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ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2012

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UBANK LIMITED

In terms of Section 29 of the Companies Act 71 of 2008, the annual financial statements have been prepared under the supervision of Mrs Jo-Ann Pohl, CA(SA) and Mr Henry du Preez CA(SA). The annual financial statements have been audited by Ernst & Young Inc. and SizweNtsalubaGobodo Inc. in terms of Section 30(2)(a) of the Companies Act 71 of 2008.

CONTENTS

DIRECTORS' APPROVAL

The directors whose names appear on page 2 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, 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 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 2 to 68 were approved by the Board of Directors of Ubank Limited and are signed on their behalf by:

Director:
Johannesburg, 19 July 2012

Director:

CERTIFICATE OF THE COMPANY SECRETARY

In my capacity as company secretary I certify that in terms of the Companies Act, No.71 of 2008, this Bank submitted all returns for the year ended 29 February 2012, 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, 19 July 2012

DIRECTORS' REPORT

FOR THE YEAR ENDED 29 FEBRUARY 2012

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 under-banked 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**
C.B. Stofile	19 June 2001	
J.H. De Villiers Botha (Chairman)	29 November 2005	
Z. Macanda	16 August 2007	
D.P. Elbrecht	15 October 2008	
A.W. Mjekula*	06 November 2008	
L. Mangope	24 December 2008	
Z.N. Miya	21 June 2010	
H. Groenewald	01 September 2011	
Executive directors		
M. Williams (Chief Executive Officer)	01 April 2007	30 June 2012
J. Pohl (Chief Financial Officer)	01 June 2007	30 June 2012
Executive officers		
A.W Mjekula*(Acting Chief Executive Officer)	01 April 2012	
H. du Preez (Acting Chief Financial Officer)	01 July 2012	
Company Secretary	**Appointment date**	
Andiswa Ndoni	01 September 2007	

* Mr A.W Mjekula was a non-executive director and Chairman of the board until 31 March 2012 and has been appointed as acting CEO from 1 April 2012.

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

Prescribed Officers	**Appointment date**
B. Radebe (Chief Operating Officer)	01 December 2011
K. Pather (Retail Executive)	19 October 2009

DIRECTOR'S REPORT

FOR THE YEAR ENDED 29 FEBRUARY 2012 (continued)

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. All executive directors have standard letters of appointment.

SPECIAL RESOLUTIONS

No special resolutions were passed during the financial year.

OVERVIEW

We are pleased to report that the year under review has seen a turnaround in earnings, with a profit before tax of R34 million. This was due to further growth of the loan book, continued cost controls, and an increase in non-interest income. The external environment provided challenges to the Bank, most notably, on-going historically low interest rates, increasing competition in the mass market sector, and the effects of constraints to gold and platinum mining on our core target market. Nevertheless, Ubank attained a year of steady growth in its balance sheet, to R3,5 billion, including growth in customer deposits. Attracting and retaining customer deposits remains one of the Bank's strengths underpinned by the objective to safeguard customer assets enabling our customers to maintain and grow their assets.

During the year, the Bank focused on consolidation, including the bedding down of key business initiatives such as the new brand, transactional products and system enhancements, as well as the continued improvement of the Bank's risk profile, capital management, asset quality and defence of the Bank's dominant market share within the mining market.

ECONOMIC REVIEW

The year under review was characterised by global economic uncertainty with the continuing sovereign debt crisis in the Euro Zone, uprisings in North Africa and the Middle East creating concerns about oil supply, rising inflation, mid-year fears of recession in the US economy, economic set-backs in Japan due to a catastrophic natural disaster, and slowing second half growth in emerging markets.

South Africa's GDP grew by 3.1% in 2011, slightly up from 2010's 2.9%, but with signs of a loss in momentum in Q1 2012, with a decline in annualised growth forecast to 2.2%. As expected, formal sector employment lagged economic growth, increasing by 2.2% in 2011, but slowing to an annualised 1.2% in Q1 2012. Inflation rose outside target range on the back of rising oil, food and administered prices, but was cushioned by the rand's strength during the first nine months of 2011. With global markets on the precipice in mid-2011 due to US and Euro-zone sovereign debt issues, risk aversion set in, impacting negatively on the rand. Despite all this, and continued high debt, consumer spending, growing at 5% in 2011, drove moderate growth in the South African economy, helped by the continuing low interest rate, growth in real disposable income and a drop in household indebtedness to 76% by the end of 2011. This was largely due to above-inflation wage increases, which averaged 7.8% in 2011.

With increasing inflation, relating to the essentials of fuel, food and electricity (all showing increases well in excess of 10% and likely to see further hikes during 2012), consumers could either cut other expenditure or take on additional debt. Overall, whilst the ratio of debt to disposable income decreased, and total consumer credit growth was subdued, 2011 saw a large increase in unsecured lending, as consumers increasingly used short-term debt (mostly in the form of personal loans) to offset the loss of discretionary spending power. Household debt grew 6,8% year-on-year in March 2012, with unsecured lending increasing on an annual basis by 29.4% in March 2012.

During 2011, the retail banking industry showed a recovery from anaemic growth in profits seen during the post-global financial crisis period of 2009 and 2010. This was largely due to reduced impairments and bad debt provisioning, a turnaround in revenue (both net interest and non-interest income) and volume growth. 2011 saw an aggressive drive for unsecured credit growth amongst certain major banks, not only in response to brisk demand amongst consumers, but also in response to stricter regulatory requirements on the horizon (2018) in the form of Basel III net stable funding rules. These longer-term funding requirements mean that long-term loans such as mortgages must be matched by long-term savings. As retail banks are not the traditional home of 20-year contractual savings and investments, the industry is starting to move towards increasing its shorter-term loan book to address customer needs for consumable funding. Unsecured lending, due to its risks, also ensures higher margins in a challenging interest rate environment. The robust growth in unsecured lending volumes has led to concerns about a bubble forming. The size and terms of unsecured loans have grown to an average of R17,000.00 payable over three years, which may result in increased impairments when interest rates start to tighten. This is concerning for personal lending across the board.

MINING

Against this wider backdrop of global uncertainty and domestic consumer spending growth, the bank's core mining market saw mixed fortunes during 2011. Despite platinum and gold commodity prices escalating to all-time highs during August and September 2011, respectively, both industries faced considerable challenges in South Africa during the year under review. Platinum production growth was virtually flat in 2011, rising by 0.5%, whilst gold production continued its long-term decline in the country, falling 4.5% during the year. Both industries faced production disruption due to industrial action and safety stoppages and cost increases well above inflation rates (platinum 14%; gold 19%). The platinum sector saw the dismissal of over 26 000 mineworkers due to illegal strikes at Karee and Impala mines, the latter involving a three-month strike. This was proactively managed from a customer loan and deposit perspective in conjunction with the union, customers and employers to mitigate the Bank's exposure to this sector. Both mines have subsequently re-instated the majority of the workers, and the platinum industry overall saw a 7% growth in employment during the year.

The gold sector, in contrast, saw a 7% decline in employment, mainly due to closure of marginal mines resulting from production inflation of 19% during 2011, with rising labour and electricity costs as key contributors. The gold price, despite its all-time high, could not support costs at some South African gold mines.

PERFORMANCE

The year saw the continued growth of the loan book to a net R973 million, and gross R1.1 billion, in line with the Bank's 2007 long-term strategic target for the 2012 financial year end. The net loan book grew 27,7% from R761 million in 2011, primarily within the mining market, but with solid growth in the new "adjacent" non-mining, formally employed sector.

The growth of the credit book doubled in the four years from 2008, representing an average growth of 29% per annum with consistent focus on the quality of the loans written. This continued trend resulted in an increase of the loan to deposit ratio to 34% in FY2012, up from 27% in FY2011. In line with the strategy, the higher loan to deposit ratio further reduced the Bank's reliance on low yielding investments of customer deposits. Loans generated 69,7% of the bank's interest income for the year and 45,0% of the Bank's total operating income of R567 million. Impairment charges on loans and advances rose to 8,6% of total loans and advances, up from 6.8% in FY2011 as a result of revised credit criteria earlier in the financial year, combined with production disruption in the mining industry, including illegal strikes resulting in mass dismissals. Further, impairments grew as a result of the new loan product aimed at new markets, launched in late 2010. The latter grew from R33 million in February 2011, in line with the expected growth in this riskier portfolio, comprising 4% of the loan book, to R121 million by February 2012, comprising 12% of customer advances.

Non-interest income increased 12,5% during FY2012, due to volume growth in loan sales, transactional pricing increases and new electronic banking products and features introduced in late 2010, namely, the bundled debit card offering, cell phone text messaging notification and NAEDO third party payment facilities. The new electronic banking-based offerings were also accompanied by an increase in variable electronic banking expenses. The overall non-interest income is a result of realising the Bank's objective for accessible and affordable products for the worker market.

The ratio of non-interest income to total operating income, however decreased in FY2012, to 54% from 58% in FY 2011. This was due to a strong focus during the year on growing the loan book; however non-interest income remains a driver in light of the Bank's strategic objective of reducing dependence on interest-based income.

Operating expenses reduced slightly during the year by 1% to R444 million, on the back of a cost conscious approach to expenses and efficiency in overhead expenditure. Together with a 15% increase in operating income, this brought the Bank back into profit with a 78.2% cost-to-income ratio (pre impairment).

Ubank's capital adequacy ratio at the end of FY2012 was 18.76%. In response to the growing loan book, 90% of which comprises unsecured loans, and with a risk-weighting starting from 75%, the Bank moved a significant portion of the investment portfolio into zero risk-weighted sovereign bonds during the financial year. Whilst of a reduced yield, sovereign bond holdings, compared to inter-bank or other corporate investments, strengthens the Bank's capital and liquidity positions, allowing for the growth of higher yielding customer advances.

DIRECTOR'S REPORT

FOR THE YEAR ENDED 29 FEBRUARY 2012 (continued)

GOVERNANCE

We are disappointed to report that an executive was dismissed on charges of fraud in early 2012 following internal investigations conducted by the Bank's internal forensic auditors. The matter is being followed up with criminal charges and the pending legal proceedings mean that the disclosure of further information is not at this stage possible. The investigation has indicated that the Bank incurred a loss of R6.3 million over a two and a half year period. The Bank has claimed from its insurer and has received a recovery in terms of its insurance policies, and recognised an insurance asset of R5,6 million in accounts receivable (refer to note 16). The board has taken adequate steps for the prevention or recovery of any loss as a result thereof.

In addition an executive was suspended in relation to a procedural breach in the appointment of contractors. The board commissioned an independent investigation into the allegations. There remain pending disciplinary and legal proceedings and therefore the disclosure of further information is not at this stage possible. The Bank has taken interim measures to increase capacity in the area for which the executive was responsible.

The Bank has investigated further allegations against other executives and management of a procedural nature, made by the dismissed executive to assess their validity. The investigation was conducted within the context of a general, cross-organisational, compliance review of the control environment of the bank by independent specialists. The investigation has identified vulnerable governance processes and has recommended enhancement to the control environment, specifically the policies and procedures relating to procurement, finance and conflict of interest.

The Board takes the above matters in a serious light and have taken action in line with the recommendations made by the independent specialists. As an organisation that has been around for over thirty years, Ubank holds itself to high corporate governance standards. The Bank's stance on fraud is one of zero tolerance as the entrusted custodian of depositors' money.

CHANGES TO THE BOARD OF DIRECTORS

In April 2012, Mark Williams, the CEO and Jo Pohl, the CFO, stepped down, having completed five-year terms with the Bank. The notice periods were served to 30 June 2012. They leave the Bank with solid clients, quality stakeholders and valuable employees who have a critical role to play in ensuring the continuation of a well-managed Bank moving forward. We wish them both all the best in the future.

Whilst recruiting for new incumbents to the two positions is underway, the previous chairman, Ayanda Mjekula, is acting CEO and Henry du Preez is acting CFO.

The Board welcomes De Villiers Botha, a previous non-executive director of the board, in his role as the new Chairman of the Bank. Dev Botha has twenty four years of banking experience and has served as an independent member of the board of Ubank since 2005, and brings a wealth of knowledge to his new position.

PROSPECTS

The Bank's strategic plan for the next five years places a risk- and capital-adjusted approach at the core of the future plans. This will take into account increasing competition in both the unsecured lending and electronic banking areas, which constitute the Bank's core current business, as well as the stricter and costlier capital adequacy and liquidity regulatory requirements (Basel III) to be introduced in a phased approach from 2013 to 2019.

In the short-term, the Bank will focus on further improving controls and asset quality, and increasing its competitiveness through efficient systems and distribution optimisation. The Bank anticipates an accelerated growth in volumes and overall balance sheet growth through an intensified cross-sales effort, customer education drive and the introduction of new loan products.

The 2012 financial year thus marks a watershed moment as the Bank is poised to realise its vision to be the *Workers Bank of Choice* with a solid foundation for growth in place and thoroughly tested during this precarious period for financial services and economies across the globe.

KEY AREAS OF SIGNIFICANT JUDGEMENT - INVESTMENT IMPAIRMENT

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 29 February 2012 was R54 million and reported as Investments (Note 15) under the available for sale designation.

Management reassessed the estimates used to calculate the value of the CMM investment by using the latest information available in the current year and observed objective evidence for further impairment of R5.7 million (2011: R20.9 million), resulting in a total impairment of R193.3 million. The impairment estimate is calculated by taking into account the following significant judgements:

- **Realisable amount**
  The Curators remain confident of a partial recovery of the assets within the Fund, 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 41.3% (2011: 42.5%). 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 13.75% (2011: 13.63%) 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 5 years (2011: 5 years) taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an impairment adjustment of R5.7 million (2011: R20.9 million) reported on the face of the Statement of Comprehensive Income. The gross carrying value R210.7 million (2011: R220 million) less cumulative impairment of R193.3 million (2011: R187.6 million) results in a net carrying value of R54.2 million (2011: R62 million). Since management intend 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 a hardship payment of R9.3 million from the curators. Management remain hopeful of a better recovery rate and are actively engaged with the Curators through the Investor Forum to explore all remaining recovery opportunities.

AUDIT COMMITTEE REPORT

FOR THE FINANCIAL YEAR 2012

The appointed Audit Committee is the custodian for financial reporting, accountability and adequacy of efficient controls planning. The committee met three 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 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 is composed of non-executive directors of the Board, with the chief executive officer, chief financial officer, chief technology officer, head of audit, head of compliance, head of risk, GM for credit, the company secretary and external auditors in attendance.

FINANCIAL STATEMENTS

An assessment of the Financial Solutions function including appropriate succession planning for key departments, forms part of the annual performance review process. A skills assessment at senior management level was also performed to satisfy the Audit Committee with regards to the expertise, resources and experience of the function.

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. The Audit Committee is satisfied that there are no significant concerns in this regard.

INTERNAL AUDIT

The Audit Committee approved the Internal Audit Charter and regularly assesses the adequacy and effectiveness of the Internal Audit function. An independent quality assurance and performance review was also performed during the year, the recommendations thereof will be used to further strengthen the internal assurance processes.

The internal audit plan for the year focused on the Bank's control environment, with an emphasis on closing outstanding audit issues and maintaining the overall risk profile of the Bank with 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 deem the control environment to be effective and seeks continuous improvement in the Banks overall control environment.

With regard to fraud and its prevention, the Bank was active during the year in raising staff awareness about fraud alerts, including whistleblowing. This has assisted significantly with the prevention of fraud, and was a key initiator of the forensic investigation into the activities of a senior executive, who has subsequently been criminally charged with invoice-related fraud and money laundering.

During the period the Audit Committee received an allegation pertaining to the Executive in charge of this area. The Audit Committee has instituted an independent investigation into the allegations and have suspended the Executive pending the outcome of the investigation and resulting processes.

During this time the Audit Committee has appointed (on an acting capacity) a member of the internal audit to head the Audit department.

CONTROL ENVIRONMENT

As disclosed in the Directors' report, the Bank commissioned two separate independent investigations into allegation of irregularities against executives and senior members of management. The investigation has identified vulnerable governance processes and has recommended enhancement to the control environment, specifically the policies and procedures relating to procurement, finance and conflict of interest. Further information is included in the 'governance' section of the Board of Directors' report.

The Audit Committee takes the above matters in a serious light and has taken action in line with the recommendations made by the independent specialists to enhance the control environment.

EXTERNAL AUDIT

The committee approved the re-appointment of Ernst and Young Inc. and of SizweNtsaluba VSP, now SizweNtsalubaGobodo Inc., as joint audit firms for the 2012 financial year. Responsibilities were split on a fifty:fifty basis, a change on the prior year's sixty : forty split respectively.

During the year, the committee approved the reviewed and updated corporate governance framework as part of the continuous improvement on governance standards.

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 year, compliance reviews were performed on various regulatory requirements and the committee considered all significant compliance matters and any breaches pertaining to fiduciary duties, regulations and the Companies Act. Where improvements and non-compliance issues were identified these were escalated to the Enterprise Risk Committee, EXCO, Board Audit Committee and Board Risk and Capital Management Committee for action and oversight to ensure progress on all issues. Significant progress has been made in addressing these issues. There is also continuous engagement with SARB with regard to compliance matters.

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.

RISK

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

The business continuity management plans and processes are reviewed on annual basis and the Audit Committee, which has dealt with all matters referred by the Board Risk and Capital Management Committee.

GOING FORWARD

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

The Reserve Bank approved the consolidation of the internal audit, risk and compliance functions into one function from an executive management perspective. This consolidation is to ensure alignment, consistent standards and the implementation of a combined risk assurance model. This approach to identifying and, reporting risks with oversight and independent review of mitigations will enable management and the Board to focus on key issues from a consolidated view as opposed to separate reports, and is expected to positively impact the Bank's risk profile. Recruiting is in progress for an executive to head up this consolidated division. This consolidated approach will be supplemented by the establishment of a social and ethics committee to ensure that we meet the sustainability reporting requirements.

The Bank will continue to proactively perform compliance reviews on new regulations, considering both the industry impact and implications for the Bank. This includes monitoring King III guidance which the Bank is not obligated to comply with at this stage.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UBANK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Ubank Limited set out on pages 10 to 68, which comprise the statement of financial position as at 29 February 2012, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ubank Limited as at 29 February 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 29 February 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with our responsibilities in terms of section 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified certain unlawful acts or omissions committed by person responsible for the management of Ubank Limited which constitute reportable irregularity in terms of the Auditing Profession Act, and have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in the Directors' Report.

Ernst & Young Inc.

Director - Steven Bird
Registered Auditor (RA), CA (SA)
19 July 2012

Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo

SizweNtsalubaGobodo Inc.

Director - Nhlanhla Sigasa
Registered Auditor (RA), CA (SA)
19 July 2012

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 29 FEBRUARY 2012

	Notes	2012 R'000	2011 R'000
Interest income		367,459	309,282
Interest expense		(35,533)	(45,156)
Net interest income	6	**331,926**	**264,126**
Fees and commission income	7	276,807	252,458
Fees and commission expense		(61,066)	(60,613)
Net fees and commission income		**215,741**	**191,845**
Net (loss)/gain on financial assets designated at fair value through profit or loss	8	(9,181)	732
Other operating income	9	28,703	29,386
Total operating income		**567,189**	**486,089**
Impairment charge on financial assets	10	**(89,694)**	**(72,468)**
Impairment charge on loans and advances		(83,983)	(51,477)
Impairment charge on available for sale investment		(5,711)	(20,991)
Net operating income		**477,495**	**413,621**
Personnel expenses	11	(222,219)	(209,538)
Depreciation of property and equipment	18	(31,298)	(38,753)
Amortisation of intangible assets	19	(3,872)	(4,407)
Other operating expenses	12	(186,307)	(195,682)
Total operating expenses		**(443,696)**	**(448,380)**
Profit/(Loss) before tax		**33,799**	**(34,759)**
Taxation	13	(29,892)	29,042
Profit/(Loss) for the year		**3,907**	**(5,717)**
Other comprehensive income:			
Post-employment medical benefits reserve		(3,673)	-
Taxation	13	1,028	-
Post-employment medical benefits reserve movement for the year		**(2,645)**	**-**
Fair value adjustment on available for sale investments		10,527	(39,046)
Amount recycled from other comprehensive income and recognised in profit and loss		5,711	20,991
Taxation	13	(1,971)	2,694
Available for sale reserve movement for the year		**14,267**	**(15,361)**
Other comprehensive income for the year		**11,622**	**(15,361)**
Total comprehensive income for the year		**15,529**	**(21,078)**

STATEMENT OF FINANCIAL POSITION

AS AT 29 FEBRUARY 2012

	Notes	2012	2011
		R'000	R'000
ASSETS			
Cash and cash balances	14	311,583	369,326
Trade receivables and other assets	16	37,614	39,672
Investments	15	1,996,915	1,963,567
Loans and advances to customers	17	972,676	761,255
Current tax asset		18,911	15,598
Property and equipment	18	47,770	73,832
Intangible assets	19	71,269	74,726
Deferred taxation	20	62,058	92,893
TOTAL ASSETS		**3,518,796**	**3,390,869**
LIABILITIES			
Deposits and savings due to customers	22	2,882,345	2,810,502
Trade payables and other liabilities	21	76,364	49,030
Lease liability	32	1,086	5,082
Provisions	23	24,072	10,528
Post-employment medical benefits liability	35	3,673	-
TOTAL LIABILITIES		**2,987,540**	**2,875,142**
EQUITY			
Share capital and share premium	24	244,875	244,875
Available-for-sale reserve	25	599	(13,668)
Post-employment medical benefits reserve	26	(2,645)	-
Retained earnings		288,427	284,520
TOTAL EQUITY		531,256	515,727
TOTAL LIABILITIES AND EQUITY		**3,518,796**	**3,390,869**

STATEMENT OF CHANGES IN EQUITY

AS AT 29 FEBRUARY 2012

	Notes	Share capital	Share premium	Available-for-sale reserve *	Post-employment medical benefits reserve	Retained earnings	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 March 2010		24,500	220,375	1,693	-	290,237	536,805
Loss for the year		-	-	-	-	(5,717)	(5,717)
Other comprehensive income for the year		-	-	(15,361)	-	-	(15,361)
Total comprehensive income for the year		-	-	(15,361)	-	(5,717)	(21,078)
Balance at 28 February 2011	24	**24,500**	**220,375**	**(13,668)**	**-**	**284,520**	**515,727**
Profit for the year		-	-	-	-	3,907	3,907
Other comprehensive income for the year		-	-	14,267	(2,645)	-	11,622
Total comprehensive income for the year		-	-	14,267	(2,645)	3,907	15,529
Balance at 29 February 2012	24	**24,500**	**220,375**	**599**	**(2,645)**	**288,427**	**531,256**

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.

*** Post-employment medical benefits reserve**
This reserve records movements on post-employment medical benefit liabilty. Please refer to Note 26.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 29 FEBRUARY 2012

	Notes	2012 R'000	2011 R'000
OPERATING ACTIVITIES			
Interest and fee income		644,266	561,740
Interest and fee expense		(96,598)	(105,770)
Net trading and other (expense)/income		14,518	39,592
Dividends received		22,812	23,450
Cash paid to customers and employees		(378,200)	(477,752)
Cash available from operating activities	29	206,798	41,260
Changes in operating funds:			
Increase in income earning assets		(327,407)	(367,977)
Increase in deposits		71,843	154,206
Cash available/(utilised) from operating activities after changes in operating activities		(48,766)	(172,511)
Tax paid	29	(3,313)	(3,608)
Net cash inflow/(outflow) from operating activities		**(52,079)**	**(176,119)**
INVESTING ACTIVITIES			
Additions to intangible assets		(415)	(28,503)
Additions to property and equipment (maintaining of operating activities)		(5,377)	(20,626)
Proceeds from disposal of property and equipment		128	34
Net cash used in investing activities		**(5,664)**	**(49,095)**
Net decrease in cash and cash equivalents		(57,743)	(225,214)
Cash and cash equivalents at beginning of year		369,326	594,540
Cash and cash equivalents at end of year	14	**311,583**	**369,326**
Cash and cash equivalents comprise:			
Coins and bank notes		60,468	67,189
Balances with other banks		251,115	302,137
	14	**311,583**	**369,326**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 19 July 2012.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The annual financial statements have been prepared on the historical cost basis except where noted otherwise in the accounting policies.

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 applicable legislation.

CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the prior year except as follows:
The following standards, amendments and interpretations were adopted by the Bank during the year (being standards, amendments and interpretations effective in 2012):

IAS 1 Presentation of Financial Statements (effective from 1 January 2011)
The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IAS 24 Related Party Disclosures (effective from 1 January 2011)
The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IFRIC 14 Prepayments of a minimum funding requirement (effective from 1 January 2011)
The amendment provides further guidance on assessing the recoverable amount of a net pension asset. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IFRIC 19 Extinguishing financial liabilities with equity instruments (effective from 1 July 2010)
The interpretation clarifies that equity instruments issued to extinguish a financial liability are considered to be 'paid' in accordance with IAS 39 and are required to be measured at their fair value, unless fair value cannot be reliably measured in which case they are measured at the fair value of the liability extinguished. In addition any gain or loss is recognised immediately in profit or loss section of the statement of comprehensive income. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IFRS 1 (Amendments) (effective from 1 July 2010)
The amendment allows for a first-time adopter of IFRS to utilise the transitional provisions of IFRS 7. The result is relief for the first time adopter when providing comparative information under IFRS 7 in the first year of adoption. The amendment has no impact on the financial position or performance of the Bank.

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)

IAS 1 Financial Statement Presentation (Amendments)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therfore no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets (Amendment)

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and is not expected to have a material impact on the financial statements of the Bank.

IAS 32 Financial Instruments: Presentation (Amendments)

The amendment clarifies the meaning of the entity currently having a legally enforceable right to set off financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses). The amendment becomes effective for annual periods beginning on or after 1 January 2014, and are not expected to have a material impact on the financial statements of the Bank.

IAS 19 Employee benefits (Amendments)

The amendments to IAS 19, Employee Benefits, change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets and requires all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

IFRS 1 (Amendments)

The amendment provides clarification to first-time adopters of IFRS. It also provides relief for first-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS. Guidance has been added for entities emerging from severe hyperinflation to resume presenting IFRS financial statements for the first time. The amendment becomes effective for annual periods beginning on or after 1 July 2011. These amendments will have no impact on the Bank as the Bank adopted IFRS in full in prior financial years.

IFRS 7 Financial Instruments: Disclosures (Amendments)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2.1 Basis of preparation (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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.

Impairment of property and equipment

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

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 (2011:nil).

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the balance sheet 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.

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 the Fund, 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 41.3% (2011: 42.5%). 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.2 Significant accounting judgements and estimates (continued)

Discount rate

The discount rate of 13.75% (2011: 13.63%) 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 5 years (2011: 5 years) taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an impairment adjustment of R5.7 million (2011: R20.9 million) reported on the face of the Statement of Comprehensive Income. The gross carrying value R210.7 million (2011: R220 million) less cumulative impairment of R193.3 million (2011: R187.6 million) results in a net carrying value of R54.2 million (2011: R62 million). Since management intend 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 a hardship payment of R9.3 million from the curators. Management remain hopeful of a better recovery rate and are actively engaged with the Curators through the Investor Forum to explore all remaining recovery opportunities.

Financial assets

At each balance sheet 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 Directors' 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 income statement. 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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

3.1. Recognition of income and expenses

Revenue is recognised at fair value 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, available-for-sale or other loans and receivables is recognised in the profit and loss component of the statement of 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.

(c) Dividend income

Dividend income is recognised when the Bank's right to receive income is established. Dividends are reflected as a component of other operating income.

3.2 Foreign currency transactions

The financial statements are presented in South African Rand, which is the company'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 comprehensive income in the period in which they arise.

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 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.

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the profit and loss section of the statement of comprehensive income. Leased assets are depreciated over the useful life of the asset.

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 comprehensive income.

(b) Deferred tax

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

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. In addition, both deferred tax assets and liabilities are recognised except:

- Where the deferred income tax asset/liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of temporary differences associated with interests in joint ventures, deferred tax is recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilised.

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 comprehensive income.

(c) Secondary tax on companies

STC is provided for at 10.0% on the net of dividends declared less dividends recovered by the company during the reporting period. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

3.5 Cash and cash equivalents

For the purposes of the cash flow statement, 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.

3.6 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
ATMs	7 years
Leasehold improvements	Shorter of the period of lease and useful life of the item

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 comprehensive income in the year the asset is derecognised.

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 profit and loss section of the statement of comprehensive income in the year the asset is derecognised.

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 sell, and its value in use. Fair value less costs to sell 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 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 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 profit and loss section in the statement of 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 company 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 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 company 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 company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the company 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 profit and loss section in the statement of 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 company 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 company commits to purchase the financial asset or assume the financial liability.

(c) Financial assets

Financial assets recognised on the balance sheet include; cash and cash balances, investments, trade receivables and other assets, and loans and advances to customers.

The company 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 balance sheet include deposits and savings and trade and other payables. Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, 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.

(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 balance sheet 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. The fair value is determined with reference to the residing market prices, and where the market prices are not available the fair value is determined with reference to the discounted cash flows.

(f) Loans and receivables

Loans and receivables (including long-term loans, advances and trade 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 income 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 income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(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 including direct and incremental transaction costs. 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 profit and loss section of the statement of comprehensive income. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the profit and loss section of the statement of comprehensive income.

3.12 Financial instruments - Derecognition of financial assets and financial liabilities

(a) Financial assets

The company 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 company retains the right 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 the company has transferred its rights to receive cash flows from the asset 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 company 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. 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 company 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.

3.13 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 arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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:
vii) adverse changes in the payment status of borrowers in the portfolio; and
viii) 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.

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 profit and loss section of the statement of 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. 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 profit and loss section of the statement of comprehensive income.

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

(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 fair 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 profit and loss section of the statement of 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 profit and loss section of the statement of 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.

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 bank 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 balance sheet 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 cash-settled instruments granted do not vest until the employee has completed a specified period of service. 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 knowledeable, willing market participants would consider in setting the price of the cash-settled instruments.

3.17 Post-employment benefits

The Bank provides post-employment medical benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions.

Entitlement to these benefits is based upon employment prior to a certain date and is conditional on employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. The entity adopts a policy of recognising actuarial gains and losses in the period in which they occur and it recognises them in other comprehensive income. Actuarial gains and losses recognised in other comprehensive income are presented in the statement of comprehensive income. The liability is provided for on a fair value basis using the projected unit credit method.

Past-service costs, and actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service.

For active employees, actuarial gains and losses arising from experience adjustments for, and changes in actuarial assumptions are recognised as income or expenses in the current year.

The liability is provided for in an actuarially determined provision net of the plan asset. Plan assets are invested in low risk liquid assets, money market and cash, and are valued at amortised cost basis.

In terms of the plan policy for the post retirement medical aid benefit, the excess between the actuarial liability of the plan and its assets is used to enhance the benefits for the members of the plan. Therefore, the excess of the plan is not recognised in Ubank's financial statements. Ubank has an obligation to fund the deficit between the actuarial liability and the plan assets and therefore deficits are recognised in the financial statements as a liability.

4. RISK MANAGEMENT

The Board acknowledges its ultimate responsibility for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process.

The risk management culture within the Bank is embedded throughout the organisation using an enterprise-wide risk management approach, with management taking full responsibility for identifying, understanding and managing risk in pursuit of its strategy and aligning these with the overall business risk policy and approved risk appetite and tolerance levels.

The Board has therefore appointed the Board Risk and Capital Management Committee to assist the Board in reviewing the quality, integrity and reliability of the risk management process and reviewing the 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.

There is constant cooperation and flow of information between the various Board Committees and management functions in order to increase awareness and transparency thus achieving greater effectiveness by leveraging on the knowledge pool and insight of the directors. The risk department, which is independent, ensures overall coordination, facilitation, assessment and reporting of the bank-wide risk profile. It therefore acts as the glue that binds the process and ensures that as a collective there is coverage of risks, with clear accountability and adequate segregation of duties as well as providing guidance, coordination and assurance.

Risk governance

Risk culture, appetite and tolerance

The Board has adopted a prudent risk management culture, which views risk as an inherent part of running a successful business, i.e. risks are not only mitigated but are also investigated for potential opportunities which could provide a direct linkage between risk management and maximising shareholder value. Risk appetite and tolerance levels are continuously being reviewed and updated as part of the Bank's ICAAP Process, which allows risk taking within certain parameters and are supported by the establishment and maintenance of cost-effective controls. Risk appetite is defined as the level or quantum of risk that is acceptable to the Bank in pursuit of its objectives and is dependent on the extent to which it seeks and tolerates risk as described by predetermined performance indicators, operational parameters and process controls. Risk tolerance or absorption capacity is the level of deviation from the risk limits or appetite or amount the Bank is capable of losing before its sustainability is endangered or reputation is irreparably damaged, it is therefore a function of the Bank's capital, reserves and profitability in relation to the business strategy, cost-effective risk mitigation controls and effective risk transfer strategies.

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

- Operational Risk Management Committee (ORC), responsible for the management of all operational risk related risks including :
- Processes
- Information technology
- People
- Legal and compliance

In addition, a Board Large Exposures Committee ensure's oversight and approval of large exposures. The Board Risk and Capital Management Committee approves the Bank's enterprise-wide risk management framework. Supporting this Enterprise Risk Management (ERM) framework are the following frameworks:
- Credit Risk Framework
- Capital Risk Framework
- Operational Risk Framework

The Risk department
The Risk Department is an independent function guided by the following objectives:
- To develop and implement an effective risk governance structure and process including inculcation of a risk management culture.
- To identify the Bank's material risks and ensure that business profile and plans are consistent with risk appetite.
- To optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures.
- To ensure that business growth plans are properly supported by effective risk infrastructure.
- To manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To help executives improve the control and coordination of risk taking across the business.

The Compliance department
Compliance risk is the risk of damage to the organisation's business model or objectives, reputation and financial soundness arising from non-adherence to regulatory requirements.

The Compliance Department's primary role is to assist management in discharging their responsibility to comply with applicable regulatory requirements through the identification, assessment, management, monitoring and reporting of compliance risks that are faced by the Bank.

The Bank's compliance officer reports directly to the chief executive and has demonstrable support from the Audit Committee and the Board of Directors.The compliance function forms part of the overall risk governance structure while functioning independently as per the requirement of the Banks Act.

A risk based compliance approach, which supports the enterprise-wide risk management framework, is followed. Continuous compliance monitoring is performed bank-wide on applicable regulatory requirements. Recommendations are made whenever necessary in order to ensure compliance.

The compliance officer submits regular reports on the level of compliance by the bank to the audit committee, board and the South African Reserve Bank.

The Audit Committee approves the annual compliance coverage plan and reviews the work of the compliance function on a regular basis.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank has an Operational Risk management unit that focuses on managing the risk of loss due to inadequate or failed internal processes, system or people and from external events.

The Bank applies the Basic Indicator Approach for Operational Risk, and has 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. The in-house built Operational Risk Loss Data Collection system is performing as expected and will be further developed with more enhanced reporting, amongst others.

Other tools/measures implemented by the Bank in managing operational risk include, but are not limited to, a periodic review of the Bank's insurance policies, risk registers, Operational Risk Dashboard, Consolidated Risk Report and a Risk Trend Analysis.

A consolidated risk report which includes all operational risks related to internal audit and compliance findings as well as forensics investigations, is presented to the Enterprise Risk Committee every quarter. Further to that, a comprehensive report that highlights major risks emanating from ALCO, ERC and the Credit Committee is then escalated to the Board Risk and Capital Management Committee to ensure effective oversight of the Bank's Risk Management

The Bank's insurance process and requirements is the responsibility of the Enterprise Risk Committee, which maintains adequate insurance to cover the key insurable risks. The Bank's financial cover for director's and officers, crime and professional indemnity is underwritten by external parties. 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.

Forensic investigations

Because fraud is an inherent business risk in any institution, the Bank endeavours to combat all acts of transgression and unethical conduct through the implementation of sound fraud prevention practices. In so doing, the Bank aims on addressing the root cause of fraud becasue this is crucial for the deterrence and mitigation of fraud. Hence, the Bank has since embarked on a stronger corporate governance culture, wherein the control environment is well sought. In practise, this would entail the design, review and adoption of certain policies and procedures that would ensure the company's resources are utilised in the most efficient manner possible. Any control breakdowns hereafter will be analysed, reported and remediated where necessary.

The Board remains committed in supporting a zero tolerance stance on fraudulent and corrupt conduct amongst employees within the Bank. The Bank has since managed these transgressions (i.e. acts of dishonesty, and gross negligence) in a uniform manner. There has been an increase in vigilance amongst the Bank's employees. This is testimony of the stronger corporate governance culture which the Bank is currently fostering – wherein staff at all levels take responsibility for exercising due diligence and control to prevent, detect and report acts where reasonable suspicion of fraudulent and/or corrupt behaviour is prevalent. An external hotline manned by an independent and reputable service provider remains available to staff and the public to report matters on a confidential basis.

Internal audit

Internal Audit uses a risk-based approach in developing a Board Audit Committee approved annual audit plan, which takes into account the bank's strategy and key risks. Internal audit also uses a risk based methodology to perform end-to-end audits that encompass operations, systems and financial processes. Internal Audit findings identified through the audits are discussed at business unit level and action plans to address the weaknesses are agreed with management. Progress on resolution of findings is monitored monthly through the audit issue tracking schedules and reported in the Executive Committee meetings and quarterly in the Enterprise Risk Committee meetings. Findings are monitored until they are resolved. All the high and extreme rated findings and progress on resolving them is reported to the Board Audit Committee on a quarterly basis.

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.

The Basel capital accord

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

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

The Bank's main focus on credit risk has been on building and improving credit capabilities so as to improve in this area. In pursuit of this strategy, the Bank is, inter alia, reviewing its credit systems and models to ensure continued effective risk management.

Credit leniency leads to under-priced loans and potential client over indebtedness while the application of credit criteria that are too strict results in an inefficient underwriting model and constraints on growth. In order to optimise this balance, the Bank has made significant investments into both people processes and systems within the discipline of credit risk management.

Clients' overall indebtedness is continually monitored in conjunction with expected changes in the macro-economic environment. The Bank continues to monitor the market credit cycle and changes thereof mainly from a combination of increasingly competitive credit supply side dynamics. In response to this risk, the Bank continues to use its responsible lending strategy through the use of automated affordability tests. Credit key risk indicators have been implemented and are being monitored on a regular basis. The management credit committee and the Board Risk Committee closely monitor the credit risk through the credit risk reports including the risk register. The credit risk framework has been approved by the Board Risk Committee.

Credit risk measurement

A statistical modelling technique is used to measure credit exposure across the loan book so as to determine the probability of default. Further, the probability of default is an integral part of the impairment model. Counterparty credit risk exposure is measured through monitoring of the counterparties' credit quality and limits are adjusted accordingly.

Credit risk mitigation

The Bank uses an affordability model to assess the customers' capacity to repay without distress (throughout its businesses) as part of its credit decision process, which is embedded in the credit system. This model, which is maintained by the Credit department, assists the Bank in front line credit decisions on new commitments and in managing the portfolio of existing exposures. Lending limits as approved by the Board Risk Committee are monitored for compliance. Credit risk loans, that are non-performing loans and potential problem loans are monitored by the Credit Committee who ensure that they are in line with the approved risk appetite. The loans are impaired as appropriate and the Credit Committee ensures adequate coverage of credit risk exposure.

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 29 February 2012 was R1,687,041 (2011:R1,322,929). The Bank is also exposed to concentration risk specifically within the mining industry.

	2012 R'000	2011 R'000
Loans and advances[1]		
Personal loans to employees of mining industry	861,089	720,690
Personal loans to employees of non-mining industry	111,387	39,703
Wholesale loans	200	862
Total	972,676	761,255
Investments		
Sovereigns	1,105,041	964,271
Interbank	431,416	531,930
Securities firms	-	-
Capital markets	406,245	405,299
Investments under curatorship	54,213	62,067
Total	1,996,915	1,963,567

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

(b) Liquidity risk management

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

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

(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.

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.

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 II 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 II

The Bank has fully embraced the Basel II framework and acknowledges that it has further improved the risk management processes. The project, which ran for more than 2 years, was successfully implemented. The Basel II 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.

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 balance sheet asset and off-balance sheet financial instrument is regulated by the Banks Act, No.94 of 1990 (as amended).

The Bank's regulatory capital position at 29 February 2012 was as follows:

	2012 R'000	2011 R'000
Tier 1 capital		
Ordinary share capital	24,500	24,500
Share premium	220,375	220,375
Retained earnings	288,427	284,523
Deductions	(86,063)	(88,394)
Total	447,239	441,004
Tier 2 capital[1]	3,125	2,029
Total regulatory capital	450,364	443,033

Risk weighted assets	**Capital requirements**		**Risk weighted assets**	
	2012	**2011**	**2012**	**2011**
Credit	120,532	118,786	1,268,751	1,250,372
Sovereign	-	-	-	-
Banks	42,463	45,186	446,977	475,641
Security Firms	7,796	16,105	82,058	169,523
SME Corporate	154	-	1,621	-
Retail	70,119	57,495	738,095	605,208
Operational	94,869	92,845	998,625	977,313
Market	203	-	2,138	-
Equity	242	160	2,550	1,686
Other	12,120	21,495	127,576	226,259
Total	227,966	233,286	2,399,640	2,455,630

[1]Allowable portfolio impairment under standardised approach.

*Risk weighted assets at 9.5%	2012	2011
Capital adequacy	18.77%	18.04%
Primary capital adequacy	18.62%	17.96%

Target Capital Levels

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

	2012	2011
Regulatory requirements	9.5%	9.5%

4.2 Capital management (continued)

Monthly/Daily Average Credit Exposure

	Capital requirements		Capital position	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000
Banks	42,463	45,143	446,977	475,185
Security Firms	10,371	16,105	109,164	169,523
SME Corporate	154		1,621	
Retail	70,030	57,425	737,162	604,471
	123,018	**118,673**	**1,294,924**	**1,249,179**

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.

	2012	2011
	R'000	R'000
Cash and cash balances	311,583	369,326
Investments	1,996,915	1,963,567
Trade receivables and other assets (excluding prepayments)	27,479	31,001
Loans and advances to customers	972,676	761,255
Total credit risk exposure	**3,308,653**	**3,125,149**

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 offered by the Bank are fully secured in the event of death or resignation from the pension fund, by the pension funds of the loan holders at the time of granting and some micro loan products are 30% secured for the value of the loan limited to a R30 million guarantee from a listed mining house. 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.

		2012	2011
		R'000	R'000
Secured loans (100% secured)		71,894	97,742
Tirisano loans (30% secured)		17,515	31,694
Other loans (Unsecured)		883,267	631,819
Loans and advances to customers	17	972,676	761,255

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 balance sheet lines, based on the Bank's current credit risk framework and policies.

	2012 R'000	2011 R'000
Cash and cash balances	311,583	369,326
Investments	1,996,915	1,963,567
Trade receivables and other assets (excluding prepayments)	27,479	31,001
	2,335,977	**2,363,894**

2012	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Cash and cash balances	311,583	-	-	-	-	311,583
Investments	1,942,702	-	-	-	54,213	1,996,915
Trade receivables and other assets (excluding prepayments)	27,479	-	-	-	-	27,479
	2,281,764	**-**	**-**	**-**	**54,213**	**2,335,977**

2011	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Cash and cash balances	369,326	-	-	-	-	369,326
Investments	1,901,500	-	-	62,067	-	1,963,567
Trade receivables and other assets (excluding prepayments)	31,001	-	-	-	-	31,001
	2,301,827	**-**	**-**	**62,067**	**-**	**2,363,894**

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

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

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.

2012		30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000						
Loans and advances to customers-impaired		236,439	42,936	55,182	42,936	377,493
Loans and advances to customers-current		-	-	-	-	678,360
Total	**Note 17**	**236,439**	**42,936**	**55,182**	**42,936**	**1,055,853**

2011		30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000						
Loans and advances to customers-impaired		196,185	45,996	27,019	74,256	343,456
Loans and advances to customers-current		-	-	-	-	496,644
Total	**Note 17**	**196,185**	**45,996**	**27,019**	**74,256**	**840,100**

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 29 February 2012

	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
R'000						
Financial liabilities						
Trade payables and other liabilities	-	-	32,582	-	-	32,582
Deposits and savings due to customers	2,257,805	287,242	326,495	23,352		2,894,894
Lease liability	-	278	808	-	-	1,086
Other liabilities						
Other trade liabilities	-	-	43,782	-	-	43,782
Provision for leave pay	-	-	7,574	-	-	7,574
Bonus provision	-	9,110	-	-	-	9,110
Long term incentive provision	-	-	7,388	-	-	7,388
Post-employment medical benefits liability	-	-	-	-	3,673	3,673
Total undiscounted liabilities	**2,257,805**	**296,630**	**418,629**	**23,352**	**3,673**	**3,000,089**

At 28 February 2011

	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
R'000						
Financial liabilities						
Trade payables and other liabilities	-	-	49,030	-	-	49,030
Deposits and savings due to customers	2,191,511	291,708	302,388	16,007		2,801,614
Lease liability	-	1,110	3,330	1,110	-	5,550
Other liabilities						
Provision for leave pay	-	-	8,335	-	-	8,335
Bonus provision	-	2,193	-	-	-	2,193
Post-employment medical benefits liability	-	-	-	-	-	-
Total undiscounted liabilities	**2,191,511**	**295,011**	**363,083**	**17,117**	**-**	**2,866,722**

4.5 Interest rate, price and currency 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

2012

Net interest income				
Bp movement	**Decrease**	**Increase**	**Decrease**	**Increase**
	%	**%**	**R'000**	**R'000**
50bp	3.94%	3.00%	15,284	11,625
100bp	7.88%	5.99%	30,569	23,250
200bp	15.76%	11.98%	61,137	46,500

2011

Net interest income				
Bp movement	**Decrease**	**Increase**	**Decrease**	**Increase**
	%	**%**	**R'000**	**R'000**
50bp	3.71%	2.99%	11,894	9,566
100bp	7.42%	5.97%	23,788	19,132
200bp	14.84%	11.94%	47,575	38,263

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 R2,136,482 (2011: R631,910,566).

2012

	Pre tax impact on profit and loss	**Carrying value after change**
	R'000	**R'000**
Increase	214	2,350
Decrease	(214)	1,923

2011

	Pre tax impact on profit and loss	**Carrying value after change**
	R'000	R'000
Increase	63,191	695,102
Decrease	(63,191)	568,720

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 amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable willing parties.

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.

6. NET INTEREST INCOME

	2012 R'000	2011 R'000
Interest income		
Cash and cash balances	18,972	32,238
Loans and advances to customers	256,265	156,552
Investments	23,402	28,780
- Held-to-maturity	16,212	18,280
- Interest on impaired asset (designated as available for sale)	7,190	10,500
Interest income from assets not measured at FV through profit or loss	298,639	217,570
Investments		
- Financial assets designated at fair value through profit or loss	68,820	91,712
Other		
	367,459	**309,282**
Interest expense		
Deposits and savings due to customers	(34,135)	(43,360)
Banking facilities	(1,398)	(1,796)
	(35,533)	**(45,156)**
Net interest income	**331,926**	**264,126**

7. FEE AND COMMISSION INCOME

	2012	2011
Administration fees	76,765	57,028
Commission earnings	57,361	59,461
Service and management fees	142,681	135,969
	276,807	**252,458**

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

	2012 R'000	2011 R'000
Fair value movements for the year	(677)	(100)
(Loss)/gain on disposal of financial assets	(8,504)	832
	(9,181)	**732**

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

9. OTHER OPERATING INCOME

	2012 R'000	2011 R'000
Bad debts recovered	5,236	4,724
Other	655	164
Impairment reversal on accounts receivable	-	1,048
Investment income	22,812	23,450
	28,703	**29,386**

10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2012 Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(80,027)	(3,956)	(83,983)
Investments - Corporate Money Managers (CMM)*	15	(5,711)	-	(5,711)
		(85,738)	**(3,956)**	**(89,694)**
2011 Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(47,062)	(4,415)	(51,477)
Investments - Corporate Money Managers (CMM)*	15	(20,991)	-	(20,991)
		(68,053)	**(4,415)**	**(72,468)**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. PERSONNEL EXPENSES

	2012 R'000	2011 R'000
Pension costs - Defined contribution plan expense	(9,445)	(9,265)
Salaries and wages	(212,774)	(200,273)
	(222,219)	**(209,538)**
Personnel - Actual headcount at year end	793	783

12. OTHER OPERATING EXPENSES

Significant operating expenses comprise of:

	2012 R'000	2011 R'000
Auditors remuneration		
Audit services	(6,040)	(4,961)
Other	(500)	(152)
Legal fees	(2,352)	(752)
Loss on sale of property and equipment	(14)	(14)
Professional fees	(2,661)	(2,284)
Operating lease expense	(14,470)	(13,926)
Strategic research	(318)	(326)
Software license fees	(15,152)	(18,158)
Security expenses	(23,669)	(29,596)
Consumables	(4,722)	(4,678)
Network costs	(6,924)	(7,454)
Maintenance	(2,925)	(4,064)
Software expenses	(11,406)	(10,072)
Telecommunications	(4,584)	(5,086)
Travelling	(3,276)	(3,475)
Training	(2,516)	(1,765)
Fraud	(7,768)	(2,566)
Printing and stationary	(4,683)	(5,128)
VAT not recovered	(19,344)	(4,317)
Cash delivery costs	(12,025)	(13,596)
Consulting fees	(10,389)	(18,857)
Marketing	(9,997)	(29,593)
Memberships*	(3,334)	(3,484)
Insurance*	(1,555)	(1,441)
Bank charges*	(4,296)	(2,781)
Other	(11,387)	(7,156)
	(186,307)	**(195,682)**

*These expense items were previously disclosed as part of the other operating expenses in 2011, and have been seperately disclosed this year to achieve fairer presentation.

13. TAXATION

The components of the tax expense for the years ended:

	Notes	2012 R'000	2011 R'000
Current tax			
Adjustment in respect of re-estimation of prior year		-	(65)
Deferred tax			
Adjustment in respect of re-estimation of prior year		(24,214)	-
Origination and reversal of temporary differences	20	(5,678)	29,107
Taxation (expense)/income recognised in profit/(loss) for the year		(29,892)	29,042
Taxation (expense)/income recognised in other comprehensive income:	20	(943)	2,694
Post-employment medical benefits reserve		1,028	-
Fair value adjustment on available for sale investments		(1,971)	2,694
Total taxation in the statement of comprehensive income		**(30,835)**	**31,736**

Reconciliation of the total tax charge

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

	2012 R'000	2011 R'000
Accounting profit/(loss) before tax	**33,799**	**(34,759)**
At domestic corporate tax rate of 28% (2011: 28%)	(9,464)	9,732
Non-deductible and Non-taxable items	(3,273)	12,809
Income not subject to tax	7,059	6,566
Adjustment in respect of re estimation of prior year liability*	(24,214)	(65)
Taxation income reported in the statement of comprehensive income	**(29,892)**	**29,042**
Effective income tax rate	(88.44%)	(83.55%)

* The adjustment relates mainly to an adjustment to a deferred tax asset raised on a specific financial asset. In the prior year the deferred tax asset was calculated by classifying the financial asset as trading stock and therefore by using a rate of 28%. During the current financial year this classification was reconsidered with insight from tax specialists and it was concluded based on the existing business plans that the financial asset should be classified as capital in nature for tax purposes. This resulted on a rate applicable changing to capital gains tax rate used to determine the deferred tax. This was seen as a change in an estimate as referred to in Note 2.2 relating to deferred tax.

14. CASH AND CASH BALANCES

	2012 R'000	2011 R'000
Coins and bank notes	60,468	67,189
Balances with other banks	251,115	302,137
	311,583	**369,326**

15. INVESTMENTS

	2012 R'000	2011 R'000
Available-for-sale[1]	56,764	511,078
Held to maturity	255,746	214,186
- Money market instruments	255,746	214,186
Designated at fair value through profit and loss	1,684,405	1,238,303
- Capital market instruments	403,694	403,613
- Money market instruments	175,670	317,744
- Central bank securities	1,105,041	516,946
	1,996,915	**1,963,567**

Included in investments is interest receivable:

	2012	2011
Available-for-sale	-	21,813
Held to maturity	1,846	2,186
- Money market instruments	1,846	2,186
Designated at fair value through profit and loss	5,929	6,821
- Capital market instruments	3,694	3,613
- Money market instruments	910	2,339
- Central bank securities	1,325	869
	7,775	**30,820**

	Level 1	Level 2	Level 3	Total
2012				
Available-for-sale[1]	2,551	-	54,213	56,764
Designated at fair value through profit and loss	-	1,684,405	-	1,684,405
- Capital market instruments	-	403,694	-	403,694
- Money market instruments	-	175,670	-	175,670
- Central bank securities	-	1,105,041	-	1,105,041
	2,551	**1,684,405**	**54,213**	**1,741,169**
2011				
Available-for-sale[1]	449,011	-	62,067	511,078
Designated at fair value through profit and loss	-	1,238,303	-	1,238,303
- Capital market instruments	-	403,613	-	403,613
- Money market instruments	-	317,744	-	317,744
- Central bank securities	-	516,946	-	516,946
	449,011	**1,238,303**	**62,067**	**1,749,381**

15. INVESTMENTS (CONTINUED)

Reconciliation of level 3 investments	**2012**	**2011**
Balance as at 1 March	62,067	72,558
Recovery	(9,333)	-
Impairment	(5,711)	(20,991)
Accrued interest	7,190	10,500
Balance as at 29 February 2012	54,213	62,067

[1] This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment of R5,7 million was recognised (2011: R20,9 million) in the profit and loss section of the statement of comprehensive income. There are several significant assumptions applied to the impairment calculation which have been included in the Directors' Report.

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

This valuation is sensitive to the underlying assumptions applied and by way of a sensitivity analysis:

- A change in the discount rate applied (13.75%) of 1.0% to 14.75% would result in a decrease in the valuation of the investment of R1,4 million to R52,8 million. A similar change in the discount rate applied (13.75%) of 1.0% to 12.75% would result in an increase in the valuation of the investment of R1,4 million to R55,6 million.

- A change in the realisable period assumption applied (5 years) of 1 year to 6 years would result in a decrease in the valuation of the investment of R1,9 million to R52,3 million. A similar change in the realisable period assumption applied (5 years) of 1 year to 4 years would result in an increase in the valuation of the investment of R3,0 million to R57,2 million.

- A change in the recovery value assumption applied (41.34%) of 5% to 36.34% would result in a decrease in the valuation of the investment of R6,0 million to R48,2 million. A similar change in the recovery value assumption applied (41.34%) of 5% to 46.34% would result in an increase in the valuation of the investment of R6,0 million to R60,2 million.

16. TRADE RECEIVABLES AND OTHER ASSETS

	2012	**2011**
	R'000	**R'000**
Interest receivable	-	27
Settlement accounts	-	9,393
Other accounts receivable	385	567
Operating account - Teba Ltd	1,631	1,631
Prepayments	10,135	8,671
Ubank Group Limited	3,946	3,047
Teba Fund	4,087	2,163
Trade debtors	17,430	14,173
	37,614	**39,672**

17. LOANS AND ADVANCES TO CUSTOMERS

	2012 R'000	2011 R'000
Gross loans and advances to customers	1,055,853	840,100
Less: Allowances for impairment losses	(83,177)	(78,845)
Loans and advances to customers	**972,676**	**761,255**

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 2011		(9,113)	(69,732)	(78,845)
Net charge for the year	10	(6,243)	(77,740)	(83,983)
Amounts written off		-	79,651	79,651
At 29 February 2012		**(15,356)**	**(67,821)**	**(83,177)**
At 1 March 2010		(9,149)	(20,455)	(29,604)
Net charge for the year	10	36	(51,513)	(51,477)
Amounts written off		-	2,236	2,236
At 28 February 2011		**(9,113)**	**(69,732)**	**(78,845)**

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 2011		(71,923)	(6,922)	(78,845)
Net charge for the year	10	(80,027)	(3,956)	(83,983)
Amounts written off		79,651	-	79,651
At 29 February 2012		**(72,299)**	**(10,878)**	**(83,177)**
Balance at 1 March 2010		(27,097)	(2,507)	(29,604)
Net charge for the year	10	(47,062)	(4,415)	(51,477)
Amounts written off		2,236	-	2,236
At 28 February 2011		**(71,923)**	**(6,922)**	**(78,845)**

18. PROPERTY AND EQUIPMENT

	R'000 Cost	R'000 Accumulated depreciation	R'000 Net carrying value
2012			
Leasehold improvements	35,570	(22,090)	13,480
Freehold land	2,080	-	2,080
Motor vehicles	4,550	(2,328)	2,222
Furniture and fittings	11,357	(7,783)	3,574
Office equipment	30,191	(22,092)	8,099
Computer equipment	129,106	(114,300)	14,806
ATMs	11,006	(7,497)	3,509
	223,860	**(176,090)**	**47,770**
2011			
Leasehold improvements	32,995	(18,109)	14,886
Freehold land	2,080	-	2,080
Motor vehicles	4,448	(2,114)	2,333
Furniture and fittings	10,532	(6,497)	4,035
Office equipment	30,076	(19,663)	10,413
Computer equipment	154,003	(118,011)	35,992
ATMs	10,591	(6,498)	4,093
	244,725	**(170,892)**	**73,832**

2012	Opening net carrying value R'000	Additions R'000	Disposals R'000	Impairments R'000	Depreciation R'000	Closing net carrying value R'000
Leasehold improvements	14,886	2,850	-	-	(4,256)	13,480
Freehold land	2,080	-	-	-	-	2,080
Motor vehicles	2,333	432	(141)	-	(402)	2,222
Furniture and fittings	4,035	831	-	-	(1,292)	3,574
Office equipment	10,413	537	-	-	(2,851)	8,099
Computer equipment	35,992	312	-	-	(21,498)	14,806
ATMs	4,093	415	-	-	(999)	3,509
	73,832	**5,377**	**(141)**	**-**	**(31,298)**	**47,770**
2011						
Leasehold improvements	11,456	8,186	-	-	(4,756)	14,886
Freehold land	2,080	-	-	-	-	2,080
Motor vehicles	2,101	698	(47)	-	(419)	2,333
Furniture and fittings	4,105	1,166	-	-	(1,236)	4,035
Office equipment	12,280	1,101	-	-	(2,968)	10,413
Computer equipment	57,393	6,933	-	-	(28,334)	35,992
ATMs	2,591	2,542	-	-	(1,040)	4,093
	92,006	**20,626**	**(47)**	**-**	**(38,753)**	**73,832**

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.

Assets under finance lease

Computer equipment with a carrying value of R1,253,520 as at 29 February 2012 (2011: R4,700,697), are leased under a finance lease. Please refer to note 31 for detail.

19. INTANGIBLE ASSETS

	R'000 Cost	R'000 Accumulated amortisation	R'000 Net carrying value
2012			
Software development cost	81,836	(10,567)	71,269
	81,836	**(10,567)**	**71,269**
2011			
Software development cost	81,421	(6,695)	74,726
	81,421	**(6,695)**	**74,726**

	Opening net carrying value	Additions	Disposals	Impairment	Amortisation	Closing net carrying value
2012	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Software development cost	74,726	415	-	-	(3,872)	71,269
	74,726	**415**	**-**	**-**	**(3,872)**	**71,269**
2011						
Software development cost	50,630	28,503	-	-	(4,407)	74,726
	50,630	**28,503**	**-**	**-**	**(4,407)**	**74,726**

The remaining amortisation period for the Flexcube software is 95 months as at 29 February 2012.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	R'000	R'000	R'000	R'000	R'000	R'000
Provisions	5,591	-	5,591	2,948	-	2,948
Investment securities adjustments (CI)	30	-	30	-	(205)	(205)
Straight-lining of lease and admin fees	11,040	-	11,040	8,956	-	8,956
Impairments - Loans and advances	831	-	831	526	-	526
Prepaid expenses	-	(1,610)	(1,610)	-	(802)	(802)
Impaired available for sale investment	29,176	-	29,176	14,471	-	14,471
Investment securities - fair value adjustments (OCI)	557	-	557	2,528	-	2,528
Provisional assessed loss	14,914	-	14,914	64,471	-	64,471
Disposal of bonds	548	-	548	-	-	-
Fixed assets	-	(351)	(351)	-	-	-
Finance lease liability	304	-	304	-	-	-
Post-employment medical benefits reserve	1,028	-	1,028	-	-	-
Net tax assets/(liabilities)	**64,019**	**(1,961)**	**62,058**	**93,900**	**(1,007)**	**92,893**

Movements in deferred tax assets and liabilities during the year

	2012	2011
	R'000	R'000
Provisions	2,643	(5,274)
Investment securities - fair value adjustments (OCI)	(1,971)	2,694
Investment securities adjustments (CI)	235	-
Straight-lining of lease and admin fees	2,084	(240)
Impairments - Loans and advances	305	4,448
Prepaid expenses	(808)	(790)
Impaired available for sale investment	14,705	14,471
Disposal of bonds	548	-
Fixed assets	(351)	-
Finance lease liability	304	-
Post-employment medical benefits reserve	1,028	-
Provisional assessed loss	(49,557)	16,492
Net movement in deferred tax assets/(liabilities)	**(30,835)**	**31,801**

Deferred tax movement through other comprehensive income	(943)	2,694
Deferred tax movement through profit and loss	(29,892)	29,107
	(30,835)	**31,801**

21. TRADE PAYABLES AND OTHER LIABILITIES

	2012	2011
	R'000	R'000
Unallocated deposits	354	409
Liabilities under operating leases	1,343	472
Deferred income - Administration fees	38,085	31,516
Sundry accruals	3,125	3,190
Trade creditors	12,050	4,667
System clearing accounts	3,763	4,537
VAT payable	1,934	749
Sundry creditors	15,710	3,490
	76,364	**49,030**

22. DEPOSITS AND SAVINGS DUE TO CUSTOMERS

Deposits and savings due to customers	2,874,244	2,802,640
Interest accrued	8,101	7,862
	2,882,345	**2,810,502**

The average interest rate during 2012 for deposits by customers was 1.19% (2011: 1.54%).

23. PROVISIONS

	Opening balance	Provision raised during the year	Provision utilised during the year	Closing balance
2012	R'000	R'000	R'000	R'000
Provision for Leave pay	8,335	2,787	(3,548)	7,574
Bonus provision	2,193	10,927	(4,010)	9,110
Long term incentive provision	-	10,585	(3,197)	7,388
	10,528	**24,299**	**(10,755)**	**24,072**
2011				
Provision for Leave pay	8,998	4,660	(5,323)	8,335
Bonus provision	20,364	2,193	(20,364)	2,193
	29,362	**6,853**	**(25,687)**	**10,528**

24. SHARE CAPITAL AND SHARE PREMIUM

	2012	2011
	R'000	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	220,500	220,500
Share issue expenses written off	(125)	(125)
	220,375	**220,375**

25. AVAILABLE-FOR-SALE RESERVE

Unrealised (loss)/gain on available-for-sale investment	599	(13,668)

26. POST-EMPLOYMENT MEDICAL BENEFITS RESERVE

Movement on the post-employment medical benefit liability	(2,645)	-

27. COMMITMENTS

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk.

	2012	2011
	R'000	R'000
Commitments		
Capital expenditure authorised but not contracted	15,116	146,733
- Property and equipment	14,895	146,733
- Intangible assets	221	-
Capital expenditure authorised and committed	25,919	4,616
	41,035	**151,349**

During the financial year, capital projects were reassesed and strategic projects were commited to, in order to enhance current business versus expansion. The Bank will fund authorised and committed capital expenditure from operating cash flows and existing cash resources.

Operating lease commitments

Where a company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2012	2011
	R'000	R'000
Within one year	9,760	4,886
After one year but not more than five years	14,177	6,847
	23,937	**11,733**

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both.

Ubank Group Limited

Ubank Group Limited is the 100% shareholder of Ubank Limited.

In the current year related party transactions relating to group mobilisation costs of R 4 million (2011: R3 million) were paid by the Bank. Interest is not levied on the receivable balance and has no fixed maturity date. 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 R 4 million (2011: R2 million) were paid by the Bank. Interest is not levied on the receivable balance and has no fixed maturity date. The debtor is recorded in trade receivables Note 16.

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	
	2012	**2011**
	R'000	**R'000**
Loans and advances		
Other key management personnel - Exco		
Opening balance	298	405
Loans granted during the year	-	-
Repayments	(212)	(107)
	86	**298**

Loans granted to key management personnel are unsecured.

29. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 R'000	2011 R'000
Profit/(loss) before tax	33,799	(34,759)
Adjustments for non-cash flow items:		
Loss/(profit) on disposal of property and equipment	14	14
Amortisation of intangible assets	3,872	4,407
Straight-lining of operating lease	872	(1,313)
Fair value adjustment on short-term investments	9,181	(732)
Impairment on investments	5,711	20,991
Straight-lining of admin fees received	6,570	17,198
Depreciation of property and equipment	31,298	38,753
Impairment of advances	83,983	51,477
	175,300	96,036
Movement in working capital:		
Increase in trade receivables and other assets	2,058	16,457
Increase/(decrease) in trade payables and other liabilities	29,440	(71,233)
Cash available from operating activities	**206,798**	**41,260**
Taxation (paid)/received:		
Statement of comprehensive income	(30,835)	29,042
Deferred taxation balance movement	30,835	(31,801)
Current tax asset movement	(3,313)	(849)
	(3,313)	**(3,608)**

30. LIQUIDITY ANALYSIS

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

2012	On demand R'000	Within 1 year R'000	From 1 year to 5 years R'000	More than 5 years R'000	Total R'000
Financial assets					
Cash and cash balances	311,583	-	-	-	311,583
Investments		1,819,100	177,815	-	1,996,915
Trade receivables and other assets	-	27,479	-	-	27,479
Loans and advances to customers	19,137	427,572	484,509	41,458	972,676
Total financial assets	**330,720**	**2,274,151**	**662,324**	**41,458**	**3,308,653**
Future interest *	-	271,376	306,808	9,869	588,053
Total financial assets including future interest	**330,720**	**2,545,527**	**969,132**	**51,327**	**3,896,706**
Other assets					
Property and equipment	-	-	-	-	47,770
Intangible assets	-	-	-	-	71,269
Current tax asset	-	-	-	-	18,911
Deferred taxation	-	-	-	-	62,058
Prepayments	-	-	-	-	10,135
Total other assets	**-**	**-**	**-**	**-**	**210,143**
Total assets	**330,720**	**2,545,527**	**969,132**	**51,327**	**4,106,849**
Financial liabilities					
Trade payables and other liabilities	-	32,582	-	-	32,582
Deposits and savings due to customers	2,257,805	601,685	22,855	-	2,882,345
Lease liability	-	1,086	-	-	1,086
Total financial liabilities	**2,257,805**	**635,353**	**22,855**	**-**	**2,916,013**
Future interest **	-	12,050	499	-	12,549
Total financial liabilities including future interest	**2,257,805**	**647,403**	**23,354**	**-**	**2,928,562**
Other liabilities					
Trade payables and other liabilities					43,782
Post-employment medical benefits liability	-	-	-	-	3,673
Provisions	-	-	-	-	24,072
Total other liabilities	**-**	**-**	**-**	**-**	**71,527**
Total liabilities	**2,257,805**	**647,403**	**23,354**	**-**	**3,000,089**
Equity					
Share capital and share premium	-	-	-	-	244,875
Available-for-sale reserve	-	-	-	-	599
Post-employment medical benefits reserve	-	-	-	-	(2,645)
Retained earnings	-	-	-	-	288,427
Total equity	**-**	**-**	**-**	**-**	**531,256**
Total liabilities and equity	**2,257,805**	**647,403**	**23,354**	**-**	**3,531,345**

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

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

30. LIQUIDITY ANALYSIS (CONTINUED)

2011	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	369,326	-	-	-	369,326
Investments		1,525,048	438,519	-	1,963,567
Trade receivables and other assets	-	21,608	-	-	21,608
Loans and advances to customers	3,114	305,227	452,914	-	761,255
Total financial assets	**372,440**	**1,851,883**	**891,433**	**-**	**3,115,756**
Future interest *	-	254,316	269,588	-	523,904
Total financial assets including future interest	**372,440**	**2,106,199**	**1,161,021**	**-**	**3,639,660**
Other assets					
Property and equipment	-	-	-	-	73,832
Intangible assets	-	-	-	-	74,726
Current tax asset	-	-	-	-	15,598
Deferred taxation	-	-	-	-	92,893
Other trade receivables	-	-	-	-	18,064
Total other assets	**-**	**-**	**-**	**-**	**275,113**
Total assets	**372,440**	**2,106,199**	**1,161,021**	**-**	**3,914,773**
Financial liabilities					
Trade payables and other liabilities	-	24,447	-	-	24,447
Deposits and savings due to customers	2,200,286	594,209	16,007	-	2,810,502
Lease liability	-	3,972	1,110	-	5,082
Total financial liabilities	**2,200,286**	**622,628**	**17,117**	**-**	**2,840,031**
Future interest **	-	10,403	403	-	10,806
Total financial liabilities including future interest	**2,200,286**	**633,031**	**17,520**	**-**	**2,850,837**
Other liabilities					
Trade payables and other liabilities	-	-	-	-	24,583
Provisions	-	-	-	-	10,528
Total other liabilities	**-**	**-**	**-**	**-**	**35,111**
Total liabilities	**2,200,286**	**633,031**	**17,520**	**-**	**2,885,948**
Equity					
Share capital and share premium	-	-	-	-	244,875
Available-for-sale reserve	-	-	-	-	(13,668)
Post-employment medical benefits reserve	-	-	-	-	-
Retained earnings	-	-	-	-	284,520
Total equity	**-**	**-**	**-**	**-**	**515,727**
Total liabilities and equity	**2,200,286**	**633,031**	**17,520**	**-**	**3,401,675**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. CLASSIFICATION OF ASSETS AND LIABILITIES

Classification of assets

2012	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	311,583	-	-	-	-	311,583
Investments	-	255,746	1,684,405	56,764	-	1,996,915
Trade receivables and other assets (excluding prepayments)	27,479	-	-	-	-	27,479
Loans and advances to customers	972,676	-	-	-	-	972,676
Other assets						
Prepayments	-	-	-	-	10,135	10,135
Intangible assets	-	-	-	-	71,269	71,269
Property and equipment	-	-	-	-	47,770	47,770
Current tax asset	-	-	-	-	18,911	18,911
Deferred taxation	-	-	-	-	62,058	62,058
Total assets	**1,311,738**	**255,746**	**1,684,405**	**56,764**	**210,143**	**3,518,796**

2011	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	369,326	-	-	-	-	369,326
Investments	-	214,186	1,238,303	511,078	-	1,963,567
Trade receivables and other assets (excluding prepayments)	21,608	-	-	-	-	21,608
Loans and advances to customers	761,255	-	-	-	-	761,255
Other assets						
Prepayments	-	-	-	-	8,671	8,671
Intangible assets	-	-	-	-	74,726	74,726
Property and equipment	-	-	-	-	73,832	73,832
Current tax asset	-	-	-	-	15,598	15,598
Deferred taxation	-	-	-	-	92,893	92,893
Total assets	**1,152,189**	**214,186**	**1,238,303**	**511,078**	**265,720**	**3,381,476**

31. CLASSIFICATION OF ASSETS AND LIABILITIES

Classification of liabilities

2012	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
Financial liabilities			
Deposits and savings due to customers	2,882,345	-	2,882,345
Trade payables and other liabilities	32,582	43,782	76,364
Lease liability	1,086	-	1,086
Other liabilities			
Post-employment medical benefits liability	-	3,673	3,673
Provisions	-	24,072	24,072
Total liabilities	**2,916,013**	**71,527**	**2,987,540**

2011	Held at amortised cost R'000	Non-financial liabilities R'000	Total R'000
Financial liabilities			
Deposits and savings due to customers	2,810,502	-	2,810,502
Trade payables and other liabilities	49,030	-	49,030
Lease liability	5,082	-	5,082
Other liabilities			
Provisions	-	10,528	10,528
Total liabilities	**2,864,614**	**10,528**	**2,875,142**

32. FINANCE LEASE COMMITMENTS

The Bank has a finance lease for computer equipment. The lease does not have terms of renewal or escalation clauses. Future minimum lease payments under the finance lease together with the present value of the net minimum lease payments are as follows:

	R'000 Minimum payments	R'000 Present value of payments
2012		
Within one year	1,110	1,086
After one year but not more than five years	-	-
Total minimum lease payments	1,110	1,086
Less amounts representing finance charges	(24)	-
Present value of minimum lease payments	1,086	1,086
2011		
Within one year	4,440	3,984
After one year but not more than five years	1,110	1,098
Total minimum lease payments	5,550	5,082
Less amounts representing finance charges	(468)	-
Present value of minimum lease payments	5,082	5,082

33. SHARE-BASED PAYMENTS

The Bank has two cash-settled share-based payment transactions with key selected employees (collectively referred to as c*ash-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.

* Post February 2011 a decision was taken to reward employees, and the calculations were based on information from 2008. No formal communication had been made as at February 2011. Narration provided is only for information purposes.

33. SHARE-BASED PAYMENTS (CONTINUED)

	Share-based payment expense		Share-based payment liability	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000
Cash-settled instruments	10,585	-	7,388	-

Movement in number of instruments

	Number of instruments	Weighted average exercise price	Number of instruments	Weighted average exercise price
Cash-settled instruments	2012	2012	2011	2011
Outstanding at the beginning of the year	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Granted	1,903,570	18.43	-	-
- SARs	853,182	18.43	-	-
- SPRs	1,050,388	18.43	-	-
Exercised	185,705	18.43	-	-
- SARs	56,033	18.43	-	-
- SPRs	129,672	18.43	-	-
Expired	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Forfeited	83,487	18.43	-	-
- SARs	-	-	-	-
- SPRs	83,487	18.43	-	-
Outstanding at the end of the year	**1,634,378**	**17.98**	**-**	**-**
- SARs	797,149	17.98	-	-
- SPRs	837,229	17.98	-	-
Exercisable at the end of the year	112,748	17.98	-	-
- SARs	112,748	17.98	-	-
- SPRs	-	17.98	-	-
Weighted average share price for rights exercised in Rands	185,705	18.43	-	-
- SARs	56,033	18.43	-	-
- SPRs	129,672	18.43	-	-

33. SHARE-BASED PAYMENTS (CONTINUED)

Instruments outstanding at the end of the year by issue price

	Number of instruments	Weighted average remaining contractual life (years)	Number of instruments	Weighted average remaining contractual life (years)
Cash-settled instruments	**2012**	**2012**	**2011**	**2011**
- SARs	797,149	2.3	-	-
15.54	112,067	-	-	-
19.38	170,143	1.0	-	-
18.28	237,720	2.0	-	-
18.43	277,219	3.0	-	-
- SPRs	837,229	2.3	-	-
15.54	-	-	-	-
19.38	210,787	1.0	-	-
18.28	290,991	2.0	-	-
18.43	335,451	3.0	-	-
	1,634,378	2.3	-	-

33. 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 relevent scheme rules, using the following inputs and assumptions.

	Cash settled instruments		Cash settled instruments	
	2012		2011	
	SARs	SPRs	SARs	SPRs
Number of instruments granted	853,182	1,050,388	-	-
Weighted average fair value per instrument granted (R)	17.98	17.98	-	-
			-	-
Weighted average share price (R)	17.98	17.98	-	-
Weighted average excercise price (R)	18.43	18.43	-	-
Weighted average projected excercise price* (R)	18.22	18.22	-	-
Discount rate (%)	9%	9%	-	-
Share appreciation applicable hurdle rate	0%	n/a	-	-
Performance vesting modifier	-	3.0	-	-
Projected performance vesting maximum (%)	n/a	49.78%	-	-
Weighted average life (years)	3.0	3.0	-	-
Number of participants	9	11	-	-
Weighted average vesting period (years)	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.

34. 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 Offier (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and Managing Executive of Retail Banking Services (Retail Exec) will be identified as Prescribed Officers Of Ubank Limited.

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

	Fees	Gross pay	Long Term Incentive Plan	Pension and Retirement Benefits	Other benefits*	**Total cost to company**
2012	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Non-Executive Directors						
C.B. Stofile	203	-	-	-	-	**203**
J.H. De Villiers Botha	176	-	-	-	-	**176**
Z. Macanda	128	-	-	-	-	**128**
D.P. Elbrecht	255	-	-	-	-	**255**
A.W. Mjekula	244	-	-	-	-	**244**
L. Mangope	217	-	-	-	-	**217**
Z.N. Miya	175	-	-	-	-	**175**
H. Groenewald	75	-	-	-	-	**75**
Total	**1,473**	**-**	**-**	**-**	**-**	**1,473**
Executive Directors						
M. Williams (CEO)	-	2,431	1,066	153	122	**3,772**
J. Pohl (CFO)	-	1,563	775	107	459	**2,904**
Total	**-**	**3,994**	**1,841**	**260**	**581**	**6,676**
Prescribed Officers						
B. Radebe (COO)	-	356	-	21	27	**404**
K. Pather (Retail Exec)	-	1,113	-	87	202	**1,402**
Total	**-**	**1,469**	**-**	**108**	**229**	**1,806**
Other Executive Management Personnel	-	9,228	1,321	596	1,245	**12,390**
Total	**1,473**	**14,691**	**3,162**	**964**	**2,055**	**22,345**

* Other benefits include: leave pay, travel allowances, medical aid benefits and disability insurances.

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (CONTINUED)

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

	Fees	Gross pay	Bonus	Pension and Retirement Benefits	Other benefits*	**Total cost to company**
2011	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Non-Executive Directors						
C.B. Stofile	177	-	-	-	-	**177**
J.H. De Villiers Botha	251	-	-	-	-	**251**
Z. Macanda	178	-	-	-	-	**178**
D.P. Elbrecht	189	-	-	-	-	**189**
A.W. Mjekula	228	-	-	-	-	**228**
L. Mangope	163	-	-	-	-	**163**
Z.N. Miya	103	-	-	-	-	**103**
H. Groenewald	26	-	-	-	-	**26**
Total	**1,315**	**-**	**-**	**-**	**-**	**1,315**
Executive Directors						
M. Williams (CEO)	-	2,322	1,079	150	154	**3,705**
J. Pohl (CFO)	-	1,536	1,470	105	393	**3,504**
Total	**-**	**3,858**	**2,549**	**255**	**547**	**7,209**
Prescribed Officers						
B. Radebe (COO)	-	-	-	-	-	**-**
K. Pather (Retail Exec)	-	1,081	240	82	200	**1,603**
Total	**-**	**1,081**	**240**	**82**	**200**	**1,603**
Other Executive Management Personnel	-	9,101	2,201	542	1,657	**13,501**
Total	**1,315**	**14,040**	**4,990**	**879**	**2,404**	**23,628**

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

34. 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 arragements
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 in March 2012 (and 2011) to the executive directors, prescribed officers and other executives.

	Cash-settled instruments				
	SARs allocation (number of shares)	SARs value (R) at allocation date	SPRs allocation (number of shares)	SPRs value (R) at allocation date	**Total value (R) at allocation date**
2012		**R'000**		**R'000**	**R'000**
Non-Executive Directors	-	-	-	-	**-**
Executive Directors					
M. Williams (CEO)	62,728	1,128	90,606	1,629	**2,757**
J. Pohl (CFO)	39,975	719	53,300	958	**1,677**
Prescribed Officers					
B. Radebe (COO)	35,605	640	39,561	711	**1,351**
K. Pather (Retail Exec)	28,770	517	31,966	575	**1,092**
Other executives	170,860	3,073	189,844	3,414	**6,487**
2011					
Non-Executive Directors	-	-	-	-	**-**
Executive Directors					
M. Williams (CEO)	-	-	-	-	**-**
J. Pohl (CFO)	-	-	-	-	**-**
Prescribed Officers					
B. Radebe (COO)	-	-	-	-	**-**
K. Pather (Retail Exec)	-	-	-	-	**-**
Other Executives	-	-	-	-	**-**

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (CONTINUED)

Movements in number of instruments:

	Executive Directors		Prescribed Officers		Other Executives	
	M. Williams (CEO)	J. Pohl (CFO)	B. Radebe (COO)	K. Pather (Retail Exec)	Other Executives	**Total**
2012						
Cash-settled instruments						
Outstanding at the beginning of the year	-	-	-	-	-	**-**
- SARs	-	-	-	-	-	**-**
- SPRs	-	-	-	-	-	**-**
Granted	508,204	347,665	-	111,866	935,835	**1,903,570**
- SARs	207,902	149,000	-	52,989	443,291	**853,182**
- SPRs	300,302	198,665	-	58,877	492,544	**1,050,388**
Exercised	62,681	47,089	-	-	75,935	**185,705**
- SARs	17,238	13,715	-	-	25,080	**56,033**
- SPRs	45,443	33,374	-	-	50,855	**129,672**
Expired	-	-	-	-	-	**-**
- SARs	-	-	-	-	-	**-**
- SPRs	-	-	-	-	-	**-**
Forfeited	29,257	21,487	-	-	32,743	**83,487**
- SARs	-	-	-	-	-	**-**
- SPRs	29,257	21,487	-	-	32,743	**83,487**
Outstanding at the end of the year	416,266	279,089	-	111,866	827,157	**1,634,378**
- SARs	190,664	135,285	-	52,989	418,211	**797,149**
- SPRs	225,602	143,804	-	58,877	408,946	**837,229**

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (CONTINUED)

Movements in number of instruments:

	Executive Directors		Prescribed Officers		Other Executives	
	M. Williams (CEO)	J. Pohl (CFO)	B. Radebe (COO)	K. Pather (Retail Exec)	Other Executives	**Total**
2011						
Cash-settled instruments						
Outstanding at the beginning of the year	-	-	-	-	-	-
	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-
Granted	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-
Expired	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs						
Outstanding at the end of the year	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-

35. POST-EMPLOYMENT MEDICAL BENEFITS

Post-employment medical benefits are provided to retired staff in the form of subsidised medical aid premiums. This benefit has been closed to all new employees at the Bank since 31 December 2000. A provision for the liability has been raised during the current financial year, this covers the total liability, that is, the accumulated post-retirement medical benefit liability at 29 February 2012. The Bank took out an insurance policy with Guardrisk in order to manage the acturial risk. The last actuarial valuation of the fund was as at 29 February 2012. Ubank did not disclose the details regarding the plan in the prior financial statements as the net liability was Rnil. During the current year the liability exceeded the asset with an amount of R3.673 million. As there was no sufficient information available from the prior periods, it was not clear if the R3.673 million should have been accounted for in profit and loss or other comprehensive income. Due to this uncertainty, the full amount was recognised in other comprehensive income for the year. The appropriateness of this classification will be reconsidered in the following financial period. The next valuation of the plan will be performed for the 28 February 2013 year end.

	2012 R'000	2011 R'000
Medical obligation		
Liability at the beginning of the year	**(24,776)**	(21,870)
Annual cost		
Interest cost	(514)	(1,986)
Service cost	(576)	(1,335)
Actuarial losses	(4,874)	-
Net cost	**(5,964)**	(3,321)
Total benefit payments	**206**	415
Liability at the end of the year	**(30,534)**	(24,776)
Plan assets		
Plan assets at the beginning of the year	24,776	21,870
Interest adjustment to plan assets	2,085	2,906
Plan assets at the end of the year	**26,861**	24,776
Net liability in statement of financial position	**(3,673)**	-
Key assumptions:		
Discount rate:	8.25%	8.5%
Subsidy rate:	5.0%	4.5%
Net discount rate:	3.25%	4.0%
Valuation date:	29 February 2012	28 February 2011

The effect of a 1 per cent increase and decrease in the rate of increase of the Rand subsidy amount "subsidy rate" is as follows:

	1% decrease R'000	Valuation basis R'000	1% increase R'000
Employer's accrued liability	(25,721)	(30,534)	(36,635)
Employer's service and interest cost	(3,170)	(3,817)	(4,641)