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# INTERIM REGULATION 43 DISCLOSURE

## AS AT 31 AUGUST 2012

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# UBANK LIMITED

## 1 (A) CREDIT RISK MANAGEMENT

**Credit risk mitigation**

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

**Risk concentration of the maximum exposure to credit risk**

Concentration of risk within customer, sector and geography (all within South Africa) is managed by the ALCO. The maximum credit exposure to any individual customer as of 31 August 2012 was R1,760,525 (2011:R1,739,792). The Bank is also exposed to concentration risk specifically within the mining industry.

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| **LOANS AND ADVANCES[1]** | | |
| Personal loans to employees of mining industry | 881 126 | 786 485 |
| Personal loans to employees of non-mining industry | 109 173 | 71 262 |
| Wholesale loans | 200 | 381 |
| **Total** | **990 499** | **858 128** |
| | | |
| **Investments** | | |
| Sovereigns | 1 169 244 | 922 987 |
| Interbank | 507 083 | 500 955 |
| Securities firms | - | - |
| Capital markets | 406 795 | 405 642 |
| Investments under curatorship | 54 213 | 52 736 |
| **Total** | **2 137 335** | **1 882 320** |

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

## (B) LIQUIDITY RISK MANAGEMENT

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the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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

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## (C) MARKET RISK MANAGEMENT

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

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

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

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

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

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

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

## 2 CAPITAL MANAGEMENT

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

## BASEL II

The Bank has fully embraced the Basel II framework and acknowledges that it has further improved the risk management processes. The project, which ran for more than 2 years, was successfully implemented. The Basel II capital adequacy ratio is being monitored including the internal capital buffer ratio approved by the Board Risk Committee. The Bank approved  and adopted a standardised approach for credit.

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## 2. CAPITAL MANAGEMENT (CONTINUED)

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

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

The Bank's regulatory capital position at 31 August 2012 was as follows:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Ordinary share capital | 24 500 | 24 500 |
| Share premium | 220 375 | 220 375 |
| Retained earnings | 288 429 | 284 522 |
| Deductions | (84 380) | (75 331) |
| **Total** | **448 924** | **454 066** |
| | | |
| **Tier 2 capital[1]** | **3 626** | **3 558** |
| **Total regulatory capital** | **452 550** | **457 624** |

| **Risk weighted assets** | | Capital requirements | | Risk weighted assets | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| Credit | | 120 907 | 123 902 | 1 272 707 | 1 304 238 |
| | Sovereign Banks | 44 634 | 41 378 | 469 831 | 435 559 |
| | Security Firms | 4 957 | 19 543 | 52 182 | 205 719 |
| | SME Corporate | 155 | 300 | 1 631 | 3 158 |
| | Retail | 71 161 | 62 681 | 749 063 | 659 802 |
| Operational | | 94 870 | 92 845 | 998 628 | 977 313 |
| Market | | 252 | 143 | 2 650 | 1 500 |
| Equity | | 291 | 182 | 3 062 | 1 914 |
| Other | | 13 195 | 19 284 | 138 895 | 202 989 |
| **Total** | | **229 515** | **236 356** | **2 415 942** | **2 487 954** |

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

| ***Risk weighted assets at 9.5%** | **2012** | **2011** |
|---|---|---|
| Capital adequacy | 18,57% | 18,39% |
| Primary capital adequacy | 18,42% | 18,25% |

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

| | 2012 | 2011 |
|---|---|---|
| Regulatory requirements | 9,5% | 9,5% |

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## 2. CAPITAL MANAGEMENT (CONTINUED)

**Monthly/Daily Average Credit Exposure**

| | Capital requirements | | Capital position | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Banks | 44 634 | 41 378 | 469 831 | 435 559 |
| Security Firms | 4 957 | 19 543 | 52 182 | 205 719 |
| SME Corporate | 154 945 | 319 | 1 631 | 3 358 |
| Retail | 71 235 | 61 840 | 749 845 | 650 945 |
| | 120 981 | 123 080 | 1 273 489 | 1 295 581 |

## 3. CREDIT RISK

**(a) Gross maximum exposure**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross (net impairment), before the effect of mitigation through the use of master netting and collateral agreements.

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Cash and cash balances | 379 025 | 440 222 |
| Investments | 2 137 336 | 1 882 320 |
| Trade receivables and other assets (excluding prepayments) | 22 524 | 31 050 |
| Loans and advances to customers | 990 499 | 858 128 |
| **Total credit risk exposure** | **3 529 384** | **3 211 720** |

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

**(b) Collateral and other credit enhancements**

Home loans offered by the Bank are fully secured in the event of death or resignation from the pension fund, by the pension funds of the loan holders at the time of granting and some micro loan products are 30% secured for the value of the loan limited to a R30 million guarantee from a listed mining house. The Banks policy and process for valuing collateral, is that the security values must be conservative and give the Bank a margin that takes into account market volatility, the time taken to realise the security and the cost of realisation. The more volatile the value of the security, the more frequent the valuations should be. The policy also manages the frequency of the revaluation of security, based on the nature of the security.

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Secured loans (100% secured) | 65 527 | 97 742 |
| Tirisano loans (30% secured) | 15 023 | 31 694 |
| Other loans (Unsecured) | 909 949 | 631 819 |
| Loans and advances to customers | **990 499** | **761 255** |

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## 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 1. Trade receivables and other assets credit exposure is managed through the banks internal control environment. The table below shows the credit quality by class of asset for balance sheet lines, based on the Bank's current credit risk framework and policies.

| Neither past due nor impaired | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Cash and cash balances | 379 025 | 440 222 |
| Investments | 2 137 336 | 1 882 320 |
| Trade receivables and other assets (excluding prepayments) | 22 524 | 31 050 |
| | **2 538 885** | **2 353 592** |

| 2012 | Current | 30 to 90 days | 90 to 180 days | 180 to 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|
| Cash and cash balances | 379 025 | - | - | - | - | 379 025 |
| Investments | 2 083 123 | - | - | - | 54 213 | 2 137 336 |
| Trade receivables and other assets (excluding prepayments) | 22 524 | - | - | - | - | 22 524 |
| | **2 484 672** | - | - | - | **54 213** | **2 538 885** |

| 2011 | Current | 30 to 90 days | 90 to 180 days | 180 to 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|
| Cash and cash balances | 440 222 | - | - | - | - | 440 222 |
| Investments | 1 829 584 | - | - | - | 52 736 | 1 882 320 |
| Trade receivables and other assets (excluding prepayments) | 24 733 | - | - | 6 317 | - | 31 050 |
| | **2 294 539** | - | - | **6 317** | **52 736** | **2 353 592** |

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

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

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## 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 have been reported below. The disclosure reflects the outstanding amounts after risk mitigation.

| 2012<br>R'000 | 30 to 90 days | 90 to 180 days | 180 to 365 days | > 365 days | Total |
|---|---|---|---|---|---|
| Loans and advances to customers-impaired | 219 599 | 47 647 | 72 478 | 52 981 | 392 705 |
| Loans and advances to customers-current | | | | | 705 909 |
| **Total** | **219 599** | **47 647** | **72 478** | **52 981** | **1 098 614** |

| 2011<br>R'000 | 30 to 90 days | 90 to 180 days | 180 to 365 days | > 365 days | Total |
|---|---|---|---|---|---|
| Loans and advances to customers-impaired | 220 291 | 37 428 | 33 563 | 89 433 | 380 714 |
| Loans and advances to customers-current | | | | | 596 081 |
| **Total** | **220 291** | **37 428** | **33 563** | **89 433** | **976 795** |

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## 4. LIQUIDITY RISK

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:

**At 31 August 2012**

| | On demand | < 3 months | 3 - 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| **R'000** | | | | | | |
| **Financial liabilities** | | | | | | |
| Trade payables and other liabilities | - | - | 92 622 | - | - | 92 622 |
| Deposits and savings due to customers | 2 403 876 | 308 288 | 355 406 | 19 900 | | 3 087 470 |
| Lease liability | - | - | - | - | - | - |
| **Other liabilities** | | | | | | |
| Provision for leave pay | - | - | 8 928 | - | - | 8 928 |
| Bonus provision | - | 8 705 | - | - | - | 8 705 |
| Long term incentive provision | - | - | 2 326 | - | - | 2 326 |
| Post-employment medical benefits liability | - | - | - | - | 3 673 | 3 673 |
| **Total undiscounted liabilities** | **2 403 876** | **316 993** | **459 282** | **19 900** | **3 673** | **3 203 724** |

**At 31 August 2011**

| | On demand | < 3 months | 3 - 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| **R'000** | | | | | | |
| **Financial liabilities** | | | | | | |
| Trade payables and other liabilities | - | - | 63 369 | - | - | 63 369 |
| Deposits and savings due to customers | 2 207 273 | 300 595 | 312 570 | 20 384 | | 2 840 822 |
| Lease liability | - | 1 110 | 2 220 | - | - | 3 330 |
| **Other liabilities** | | | | | | |
| Provision for leave pay | - | - | 8 445 | - | - | 8 445 |
| Bonus provision | - | 11 962 | - | - | - | 11 962 |
| **Total undiscounted liabilities** | **2 207 273** | **313 667** | **386 604** | **20 384** | **-** | **2 927 928** |

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## 5. INTEREST RATE, PRICE AND CURRENCY RISK

The table 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 2012**

| Bp movement | Decrease | Increase | Decrease | Increase |
|---|---|---|---|---|
| | % | % | R'000 | R'000 |
| 50bp | 4,57% | 3,31% | 16 998 | 12 312 |
| 100bp | 9,14% | 6,62% | 33 997 | 24 624 |
| 200bp | 18,27% | 13,24% | 67 993 | 49 247 |

**Net interest income 2011**

| Bp movement | Decrease | Increase | Decrease | Increase |
|---|---|---|---|---|
| | % | % | R'000 | R'000 |
| 50bp | 3,01% | 4,19% | 14 528 | 10 440 |
| 100bp | 6,02% | 8,38% | 29 056 | 20 879 |
| 200bp | 12,03% | 16,75% | 58 112 | 41 758 |

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

**Price risk (sensitivity analysis based on a 10% increase and decrease in the market price of the underlying shares)**
The percentage increase and decrease is management's estimate of a reasonable possible movement in the market price of the underlying instruments. The carrying value of instruments exposed to price risk at the end of the reporting period is R3,061,791 (2011: R201,536,375).

| 2012 | Pre tax impact on profit and loss | Carrying value after change |
|---|---|---|
| | R'000 | R'000 |
| Increase | 306 | 3 368 |
| Decrease | (306) | 2 756 |

| 2011 | Pre tax impact on profit and loss | Carrying value after change |
|---|---|---|
| | R'000 | R'000 |
| Increase | 20 154 | 221 690 |
| Decrease | (20 154) | 181 383 |

The Bank does not undertake any hedging on exposures.

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## 6. LOANS AND ADVANCES TO CUSTOMERS

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Gross loans and advances to customers | 1 096 564 | 971 080 |
| Less: Allowances for impairment losses | (106 065) | (112 952) |
| **Loans and advances to customers** | **990 499** | **858 128** |

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

| | Pension Backed loans | Other loans | Total |
|---|---|---|---|
| At 1 March 2012 | (15 356) | (67 821) | (83 177) |
| Net charge for the year | (197) | (65 330) | (65 527) |
| Amounts written off | - | 42 639 | 42 639 |
| **At 31 August 2012** | **(15 553)** | **(90 512)** | **(106 065)** |
| | | | |
| At 1 March 2011 | (9 113) | (69 732) | (78 845) |
| Net charge for the year | (939) | (33 169) | (34 109) |
| Amounts written off | - | 2 | 2 |
| **At 31 August 2011** | **(10 052)** | **(102 899)** | **(112 952)** |

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

| | Specific impairment | Portfolio impairment | Total |
|---|---|---|---|
| Balance at 1 March 2012 | (72 299) | (10 878) | (83 177) |
| Net charge for the year | (65 527) | - | (65 527) |
| Amounts written off | 42 639 | - | 42 639 |
| **At 31 August 2012** | **(95 187)** | **(10 878)** | **(106 065)** |
| | | | |
| Balance at 1 March 2011 | (76 338) | (2 507) | (78 845) |
| Net charge for the year | (34 109) | - | (34 109) |
| Amounts written off | 2 | - | 2 |
| **At 31 August 2011** | **(110 445)** | **(2 507)** | **(112 952)** |