ubank
Growing with You

ANNUAL FINANCIAL STATEMENTS

for the year ended 28 february 2015

Here for U since 1975

In terms of Section 29 of the Companies Act no. 71 of 2008 (as amended), the annual financial statements have been prepared under the supervision of Mrs Harriet Heymans CA(SA) & Mr Henry du Preez CA(SA).

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

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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 (as amended), and banks Act, 1990, including complete and responsible disclosure in accordance with the bank's adopted accounting policies. The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis. As a result of uncertainties inherent in business activities, many items in the financial statements cannot be measured with precision but can be estimated. Estimation involves judgements based on the latest available and reliable information. The use of reasonable estimates is an essential part of the preparation of the financial statements and do not undermine the credibility thereof.

The directors do not have 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 67 were approved by the Board of Directors of Ubank Limited and are signed on their behalf by:

Director

Director

Johannesburg

26 June 2015

Certificate of the company secretary

In my capacity as company secretary I certify that in terms of the Companies Act no. 71 of 2008 (as amended), this Bank submitted all returns and notices for the year ended 28 February 2015, 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

26 June 2015

DIRECTOR'S REPORT
FOR THE YEAR ENDED 28 FEBRUARY 2015

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

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

Share capital
On incorporation of the bank, authorised share capital was 25,000,000 shares of R1 each of which 24,500,000 were issued. There were no changes to share capital during the year.

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

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

Non-executive directors	Appointment date	Resignation date
J.H. De Villiers Botha (Chairman)	29 November2005	
L. Mangope	24 December 2008	22 May 2014
Z. N Miya	01 May 2014	
H. Groenewald	01 September 2011	
T. Dlamini	11 March 2013	16 April 2015
S. Ntsaluba	10 December 2013	
L. Kaunda	06 November 2013	01 October 2014
P. Molefe	27 August 2014	
R. Garach	01 August 2014	
M. Lesabe	17 April 2015	

Executive Directors	Appointment date
L. Vutula (Chief Executive Officer)	01 November 2012
H. Heymans (Chief Financial Officer)	12 March 2013

Company Secretary	Appointment date	Resignation date
N. Motaung	02 May 2013	27 March 2015
L. Vutula (Chief Executive Officer)	Acting	

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

Prescribed Officers	Appointment date
L. Vutula (Chief Executive Officer)	01 November 2012
H. Heymans (Chief Financial Officer)	12 March 2013
B. Radebe (Managing Executive: Retail)	01 December 2011

Interests of directors

The directors and prescribed officers had no interest in any third party or company responsible for managing any of the business activities of the bank. The emoluments and services of the executive directors are determined by the Remuneration committee and agreed by the shareholders at the Annual General Meeting. All executive directors have standard letters of appointment. (Refer to Note 29)

Special resolutions

No special resolutions were passed during the financial year.

Economic Overview

Global economic conditions in 2014 were mixed. Growth returned to the US economy while growth in Europe somewhat stalled and authorities embarked on a quantitative easing programme to stimulate the region, amid Greece looking to escape tough austerity measures. Global growth averaged 3.4% for the year, an improvement over the growth of 3.0% recorded for 2013.

The BRICS countries, with the exception of India, experienced weak growth in 2014, with downwardly revised forecasts going forward. The Chinese economy slowed down, and achieved a 7.4% growth rate for the year. Brazil had political issues, while Russia had geopolitical issues and faced sanctions from major western country economies, and this significantly adversely impacted growth prospects for both countries. India on the contrary, recorded a growth of 5.8% in 2014.

The subdued global economic performance passed through to the South African economy, whose lackluster performance in 2014 can be attributed to, among other factors, the adverse impact of the five-month-long labour strike in the platinum-mining sector in the first half of 2014 and industrial action in the steel and engineering sector in July, various structural impediments in the economy including the lack of a steady supply of electricity, lower prices of key export commodities, subdued business and consumer confidence levels, and lusterless global economic growth.

In the first half of 2014, the economy slowed and inflation rose, before growth rebounded as widespread labour unrest came to an end. Growth is projected to pick up in 2015 and 2016 as exports recover on the back of a weak rand and firmer world trade growth. Conditions in the global financial markets over the last year were mixed. Growth returned to the US economy while growth in Europe somewhat stalled and authorities embarked on a quantitative easing programme to stimulate the region, amid Greece looking to escape tough austerity measures. Meanwhile Chinese growth has been slowing. As the American economy recovers the United States Federal Reserve will consider raising rates. This is forecast to have an impact on emerging economies, which are expected to suffer from outflows unless they ensure their domestic economies offer a real rate of interest commensurate with their risk.

The reality of load-shedding introduced by Eskom in November 2014 posed a clear and present risk to the mining sector and associated economic activity in the country. On the upside, low oil prices kept inflation well below the Reserve Bank's upper target limit of 6% and to an average 3.8% in 2015. The Reserve Bank's Monetary Policy Committee (MPC) kept the repo rate unchanged at 5.75% from Q3 2014 and this is expected to remain stable at this level for the rest of 2015.

Banking

Although South Africa's financial sector escaped relatively unscathed from the global financial crisis (GFC), macroeconomic and credit risks still appear elevated. Structural factors including persistent strikes, electricity shortages, and soft external demand have constrained growth and kept unemployment high.

The economy is projected to grow only 1.4 % in 2014. The unemployment rate, already persistently high, rose to 25.5 % in Q2. Government debt has risen from 27 % of GDP in 2008 to 46 % of GDP in 2014. The combination of slow growth, low savings, and high public expenditure is sustaining large current account deficits of over 5 % of GDP.

Household debt rose to a historical high in 2008. Rapid growth in private sector credit between 2003 and 2006 boosted household debt to 83 % of income in 2008. While the pace of credit growth has slowed sharply in the last few years, household debt at 75 % of income in 2013 remained high by historical standards. House price inflation has moderated from 20–30 % between 2003 and 2006 to 5–10 % in 2013. Public sector firms have substantially increased their borrowing mainly to fund large infrastructure projects. This has raised total corporate debt to about 47 % of GDP, although private sector firms have kept their leverage low and their balance sheets remain robust.

Cheap financing post-Global Financial Crisis (GFC) and the government's financial inclusion efforts led to a sharp increase in retail unsecured lending. Retail unsecured lending grew 47 % between 2010 and 2012, reaching 11.7 % of total bank loans at the end of 2013. As the economy sputtered, the proportion of retail unsecured lending to low-income households that was impaired rose to 18.7 % in 2013 from 14.2 % in 2011, causing unsecured lending to contract in real terms in the first half of 2014.

These vulnerabilities became apparent in 2014. In June, Standard and Poor's downgraded South Africa's sovereign foreign currency debt to one notch above speculative grade, citing lackluster GDP growth, high current account deficits, rising general government debt, and the potential volatility and cost of external financing potentially strain in South African domestic banks' asset quality and profitability. In August, African Bank was placed in curatorship after announcing a record loss, driven by a sharp increase in impairments. The SARB announced its decision to bail in senior unsecured creditors by writing down their claims by 10 %, triggering a downgrade of the four large banks by Moody's.

The South African Reserve Bank (SARB) acted decisively in resolving African Bank and in soothing market jitters. Capitec, the other boutique lender, saw only a slight decline in its share price as it was perceived to have a more conservative credit risk policy. Market participants also quickly realized that the Moody's downgrade was not related to the soundness of the large banks, but to a reduction in the too big to fail premium that had been implicit in the banks' credit ratings. The vulnerability of financial institutions to contagion risk has remained low throughout the African Bank episode.

Following the African Bank curatorship the National Credit Regulator (NCR) has increased it's focus on unsecured lending practices within the market and Ubank has had two requests for investigations from the NCR. The NCR has referred the matters raised from the first investigation to the National Consumer Tribunal. This matter has not been finalised and Ubank is of the view that the matter will be satisfactorily resolved through the tribunal process. (Refer to Note 28)

The South African banking industry remains highly competitive. Both advertising investment and pricing competition have been used as strategies to outperform the opposition. Pricing in the market has decreased or remained static, in real terms, primarily in the bottom end of the market, as consumers remain price sensitive. The dominant strategy for acquiring new customers is by switching them from a competitor. The market remains largely pay-date driven and lengthy queues are commonplace over month-end periods including on the mining sites where Ubank has presence. All banks face logistical and service quality challenges due to increased client numbers during these peak periods. The balance between efficiency and quality of service remains vital to success in the retail banking industry. For Ubank this also means that it should continue to focus on efficiency within it's branch operations and identifying commercially sound ways to extending access to physical channels that enable customers to transact for seamlessly.

Mining

The overall mining production base shrunk in the first half of the year due to the protracted platinum strike action, and in the second half production began to improve on the back of this lower base.

The real value added by the mining sector advanced at an annualised rate of 15,2 % in the fourth quarter of 2014, boosted by pronounced increases in the production of platinum group metals and diamonds. Platinum production benefited from an increase in production volumes, and improved productivity and cost reduction measures implemented at some platinum mines following the resolution of the protracted labour strike in the industry earlier in 2014. Diamond production, in turn, was buoyed by increased efficiency in the mining and processing of gravel, brought about by the introduction of new technologically advanced mining equipment. By contrast, production volumes decreased in the coal and other mining subsectors.

On an annual basis, the real output of the mining sector declined at a rate of 1,6 % in 2014 as the production of gold, diamonds, copper, coal and platinum decreased. The industry continued to be negatively affected by infrastructural constraints, policy uncertainty, ongoing labour tension, lower commodity prices alongside rising operational costs, and the fragile global recovery. Mining production subtracted 0,1 percentage point from overall economic growth in 2014, after adding 0,3 percentage points in 2013.

Once the world's leading gold producing country, South African gold production continues to decline at a fast rate, currently ranked number five in the world. The latest view on production figures shows a serious continuing decline in monthly gold production.

Stats SA's Quarterly Labour Force Survey (QLFS) of Q4 2014 shows the official unemployment rate at 24.3%. Compared to the same period in 2013, employment increased by 143 000 in Q4 2014, largely due to increases in the formal sector which grew by 138 000 jobs. Annual increases were observed, most notably, in Construction and Agriculture while in Mining and Finance employment remained virtually unchanged.

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2015 (continued)

Performance

The impact of the protracted platinum mining sector strike in the early part of the year has had a material effect on profitability mainly due to the increased impairments and lower income generating activities. The bank has posted a loss before taxation of R29m, which is significantly lower than the forecasted loss when the recovery plan was put in place. The loss reflects the tough and challenging economic conditions that prevailed in the course of the year, and which served as a reminder of the concentration risk the bank faces from operating largely in the mining industry. The balance sheet remained unchanged at R4.3bn driven largely by savings deposits which stayed unchanged at R3.7bn from the prior year.

Since the strike ended the bank has managed to post profits due to the impact of the following key initiatives:

- Restructuring campaign of customers that were in good standing prior to the commencement of the protracted strikes. 95.2% of this population was restructured and the repayment ratio of the restructured accounts has on average been above 85%.

- Optimisation plan which focused on front and back office optimisation. The bank reduced it's regional frontline structures from 8 to 4 regions and aligned the back office structures accordingly. The bank also placed a moratorium on vacancies and affected 101 positions within the bank through a section 189 process with it's union SASBO (South African Society of Bank Officials). The bank offered Voluntary Severance Packages (VSP)/Voluntary Early Retirement Packages (VERP) and this process was finalised during the months of August and September 2014. The last VSP/VERP payments were effected in October 2014. At the end of this process there was only 1 forced retrenchment.

- Cost plan focusing on cost optimisation and reduction throughout the bank. The bank saved R55.4million in costs when compared to budgeted expectations. Due to this plan the operating expenses improved by 1% to R482million for the year.

- Sale of non core assets such as immovable property. All buildings owned that is not utilised in the core services of the bank has been put on sale.

The net loan book declined by 13% to R733 million since the start of the new financial year (February 2014 – R841.7mil) off the back of lower than expected loan sales and increased impairment provisions.

The deposit book (R3 725.6million) is marginally (R12million) ahead of budget expectation (R3 713.6million), and showed no year-on-year growth.

Impairment charges on loans and advances increased by 24%. The impairment percentage increased by 2.7% to 13.8% (FY2014: 11.1%). This was mainly due to the protracted mining sector strike which adversely affected loan customers' ability to continue meeting their monthly repayment obligations.

The bank's capital adequacy ratio was under immense pressure during the duration of the platinum strikes but was supported with the above mentioned initiatives to improve profitability and several balance sheet optimisation initiatives to reduce the risk weighted assets of the bank and recovered to 17.11% (FY2014: 17.42%) as at year end.

Strategic implementation overview

The bank spent a major part of the year ensuring that the basics were in place to continue to build on the intent of the strategic objectives laid out in its 10-year strategy. The bank responded with agility to the protracted platinum strike and did not loose focus of the long-term strategic goals. There was re-alignment of portfolios with the CFO taking over the function of Group Strategy and IT, and the COO role transitioning into a new role of Managing Executive: Retail focusing on the core mining operations and frontline. Appointment to the role of General Manager - Credit was concluded.

The bank's mission to be the workers bank of choice remains and the strategic themes have been confirmed and are the key drivers when prioritising project and investment expenditure.

These themes remain:

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

Since the development of the 2023 strategy the bank has spent in excess of R20mil in the strategic implementation of the first phase of the strategy which is the fix the basics phase. Within this phase the following key projects have been initiated:

- ACB (Automated Clearing Bureau) account number compliance - All Ubank accounts now comply with the ACB account number standards
- EMV (Europay, Mastercard and VISA) compliance - All Ubank ATM's and chip debit cards are EMV compliant.
- Branch connectivity - The majority of Ubank's branches have improved transaction speeds and uptime and the CCTV (close circuit television) monitoring capability has been improved.
- Building a credit capability project (BCCP) - Ubank has implemented a new lending platform that focusses on an end to end lending capability that caters for credit granting, loan account management and collection capabilities.
- Payments gateway - Ubank has developed it's own payments management capability and now effects it's own EFT(Electronic funds transfer), NAEDO(Non authenticated debit order) and RTC(Real Time Clearing) transactions.
- Paperless banking - Software has been deployed to electronically store onboarding and account documents.
- TOM (Target Operating Model) and OD (Organisational Design) - The TOM and OD needed to effect the strategic intent of the bank has been deigned and the critical capabilities and positions have been prioritised accordingly.

The bank stays on course in the strategic implementation and prioritises projects that it can self fund. The full strategic implementation is dependent on a capital injection and it is one of the key strategic projects of the board to secure suitable capital investors for the bank.

Key areas of significant estimates

CMM Investment carrying value

During the current financial year further clarity has been obtained regarding the Corporate Money Managers Fund (CMM) investment and the curatorship process that is currently underway. The carrying value of the bank's outsourced investment to CMM as at 28 February 2015 was R38.7 million and reported as Investments (Note 15) under the available-for-sale designation.

Management, revalued the on balance sheet CMM investment by using the latest financial information available and observed an impairment, after interest accrual for accounting purposes, during the current financial year (2014: R323 000 reversal of impairment) and processed an impairment to the value of R2.06 million. To date the investment has been impaired by R221.1 million. The impairment estimate is calculated by taking into account the following significant estimates into account:

- **Realisable amount**

The Curators remain confident of a partial recovery of the assets within the Fund, taking into account the underlying assets, the difficulty in validating security of the assets, the validity of the liability listing excluding opportunistic claims and the risks associated with a Curatorship process. Management estimated this recoverable amount at 31.59% (2014: 29.67%). 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% (2014: 13.75%) applied to the realisable amount is based on the estimate of an appropriate rate to discount the cash flows taking into account the specific risks for the type of underlying assets.

- **Realisation period**

The realisation period for the final payment is estimated at 2 years (2014: 3 years). This is aligned to current market trends to finalise similar processes.

The impairment charge of R2.06 million (2014: R323 000 reversal of impairment charge) reported on the face of the Statement of Profit /Loss and Other Comprehensive Income has resulted in the net carrying value of the investment to the value of R38.7 million (2014: R35.8 million). Since it is intended to hold the asset for the foreseeable future, an appropriate deferred tax asset has been raised for the temporary difference between accounting and tax carrying values. During the year the bank received no hardship payments compared to a R4.5 million hardship payment received during the prior year from the curators. Management remain hopeful of recovery of the investment and are actively engaged with the Curators through the Investor Forum to explore all recovery opportunities over the remainder of the curatorship period.

Impairment of loans and advances

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

AUDIT COMMITTEE REPORT
FOR THE FINANCIAL YEAR 2015

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

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

The committee is composed of non-executive directors of the board, with the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Managing Executive Retail, Head of Internal Audit, the Company Secretary and external auditors in attendance. (The Head of Compliance and Head of Operational Risk is also invitees to the meetings)

Financial statements

The Audit Committee confirms that the financial statements have been prepared on a going concern basis and been reviewed in detail by the committee, taking into account significant accounting and reporting issues, relevant accounting policies and practices. The Audit Committee is satisfied that there are no significant concerns in this regard.

Internal audit

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

The internal audit plan for the year focused on the bank's control environment, with an emphasis on closing outstanding and recurring audit issues and improving the overall risk profile of the bank within the risk tolerance limits. The reports by Internal Audit have been reviewed as well as management's actions in remedying control deficiencies. The Audit Committee can see the progress made in the control environment but there remains some way to go to ensure that it is suitable, effective and efficient. It also seeks continuous improvement in the banks' overall control environment.

External audit

The committee recommended the re-appointment of SizweNtsalubaGobodo Inc. (SNG), as sole audit firm for the 2015 financial year and the re-appointment was approved at the Annual General Meeting.

The committee is satisfied that the audit firm is independent from the bank for the financial year under review.

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

Compliance

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

During the period under review the Audit Committee monitored compliance with the Companies Act, the banks Act, all other applicable legislation and governance codes and reviewed reports from internal, external auditors and compliance detailing the extent of this. The NCR matters as reported in the directors report is actively monitoring by the Audit Committee.

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

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

AUDIT COMMITTEE REPORT
FOR THE FINANCIAL YEAR 2015 (continued)

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

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

Going forward
In respect of the coordination of assurance activities, the committee has tasked management to develop a combined assurance model. The objective of the model is to ensure optimum use of limited resources by, as far as possible, avoiding duplication of effort in the conduct of assurance with respect to Ubank's activities, without compromising on overall coverage of all risk areas.

Management has developed a framework and implementation plan.

Membership and attendance of the Audit Committee:
The members of the Audit Committee are:

Harry Groenewald
MBL (Unisa SBL); Management Development Program (Unisa); B. Com (University of Pretoria)
(Chairman of the Committee until October 2014)

Lerato Mangope
MBA (Henley); Diploma in Investment Management (RAU); B.A Economics (Vista University)
(Resigned from the Committee and Board of Directors in May 2014)

Sango Ntsaluba
B.Com Degree; B.Compt (Hons); H.DipTax; CA(SA)

Thandeka Dlamini
Masters degree in International Relations, B.A Political Science & Government and Black world studies
(Membership in the Committee was reviewed and no longer a member from September 2015)

Rakesh Garach
Bachelor of Commerce (Accounting); Post Graduate Diploma in Accounting (Honours); CA(SA)
(Appointed to the Committee in September 2014 - Appointed as Chairman of the Committee in October 2014)

Nelson Miya
MBL; B.Com Hons; EDP (WBS); CAIB (SA); LIB (SA)
(Appointed to the Committee in October 2014)

Meeting	Harry Groenewald	Lerato Mangope	Sango Ntsaluba	Thandeka Dlamini	Nelson Miya	Rakesh Garach
April 29, 2014	Attended	Attended	Apology	Attended	N/A	N/A
May 13, 2014	Attended	Attended	Attended	Attended	N/A	N/A
September 30, 2014	Attended	N/A	Apology	Apology	N/A	Apology
February 23 2015	Attended	N/A	Attended	N/A	Attended	Attended

** where it says N/A, the Directors were either not members anymore; or not appointed to the Ubank Board of Directors; and/or had resigned.*

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UBANK LIMITED

We have audited the annual financial statements of Ubank Limited set out on pages 11 to 67, which comprise the statement of financial position as at 28 February 2015, and the statement of profit or loss, 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 28 February 2015, 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 28 February 2015, 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.

Director - Nhlanhla Sigasa
Registered Auditor (RA), CA (SA)
26 June 2015

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead

STATEMENT OF PROFIT/LOSS & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2015

	Notes	2015 R'000	2014 R'000
Interest income		**401 618**	374 941
Interest expense		**(48 264)**	(38 520)
Net interest income	**6**	**353 354**	**336 421**
Fees and commission income	7	**244 687**	276 437
Fees and commission expense		**(62 573)**	(54 156)
Net fees and commission income		**182 114**	**222 281**
Net gain/(loss) on financial assets designated at fair value through profit or loss	8	**836**	(529)
Other operating income	9	**30 001**	52 352
Total operating income		**566 305**	**610 525**
Impairment charge on financial assets	10	**(125 254)**	(99 191)
Impairment charge on loans and advances		**(123 193)**	(99 191)
Impairment charge on available for sale investment		**(2 061)**	–
Net operating income		**441 051**	**511 334**
Personnel expenses	11	**(242 578)**	(236 178)
Depreciation of property and equipment	18	**(21 692)**	(18 673)
Amortisation of intangible assets	19	**(12 966)**	(8 773)
Other operating expenses	12	**(192 556)**	(222 757)
Total operating expenses		**(469 792)**	**(486 381)**
Profit/(Loss) before tax		**(28 741)**	**24 953**
Taxation	13	**14 265**	998
Profit/(loss) for the year		**(14 476)**	**25 951**
Other comprehensive income:			
Post-employment medical benefits reserve		**–**	–
Taxation	13	**–**	–
Post-employment medical benefits reserve movement for the year		**–**	–
Fair value adjustment on available-for-sale investments		**1 785**	1 929
Amount recycled from other comprehensive income and recognised in profit and loss		**–**	–
Impairment reversal on available-for-sale investment		**–**	323
Taxation	13	**(354)**	(216)
Available-for-sale-reserve movement for the year		**1 431**	**2 036**
Other comprehensive income for the year		**1 431**	**2 036**
Total comprehensive income for the year		**(13 045)**	**27 987**

STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2015

	Notes	2015 R'000	2014 R'000
ASSETS			
Cash and cash balances	14	**511 355**	761 142
Trade receivables and other assets	16	**46 136**	37 115
Investments	15	**2 784 476**	2 486 197
Loans and advances to customers	17	**732 683**	841 692
Property and equipment	18	**61 511**	71 125
Intangible assets	19	**68 806**	76 319
Deferred taxation	20	**97 639**	83 728
TOTAL ASSETS		**4 302 606**	**4 357 318**
LIABILITIES			
Deposits and savings due to customers	22	**3 725 796**	3 739 140
Trade payables and other liabilities	21	**68 800**	86 299
Provisions	23	**9 680**	20 503
Post-employment medical benefits liability	35	**–**	–
TOTAL LIABILITIES		**3 804 275**	**3 845 942**
EQUITY			
Share capital and share premium	24	**244 875**	244 875
Available-for-sale reserve	25	**5 219**	3 788
Post-employment medical benefits reserve	26	**–**	–
Retained earnings		**248 237**	262 713
		498 331	511 376
TOTAL LIABILITIES AND EQUITY		**4 302 606**	**4 357 318**

STATEMENT OF CHANGES IN EQUITY
AT 28 FEBRUARY 2015

	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 2013		**24 500**	**220 375**	**1 752**	**–**	**236 762**	**483 389**
Profit for the year		–	–	–	–	25 951	25 951
Other comprehensive income for the year		–	–	2 036	–	–	2 036
Total comprehensive income for the year		–	–	2 036	–	25 951	27 987
Balance at 28 February 2014	**24**	**24 500**	**220 375**	**3 788**	**–**	**262 713**	**511 376**
Loss for the year		–	–	–	–	(14 476)	(14 476)
Other comprehensive income for the year		–	–	1 431	–	–	1 431
Total comprehensive income for the year		–	–	1 431	–	(14 476)	(13 045)
Balance at 28 February 2015	**24**	**24 500**	**220 375**	**5 219**	**–**	**248 237**	**498 331**

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 liability. Please refer to Note 26.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2015

	Notes	2015 R'000	2014 R'000
OPERATING ACTIVITIES			
Interest and fee income		**646 305**	651 378
Interest and fee commission expense		**(110 837)**	(92 676)
Net trading and other (expense)/income		**(11 685)**	14 650
Investment income		**18 879**	22 438
Cash paid to customers and employees		**(449 562)**	(463 656)
Cash available from operating activities	29	**93 100**	132 134
Changes in operating funds:			
Increase/(Decrease) in income earning assets		**(312 262)**	(561 795)
(Decrease)/Increase in deposits and savings due to customers		**(13 344)**	788 969
Cash (utilised)/available from operating activities after changes in operating activities		**(232 506)**	359 308
Tax paid	29	**354**	3 766
Net cash (outflow)/inflow from operating activities		**(232 152)**	**363 074**
INVESTING ACTIVITIES			
Additions to intangible assets		**(5 453)**	(16 708)
Additions to property and equipment (maintaining of operating activities)		**(12 766)**	(32 216)
Proceeds from disposal of property and equipment		**584**	1 015
Net cash used in investing activities		**(17 635)**	**(47 909)**
Net increase/(decrease) in cash and cash balances		**(249 787)**	315 166
Cash and cash balances at beginning of year		**761 142**	445 976
Cash and cash balances at end of year	14	**511 355**	**761 142**
Cash and cash balances comprise:			
Coins and bank notes		**43 971**	74 481
Balances with other banks		**467 384**	686 661
	14	**511 355**	761 142

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 18 June 2015.

2. Accounting policies

2.1 Basis of preparation

The annual financial statements are for the Ubank company and have been prepared on the historical cost basis except where noted otherwise in the accounting policies. The presentation currency is South African rand and all numbers are rounded up to the nearest thousand.

Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) of those standards, as adopted by the International Accounting Standards Board and the Companies Act no. 71 of 2008 (as amended).

Change in accounting policies and disclosures

The accounting policies adopted are consistent with those of the prior year. The following standards, amendments and interpretations were effective for the financial year:

IAS 16 Property plant and equipment

Clarify the requirements for the revaluation method IAS 16 and IAS 38 to address concerns about the calculation of the accumulated depreciation or amortization at the date of the revaluation. The amendment becomes effective for annual periods beginning on or after 1 July 2014, and are not expected to have a material impact on the financial statements of the bank.

IAS 24 Related party disclosures

An entity providing KMP services to the reporting entity should be disclosed as a related party of the reporting entity. The amendment becomes effective for annual periods beginning on or after 1 July 2014, and are 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.

IFRS 10 Consolidated financial statements

The amendment provides an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The amendment becomes effective for annual periods beginning on or after 1 January 2014, and is not expected to have a material impact on the financial statements of the bank.

IFRS 13 Fair value measurement

IFRS 13 describes how to measure fair value where fair value is required or permitted to be used as a measurement basis under IFRS (with certain standards being excluded from the scope of IFRS 13). In addition accordance with IFRS 13; fair value is presumed to be an 'exit price'. New disclosures related to fair value measurements are also introduced. The bank does not anticipate any material impact on the financial position and performance of the bank, and will not impact the current disclosure.

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

IAS 36 Impairment of assets

Amends the disclosure requirements in IAS 36 with regard to the measurement of the recoverable amount of impaired assets. 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.

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:

IAS 1 Disclosure initiative - Amendments to IAS 1

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Amendments to IAS 1 is effective for annual periods beginning on or after 1 January 2016.

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC 31 Revenue - Barter transactions involving advertising services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets. The standard outlines the principles and entity must apply to measure and recognise revenue. The principles in IFRS 15 will be applied using a five step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 is more prescriptive than current IFRS and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes. The standard is effective for annual periods beginning on or after 1 January 2017.

IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments become effective for annual periods beginning on or after 1 January 2016, and are not expected to have an impact on the financial statements of the bank.

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates

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

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

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

Property and equipment

When deciding on depreciation rates and methods, the principal factors the bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets. When reviewing residual values, the bank annually estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life. Please refer to note 18.

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. Please refer to note 18.

Intangible assets

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

Impairment of intangible assets

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 technological obsolescence, 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. Please refer to note 19.

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 (2014: nil).

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a degree of judgement to estimate probable future cash flows. Future cash flows are discounted using a risk adjusted discount rate. Fair values are disclosed within the valuation hierarchy determined under IFRS 7 in note 15.

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

Fair value of financial instruments (continued)

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 31.59% (2014: 29.67%). 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% (2014: 13.75%) applied to the realisable amount is based on the estimate of an appropriate rate to discount the cash flows taking into account the specific risks for the type of underlying assets.

Realisation period

The realisation period for the final payment of the realisable amount (excluding short term payments) is estimated at 2 years (2014: 3 years) taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in an of impairment of R2.06 million (2014: R323 000 reversal of impairment charge) reported on the face of the Statement of Profit/Loss and Other Comprehensive Income. The cumulative impairment of R221.1 million (2014: R219.1 million) results in a net carrying value of R38.7 million (2014: R35.8 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 no hardship payment (2014: R4.5 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 statement of financial position date, management assesses whether there are indicators of impairment of financial assets. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management's judgement is required when determining the expected future cash flows. Impairments of financial assets are detailed in note 10 and within the Director's report.

Impairment losses on loans and advances to customers

The bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Statement of Profit/Loss and other Comprehensive income. Impairment is raised for incurred losses on loans and advances that are deemed to demonstrate objective evidence of impairment. The impairment is based on an assessment of the extent to which customers have defaulted on amounts already due and an assessment of their ability to make payments based on creditworthiness and historical write offs experienced. Should the financial condition of the customers change, actual write offs could differ significantly from the impairment. Please refer to note 10.

Current taxation

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

Deferred tax assets

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(continued)

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

Deferred tax assets (continued)

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

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

3. Summary of significant accounting policies

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

3.1 Recognition of income and expenses

Revenue is 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 profit/loss and other comprehensive income in the period in which they arise.

3. Summary of significant accounting policies (continued)

3.3 Leases

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

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

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 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.

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) Dividends withholding taxation

Dividends withholding tax became effective from 1 April 2012. Dividends are taxed at 15% in the hands of certain of the recipients of the dividends, rather than in the hands of the declarer of the dividend. STC was provided for at 10.0% on the net of dividends declared less dividends recovered by the company during the reporting period.

3. Summary of significant accounting policies (continued)

3.5 Cash and cash balances

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
ATM's	7 years
Leasehold improvements	Shorter of the period of lease and useful life o 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.

3. Significant accounting policies (continued)

3.7 Intangible assets (continued)

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 through profit and loss if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed through profit and loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the 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. Significant accounting policies (continued)

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 profit/loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

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

3.11 Financial instruments - Initial recognition and subsequent measurement

(a) Initial recognition

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

(b) Date of recognition

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established. Included in this classification are certain short-term investments as detailed in note 15. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined according to the fair value hierarchy based on the requirements in IFRS 13. Please refer to the fair value hierarchy in Note 15 & 31.

3. Significant accounting policies (continued)

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

(f) Loans and receivables

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

(g) Held to maturity investments

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

(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 is 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 bank de-recognises financial assets (or where applicable, a part of a financial asset or part of a group of similar financial assets) where:

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

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

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

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

3. Significant accounting policies (continued)

3.12 Financial instruments - Derecognition of financial assets and financial liabilities (continued)

(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 arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Please refer to the fair value hierarchy in Note 15.

3.14 Impairment of financial instruments

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

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

(a) Loans and advances to customers

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

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.

3. Significant accounting policies (continued)

3.14 Impairment of financial instruments (continued)

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

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

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

(b) Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. Objective evidence includes analyst ratings and media reports. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the 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 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. Significant accounting policies (continued)

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

3.16 Share-based payments

- Cash-settled share-based payment transactions with employees

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

- share appreciation rights; and
- share performance rights.

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

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

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

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

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

3. Significant accounting policies (continued)

3.17 Post-employment benefits

The bank provided 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.

This benefit was terminated during the 2014 financial year.

4. Risk management

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

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

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

Risk governance

The following management Committees are in place to support the EXCO and the Board Risk and Capital Management Committee in managing enterprise risks.

- Credit Committee, responsible for credit risk
- Asset and Liability Committee (ALCO), responsible for the management of the following :
  - Solvency Risk
  - Liquidity Risk
  - Interest Rate Risk
  - Counterparty Risk
- The Enterprise Risk Committee (ERC) monitors the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events including legal risk but excluding strategic risk. All risk related matters from the Credit

4. Risk management

Risk governance (continued)

Committee and ALCO (Assets and Liabilities Committee) respectively are also discussed in the ERC. The ERC serves as an over–arching Executive Committee that addresses all risk matters of the bank. In addition, a Board Large Exposures Committee ensures oversight and approval of large exposures.

The Board Risk and Capital Management Committee also approved the bank's ICAAP (Internal Capital Adequacy Process) document during the year.

From a governance and risk management perspective, ICAAP aims to answer the questions whether Ubank identifies all material risks as well as detail the range of systems and controls that are effectively in place to mitigate Ubank's risks. ICAAP is a "living document" to demonstrate at any point in time whether or not the bank holds sufficient capital, given the bank's risk profile.

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

By following a structured approach, Ubank can gain a better understanding of its strategic goals, culture, market place, regulatory requirements and financial sensitivity to lisk. This will enable the strategy to be put into effect. Other risk appetite measures; including limits on operational risk, are currently under review. The above-mentioned Risk Appetite measures form part of the ERM Framework's embedding going forward.

Operational risk

Concerning operational risk, the bank applies the Basic Indicator Approach for Operational Risk. The bank has also adopted some qualitative aspects of The Standardised Approach, such as an Internal Loss Database, to bring the bank in line with best risk management practice. Future developments will include enhanced reporting capability. Changes to the approved ERM Framework as discussed above, were taken into account in endeavouring to improve the risk profile of the bank, therefore potentially reducing capital allocation. It should be highlighted that a number of these factors, frameworks and initiatives will be embedded in the bank over a period.

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

Fraud Risk Management

Ubank operates in an environment in which fraud risks are managed effectively and in doing so, financial crime are prevented, detected and investigated. Ubank has a zero tolerance for fraud, meaning that acts of dishonesty or similar unethical behaviour are not tolerated and consistent consequence management in line with internal policies as well as the laws of our country that governs criminal activity, are being applied.

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

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

4. Risk management (continued)

Fraud Risk Management (continued)

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

Internal audit

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

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

The Basel capital accord

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

Code of ethics

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

4.1 Financial risk management

Introduction and overview

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

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

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit risk management

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

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

4. Risk management (continued)

4.1 Financial risk management (continued)

(a) Credit risk management (continued)

The bank's focus over the last financial year has been on preparing the business for migration of accounts from the legacy system to the new platform deployed in the previous financial year; with the view that all the bank's exposures will be on a single source system and thus enhance the bank's functionality of customer acquisition, loan management and collections. Protracted strikes in the platinum sector resulted in the bank reprioritising resources to assist customers' and in the process protecting the bank's interest.

This financial year credit risk management continued to be tested from both a customer and regulatory perspective. The consumer market still finds itself highly indebted with a debt to income ratio of 77,6% making efforts increasing difficult to navigate in an already distressed industry. During the first part of the year significant protracted labour unrest disruptions were observed compared to the previous financial year, and the impact of which has only recently started unwinding. The biggest of the unrest in March 2014 and the protracted scale of the unrest demanded clear strategies to manage new business and existing portfolios. Despite the distress in the market the bank continues to follow its lending strategies and strive to maintain market share with responsible lending practices. The environmental changes in credit also enables business to increase its agility to respond to the industry with more capabilities developed (e.g. Payment Gateway). The regulatory environment is aiming to address over indebtedness and consumer access to credit. Some of the most controversial attempts introduced by the regulatory bodies were the removal of adverse information at credit bureaus. Ubank ensured that it can assess credit risk once the adverse information is removed and these changes in our credit risk assessment processes had little impact on our ability to maintain portfolio growth levels while maintaining similar levels of credit risk. Similarly regulations on reporting and classifications standards have changed (restructuring); these requirements are being built into the core lending platform of the bank.

Credit risk measurement

Ubank reviewed scorecards used to measure the credit risk the bank will be exposed to when underwriting and managing loans. The techniques are integrated with the bank's risk appetite framework to ensure the credit lifecycle is aligned with the bank's capital plans. The modelling techniques includes risk based pricing which allows the bank to price for the risk it takes. The bank also place a lot of emphasis on loan fraud and our ability to address this as part of the risk assessment process. The most important assessment of existing risk exposure used by the bank is the impairment model. The bank undertook two independent reviews of the models used and their ability to react to changing portfolio performance. This added significant value in managing portfolio provisions, proactively.

Credit risk mitigation

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

Risk concentration of the maximum exposure to credit risk

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

4. Risk management (continued)

4.1 Financial risk management (continued)

(a) Credit risk management (continued)

	2015 R'000	2014 R'000
Loans and advances[1]		
Personal loans to employees of mining industry	**706 114**	803 687
Personal loans to employees of non-mining industry	**26 569**	38 004
Wholesale loans	**–**	–
Total	**732 684**	**841 692**
Investments		
Sovereigns	**2 232 336**	1 723 897
Interbank	**201 954**	316 692
Securities firms	**–**	–
Capital markets	**311 460**	409 751
Investments under curatorship	**38 726**	35 857
Total	**2 784 476**	**2 486 197**

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

(b) Liquidity risk management

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

A loss of confidence in the bank or the banking sector could result in a withdrawal of deposits and funding such that the bank cannot meet its obligations despite being adequately solvent and profitable. The bank's liquidity risk is monitored by the ALCO that meets monthly and reviews the liquidity position of the bank including liquidity mismatches in terms of regulatory requirements for banks and financial institutions. Its objective is to manage and limit the adverse impact of these risks on the bank's future earnings. Please refer to Note 31 for a liquidity analysis.

(c) Market risk management

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

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

4. Risk management (continued)

4.1 Financial risk management (continued)

(c) Market risk management (continued)

Interest rate risk

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

Price risk

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

Currency risk

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

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

Market risk measurement

Interest rate risk is being measured through an interest rate gap model, which is the difference between rate sensitive assets and liabilities. In addition, a stress testing model using interest rate shocks, is used to determine potential losses in the event of extreme market conditions. The impact on net interest margins is monitored at the monthly ALCO meetings. Please refer to Section 4.5 for the sensitivity analysis.

4.2 Capital management

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

Basel III

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

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on guidelines developed by the Basel Committee on Banking Supervision and implemented by the SARB. These techniques include the capital adequacy ratio calculation, which the SARB regards as a key supervisory tool.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(continued)

4. Risk management (continued)

4.2 Capital management (continued)

The bank's regulatory capital position at 28 February 2015 was as follows:

	2015 R'000	2014 R'000
Tier 1 capital		
Ordinary share capital	**24 500**	24 500
Share premium	**220 375**	220 375
Retained earnings	**248 022**	262 422
Other accumulated other comprehensive reserves	**5 217**	4 094
Deductions	**(128 926)**	(106 601)
Total	**369 188**	**404 790**
Tier 2 capital[1]	**8 437**	8 631
Total regulatory capital	**377 625**	413 421

Risk weighted assets	**Capital requirements**		**Risk weighted assets**	
	2015	**2014**	**2015**	**2014**
Credit	**85 437**	107 041	**854 373**	1 070 408
Sovereign	**–**	–	**–**	–
Banks	**27 118**	41 000	**271 182**	409 998
Security Firms	**2 439**	2 294	**24 392**	22 944
SME Corporate	**163**	163	**1 631**	1 631
Retail	**55 717**	63 584	**557 168**	635 835
Operational	**112 669**	112 916	**1 126 619**	1 129 163
Market	**761**	583	**7 612**	5 833
Equity	**793**	624	**7 928**	6 239
Other	**21 090**	16 161	**210 905**	161 606
Total	**220 750**	237 325	**2 207 437**	2 373 249

[1] *Allowable portfolio impairment under standardised approach.*
**Risk weighted assets at 9.5%*

	2015	2014
Capital adequacy	**17,11%**	17,42%
Primary capital adequacy	**16,72%**	17,06%
Target Capital Levels		
Target capital levels have been set for the bank and are above the minimum regulatory requirements set by the SARB.		
Regulatory requirements	**10,0%**	10,0%

4. Risk management (continued)

4.2 Capital management (continued)

Monthly/Daily Average Credit Exposure

	Capital requirements		Capital position	
	2015	**2014**	**2015**	**2014**
Banks	**27 118**	41 000	**271 182**	409 998
Security Firms	**2 439**	2 294	**24 392**	22 944
SME Corporate	**163**	163	**1 631**	1 631
Retail	**55 717**	63 584	**557 168**	635 835
	85 437	107 041	**854 373**	1 070 408

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.

	2015 R'000	**2014 R'000**
Cash and cash balances	**511 355**	761 142
Investments	**2 784 476**	2 486 197
Trade receivables and other assets (excluding prepayments)	**31 513**	19 575
Loans and advances to customers	**732 683**	841 692
Total credit risk exposure	**4 060 028**	4 108 607

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

(b) Collateral and other credit enhancements

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

	Note	**2015 R'000**	**2014 R'000**
Secured loans (Provident fund ceded)		**22 634**	37 417
Tirisano loans (30% secured)		**336**	2 036
Other loans (Unsecured)		**709 713**	802 239
Loans and advances to customers	17	**732 683**	841 692

4. **Risk management** (continued)

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 bank's internal control environment. The table below shows the credit quality by class of asset for statement of financial position lines, based on the bank's current credit risk framework and policies.

	2015 R'000	2014 R'000
Cash and cash balances	**511 355**	761 142
Investments	**2 784 476**	2 486 197
Trade receivables and other assets (excluding prepayments)	**31 071**	19 575
	3 326 902	3 266 915

2015	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Cash and cash balances	**511 355**	**–**	**–**	**–**	**–**	**511 355**
Investments	**2 745 750**	**–**	**–**	**–**	**38 726**	**2 784 476**
Trade receivables and other assets (excluding prepayments)	**31 071**	**–**	**–**	**–**	**–**	**31 071**
	3 288 176	**–**	**–**	**–**	**38 726**	**3 326 902**

2014	Current	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
Cash and cash balances	761 142	–	–	–	–	761 142
Investments	2 450 339	–	–	–	35 858	2 486 197
Trade receivables and other assets (excluding prepayments)	19 575	–	–	–	–	19 575
	3 231 057	**–**	**–**	**–**	**35 858**	**3 266 914**

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

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

4. Risk management (continued)

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.

2015	Note	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000						
Loans and advances to customers-impaired		**82 114**	**38 925**	**54 201**	**9 664**	**184 904**
Loans and advances to customers-current						**664 686**
Total	**17**	**82 114**	**38 925**	**54 201**	**9 664**	**849 590**

2014	Note	30 to 90 days	90 to 180 days	180 to 365 days	> 365 days	Total
R'000						
Loans and advances to customers-impaired		82 104	35 499	61 501	13 596	192 700
Loans and advances to customers-current						753 895
Total	**17**	**82 104**	**35 499**	**61 501**	**13 596**	**946 595**

4.4 Liquidity risk

The bank's objectives and policies in managing the liquidity risks that arise are set out in note 4.1 under the heading 'Liquidity Risk Management'. The following table provides detail on the contractual maturity of all financial liabilities including interest accrued to the reporting date and contractual interest which will be accrued after the reporting date until maturity of the financial liability: (Refer to Note 30 for liquidity matching)

At 28 February 2015

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	–	–	**26 022**	–	–	**26 022**
Deposits and savings due to customers	**2 883 287**	**351 489**	**449 653**	**41 367**	–	**3 725 796**
Lease liability	–	–	–	–	–	–
Other liabilities						
Other trade liabilities	–	–	**42 776**	–	–	**42 776**
Provision for leave pay	–	–	**8 578**	–	–	**8 578**
Bonus provision	–	–	–	–	–	–
Long term incentive provision	–	–	**1 102**	–	–	**1 102**
Post-employment medical benefits liability	–	–	–	–	–	–
Total undiscounted liabilities	**2 883 287**	**351 489**	**528 132**	**41 367**	–	**3 804 275**

4. Risk management (continued)

4.4 Liquidity risk (continued)

At 28 February 2014

R'000	On demand	< 3 months	3 - 12 months	1 to 5 years	> 5 years	Total
Financial liabilities						
Trade payables and other liabilities	–	–	20 858	–	–	20 858
Deposits and savings due to customers	2 942 974	358 553	405 540	32 073	–	3 739 140
Lease liability	–	–	–	–	–	–
Other liabilities						
Other trade liabilities	–	–	65 441	–	–	65 441
Provision for leave pay	–	–	8 829	–	–	8 829
Bonus provision	–	9 481	–	–	–	9 481
Long term incentive provision	–	–	2 193	–	–	2 193
Post-employment medical benefits liability	–	–	–	–	–	–
Total undiscounted liabilities	**2 942 974**	**368 034**	**502 872**	**32 073**	**–**	**3 845 953**

4.5 Interest rate and price risk

The bank's objectives and policies in managing the interest, price and currency risks that arise in connection with the use of financial instruments are set out in note 4.1 (c), under the heading 'Market risk management'. The tables below demonstrate the sensitivity to a reasonable possible change in interest rate and price respectively with all other variables held constant, of the bank's net interest income based on forecasts. The impact of such changes on equity is not considered to be material. The movements below exclude tax effects.

Interest rate risk

		Net interest income			
2015	**Bp movement**	**Decrease**	**Increase**	**Decrease**	**Increase**
		%	%	R'000	R'000
	50bp	4,82%	4,06%	16 058	19 100
	100bp	9,65%	8,11%	32 116	38 201
	200bp	19,29%	16,22%	64 231	76 401

		Net interest income			
2014	**Bp movement**	**Decrease**	**Increase**	**Decrease**	**Increase**
		%	%	R'000	R'000
	50bp	5,19%	4,02%	20 096	15 568
	100bp	10,39%	8,05%	40 191	31 136
	200bp	20,77%	16,09%	80 382	62 272

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

4. Risk management (continued)

4.5 Interest rate and price risk (continued)

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 R7 817 253 (2014: R6 238 639).

2015	Pre tax impact on profit and loss R'000	Carrying value after change R'000
Increase	**782**	**8 599**
Decrease	**(782)**	**7 036**

2014	Pre tax impact on profit and loss R'000	Carrying value after change R'000
Increase	624	6 863
Decrease	(624)	5 615

The bank does not undertake any hedging on exposures.

5. Financial assets and liabilities

Fair value of financial assets and liabilities

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

Carrying value approximates fair value due to the minimal credit losses and short-term nature of the financial assets and liabilities. Therefore, no comparison by class of the carrying amounts and fair values of the bank's financial instruments not carried at fair value is given in the financial statements. Fair values are determined according to the fair value hierarchy based on the requirements in IFRS13. Please refer to the fair value hierarchy in Note 15 & 31.

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6. Net interest income

	2015 R'000	2014 R'000
Interest income		
Cash and cash balances - Amortised cost	**24 754**	17 118
Loans and advances to customers - Amortised cost	**246 265**	253 892
Investments	**10 076**	20 509
- Held-to-maturity	**4 906**	16 102
- Interest on impaired asset (designated as available for sale)	**5 170**	4 407
Interest income from assets not measured at FV through profit or loss	**281 095**	291 519
Investments		
- Financial assets designated at fair value through profit or loss	**120 522**	83 422
	401 618	**374 941**
Interest expense - Amortised cost		
Deposits and savings due to customers	**(47 806)**	(38 070)
Banking facilities	**(457)**	(450)
	(48 264)	(38 520)
Net interest income	**353 355**	**336 421**

7. Fee and commission income

	2015 R'000	2014 R'000
Administration fees	**57 444**	73 344
Commission earnings	**47 527**	52 786
Service and management fees	**139 717**	150 307
	244 687	**276 437**

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

	2015 R'000	2014 R'000
Fair value movements for the year	**836**	(529)
Loss on disposal of financial assets	**–**	–
	836	**(529)**

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

	2015 R'000	2014 R'000
Bad debts recovered	**10 719**	17 865
Other	**196**	11 446
Profit on disposal of assets	**207**	603
Investment income from preference shares	**18 879**	22 438
	30 001	**52 352**

10. Impairment charge on financial assets

	Note	Specific impairment R'000	Portfolio impairment R'000	Total R'000
2015 Net charge to the statement of comprehensive income				
Loans and advances to customers	**17**	**(137 565)**	**14 372**	**(123 193)**
Investments - Corporate Money Managers (CMM)**	**15**	**(2 061)**	**–**	**(2 061)**
		(139 626)	**14 372**	**(125 254)**
2014 Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(89 272)	(9 919)	(99 191)
Investments - Corporate Money Managers (CMM)**	15	–	–	–
		(89 272)	**(9 919)**	**(99 191)**

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

11. Personnel Expenses

	2015 R'000	2014 R'000
Pension costs - Defined contribution plan expense	**(17 163)**	(32 109)
Salaries and wages	**(225 415)**	(204 069)
	(242 578)	**(236 178)**
Personnel - Actual headcount at year end*	**700**	844

**Excluding executives, temporary staff & contractors*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
(continued)

12. Other operating expenses

	2015 R'000	2014 R'000
Significant operating expenses comprise of:		
Auditors remuneration		
Audit services	**(5 380)**	(7 200)
Other	**(994)**	(640)
Legal fees	**(3 120)**	(2 974)
Loss on sale of property and equipment	**(313)**	(520)
Professional fees	**(2 870)**	(5 351)
Operating lease expense	**(19 208)**	(16 099)
Strategic research	**(720)**	(231)
Software license fees	**(25 053)**	(26 284)
Security expenses	**(18 540)**	(20 839)
Consumables	**(6 933)**	(7 345)
Network costs	**(13 400)**	(13 396)
Maintenance	**(3 132)**	(3 114)
Software expenses	**(14 203)**	(7 620)
Telecommunications	**(3 066)**	(3 973)
Travelling	**(5 589)**	(6 090)
Training	**(2 816)**	(5 685)
Fraud	**(3 854)**	(6 151)
Printing and stationary	**(3 704)**	(6 037)
VAT not recovered	**2 347**	(18 735)
Cash delivery costs	**(9 879)**	(10 024)
Consulting fees	**(26 400)**	(15 524)
Marketing	**(10 999)**	(12 648)
Memberships	**(5 239)**	(4 868)
Insurance	**(2 088)**	(1 858)
Bank charges	**(6 029)**	(4 730)
Storage	**(836)**	(2 037)
Other	**(543)**	(12 784)
	(192 556)	**(222 757)**

13. Taxation

The components of the tax expense for the years ended :

	Notes	2015 R'000	2014 R'000
Current tax			
Current income tax income/(expense)		–	1 328
Adjustment in respect of re-estimation of prior year		–	–
Deferred tax			
Adjustment in respect of re-estimation of prior year		–	–
Origination and reversal of temporary differences	20	14 265	(330)
Taxation (expense)/income recognised in profit/(loss) for the year		14 265	998
Taxation (expense)/income recognised in other comprehensive income:	20	(354)	(216)
Fair value adjustment on available-for-sale investments		(354)	(216)
Total taxation in the statement of comprehensive income		**13 911**	**782**

Reconciliation of the total tax charge

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

	2015 R'000	2014 R'000
Accounting profit/(loss) before tax	**(28 741)**	**24 953**
At domestic corporate tax rate of 28% (2014: 28%)	8 048	(6 987)
Non-deductible and Non-taxable items	949	(1 585)
Income not subject to tax	5 268	9 570
Taxation income reported in the statement of comprehensive income	**14 265**	**998**
Effective income tax rate	**(49,63%)**	4,00%

14. Cash and cash balances

	2015 R'000	2014 R'000
Coins and bank notes	**43 971**	74 481
Balances with other banks	**467 384**	686 661
	511 355	761 142

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

15. Investments

	2015 R'000	2014 R'000
Available-for-sale[1]	**46 656**	42 005
Held to maturity	**76 262**	140 404
- Money market instruments	**76 262**	140 404
Designated at fair value through profit and loss	**2 661 558**	2 303 788
- Capital market instruments	**303 530**	403 603
- Money market instruments	**125 693**	176 288
- Central bank securities	**2 232 335**	1 723 897
	2 784 476	**2 486 197**
Included in investments is interest receivable:		
Available-for-sale	**–**	–
Held to maturity	**362**	2 163
- Money market instruments	**362**	2 163
Designated at fair value through profit and loss	**5 898**	6 210
- Capital market instruments	**3 530**	3 603
- Money market instruments	**558**	1 195
- Central bank securities	**1 810**	1 412
	6 260	**8 373**

2015	Level 1* *Fair values are based on quoted market prices	Level 2* *Fair values are calculated using observable inputs (quoted prices for similar assets/ liabilities), either directly or indirectly	Level 3* *Fair values are calculated using significant unobservable inputs.	Total
Available-for-sale[1]	**7 930**	**–**	**38 726**	**46 656**
Designated at fair value through profit and loss	**–**	**2 661 558**	**–**	**2 661 558**
- Capital market instruments	**–**	**303 530**	**–**	**303 530**
- Money market instruments	**–**	**125 693**	**–**	**125 693**
- Central bank securities	**–**	**2 232 335**	**–**	**2 232 335**
	7 930	**2 661 558**	**38 726**	**2 708 214**

15. Investments (continued)

2014	Level 1* *Fair values are based on quoted market prices	Level 2* *Fair values are calculated using observable inputs (quoted prices for similar assets/ liabilities), either directly or indirectly	Level 3* *Fair values are calculated using significant unobservable inputs.	Total
Available-for-sale[1]	6 149	–	35 858	42 005
Designated at fair value through profit and loss	–	2 303 787	–	2 303 787
- Capital market instruments	–	403 603	–	403 603
- Money market instruments	–	176 288	–	176 288
-Central bank securities	–	1 723 897	–	1 723 897
	6 149	**2 303 787**	**35 858**	**2 345 793**

	2015	2014
Reconciliation of level 3 investments		
Balance as at 1 March	**35 858**	35 499
Recoveries	**–**	(4 533)
Impairment (charge)/reversal	**(2 061)**	323
Accrued interest	**4 929**	4 569
Balance as at 28 February	**38 726**	35 858

[1] *This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment charge of R2.06 million was recognised in the profit and loss section of the statement of comprehensive income (2014: R323 000 impairment reversal recognised through other comprehensive income). There are several significant assumptions applied to the impairment calculation which have been included in the Director's report. Please also refer to section 2.3 relating to significant judgements and estimates.*

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

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

- A change in the discount rate applied (13.75%) of 1.0% to 14.75% would result in a decrease in the valuation of the investment of R900 thousand to R37.8 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 million to R39.7 million.
- change in the realisable period assumption applied (2 years) of 1 year to 3 years would result in a decrease in the valuation of the investment of R3.2 million to R35.5 million. A similar change in the realisable period assumption applied (2 years) of 1 year to 1 year would result in an increase in the valuation of the investment of R4.8 million to R43.5 million.
- A change in the recovery value assumption applied (31.59%) of 5% to 26.59% would result in a decrease in the valuation of the investment of R7.4 million to R31.2 million. A similar change in the recovery value assumption applied (31.59%) of 5% to 36.59% would result in an increase in the valuation of the investment of R7.5 million to R46.2 million.

16. Trade receivables and other assets

	2015 R'000	2014 R'000
Interest receivable	**10**	16
Other accounts receivable	**3 563**	201
Operating account - Teba Ltd	**1 631**	1 631
Stationery	**442**	–
Prepayments	**14 622**	17 540
Ubank Group Limited	**4 696**	4 696
Teba Fund Trust	**7 252**	6 068
Trade debtors	**13 919**	6 963
	46 136	**37 115**

17. Loans and advances to customers

	2015 R'000	2014 R'000
Gross loans and advances to customers	**849 590**	946 595
Less: Allowances for impairment losses	**(116 907)**	(104 903)
Loans and advances to customers	**732 683**	841 692

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 2014		**(5 907)**	**(98 996)**	**(104 903)**
Net charge for the year	10	**(41)**	**(123 152)**	**(123 193)**
Amounts written off		**–**	**111 189**	**111 189**
At 28 February 2015		**(5 948)**	**(110 959)**	**(116 907)**
At 1 March 2013		(5 813)	(168 512)	(174 325)
Net charge for the year	10	(94)	(99 097)	(99 191)
Amounts written off		–	168 613	168 613
At 28 February 2014		**(5 907)**	**(98 996)**	**(104 903)**

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 2014		**(75 272)**	**(29 631)**	**(104 903)**
Net charge for the year	10	**(137 565)**	**14 372**	**(123 193)**
Amounts written off		**111 189**	**–**	**111 189**
At 28 February 2015		**(101 648)**	**(15 259)**	**(116 907)**
Balance at 1 March 2013		(154 613)	(19 712)	(174 325)
Net charge for the year	10	(89 272)	(9 919)	(99 191)
Amounts written off		168 613	–	168 613
At 28 February 2014		**(75 272)**	**(29 631)**	**(104 903)**

18. Property and equipment

2015	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
Leasehold improvements	**52 376**	**(34 260)**	**18 115**
Freehold land	**1 955**	**–**	**1 955**
Motor vehicles	**2 070**	**(1 395)**	**676**
Furniture and fittings	**15 403**	**(11 206)**	**4 197**
Office equipment	**23 189**	**(20 271)**	**2 917**
Computer equipment	**157 787**	**(137 590)**	**20 197**
ATM's	**19 661**	**(6 207)**	**13 454**
	272 440	**(210 930)**	**61 511**
2014			
Leasehold improvements	47 450	(29 583)	17 867
Freehold land	1 955	–	1 955
Motor vehicles	3 973	(2 691)	1 282
Furniture and fittings	13 991	(9 949)	4 042
Office equipment	22 970	(18 327)	4 643
Computer equipment	153 782	(127 789)	25 993
ATM's	19 145	(3 802)	15 343
	263 266	**(192 141)**	**71 125**

2015	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	**17 867**	**6 049**	**(178)**	**–**	**(5 624)**	**18 115**
Freehold land	**1 955**	**–**	**–**	**–**	**–**	**1 955**
Motor vehicles	**1 282**	**–**	**(446)**	**–**	**(161)**	**676**
Furniture and fittings	**4 042**	**1 506**	**(19)**	**–**	**(1 333)**	**4 197**
Office equipment	**4 643**	**389**	**(21)**	**–**	**(2 094)**	**2 917**
Computer equipment	**25 993**	**4 307**	**(27)**	**–**	**(10 075)**	**20 197**
ATM's	**15 343**	**516**	**–**	**–**	**(2 405)**	**13 454**
	71 126	**12 766**	**(690)**	**–**	**(21 692)**	**61 511**
2014						
Leasehold improvements	11 965	10 394	(276)	–	(4 216)	17 867
Freehold land	1 955	–	–	–	–	1 955
Motor vehicles	1 627	–	(28)	–	(317)	1 282
Furniture and fittings	3 603	1 703	(71)	–	(1 193)	4 042
Office equipment	5 882	1 110	(27)	–	(2 322)	4 643
Computer equipment	28 094	7 187	(33)	–	(9 255)	25 993
ATM's	5 392	11 822	(501)	–	(1 370)	15 343
	58 518	**32 216**	**(936)**	**–**	**(18 673)**	**71 125**

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 Rnil as at 28 February 2015 (2014 :Rnil), were leased under a finance lease.

19. Intangible assets

2015	Cost R'000	Accumulated amortisation R'000	Net carrying value R'000
Software development cost	**107 167**	**(38 361)**	**68 806**
	107 167	**(38 361)**	**68 806**
2014			
Software development cost	101 714	(25 395)	76 319
	101 714	**(25 395)**	**76 319**

2015	Opening net carrying value R'000	Additions R'000	Disposals R'000	Impairment R'000	Amortisation R'000	Closing net carrying value R'000
Software development cost	**76 319**	**5 453**	**–**	**–**	**(12 966)**	**68 806**
	76 319	**5 453**	**–**	**–**	**(12 966)**	**68 806**
2014						
Software development cost	68 384	16 708	–	–	(8 773)	76 319
	68 384	**16 708**	**–**	**–**	**(8 773)**	**76 319**

The remaining amortisation period for the Flexcube software is 59 months as at 28 February 2015.

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2015			2014		
	Assets R'000	Liabilities R'000	Net R'000	Assets R'000	Liabilities R'000	Net R'000
Provisions	**2 710**	–	**2 710**	5 741	–	5 741
Investment securities fair valued through profit and loss	–	–	–	–	(99)	(99)
Straight lining of lease and admin fees	**5 348**	–	**5 348**	9 188	–	9 188
Impairments - loans and advances	**4 269**	–	**4 269**	8 296	–	8 296
Prepaid expenses	–	**(1 674)**	**(1 674)**	–	(2 291)	(2 291)
Impaired available-for-sale investment	**31 219**	–	**31 219**	31 754	–	31 754
Investment securities - fair value adjustments (OCI)	**972**	–	**972**	747	–	747
Provisional assessed loss	**54 111**	–	**54 111**	29 983	–	29 983
Disposal of bonds	**684**	–	**684**	409	–	409
Fixed assets	–	–	–	–	–	–
Finance lease liability	–	–	–	–	–	–
Post-employment medical benefits reserve	–	–	–	–	–	–
Net tax assets/(liabilities)	**99 313**	**(1 674)**	**97 639**	**86 118**	**(2 390)**	**83 728**

Movements in deferred tax assets and liabilities during the year

	2015 R'000	2014 R'000
Provisions	**(3 030)**	1 495
Investment securities - fair value adjustments (OCI)	**226**	420
Investment securities adjustments (Comprehensive Income)	**99**	(182)
Straight lining of lease and admin fees	**(3 841)**	(762)
Impairments - loans and advances	**(4 028)**	2 776
Prepaid expenses	**617**	(967)
Impaired available for sale investment	**(535)**	(912)
Disposal of bonds	**275**	(139)
Fixed assets	–	–
Finance lease liability	–	–
Post-employment medical benefits reserve	–	–
Provisional assessed loss	**24 128**	(2 275)
Net movement in deferred tax assets/(liabilities)	**13 911**	**(546)**
Deferred tax movement through other comprehensive income	**(354)**	(216)
Deferred tax movement through profit and loss	**14 265**	(330)
	13 911	(546)

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21. Trade payables and other liabilities

	2015 R'000	2014 R'000
Unallocated deposits	**17**	102
Liabilities under operating leases	**1 487**	1 623
Deferred income - administration fees	**17 612**	31 193
Sundry accruals	**3 097**	3 053
Trade creditors	**20 831**	15 198
System clearing accounts	**11 524**	21 596
VAT payable	**1 158**	194
Electronic banking	**401**	819
Teba Ltd	**2 990**	2 133
Accruals and other creditors	**9 093**	9 508
Sundry creditors	**590**	881
	68 800	**86 299**

22. Deposits and savings due to customers

	2015 R'000	2014 R'000
Deposits and savings due to customers	**3 712 104**	3 728 808
Interest accrued	**13 692**	10 332
	3 725 796	**3 739 140**

The average interest rate during 2015 for deposits by customers was 3.2% (2014: 2.8%).

23. Provisions

2015	Opening balance R'000	Provision raised during the year R'000	Provision utilised/ rev-ersed during the year R'000	Closing balance R'000
Provision for leave pay	**8 829**	**6 530**	**(6 781)**	**8 578**
Bonus provision	**9 481**	**–**	**(9 481)**	**–**
Long term incentive provision	**2 193**	**–**	**(1 091)**	**1 102**
	20 503	**6 530**	**(17 353)**	**9 680**
2014				
Provision for leave pay	8 917	4 803	(4 891)	8 829
Bonus provision	500	8 981	–	9 481
Long term incentive provision	5 747	(1 833)	(1 721)	2 193
	15 164	**11 951**	**(6 612)**	**20 503**

24. Share capital and share premium

	2015 R'000	2014 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**

All unissued shares are under the control of the directors.

25. Available-for-sale reserve

	2015 R'000	2014 R'000
Unrealised gain on available-for-sale investment	**5 219**	3 788

26. Post-employment medical benefits reserve

	2015 R'000	2014 R'000
Post-employment medical benefit liability	**–**	–

27. Commitments

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

	2015 R'000	2014 R'000
Commitments		
Capital expenditure authorised but not contracted	**64 674**	112 181
- Property and equipment	**37 821**	85 497
- Intangible assets	**26 854**	26 684
Capital expenditure authorised and committed	**13 379**	12 946
	78 054	125 127

During the financial year, capital projects were reassessed and strategic projects were committed to, in order to enhance current business with a focus on Information Technology. The bank will fund authorised and committed capital expenditure from operating cash flows and existing cash resources. Authorised and committed capital expenditure relates to provisional orders that have been placed with suppliers.

Operating lease commitments

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

	2015 R'000	2014 R'000
Within one year	**15 991**	10 027
After one year but not more than five years	**12 012**	17 408
	28 003	27 435

Contingent liability

As reported in the directors report the National Credit Regulator ('NCR') alleged that Ubank Limited had contravened the National Credit Act, No 34 of 2005 ('National Credit Act). The matter has not been finalised with the National Credit Tribunal and it is therefore impracticable to estimate the financial effect of any possible outcome. Ubank is still of the view that the matter will be satisfactorily resolved through the tribunal process.

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 Rnil (2014: Rnil) were paid by the bank. Interest is not levied on the receivable balance; has no fixed maturity date and is unsecured. The debtor is recorded in trade receivables note 16.

Teba Fund Trust

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

In the current year related party transactions relating to trust costs of R7.2 million (2014: R6.1 million) were paid by the bank. Interest is not levied on the receivable balance; has no fixed maturity date and is unsecured. The debtor is recorded in trade receivables note 16.

All transactions between related parties were on an arms length basis. There were no other related party transactions during the year. No related party loans are considered to be impaired.

Transactions with Directors and Key Management Personnel

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

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

	Directors and Key Management Personnel	
	2015 R'000	**2014 R'000**
Loans and advances		
Other key management personnel - Exco		
Opening balance	**254**	299
Loans granted during the year	**102**	274
Interest income	**23**	27
Repayments	**(59)**	(346)
	320	**254**

Loans granted to key management personnel are unsecured and qualifies for preferential staff interest rates.

No provision for doubtful debts relating to loans to key management personnel was raised during the year. Please refer to note 33 for further detail of Key Management Personnel remuneration.

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

	2015 R'000	2014 R'000
Profit/(Loss) before tax	**(28 741)**	24 953
Adjustments for non-cash flow items:		
(Profit)/Loss on disposal of property and equipment	**106**	(83)
Amortisation of intangible assets	**12 966**	8 773
Straight-lining of operating lease	**(136)**	(239)
Net (gain)/loss on short term investments	**(835)**	529
Impairment charge on available for sale investment	**2 061**	–
Straight-lining of admin fees received	**(13 580)**	(2 482)
Depreciation of property and equipment	**21 692**	18 673
Impairment charge on loans and advances	**123 193**	99 191
	116 726	149 315
Movement in working capital:		
Decrease in trade receivables and other assets	**(9 020)**	(12 178)
Increase in trade payables and other current liabilities	**(14 606)**	(5 003)
Cash available from operating activities	**93 100**	**132 134**
Taxation (paid)/received:		
Statement of comprehensive income	**14 265**	782
Deferred taxation balance movement	**(13 911)**	546
Current tax asset movement	**–**	2 438
	354	**3 766**

30. Liquidity analysis

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

2015	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	511 355	–	–	–	511 355
Investments	–	2 684 476	100 000	–	2 784 476
Trade receivables and other assets	–	31 071	–	–	31 071
Loans and advances to customers	21 714	245 357	465 254	358	732 683
Total financial assets	**533 069**	**2 960 904**	**565 253**	**358**	**4 059 585**
Future interest *	–	236 199	161 355	–	397 554
Total financial assets including future interest	**533 069**	**3 197 104**	**726 608**	**358**	**4 457 139**
Other assets					
Property and equipment	–	–	–	–	61 511
Intangible assets	–	–	–	–	68 806
Stationey	–	–	–	–	442
Deferred taxation	–	–	–	–	97 639
Prepayments	–	–	–	–	14 622
Total other assets	**–**	**–**	**–**	**–**	**243 020**
Total assets	**533 069**	**3 197 104**	**726 608**	**358**	**4 700 160**
Financial liabilities					
Trade payables and other liabilities	–	26 022	–	–	26 022
Deposits and savings due to customers	2 883 287	801 142	41 367	–	3 725 796
Lease liability	–	–	–	–	–
Total financial liabilities	**2 883 287**	**827 164**	**41 367**	**–**	**3 751 818**
Future interest **	–	16 534	3 515	–	20 049
Total financial liabilities including future interest	**2 883 287**	**843 698**	**44 882**	**–**	**3 771 867**
Other liabilities					
Trade payables and other liabilities	–	–	–	–	42 776
Post–employment medical benefits liability	–	–	–	–	–
Provisions	–	–	–	–	9 680
Total other liabilities	**–**	**–**	**–**	**–**	**52 456**
Total liabilities	**2 883 287**	**843 698**	**44 882**	**–**	**3 824 323**
Equity					
Share capital and share premium	–	–	–	–	244 875
Available–for–sale reserve	–	–	–	–	5 219
Post–employment medical benefits reserve	–	–	–	–	–
Retained earnings	–	–	–	–	248 237
Total equity	**–**	**–**	**–**	**–**	**498 332**
Total liabilities and equity	**2 883 287**	**843 698**	**44 882**	**–**	**4 322 655**

** 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)

2014	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	761 142	–	–	–	761 142
Investments	–	2 386 287	100 000	–	2 486 197
Trade receivables and other assets	–	19 575	–	–	19 575
Loans and advances to customers	20 472	196 804	636 221	6 639	841 692
Total financial assets	**781 614**	**2 602 666**	**736 220**	**6 639**	**4 108 607**
Future interest *	–	36 659	10 829	–	47 488
Total financial assets including future interest	**781 614**	**2 602 666**	**747 049**	**6 639**	**4 108 607**
Other assets					
Property and equipment	–	–	–	–	71 125
Intangible assets	–	–	–	–	76 319
Stationery	–	–	–	–	–
Deferred taxation	–	–	–	–	83 728
Other trade receivables	–	–	–	–	17 540
Total other assets	**–**	**–**	**–**	**–**	**248 711**
Total assets	**781 614**	**2 639 326**	**747 049**	**6 639**	**4 404 806**
Financial liabilities					
Trade payables and other liabilities	–	20 858	–	–	20 858
Deposits and savings due to customers	2 942 974	764 093	32 073	–	3 739 140
Lease liability	–	–	–	–	–
Total financial liabilities	**2 942 974**	**784 951**	**32 073**	**–**	**3 759 998**
Future interest **	–	9 450	1 013	–	10 463
Total financial liabilities including future interest	**2 942 974**	**794 401**	**33 086**	**–**	**3 770 461**
Other liabilities					
Trade payables and other liabilities	–	–	–	–	65 441
Post-employment medical benefits liability	–	–	–	–	–
Provisions	–	–	–	–	20 503
Total other liabilities	**–**	**–**	**–**	**–**	**85 944**
Total liabilities	**2 942 974**	**794 401**	**33 086**	**–**	**3 856 405**
Equity					
Share capital and share premium	–	–	–	–	244 875
Available-for-sale reserve	–	–	–	–	3 788
Post-employment medical benefits reserve	–	–	–	–	–
Retained earnings	–	–	–	–	262 713
Total equity	**–**	**–**	**–**	**–**	**511 377**
Total liabilities and equity	**2 942 974**	**794 401**	**33 086**	**–**	**4 367 782**

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

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

31. Classification of assets and liabilities

Classification of assets

2015	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	511 355	–	–	–	–	511 355
Investments	–	76 262	2 661 558	46 656	–	2 784 476
Trade receivables and other assets (excluding prepayments)	31 071	–	–	–	–	31 071
Loans and advances to customers	732 683	–	–	–	–	732 683
Other assets						
Prepayments	–	–	–	–	14 622	14 622
Intangible assets	–	–	–	–	68 806	68 806
Property and equipment	–	–	–	–	61 511	61 511
Stationery	–	–	–	–	442	442
Deferred taxation	–	–	–	–	97 639	97 639
Total assets	**1 275 110**	**76 262**	**2 661 558**	**46 656**	**243 020**	**4 302 606**
2014						
Financial assets						
Cash and cash balances	761 142	–	–	–	–	761 142
Investments	–	140 404	2 303 788	42 005	–	2 486 197
Trade receivables and other assets (excluding prepayments)	19 575	–	–	–	–	19 575
Loans and advances to customers	841 692	–	–	–	–	841 692
Other assets						
Prepayments	–	–	–	–	17 540	17 540
Intangible assets	–	–	–	–	76 319	76 319
Property and equipment	–	–	–	–	71 125	71 125
Stationery	–	–	–	–	–	–
Deferred taxation	–	–	–	–	83 728	83 728
Total assets	**1 622 410**	**140 404**	**2 303 788**	**42 005**	**248 711**	**4 357 318**

31. Classification of assets and liabilities (continued)

Classification of liabilities

2015 Financial liabilities	Held at amortised cost R'000	Non–financial liabilities R'000	Total R'000
Deposits and savings due to customers	3 725 796	–	3 725 796
Trade payables and other liabilities	26 022	42 777	68 799
Other liabilities			
Provisions	–	9 680	9 680
Total liabilities	**3 751 818**	**52 457**	**3 804 275**
2014			
Financial liabilities	R'000	R'000	R'000
Deposits and savings due to customers	3 739 140	–	3 739 140
Trade payables and other liabilities	20 858	65 442	86 300
Other liabilities			
Provisions	–	20 503	20 503
Total liabilities	**3 759 998**	**85 945**	**3 845 943**

Fair value hierarchy

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy and depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. During the year under review, there have been no movements between any of the levels (2014: none). Please refer to note 15 for the hierarchy on Investments.

2015 Assets (Excluding investments)	Level 1* *Fair values are based on quoted market prices	Level 2* *Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly	Level 3* *Fair values are calculated using significant unobservable inputs.	Total
Cash and cash balances	–	511 355	–	511 355
Loans and Advances	–	732 683	–	732 683
Trade receivables	–	46 136	–	46 136
	–	1 290 174	–	1 290 174
Liabilities				
Deposits	–	3 725 796	–	3 725 796
Trade payables	–	68 799	–	68 799
	–	**3 794 595**	**–**	**3 794 595**
2014				
Assets (Excluding investments)				
Cash and cash balances	–	761 142	–	761 142
Loans and Advances	–	841 692	–	841 692
Trade receivables	–	37 113	–	37 113
	–	1 639 947	–	1 639 947
Liabilities				
Deposits	–	3 739 140	–	3 739 140
Trade payables	–	86 300	–	86 300
	–	**3 825 440**	**–**	**3 825 440**

32. Share-based payments

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

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

Description of cash-settled instruments:

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

	Share-based payment expense		Share-based payment liability	
	2015	**2014**	**2015**	**2014**
	R'000	**R'000**	**R'000**	**R'000**
Cash-settled instruments	**(640)**	(1 833)	**1 102**	2 192

32. Share-based payments (continued)

Movement in number of instruments

Cash-settled instruments	Number of instruments 2015	Weighted average exercise price 2015	Number of instruments 2014	Weighted average exercise price 2014
Outstanding at the beginning of the year	**301 754**	**18,97**	**797 582**	**20,97**
- SARs	164 603	18,97	411 226	20,97
- SPRs	137 151	18,97	386 356	20,97
Granted	–	–	–	–
- SARs	–	–	–	–
- SPRs	–	–	–	–
Exercised	63 068	18,97	124 214	20,97
- SARs	40 642	18,97	56 890	20,97
- SPRs	22 426	18,97	67 324	20,97
Expired	–	–	–	–
- SARs	–	–	–	–
- SPRs	–	–	–	–
Forfeited	82 701	22,33	371 612	18,96
- SARs	–	22,33	189 733	18,96
- SPRs	82 701	22,33	181 879	18,96
Outstanding at the end of the year	**155 986**	**22,33**	**301 756**	**18,97**
- SARs	123 960	22,33	164 603	18,97
- SPRs	32 026	22,33	137 151	18,97
Exercisable at the end of the year	87 581	22,33	73 022	18,97
- SARs	55 555	22,33	26 764	18,97
- SPRs	32 026	22,33	46 258	18,97
Weighted average share price for rights exercised in Rands	63 068	18,97	124 214	20,97
- SARs	40 642	18,97	56 890	20,97
- SPRs	22 426	18,97	67 324	20,97

Instruments outstanding at the end of the year by issue price Cash-settled instruments	Number of instruments 2015	Weighted average remaining contractual life (years) 2015	Number of instruments 2014	Weighted average remaining contractual life (years) 2014
- SARs	123 960	1,5	164 603	2,2
15,54	–	–	–	–
19,38	–	–	12 366	–
18,28	14 398	–	28 796	1,0
18,43	27 755	1,0	41 634	2,0
17,98	81 807	2,0	81 807	3,0
- SPRs	32 026	0,0	137 153	2,7
15,54	-	-	-	-
19,38	-	-	-	-
18,28	-	-	-	1,0
18,43	-	-	46 258	2,0
17,98	32 026	-	90 895	3,0
	155 986	**1,2**	301 756	2,4

32. Share-based payments (continued)

Instruments granted during the year

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

	Cash settled instruments 2015		Cash settled instruments 2014	
	SARs	SPRs	SARs	SPRs
Number of instruments granted	–	–	–	–
Weighted average fair value per instrument granted (R)	–	–	–	–
Weighted average share price (R)	22,33	22,33	18,97	18,97
Weighted average exercise price (R)	18,97	18,97	20,97	20,97
Weighted average projected exercise price* (R)	20,24	20,24	19,30	19,30
Discount rate (%)	9%	9%	9%	9%
Share appreciation applicable hurdle rate	0%	n/a	0%	n/a
Performance vesting modifier	–	3,0	–	3,0
Projected performance vesting maximum (%)	n/a	11,74%	n/a	16,46%
Weighted average life (years)	3,0	3,0	3,0	3,0
Number of participants	3	3	3	3
Weighted average vesting period (years)	3,0	3,0	3,0	3,0

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

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

33. Directors' and Prescribed Officers' Remuneration

Key management personnel compensation

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Ubank Limited (directly or indirectly) and comprise the Directors, Prescribed Officers and other executive management personnel of Ubank Limited.

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

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

Remuneration paid to Directors, Prescribed Officers and other Executive Management Personnel of Ubank Limited:

2015	Fees R'000	Gross pay R'000	Long Term Incentive Plan R'000	Bonus # R'000	Pension and Retirement Benefits R'000	Other benefits ## R'000	Total cost to company R'000
Non-Executive Directors							
J.H. De Villiers Botha	585	–	–	–	–	–	585
T. Dlamini	316	–	–	–	–	–	316
H. Groenewald	311	–	–	–	–	–	311
T.L.L. Kaunda	94	–	–	–	–	–	94
L. Mangope*	134	–	–	–	–	–	134
Z.N. Miya	347	–	–	–	–	–	347
S. Ntsaluba	209	–	–	–	–	–	209
P. Molefe^	97	–	–	–	–	–	97
R. Garach^^	119	–	–	–	–	–	119
Total	2 212	–	–	–	–	–	2 212
Executive Directors							
L. Vutula (CEO)	–	3 286	–	1 021	184	146	4 637
H. Heymans (CFO)	–	1 870	–	1 065	159	192	3 287
Total	–	5 156	–	2 086	343	338	7 924
Prescribed Officers							
B. Radebe (ME - Retail Services)	–	1 852	–	600	108	209	2 769
Total	–	1 852	–	600	108	209	2 769
Other Executive Management Personnel	–	11 001	450	2 625	683	1 715	16 474
Total	2 212	18 009	450	5 311	1 134	2 262	29 379

 # Bonus includes sign on bonuses

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

** Resigned 22 May 2014.*

^ Appointed 27 August 2014.

^^ Appointed 01 August 2014.

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

Remuneration paid to Directors, Prescribed Officers and other Executive Management Personnel of Ubank Limited:

2014	Fees R'000	Gross pay R'000	Long Term Incentive Plan R'000	Bonus # R'000	Pension and Retirement Benefits R'000	Other benefits ## R'000	Total cost to company R'000
Non-Executive Directors							
J.H. De Villiers Botha	610	–	–	–	–	–	610
A.W. Mjekula*	348	–	–	–	–	–	348
D.P. Elbrecht**	26	–	–	–	–	–	26
H. Groenewald	427	–	–	–	–	–	427
Z. Macanda*	242	–	–	–	–	–	242
L. Mangope	420	–	–	–	–	–	420
Z.N. Miya	386	–	–	–	–	–	386
C.B. Stofile*	318	–	–	–	–	–	318
T. Dlamini^	204	–	–	–	–	–	204
T.L.L. Kaunda^^	22	–	–	–	–	–	22
S. Ntsaluba^^	–	–	–	–	–	–	–
Total	**3 003**	**–**	**–**	**–**	**–**	**–**	**3 003**
Executive Directors							
L. Vutula (CEO)	–	3 153	–	–	178	57	3 388
H. Heymans (CFO)^^^	–	1 792	–	750	154	181	2 877
Total	**–**	**4 945**	**–**	**750**	**332**	**238**	**6 265**
Prescribed officers							
B. Radebe (COO)	–	1 793	–	–	104	208	2 105
Vacant Position (Retail Exec)	–	–	–	–	–	–	–
Total	**–**	**1 793**	**–**	**–**	**104**	**208**	**2 105**
Other Executive Management Personnel	–	9 790	1 721	200	661	2 595	14 967
Total	**3 003**	**16 528**	**1 721**	**950**	**1 097**	**3 041**	**26 340**

 # Bonus includes sign on bonuses

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

** Resigned 10 December 2013.*

*** Resigned 28 February 2013.*

^ Appointed 11 March 2013.

^^ Appointed 10 December 2013.

^^^ Appointed 12 March 2013.

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

Service contracts

Service contracts are aligned with the general conditions of services applicable to all Ubank Limited staff members, except for termination provisions.

Service contracts are subject to the following conditions:

	Termination clause	Retirement age	No fault termination arrangements
Non-Executive directors	1 month	Not applicable	No entitlement to a severance pay. Entitlement for previous long term incentive plan on termination are dealt with under the relevant scheme rules.
Chief Executive Officer	3 months	60 years	
Chief Financial Officer	3 months	60 years	
Prescribed Officers	one to three months	60 years	
Other Executives	one to three months	60 years	

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

	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
2015		R'000		R'000	R'000
Non-Executive Directors	–	–	–	–	–
Executive Directors					
L. Vutula (CEO)	–	–	–	–	–
H. Heymans (CFO)	–	–	–	–	–
Prescribed Officers					
B. Radebe (ME - Retail Services)	–	–	–	–	–
Other Executives	–	–	–	–	–
2014					
Non-Executive Directors	–	–	–	–	–
Executive Directors					
L. Vutula (CEO)	–	–	–	–	–
H. Heymans (CFO)	–	–	–	–	–
Prescribed Officers					
B. Radebe (COO)	–	–	–	–	–
Vacant (Retail Exec)	–	–	–	–	–
Other executives	–	–	–	–	–

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(continued)

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

Movements in number of instruments :

2015 Cash-settled instruments	Executive Directors L. Vutula (CEO)	 H. Heymans (CFO)	Prescribed Officer B. Radebe (ME - Retail Services)	Other Executives Other Executives	Total
Outstanding at the beginning of the year	–	–	75 166	226 590	**301 756**
- SARs	–	–	35 605	128 998	**164 603**
- SPRs	–	–	39 561	97 592	**137 153**
Granted	–	–	–	–	–
- SARs	–	–	–	–	–
- SPRs	–	–	–	–	–
Exercised	–	–	–	63 068	**63 068**
- SARs	–	–	–	40 642	**40 642**
- SPRs	–	–	–	22 426	**22 426**
Expired	–	–	–	–	–
- SARs	–	–	–	–	–
- SPRs	–	–	–	–	–
Forfeited	–	–	25 614	57 087	**82 701**
- SARs	–	–	–	–	–
- SPRs	–	–	25 614	57 087	**82 701**
Outstanding at the end of the year	–	–	49 552	106 434	**155 986**
- SARs	–	–	35 605	88 355	**123 960**
- SPRs	–	–	13 947	18 079	**32 026**

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

Movements in number of instruments :

2014 Cash-settled instruments	Executive Directors L. Vutula (CEO)	Executive Directors H. Heymans (CFO)	Prescribed Officers B. Radebe (COO)	Prescribed Officers Vacant (Retail Exec)	Other Executives Other executives	Total
Outstanding at the beginning of the year	–	–	75 166	–	722 416	**797 582**
- SARs	–	–	35 605	–	375 621	**411 226**
- SPRs	–	–	39 561	–	346 795	**386 356**
Granted	–	–	–	–	–	–
- SARs	–	–	–	–	–	–
- SPRs	–	–	–	–	–	–
Exercised	–	–	–	–	124 214	**124 214**
- SARs	–	–	–	–	56 890	**56 890**
- SPRs	–	–	–	–	67 324	**67 324**
Expired	–	–	–	–	–	–
- SARs	–	–	–	–	–	–
- SPRs	–	–	–	–	–	–
Forfeited	–	–	–	–	371 612	**371 612**
- SARs	–	–	–	–	189 733	**189 733**
- SPRs	–	–	–	–	181 879	**181 879**
Outstanding at the end of the year	–	–	75 166	–	226 590	**301 756**
- SARs	–	–	35 605	–	128 998	**164 603**
- SPRs	–	–	39 561	–	97 592	**137 153**

34. Post-employment medical benefits

Post-employment medical benefits were 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. The bank took out an insurance policy with Guardrisk in order to manage the actuarial risk. The last actuarial valuation of the fund was at 28 February 2013. During the 2014 financial year the bank decided to terminate the benefit and settle the liability with the respective beneficiaries. The liability of R17.4 million was settled with the beneficiaries. The remaining assets held by Guardrisk were paid over to the bank and a net of R9.4 million was recognised in other income (Note 9).

	2015 R'000	2014 R'000
Medical obligation		
Liability at the beginning of the year	–	(15 218)
Annual cost		
Interest cost	–	–
Service cost	–	–
Actuarial (gains)/losses	–	–
Additional agreed settlement	–	(2 207)
Net cost	–	(17 425)
Total benefit payments	–	**17 425**
Liability at the end of the year	–	–
Plan assets		
Plan assets at the beginning of the year	–	26 982
Cost/Interest adjustment to plan assets	–	(110)
Plan assets refunded	–	(26 872)
Plan assets at the end of the year	–	–
Unrecognised plan asset (IAS 19:58 (b))	–	–
Net liability in statement of financial position	–	–

Key assumptions:	
Discount rate:	7,60%
Subsidy rate:	0,00%
Net discount rate:	7,60%
Post-Retirement Mortality:	
PA(90) ultimate table rated down 2 years + 1% (2013, 2012)	
Withdrawals:	
0% - 15% (Males and Females) (2013, 2012)	
Valuation date:	28 February 2013