average exercise price 2016
Outstanding at the beginning of the year	-	-	**155,986**	**22.33**
- SARs	-	-	123,960	22.33
- SPRs	-	-	32,026	22.33
Granted	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Exercised	-	-	87,582	22.33
- SARs	-	-	55,556	22.33
- SPRs	-	-	32,026	22.33
Expired	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Forfeited	-	-	68,405	22.23
- SARs	-	-	68,405	22.23
- SPRs	-	-	-	22.23
Outstanding at the end of the year	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Exercisable at the end of the year	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Weighted average share price for rights exercised in Rands	-	-	87,582	22.33
- SARs	-	-	55,556	22.33
- SPRs	-	-	32,026	22.33

Instruments outstanding at the end of the year by issue price

Cash-settled instruments	Number of instruments 2017	Weighted average remaining contractual life (years) 2017	Number of instruments 2016	Weighted average remaining contractual life (years) 2016
- SARs	-	-	-	-
15.54	-	-	-	-
19.38	-	-	-	-
18.28	-	-	-	-
18.43	-	-	-	-
17.98	-	-	-	-
- SPRs	-	-	-	-
15.54	-	-	-	-
19.38	-	-	-	-
18.28	-	-	-	-
18.43	-	-	-	-
17.98	-	-	-	-
	-	-	-	-

31. Share-based payments (continued)

Instruments granted during the year

The weighted average fair value of instruments granted during the year has been calculated using the appropriate valuation model taking into account the relevant scheme rules, using the following inputs and assumptions.

	Cash settled instruments 2017		Cash settled instruments 2016	
	SARs	SPRs	SARs	SPRs
Number of instruments granted	-	-	-	-
Weighted average fair value per instrument granted (R)	-	-	-	-
Weighted average share price (R)	-	-	22.23	22.23
Weighted average exercise price (R)	-	-	22.33	22.33
Weighted average projected exercise price* (R)	-	-	21.17	21.17
Discount rate (%)	0%	0%	9%	9%
Share appreciation applicable hurdle rate	0%	n/a	0%	n/a
Performance vesting modifier	-	-	-	3.0
Projected performance vesting maximum (%)	n/a	0%	n/a	14.19%
Weighted average life (years)	0.0	0.0	3.0	3.0
Number of participants	0	0	1	3
Weighted average vesting period (years)	0.0	0.0	3.0	3.0

* Weighted average projected exercise price is determined based on the historic 3 year average award value of SARs and SPRs as aligned to the performance period pertinent to vesting.

n/a - input and assumptions are not applicable to SARs or SPRs.

32. Directors' and Prescribed Officers' Remuneration

Key management personnel compensation

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, Prescribed Officers and other executive management personnel of Ubank Limited.

The board, as part of evolving best practice, has considered the definition of prescribed officers and resolved that the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Managing Executive of Retail Banking Services (Retail Exec), including their related acting officers, will be identified as Prescribed Officers Of Ubank Limited.

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32. Directors' and Prescribed Officers' Remuneration (continued)

Remuneration paid to Directors, Prescribed Officers and other executive management personnel of Ubank Limited:

2017	Fees R'000	Gross pay R'000	Long Term Incentive Plan R'000	Bonus # R'000	Pension and Retirement Benefits R'000	Other benefits ## R'000	Total cost to company R'000
Non-executive directors							
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**
Total	**1,868**	**-**	**-**	**-**	**-**	**-**	**1,868**
Executive directors							
L. Vutula (CEO)	-	3,542	-	-	196	126	**3,864**
Total	**-**	**3,542**	**-**	**-**	**196**	**126**	**3,864**
Prescribed officers							
H. du Preez (Acting CFO)^^^	-	-	-	-	-	415	**415**
W. Mosigi (Acting ME - Retail)^^^^	-	-	-	-	-	245	**245**
Total	**-**	**-**	**-**	**-**	**-**	**660**	**660**
Other executive management personnel	-	14,956	-	-	1,792	537	**17,285**
Total	**1,868**	**18,498**	**-**	**-**	**1,988**	**1,323**	**23,677**

\# Bonus includes sign on bonuses

\## Other benefits amongst others include leave pay, travel allowances, acting allowance, medical aid benefits and disability insurances.

* Resigned 27 September 2016.

** Resigned 28 February 2017

^ Appointed 17 September 2016.

^^ Appointed 01 February 2017.

^^^ 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.

Remuneration paid to Directors, Prescribed Officers and other executive management personnel of Ubank Limited:

2016	Fees	Gross pay	Long Term Incentive Plan	Bonus	Pension and Retirement Benefits	Other benefits #	Total cost to company
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Non-executive directors							
J.H. De Villiers Botha	630	-	-	-	-	-	630
T. Dlamini*	316	-	-	-	-	-	316
H. Groenewald	265	-	-	-	-	-	265
M. Lesabe^	225	-	-	-	-	-	225
Z.N. Miya	429	-	-	-	-	-	429
S. Ntsaluba	315	-	-	-	-	-	315
P. Molefe	259	-	-	-	-	-	259
R. Garach	391	-	-	-	-	-	391
Total	**2,830**	-	-	-	-	-	**2,830**
Executive directors							
L. Vutula (CEO)	-	3,542	-	1,532	194	74	5,342
H. Heymans (CFO)****	-	1,649	-	-	140	167	1,956
Total	-	**5,191**	-	**1,532**	**334**	**241**	**7,298**
Prescribed officers							
B. Radebe (ME - Retail Services)***	-	2,500	363	-	120	153	3,136
H. du Preez (Acting CFO)^^	35	-	-	-	-	-	35
W. Mosigi (Acting ME - Retail)^^^	34	-	-	-	-	-	34
Total	**69**	**2,500**	**363**	-	**120**	**153**	**3,205**
Other executive management personnel	-	12,228	945	1,864	792	618	16,447
Total	**2,899**	**19,919**	**1,308**	**3,396**	**1,246**	**1,012**	**29,780**

\# Bonus includes sign on bonuses

\## Other benefits amongst others include leave pay, travel allowances, medical aid benefits and disability insurances.

* Resigned 22 April 2015.

*** Resigned 11 December 2015

**** Resigned 31 December 2015

^ Appointed 17 April 2015.

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32. Directors' and Prescribed Officers' Remuneration (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	

The table below indicates the share-based allocations awarded to the executive directors, prescribed officers and other executives.

Movements in number of instruments :

	Executive director	*Prescribed officers*		**Other executives**	
	L. Vutula (CEO)	H. du Preez(Acting CFO)	W. Mosigi (Acting: ME - Retail Services)	Other executives	**Total**
2017					
Cash-settled instruments					
Outstanding at the	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Granted	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Exercised	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Expired	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Forfeited	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Outstanding at the end of	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-

32. Directors' and Prescribed Officers' Remuneration (continued)

Movements in number of instruments :

	Executive directors		*Prescribed officer*	Other executives	
	L. Vutula (CEO)	H. Heymans (CFO)	B. Radebe (ME - Retail Services)	Other executives	**Total**
2016					
Cash-settled instruments					
Outstanding at the beginning of the year	-	-	49,552	226,590	**155,987**
- SARs	-	-	35,605	88,356	**123,961**
- SPRs	-	-	13,947	18,079	**32,026**
Granted	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Exercised	-	-	25,827	61,755	**87,582**
- SARs	-	-	11,880	43,676	**55,556**
- SPRs	-	-	13,947	18,079	**32,026**
Expired	-	-	-	-	-
- SARs	-	-	-	-	-
- SPRs	-	-	-	-	-
Forfeited	-	-	23,725	44,680	**68,405**
- SARs	-	-	23,725	44,680	**68,405**
- SPRs	-	-	-	-	-
Outstanding at the end of the year	-	-	49,552	106,434	**155,986**
- SARs	-	-	35,605	88,355	**123,960**
- SPRs	-	-	13,947	18,079	**32,026**