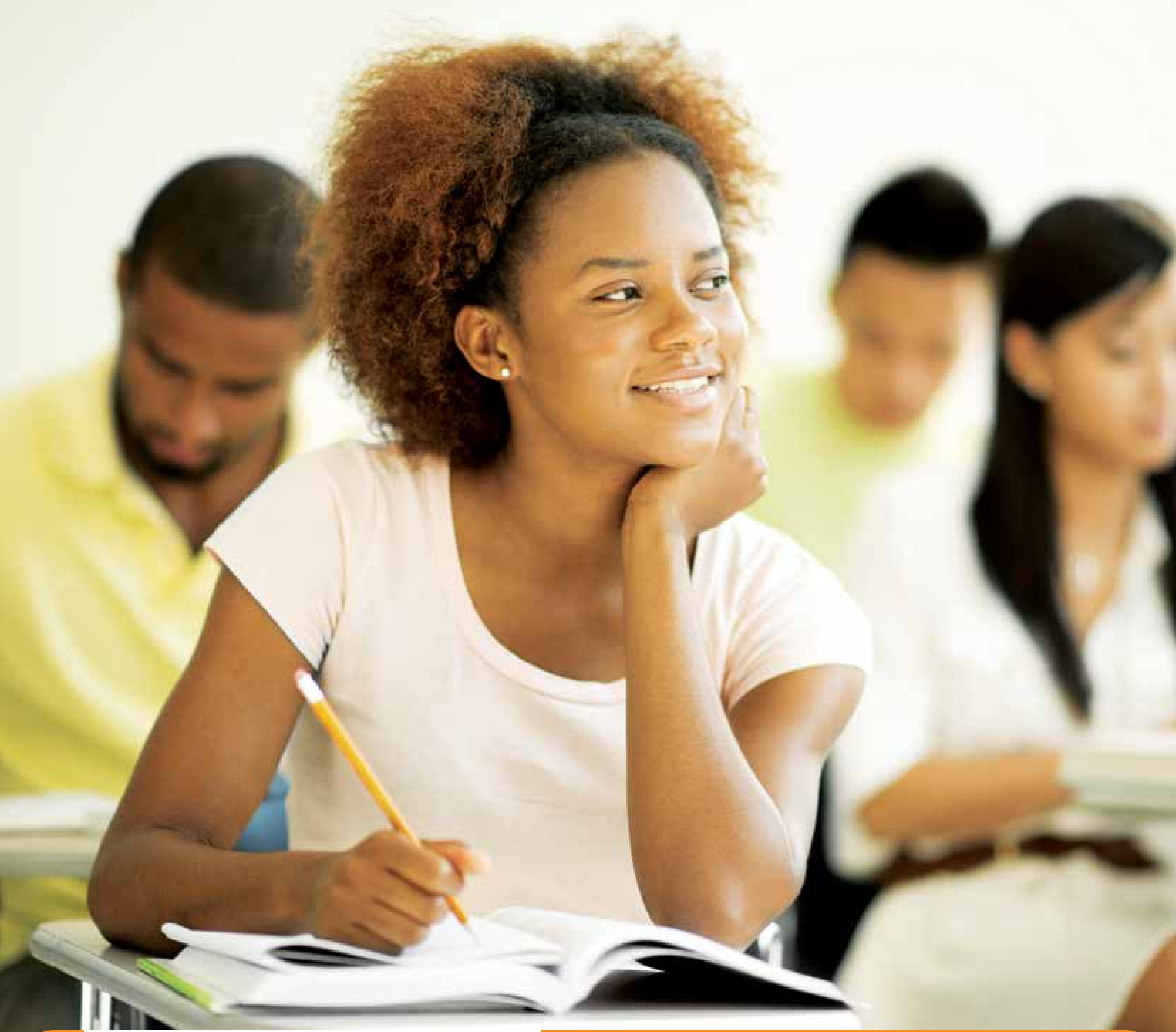

UBANK LIMITED
REGISTRATION NUMBER: 2000/013541/06
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2014

086000 8322 ubank.co.za

ubank Ltd Reg No. 2000/013541/06. ubank is an authorised financial services (FSP No. 14740) and credit (NCRCP21) provider.

UBANK

DIRECTOR'S APPROVAL

In terms of Section 29 of the Companies Act no. 71 of 2008 (as amended), the annual financial statements have been prepared under the supervision of 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).

The directors whose names appear on page 3 of the annual financial statements are collectively and individually responsible for the preparation, integrity and objectivity of the annual financial statements and the related financial information included in this report, which fairly presents the state of affairs of the Bank at the end of the financial year. In meeting this obligation, they are assisted by management of the Bank. The external auditors are responsible for expressing an opinion on the fair presentation of the financial statements. Internal control and administrative systems, designed to provide reasonable assurance as to the integrity of the financial statements, that assets are adequately safeguarded and that transactions are executed in terms of the Bank's policy and procedures, are in place and duly maintained in a cost-effective manner.

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

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

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 3 to 80 were approved by the Board of Directors of Ubank Limited and are signed on their behalf by:

______________________________ ______________________________

Director **Director**

Johannesburg
21 May 2014

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 2014, 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
21 May 2014

UBANK

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014

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
C.B. Stofile	19 June 2001	10 December 2013
J.H. De Villiers Botha (Chairman)	29 November 2005	
Z. Macanda	16 August 2007	10 December 2013
A.W Mjekula	06 November 2008	10 December 2013
L. Mangope	24 December 2008	
Z.N Miya	21 June 2010	
H.Groenewald	01 September 2011	
T. Dlamini	11 March 2013	
L. Kaunda	06 November 2013	
S. Ntsaluba*	10 December 2013	

*Mr Nbsaluba was appointed to the Ubank Board of Directors at the annual general holding on the 10th of December 2013 subject to approval by the South African Reserve Bank, which approval was obtained on the 17th of March 2014.

Executive directors

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

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

Company Secretary	Appointment date
N. Motaung	02 May 2013

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), Chief Operating Officer (COO) and Managing Executive of Retail Banking Services (Retail Exec), which is currently vacant, will be identified as Prescribed Officers of Ubank Limited.

Prescribed officers	Appointment date	Resignation date
L. Vutula (Chief Executive Officer)	01 November 2012	
H. Heymans (Chief Financial Officer)	12 March 2013	
B. Radebe (Chief Operating Officer)	01 December 2011	

INTERESTS OF DIRECTORS

The directors had no interest in any third party or company responsible for managing any of the business activities of the Bank. The emoluments and services of the executive directors are determined by the Remuneration committee and agreed by the shareholders at the Annual General Meeting. All executive directors have standard letters of appointment.

SPECIAL RESOLUTIONS

No special resolutions were passed during the financial year.

OVERVIEW

Amidst growing competition amongst retail banks, volatile economic conditions and the protracted platinum mining strikes Ubank has posted a profit for the financial year.

The bank has spent the 2014 financial year ensuring strategic projects alignment to building the Ubank of the future while simultaneously managing the day to day activities of the bank. The following key executive appointments to the management team was concluded - Head: Group Strategy, Head: Risk, General Manager: Credit, as well as the General Manager: Service Delivery.

ECONOMIC REVIEW

Economic indicators have confirmed that the slowdown of the global economy continued during 2013 and into the beginning of 2014. Globally, the economy expanded by only 3.0% in 2013 compared to 3.2% annual growth in 2012.

Consumer spending in the US Economy lost momentum during 2013 with subdued job growth and inflation and higher equity prices variables that could have boosted consumer spending. Mature economies have started showing accelerated strength into 2014 led by the US. Despite a fragile growth recovery in the Euro Area, a positive trend has nevertheless been achieved since Q2 2013.

Emerging markets such as India, Indonesia and Brazil tightened their macro-economic policies in 2013 which resulted in slower growth within their economies. Support in emerging markets however came from the rebound in China's GDP growth in Q3 of 2013.

South Africa displayed similar slowdown in economic growth, with growth of 1.9% in 2013, from 2.5% in 2012. Labour market disruptions in the mining and manufacturing sectors further exacerbated the country's growth potential.

UBANK

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

The country experienced the longest labour strike in 20 years since January 2014, with AMCU members at Lonmin, Impala Platinum and Anglo American Platinum demanding a minimum salary of R12 500 per month. This challenging start to 2014 led to a downgrade by the International Monetrary Fund (IMF) of the country's economic growth in 2014 from 2.6% to 2.4%. Furthermore, with the weak rand fueling inflation, the South African Reserve Bank (SARB) have increased interest rates by 50 basis points in January 2014, with a further 50 basis points interest rate hike predicted in May 2014.

Consumer spending and borrowing were curbed during the past year as consumer inflation averaged 5.8% in 2013 compared to 5.7% in 2012, which reflected the upside risks as well as the potential impact to consumer confidence. This together with the high unemployment rate of 24.7%, caused consumers to be more financially vulnerable in 2013 than in 2012 with decreased cash flows. The labour strikes during Q3 2013 in the country was a period where workers were not paid, and this put a further dent to consumer cash flows.

BANKING

South African banks headline earnings in 2013 reflected that they have fully recovered form the global financial crisis, despite the weak domestic growth outlook in the country. Combined headline earnings of the big four banks was up 20.1% year on year in 2013 to R27.6bn albeit expanding at a slower rate than in 2012. Retail banks have been growing revenue ahead of the country's GDP, with leading retail banks increasing revenues in 2013 by 14% compared to 2012. Income growth was largely driven by both volume growth in loans which grew 7%, and by increasing margins on the back of unsecured lending growth.

In the face of an increasing rate cycle and the possible/subsequent impact on the retail customer's cost of debt and as banks move away from unsecured lending due to their respective risk appetites it remains uncertain where additional revenue will be derived from. This is confirmed by the contraction in household spending in Q4 2013 as tighter lending conditions combined with higher consumer prices eased households' consumption.

SARB's December 2013 bank supervision report indicated that Total Assets in SA's banking sector had increased annually by 5.2% to R3.8-trillion by the end of December 2013. Gross Loans and Advances according to the same report increased anually in 2013 by 7.9% to R2.9 trillion, from a 9.2% growth at R2.7-trillion by the end of December 2012. The marginal growth in the latter confirms the slowdown in consumer borrowing.

The combined capital adequacy ratio of the SA banks remained resilient at 15.9% to December 2013. Compliance with Basel III is weighing heavily on funding strategies of major banks. Despite this, their combined ROE continue to remain strong at 17.5%.

UBANK

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

Banks are continuing to simultaneously invest in growth while striving to contain costs. Investment in technology, channel and product innovations are the common themes across the major banks, even though these innovations require material investment. With stronger competition facing banks, it has become significantly more challenging for them to keep up with consumers' increased demands on service quality and value for money. Customer switching behaviour is further making customer retention even more challenging.

MINING

South Africa's mining industry continues to experiencing major challenges with planned retrenchments, union rivalry, wage disputes and high costs continuing to weigh heavily on the industry. Electricity supply to the industry and other infrastructure constraints are further factors constraining the sector. However, despite all its challenges, the country's total mining output increased by 4% year on year in 2013, following a contraction of 3.2% in 2012 and 0.9% in 2011.

The gold sector ended its long-term output contraction with an average increase of 3.4% in 2013 after a 14.5% contraction in 2012. This was not demand driven, but instead attributable to quicker resolution around wage negotiations in 2013 than in 2012 and which resulted in higher production days. Pressure from the US economy gaining strength, sent the gold price plummeting to it's sharpest fall in 30 years. Concerns still around the price in 2014 are not boding well for the SA gold sector to cover associated production costs at required margins.

Output in the platinum sector continued to perform positively with a 4% increase in 2013. The sector however also had to deal with a 4.2% drop in platinum prices in 2013 despite the global supply deficit. This was partly due to the weak gold price.

Employment growth was disappointing in both gold and platinum sectors in 2013. Average employment declined 6.3% within the gold sector whilst platinum declined by average 0.3% year on year. The platinum sector faced unprotected strikes with planned retrenchments and the current ongoing strike over wage negotiations across the three major platinum mines in the country continues to threaten employment levels within the industry.

UBANK

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

PERFORMANCE

Ubank has also shown signs of recovering from the global financial crisis. The bank experienced a turnaround in profitability for the 2014 financial year, posting a profit before tax of R25m. The balance sheet grew by 23% in the year to reach R4.3bn by the end of the financial year.

The statement of financial position growth was attributable to the growth in savings deposits from R2.9bn to R3.7bn, a year on year increase of 27%. Client loans marginally declined year on year by 0.3% to R842m from R844m in 2013. The high inflationary environment which curbed consumer spending and hence borrowing, resulted in the bank's gross loans declining by 7% from R1.0bn in 2013 to R946m in 2014. The resulting loans to deposit ratio was 22% from 29% in 2013.

The bank's loan book performance resulted in a decline of 5% in net interest earnings for the year, consequently reducing interest income from loans as a percentage of total income from 73% in 2013 to only 68% in 2014. With the continued increase in consumer indebtedness Ubank is tightening its activities and exposure in unsecured lending. Ubank has also strategically started to focus on non-interest income revenue generation activities.

After adopting an improved impairment model in the previous financial year as well as initiating a number of strategic objectives and tactical solutions in respect of the underlying book, the bank has managed to improve it's impairment charges in 2014. Impairment charges on loans and advances decreased to 12% of total loans and advances compared to 20% in 2013 and is also lower than industry standard.

Operating expenses have marginally increased by 1.4% to R475m. This is mainly due to cost containment initiatives initiated during the year to drive cost efficiency within the bank while still deploying key strategic projects.

Strategic projects rolled out in the bank focused on improving core banking capabilities, aligning systems and infrastructure for improved levels of functionality.

Ubank's capital adequacy ratio at the end of FY2014 was 17.42% (FY2013: 16.28%), above the minimum regulatory requirement. The capital adequacy levels is a key focus point for management that will be addressed through the strategic review and implementation as detailed on the following page.

UBANK

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

STRATEGIC REVIEW

The refined Strategy and Financial model has been approved by the Board during 2013. In addition, several strategy review workshops have been conducted to further refine the bank's approach to the approved strategy. The revised 2013 – 2017 strategy informs the financial model, from which capitalisation requirements can be determine in line with the strategic implementation plan.

STRATEGY AND FINANCIAL MODEL DESIGN

The major outputs that was delivered during 2013/14 financial year:

- The strategy refinement was completed and documented;
- Both a high-level implementation road map and detailed project plan have been agreed;
- The financial model was updated and linked to the refined strategy;
- Approval of the revised strategy;
- Developed a detailed IT infrastructure roadmap;
- Kicked off the Target Operating Model and organizational design projects;
- Deployment of the key planned strategic projects;
- Robust budget process and bank's project prioritised;
- Improved impairment model and credit controls; and
- Key senior hires and leadership development programme.

UBank continues to improve on the planning process, thoroughness and agility which are the cornerstone for successful implementation and mitigation of risks. In order to achieve this, four growth themes have been identified for 2014/2015 and are aligned to the bank's strategy. These themes are underpinned by and linked to projects, and are further prioritised by the following criteria, ease of implementation, cost, benefit, etc:

- Revenue Growth - the possible levers for growth, ideas and initiatives that we must identify
- Resource Optimisation - costs, human resources, efficiencies, etc.
- Growth Platform preparation - the enablers to build a comprehensive customer-centric business model
- Culture realignment – change management and communication

The establishment of the Strategic Program Office (SPO) has resulted in a more dynamic and robust process of planning and prioritisation of the projects which is aligned to our strategic objectives. This process is now subjected to improved governance and subsequently a Steering Committee has been established which meets bi-weekly and which creates a filtered "funnels and gate" framework.

DIRECTOR'S REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2014 (CONTINUED)

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 2014 was R35.8 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 evidence for no further impairment during the current financial year (2013: R26.1 million) and processed a reversal of impairment to the value of R323 000. To date the investment has been impaired by R219.1 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 if the liability listing excluding opportunistic claims and the risks associated with a Curatorship process. Management estimated this recoverable amount at 29.67% (2013: 26.59%). 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% (2013: 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 3 years (2013: 3 years). This is aligned to current market trends to finalise similar processes.

The reversal of impairment adjustment of R323 000 (2013: R26.1 million impairment charge) reported on the face of the Statement of Profit /Loss and Other Comprehensive Income has resulted in an increase of the net carrying value of the investment to R35.8 million (2013: R35.4 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 a hardship payment of R4.5million compared to no hardship payment received for 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.

UBANK

AUDIT COMMITTEE REPORT

FOR THE FINANCIAL YEAR 2014

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

The Committee 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 operating officer, head of internal audit, head of compliance, head of risk, the company secretary and external auditors in attendance.

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 audit issues and maintaining 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., as sole audit firm for the 2014 financial year and the re-appointment was approved at the Annual General Meeting.

The committee is satisfied that the audit firm were independent from the Bank for the financial year.

AUDIT COMMITTEE REPORT

FOR THE FINANCIAL YEAR 2014 (CONTINUED)

COMPLIANCE

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

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

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

RISK

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

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

During the financial year the Head of Risk resigned. A new permanent Head of Risk was appointed on 1 December 2013.

With regard to fraud and its prevention, the Bank was active during the year in raising staff awareness about fraud alerts, including whistleblowing. This has assisted significantly with the identification and prevention of fraud. The bank has also focused on ensuring that the bank's ATM's are EMV compliant and to enable the deployment of EMV chip debit cards to eliminate EMV claims from other banks and reduce the debit card fraud levels experienced in the bank. The first chip cards are planned to be deployed during May 2014.

GOING FORWARD

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.

The Bank will continue to proactively perform compliance reviews on new regulations, considering both the industry impact and implications for the Bank.

UBANK

AUDIT COMMITTEE REPORT

FOR THE FINANCIAL YEAR 2014 (CONTINUED)

GOING FORWARD (CONTINUE)

The bank is also planning to introduce a combined assurance model in the new financial year. The model aims to:

- Provide a tool to the Audit committee and Board to review the effectiveness of risk management in the bank;
- Provide a basis for identifying any areas of potential assurance gaps and overlap or grey areas;
- Reduce duplications in audit process and prevent any key controls from being missed by assurance providers;
- Risk based plan encourages an allocation of assurance recources based on risk priorities.

MEMBERSHIP AND ATTENDANCE OF THE AUDIT COMMITTEE:

The members of the Audit Committee are:

Zoli Macanda: MCom (Finance); CA(SA); B. Compt Honours (Unisa); B.Com (UCT)
Lerato Mangope: MBA (Henley); Diploma in Investment Management (RAU); B.A Economics (Vista University)
Harry Groenewald: MBL (Unisa SBL); Management Development Program (Unisa); B. Com (University of Pretoria)
Ayanda Mjekula: B.A English; MBA(Financial Accounting)
Thandeka Dlamini: Masters degree in International Relations, B.A Political Science & Government and Black world studies

MEETING	ZOLI MACANDA	LERATO MANGOPE	HARRY GROENEWALD	AYANDA MJEKULA	THANDEKA DLAMINI
JUNE 21, 2013	ATTENDED	APOLOGY	ATTENDED	ATTENDED	NOT A MEMBER
AUG 6, 2013	ATTENDED	ATTENDED	ATTENDED	ATTENDED	NOT A MEMBER
SEPT 19, 2013	ATTENDED	ATTENDED	ATTENDED	ATTENDED	NOT A MEMBER
SEPT 25, 2013	ATTENDED	ATTENDED	ATTENDED	ATTENDED	NOT A MEMBER
NOV 11, 2013	ATTENDED	ATTENDED	ATTENDED	ATTENDED	NOT A MEMBER
FEB 20, 2014	NOT A MEMBER	ATTENDED	ATTENDED	NOT A MEMBER	APOLOGY

UBANK

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UBANK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of Ubank Limited set out on pages 14 to 80, which comprise the statement of financial position as at 28 February 2014, 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 2014, 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 2014, 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.

SizweNtsalubaGobodo Inc.

____

Director - Nhlanhla Sigasa
Registered Auditor (RA), CA (SA)
21 May 2014
SizweNtsalubaGobodo Inc.
20 Morris Street East. Woodmead.

UBANK

INCOME STATEMENT

STATEMENT OF PROFIT/LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2014

	NOTES	2014	2013
		R'000	**R'000**
Interest income		374,941	391,995
Interest expense		(38,520)	(37,460)
Net interest income	6	**336,421**	**354,534**
Fees and commission income	7	276,437	302,465
Fees and commission expense		(54,156)	(58,765)
Net fees and commission income		**222,281**	**243,700**
Net gain/(loss) on financial assets designated at	8	(529)	449
Other operating income	9	52,352	30,262
Total operating income		**610,525**	**628,946**
Impairment charge on financial assets	10	**(99,191)**	**(235,897)**
Impairment charge on loans and advances		(99,191)	(209,728)
Impairment charge on available for sale		-	(26,169)
Not operating income		**511,334**	**393,049**
Personnel expenses	11	(236,178)	(219,747)
Depreciation of property and equipment	18	(18,673)	(19,850)
Amortisation of intangible assets	19	(8,773)	(6,266)
Other operating expenses	12	(222,757)	(222,402)
Total operating expenses		**(486,381)**	**(468,265)**
Profit/(Loss) before tax		**24,953**	**(75,216)**
Taxation	13	**998**	**23,551**
Profit/(loss) for the year		**25,951**	**(51,665)**
Other comprehensive income:			
Post-employment medical benefits reserve		-	3,673
Taxation	13	-	(1,028)
Post-employment medical benefits reserve movement for the year		-	2,645
Fair value adjustment on available-for-sale investments		1,929	(24,829)
Amount recycled from other comprehensive income and recognised in profit and loss		-	26,169
Impairment reversal on available-for-sale investment		323	-
Taxation	13	(216)	(187)
Available-for-sale-reserve movement for the year		2,036	1,153
Other comprehensive income for the year		**2,036**	**3,799**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**27,987**	**(47,867)**

UBANK

BALANCE SHEET

STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2014

	NOTES	2014	2013
		R'000	R'000
ASSETS			
Cash and cash balances	14	761,142	445,976
Trade receivables and other assets	16	37,115	24,936
Investments	15	2,486,197	2,019,423
Loans and advances to customers	17	841,692	844,137
Current tax asset		-	2,438
Property and equipment	18	71,125	58,518
Intangible assets	19	76,319	68,384
Deferred taxation	20	83,728	84,274
TOTAL ASSETS		**4,357,318**	**3,548,086**
LIABILITIES			
Deposits and savings due to customers	22	3,739,140	2,950,171
Trade payables and other liabilities	21	86,299	99,362
Provisions	23	20,503	15,164
Post-employment medical benefits liability	35	-	-
TOTAL LIABILITIES		**3,845,942**	**3,064,697**
EQUITY			
Share capital and share premium	24	244,875	244,875
Available-for-sale reserve	25	3,788	1,752
Post-employment medical benefits reserve	26	-	-
Retained earnings		262,713	236,762
		511,376	**483,389**
TOTAL LIABILITIES AND EQUITY		**4,357,318**	**3,548,086**

UBANK

STATEMENT OF CHANGES IN EQUITY

AS AT 28 FEBUARY 2014

	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 2012		**24,500**	**220,375**	**599**	**(2,645)**	**288,427**	**531,256**
Loss for the year		-	-	-	-	(51,665)	(51,665)
Other comprehensive income for the year		-	-	1,153	2,645	-	3,798
Total comprehensive income for the year		-	-	1,153	2,645	(51,665)	(47,867)
Balance at 28 February 2013	24	**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**

Nature and purpose of reserves

* **Available-for-sale (AFS) reserve**

This reserve records fair value changes on available-for-sale financial assets. Please refer to Note 25.

* Gains and losses arising from changes in fair value of available-for-sale investments are included in the available-for sale reserve until sale or impairment when the cumulative gain or loss is transferred to the profit and loss section of the statement of comprehensive income.

**** Post-employment medical benefits reserve**

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

UBANK

STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 28 FEBUARY 2014

	NOTES	2014	2013
		R'000	R'000
OPERATING ACTIVITIES			
Interest and fee income		651,378	694,459
Interest and fee commission expense		(92,676)	(96,225)
Net trading and other (expense)/income		14,650	14,800
Investment income		22,438	22,886
Cash paid to customers and employees		(463,656)	(424,669)
Cash available from operating activities	29	132,134	211,251
Changes in operating funds:			
Increase/(decrease) in income earning assets		(561,795)	(128,265)
Increase in deposits and savings due to customers		**788,969**	**67,826**
Cash available/(utilised) from operating activities after changes in operating activities		359,308	150,812
Tax paid	29	3,766	16,780
Net cash inflow/(outflow) from operating activities		**363,074**	**167,592**
INVESTING ACTIVITIES			
Additions to intangible assets		(16,708)	(3,381)
Additions to property and equipment (maintaining of operating activities)		(32,216)	(30,985)
Proceeds from disposal of property and equipment		1,015	1,167
Net cash used in investing activities		**(47,909)**	**(33,199)**
Net increase/(decrease) in cash and cash balances		**315,166**	**134,393**
Cash and cash balances at beginning of year		**445,976**	**311,583**
Cash and cash balances at end of year	14	**761,142**	**445,976**
Cash and cash balances comprise:			
Coins and bank notes		74,481	67,888
Balances with other banks		686,661	378,088
	14	761,142	445,976

UBANK

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 21 May 2014.

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 12 Income Taxes – Recovery of Underlying Assets (Effective from 1 January 2012)
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IFRS 7 Financial Instruments: Disclosures (Effective from 1 July 2011)
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of the amendment did not have any impact on the Bank's financial position or performance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

IAS 1: Financial Statement Presentation (Effective from 1 July 2012)
The amendment to IAS 1 requires that items presented within other comprehensive income be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled.The amendment affects presentation only and has therefore no impact on the Bank's financial position or performance.

IAS 19: Employee benefits (Effective 1 January 2013)
The amendments to IAS 19, Employee Benefits, removes the 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans. Actuarial gains and losses in respect of defined benefit plans are now recognised in other comprehensive income when they occur. In addition for defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on settlements and interest income/expense. Lastly the distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified.

IAS 27: Consolidated and Separate Financial Statements (Effective 1 January 2013)
IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor.

IAS 28: Investments in associates and joint ventures (Effective 1 January 2013)
The revised standard caters for joint ventures (now accounted for by applying the equity accounting method) in addition to prescribing the accounting for investments in associates.

IFRS 11 Joint arrangements (Effective 1 January 2013)
IFRS 11 replaces IAS 31 and SIC 13 and refers to IFRS 10's revised definition of 'control' when referring to 'joint control'. Under IFRS 11 a joint arrangement (previously a 'joint venture' under IAS 31) is accounted for as either a:

- Joint operation: by showing the investor's interest/ relative interest in the assets, liabilities, revenues and expenses of the joint arrangement; or
- Joint venture: by applying the equity accounting method. Proportionate consolidation is no longer permitted.

Under IFRS 11 the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or joint venture. The statement becomes effective for annual periods beginning on or after 1 January 2013, and are not expected to have a material impact on the financial statements of the Bank.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

IFRS 12 Disclosure of interests in other entities (Effective 1 January 2013)
The new standard applies to entities that have an interest in subsidiaries, joint arrangements, associates and/ or structured entities. The statement affects disclosure and do not have an impact on the financial position and performance of the bank.

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

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 7 Financial Instruments: Disclosures (Amendments)
The amendment relates to offsetting financial assets and financial liabilities where it provides additional disclosures requirements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Amendments to IFRS 7 depend on when IFRS 9 is adopted and affect the extent of comparative information required to be disclosed.

IFRS 9 Financial Instruments (Amendments)
IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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 10, 11 and 12 Transition guidance
The amendments to IFRS 10, IFRS 11 and IFRS 12 change the transition guidance to provide further relief from full retrospective application.

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 is not early adopting IFRS 13 and does not anticipate any material impact on the financial position and performance of the Bank, and will not impact the current disclosure.

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 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENT 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Where impairment indicators exist, the determination of the recoverable amount requires management to make assumptions to determine the fair value less cost to sell or value in use. Key assumptions on which management has based its determination of value in use include projected revenues, capital expenditure, and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment. No impairment was recognised during the year (2013 : 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.

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 29.67% (2013: 26.59%). 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% (2013: 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 3 years (2013: 3 years) taking into account market experience in the length of time this process takes to be resolved.

These significant judgements resulted in a reversal of impairment of R323 000 (2013: R26.1 million impairment charge) reported on the face of the Statement of Profit/Loss and Other Comprehensive Income. The cumulative impairment of R219.1 million (2013: R219.4 million) results in a net carrying value of R35.8 million (2013: R35.4 million). Since management intend holding the asset for the foreseeable future, an appropriate deferred tax asset has been raised for the temporary difference between accounting and tax carrying values. During the year the Bank received a hardship payment of R4.5million (2013: Rnil) 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (CONTINUED)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

FINANCIAL ASSETS

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

IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

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

CURRENT TAXATION

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

DEFERRED TAX ASSETS

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

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

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

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.3 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 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 TAXATION (CONTINUED)

(b) DEFERRED TAX

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

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

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

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

Deferred tax relating to items recognised directly in equity is also recognised in equity and not in the statement of comprehensive income.

(c) SECONDARY TAX ON COMPANIES

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. STC credits that arose from dividends received and receivable that exceeded dividends paid were accounted for as a deferred tax asset. The Bank does not have any unutilised STC credits.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 PROPERTY AND EQUIPMENT

Property and equipment is initially measured at cost. Subsequent measurement is recorded at cost less accumulated depreciation and accumulated impairment in value, if any. Such cost includes the cost of replacing a part of equipment only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate. All other repairs and maintenance are charged to the profit and loss section of the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the depreciable amount of items of property and equipment, other than land, on a straight-line basis over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

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

Depreciation rates, methods, useful lives and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each financial year end to take account of any change in circumstances. Changes are treated as changes in accounting estimates.

The company uses the following annual rates in calculating depreciation:

Motor vehicles	5 years
Furniture and fittings	6 years
Computer equipment	3 years
Office equipment	5 years
ATM's	7 years
Leasehold improvements	Shorter of the period of lease and useful life of the item

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit and loss section of the statement of comprehensive income in the year the asset is derecognised.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 INTANGIBLE ASSETS

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

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

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

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

The amortisation periods are as follows:

Computer software development costs	3 years
Software development costs	10 years

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gains or losses arising from disposal or derecognition of the intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss section of the statement of comprehensive income in the year the asset is derecognised.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 IMPAIRMENT OF PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

At each reporting date or more frequently where events or changes in circumstances dictate; indicators of impairment of property and equipment and intangible assets are assessed. If there is an indication of impairment, a review is performed which comprises a comparison of the carrying amount of the asset with its recoverable amount which is the higher of the asset's or the cash-generating unit's fair value less costs to 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.

3.10 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 PROVISIONS AND CONTINGENT LIABILITIES (CONTINUED)

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (CONTINUED)

(e) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

(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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (CONTINUED)

(h) AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are non-derivative financial investments that are designated as available-for-sale or do not qualify to be categorised as held at fair value through profit and loss, loans and receivables or held-to-maturity. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the profit and loss section of the statement of comprehensive income. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the profit and loss section of the statement of comprehensive income.

3.12 FINANCIAL INSTRUMENTS - DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) FINANCIAL ASSETS

The 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.

(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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 FINANCIAL INSTRUMENTS - DETERMINATION OF FAIR VALUE

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted market price or asking price (as appropriate) in an active market wherever possible, without any deduction for transaction costs. Where no such active market exists for the particular asset, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Please refer to the fair value hierarchy in Note 15.

3.14 IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

i) significant financial difficulty of the issuer or obligor;

ii) a breach of contract, such as a default or delinquency in interest or principal payments;

iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

v) the disappearance of an active market for that financial asset because of financial difficulties; or

vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

(a) LOANS AND ADVANCES TO CUSTOMERS

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is included in the profit and loss section of the statement of comprehensive income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "bad debts recovered" in the profit and loss section of the statement of comprehensive income.

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

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

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

(b) HELD-TO-MATURITY FINANCIAL INVESTMENTS

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(c) AVAILABLE-FOR-SALE INVESTMENTS

For available-for-sale investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current value, less any impairment loss on that investment previously recognised in the profit and loss section of the statement of comprehensive income - is removed from other comprehensive income and recognised in the profit and loss section of the statement of comprehensive income. Impairment losses on equity investments are not reversed through the profit and loss section of the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Where applicable future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income".

(d) TRADE RECEIVABLES AND OTHER ASSETS

For trade receivables and other assets, the Bank assesses at each reporting date if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. The amount of the loss is recognised in the profit and loss section of the statement of comprehensive income. Trade receivables and other assets are reduced directly with the amount of the impairment loss.

3.15 FINANCIAL INSTRUMENTS - COLLATERAL AND NETTING

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

(a) COLLATERAL

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 FINANCIAL INSTRUMENTS - COLLATERAL AND NETTING (CONTINUED)

(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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 SHARE-BASED PAYMENTS (CONTINUED)

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.

3.17 POST-EMPLOYMENT BENEFITS

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

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

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

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

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

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

During the financial year is was decided to terminate the benefit and settle the liability with the respective beneficiaries.

(Please refer to note 34 for more details)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 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 with in 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 Risk. 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

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.

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 defeciencies 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

THE BASEL CAPITAL ACCORD

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

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's main focus on credit risk has been on building and improving credit capabilities so as to improve in this area. In pursuit of this strategy, the Bank has, inter alia, replaced the credit systems with an industry led lending platform. The new platform will host all the bank's exposures on a single source and will enhance the bank's functionality of customer acquisition, loan management and collections. In addition to replacing the credit platform the bank also introduced new risk methodologies. These methodologies will strengthen the bank's risk management processes and improve the quality of the bank's credit portfolio.

This financial year Credit risk management was tested from both a customers and regulatory perspective. The consumer market still finds itself highly indebted with a debt to income ratio of around 78% and this makes it even more difficult to navigate through what is believed to be a distressed industry. The first part of the year showed relatively calm industries where little to no labour unrest disruptions were observed compared to the previous financial year, but since October labour unrest in the mining sector started and has since not stopped. The biggest of the unrest started late in January and the 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 gain market share with responsible lending practices. The environmental changes in Credit also enables business to increase it's agility to respond to the industry with more capabilities developed. The change includes policy agility, infrastructural change and more analytical change. These changes did not only allow the business to respond to the consumer market demands for credit, but it also addressed the regulatory environment. 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.

CREDIT RISK MEASUREMENT

Ubank reviewed and improved the statistical modelling techniques to measure the Credit risk the Bank will be exposed to when underwriting and managing loans. These techniques are now integrated with the bank's risk appetite framework to ensure the credit lifecycle is aligned with the bank's willingness to lose capital. 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 action taken has proven to assist the bank in limiting loan fraud to acceptable levels. The most important assessment of existing risk exposure used by the bank is the impairment model. The bank implemented a new methodology and the capability enabled the bank to react on non-performance immediately. This is a functionality the bank never had and it creates significant value in managing portfolio risk proactively.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK MITIGATION

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

RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentration of risk within customer, sector and geography (all within South Africa) is managed by the ALCO. The maximum credit exposure to any individual customer as of 28 February 2014 was RNIL (2013:R1,663,146). The Bank is also exposed to concentration risk specifically within the mining industry.

	2014	2013
	R'000	**R'000**
Loans and advances*		
Personal loans to employees of mining industry	803,687	782,268
Personal loans to employees of non-mining industry	38,004	61,669
Wholesale loans	-	200
Total	**841,692**	**844,137**
Investments		
Sovereigns	1,723,897	1,060,102
Interbank	316,692	516,436
Securities firms	-	-
Capital markets	409,751	407,387
Investments under curatorship	35,857	35,498
Total	**2,486,197**	**2,019,423**

*** 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 30 for a liquidity analysis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

(b) LIQUIDITY RISK MANAGEMENT (CONTINUED)

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. 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 project, which ran for more than 2 years, was successfully implemented. 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.2 CAPITAL MANAGEMENT (CONTINUED)

MINIMUM BANKING REQUIREMENTS

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

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

The Bank's regulatory capital position at 28 February 2014 was as follows:

	2014	2013
Tier 1 Capital	**R'000**	**R'000**
Ordinary share capital	24,500	24,500
Share premium	220,375	220,375
Retained earnings	262,422	236,764
Other accumulated other comprehensive reserves	4,094	-
Deductions	(106,601)	(100,642)
Total	404,790	380,997
Tier 2 capital[1]	**8,631**	**4,378**
Total regulatory capital	**413,421**	**385,375**

Risk weighted assets*		**CAPITAL REQUIREMENTS**		**RISK WEIGHTED ASSETS**	
		2014	2013	2014	2013
Credit		107,041	110,677	1,070,408	1,165,020
	Sovereign	-	-	-	-
	Banks	41,000	47,150	409,998	496,314
	Security Firms	2,294	2,163	22,944	22,765
	SME Corporate	163	155	1,631	1,631
	Retail	63,584	61,209	635,835	644,310
Operational		112,916	99,882	1,129,163	1,051,388
Market		583	331	5,833	3,485
Equity		624	370	6,239	3,890
Other		16,161	13,658	161,606	143,764
Total		**237,325**	**224,918**	**2,373,249**	**2,367,547**

[1]Allowable portfolio impairment under standardised approach.

*Risk weighted assets at 9.5%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.2 CAPITAL MANAGEMENT (CONTINUED)

	2014	2013
Capital adequacy	17.42%	16.28%
Primary capital adequacy	17.06%	16.09%
Target Capital Levels		
Target capital levels have been set for the Bank and are above the minimum regulatory requirements set by the SARB.		

	2014	2013
Regulatory requirements	10.0%	9.5%

MONTHLY/DAILY/AVERAGE CREDIT EXPOSURE

	CAPITAL REQUIREMENTS		CAPITAL POSITION	
	2014	2013	2014	2013
Banks	41, 000	47, 150	409, 998	496, 314
Security Firms	2,294	2,164	22, 944	22, 776
SME Corporate	163	154, 945	1, 631	1, 631
Retail	63, 584	68, 040	635, 835	716, 208
	107, 041	**117, 509**	**1, 070, 408**	**1, 236, 929**

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.

	2014	2013
	R'000	**R'000**
Cash and cash balances	761,142	445,976
Investments	2,486,197	2,019,423
Trade receivables and other assets (excluding prepayments)	19,575	13,558
Loans and advances to customers	841,692	844,137
Total credit risk exposure	**4,108,607**	**3,323,094**

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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.3 CREDIT RISK (CONTINUED)

(b) COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

	NOTES	2014 R'000	2013 R'000
Secured loans (Provident fund cessioned)		37,417	53,215
Tirisano loans (30% secured)		2,036	11,090
Other loans (Unsecured)		802,238	779,832
LOANS AND ADVANCES TO CUSTOMERS	17	**841,692**	**844,137**

(c) CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assest is managed by the bank the affordibility model of loans and advances. Investment credit exposures is managed by the ALCO per note 4.1. Trade recievibles and other assets credit exposure is managed through the banks internal control enviroment. The table shows the credit quality by class of asset for statement of financial position.

	2014 R'000	2013 R'000
Cash and cash balances	761,142	445,976
Investments	2,486,197	2,019,423
Trade receivables and other assets (excluding prepayments)	19,575	13,558
	3,266,915	**2,478,957**

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**	**3,266,915**

2013	CURRENT	30 TO 90 DAYS	90 TO 180 DAYS	180 TO 365 DAYS	> 365 DAYS	TOTAL
Cash and cash balances	445,976	-	-	-	-	445,976
Investments	1,983,924	-	-	-	35,499	2,019,423
Trade receivables and other assets (excluding prepayments)	13,558	-	-	-	-	13,558
	2,443,458	**-**	**-**	**-**	**35,499**	**2,478,957**

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. RISK MANAGEMENT (CONTINUED)

4.3 CREDIT RISK (CONTINUED)

(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.

(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.

2014	NOTES	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	Note 17	**82,104**	**35,499**	**61,501**	**13,596**	**946,595**

2013		30 TO 90 DAYS	90 TO 180 DAYS	180 TO 365 DAYS	> 365 DAYS	TOTAL
R'000						
Loans and advances to customers-impaired		201,165	48,694	82,289	48,850	380,998
Loans and advances to customers-current						637,064
Total	Note 17	**201,165**	**48,694**	**82,289**	**48,850**	**1,018,462**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 2014	ON DEMAND	< 3 MONTHS	3 - 12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
R'000						
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**

AT 28 FEBRUARY 2013	ON DEMAND	< 3 MONTHS	3 - 12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
R'000						
Financial liabilities						
Trade payables and other liabilities	-	-	35,401	-	-	35,401
Deposits and savings due to customers	2,330,076	281,762	314,631	23,701	-	2,950,170
Lease liability	-	-	-	-	-	-
Other liabilities						-
Other trade liabilities	-	-	63,961	-	-	63,961
Provision for leave pay	-	-	8,917	-	-	8,917
Bonus provision	-	500	-	-	-	500
Long term incentive provision	-	-	5,747	-	-	5,747
Post-employment medical benefits liability	-	-	-	-	-	-
Total undiscounted liabilities	**2,330,076**	**282,262**	**428,657**	**23,701**	**-**	**3,064,696**

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

2014 **NET INTEREST INCOME**

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

2013 **NET INTEREST INCOME**

Bp movement	Decrease	Increase	Decrease	Increase
	%	%	R'000	R'000
50bp	4,76%	3,22%	15 998	10 833
100bp	9,52%	6,45%	31 995	21 666
200bp	19,03%	12,89%	63 990	43 332

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

4.6 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 R6 238 639 (2013: R3 890 117).

2014

	PRE TAX IMPACT ON PROFIT AND LOSS	CARRYING VALUE AFTER CHANGE
	R'000	R'000
Increase	624	6,863
Decrease	(624)	5,615

2013

	PRE TAX IMPACT ON PROFIT AND LOSS	CARRYING VALUE AFTER CHANGE
	R'000	R'000
Increase	389	3,838
Decrease	(389)	3,140

The Bank does not undertake any hedging on exposures.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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.

6. NET INTEREST INCOME

	2014	2013
	R'000	**R'000**
Interest income		
Cash and cash balances - Amortised cost	17,118	11,536
Loans and advances to customers - Amortised cost	253,892	287,386
Investments	20,509	27,594
- Held-to-maturity	16,102	18,007
- Interest on impaired asset (designated as available for sale)	4,407	9,587
Interest income from assets not measured at FV through profit or loss	291,519	326,516
Investments		
- Financial assets designated at fair value through profit or loss	83,422	65,479
	374,941	**391,995**
Interest expense - Amortised cost		
Deposits and savings due to customers	(38,070)	(37,011)
Banking facilities	(450)	(449)
	(38,520)	**(37,460)**
Net interest income	**336,421**	**354,535**

7. FEE AND COMMISSION INCOME

Administration fees	73,344	80,866
Commission earnings	52,786	61,009
Service and management fees	150,307	160,590
	276,437	**302,465**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

	2014	2013
	R'000	**R'000**
Fair value movements for the year	(529)	449
Loss on disposal of financial assets	-	-
	(529)	**449**

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

Bad debts recovered	17,865	5,963
Other	11,446	569
Profit on disposal of assets*	603	844
Investment income from preference shares	22,438	22,886
	52,352	**30,262**

*Land owned by the Bank was disposed of in the 2013 financial year. Please refer to note 18.

10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	NOTE	SPECIFIC IMPAIRMENT	PORTFOLIO IMPAIRMENT	TOTAL
		R'000	**R'000**	**R'000**
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)**
2013 Net charge to the statement of comprehensive income				
Loans and advances to customers	17	(200,894)	(8,834)	(209,728)
Investments - Corporate Money Managers (CMM)**	15	(26,169)	-	(26,169)
		(227,063)	**(8,834)**	**(235,897)**

** 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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. PERSONNEL EXPENSES

	2014	2013
	R'000	**R'000**
Pension costs - Defined contribution plan expense	(32,109)	(16,275)
Salaries and wages	(204,069)	(203,472)
	(236,178)	**(219,747)**
Personnel - Actual headcount at year end*	**844**	**824**

* Excluding executives, temporary staff & contractors

12. OTHER OPERATING EXPENSES

Significant operating expenses comprise of:		
Auditors remuneration		
- Audit services	(7,200)	(8,100)
- Other	(640)	(500)
Legal fees	(2,974)	(1,580)
Loss on sale of property and equipment	(520)	(64)
Professional fees	(5,351)	(3,280)
Operating lease expense	(16,099)	(15,866)
Strategic research	(231)	(626)
Software license fees	(26,284)	(19,521)
Security expenses	(20,839)	(24,908)
Consumables	(7,345)	(6,401)
Network costs	(13,396)	(10,113)
Maintenance	(3,114)	(3,584)
Software expenses	(7,620)	(11,914)
Telecommunications	(3,973)	(3,446)
Travelling	(6,090)	(3,670)
Training	(5,685)	(3,930)
Fraud	(6,151)	(17,240)
Printing and stationary	(6,037)	(4,731)
VAT not recovered	(18,735)	(30,339)
Cash delivery costs	(10,024)	(10,287)
Consulting fees	(15,524)	(11,069)
Marketing	(12,648)	(8,244)
Memberships	(4,868)	(3,463)
Insurance	(1,858)	(1,610)
Bank charges	(4,730)	(4,052)
Storage	(2,037)	(4,226)
Other	(12,784)	(9,638)
	(222,757)	**(222,402)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

13. TAXATION

The components of the tax expense for the years ended:

	NOTES	2014	2013
		R'000	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	(330)	23,551
Taxation (expense)/income recognised in profit/(loss) for the year		998	23,551
Taxation (expense)/income recognised in other comprehensive income:	20	(216)	(1,215)
Post-employment medical benefits reserve		-	(1,028)
Fair value adjustment on available-for-sale investments		(216)	(187)
Total taxation in the statement of comprehensive income		**782**	**22,336**

Reconciliation of the total tax charge

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

Accounting profit/(loss) before tax	**24,953**	**(75,216)**
At domestic corporate tax rate of 28% (2013: 28%)	(6,987)	21,060
Non-deductible and Non-taxable items	(1,585)	(4,196)
Income not subject to tax	7,574	6,687
Taxation income reported in the statement of comprehensive income	**(998)**	**(23,551)**
Effective income tax rate	4.00%	(31.31%)

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14. CASH AND CASH BALANCES

	2014	2013
	R'000	**R'000**
Coins and bank notes	74,481	67,888
Balances with other banks	686,661	378,088
	761,142	**445,976**

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

15. INVESTMENTS

Available-for-sale[1]	42,005	39,389
Held to maturity	140,404	339,978
- Money market instruments	140,404	339,978
Designated at fair value through profit and loss	2,303,788	1,640,056
- Capital market instruments	403,603	403,496
- Money market instruments	176,288	176,458
- Central bank securities	1,723,897	1,060,102
	2,486,197	**2,019,423**
Included in investments is interest receivable:		
Available-for-sale	-	-
Held to maturity	2,163	2,477
- Money market instruments	2,163	2,477
Designated at fair value through profit and loss	6,210	5,098
- Capital market instruments	3,603	3,496
- Money market instruments	1,195	1,238
- Central bank securities	1,412	364
	8,373	**7,575**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. INVESTMENTS (CONTINUED)

	LEVEL 1*	LEVEL 2*	LEVEL 3*	TOTAL
2014	***Fair values are based on quoted market prices**	***Fair values are calculated using observable inputs (quoted prices for similar assets/liabilities), either directly or indirectly**	***Fair values are calculated using significant unobservable inputs.**	
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**
2013				
Available-for-sale[1]	3,890	-	35,499	39,389
Designated at fair value through profit and loss	-	1,640,056	-	1,640,056
- Capital market instruments	-	403,496	-	403,496
- Money market instruments	-	176,458	-	176,458
- Central bank securities	-	1,060,102	-	1,060,102
	3,890	**1,640,056**	**35,499**	**1,679,445**

RECONCILIATION OF LEVEL 3 INVESTMENTS	2014	2013
Balance as at 1 March	35,499	54,213
Recoveries	(4,533)	-
Impairment reversal/(charge)	323	(26,169)
Accrued interest	4,569	7,455
Balance as at 28 February	**35,858**	**35,499**

[1] This amount includes an investment on which a reassessment of recoverable amount was performed and an impairment reversal of R323 000 was recognised through other comprehensive income (2013: R26.1 million impairment charge in the profit and loss section of the statement of comprehensive income). There are several significant assumptions applied to the impairment calculation which have been included in the 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 R862 thousand to R34,9 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 R889 thousand to R36,7 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. INVESTMENTS (CONTINUED)

- A change in the realisable period assumption applied (3 years) of 1 year to 4 years would result in a decrease in the valuation of the investment of R3,2 million to R32,2 million. A similar change in the realisable period assumption applied (3 years) of 1 year to 2 years would result in an increase in the valuation of the investment of R3,6 million to R39,5 million.

- A change in the recovery value assumption applied (29.67%) of 5% to 24.67% would result in a decrease in the valuation of the investment of R7,4 million to R28,0 million. A similar change in the recovery value assumption applied (29.67%) of 5% to 34.67% would result in an increase in the valuation of the investment of R7,4 million to R42,8 million.

16. TRADE RECEIVABLES AND OTHER ASSETS

	2014	2013
	R'000	**R'000**
Interest receivable	16	42
Other accounts receivable	201	360
Operating account - Teba Ltd	1,631	1,631
Prepayments	17,540	11,378
Ubank Group Limited	4,696	4,696
Teba Fund	6,068	4,433
Trade debtors	6,963	2,396
	37,115	**24,936**

17. LOANS AND ADVANCES TO CUSTOMERS

	2014	2013
	R'000	**R'000**
Gross loans and advances to customers	946,595	1,018,462
Less: Allowances for impairment losses	(104,903)	(174,325)
Loans and advances to customers	**841,692**	**844,137**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	NOTE	PENSION BACKED LOANS	OTHER LOANS	TOTAL
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)**
At 1 March 2012		(1,046)	(82,131)	(83,177)
Net charge for the year	10	(4,767)	(204,961)	(209,728)
Amounts written off		-	118,580	118,580
At 28 February 2013		**(5,813)**	**(168,512)**	**(174,325)**

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 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		**(75,273)**	**(29,631)**	**(104,904)**
Balance at 1 March 2012		(72,299)	(10,878)	(83,177)
Net charge for the year	10	(200,894)	(8,834)	(209,728)
Amounts written off		118,580	-	118,580
At 28 February 2013		**(154,613)**	**(19,712)**	**(174,325)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. PROPERTY AND EQUIPMENT

	COST	ACCUMULATED DEPRECIATION	NET CARRYING VALUE
2014	**R'000**	**R'000**	**R'000**
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**
2013			
Leasehold improvements	37,915	(25,950)	11,965
Freehold land	1,955	-	1,955
Motor vehicles	4,061	(2,434)	1,627
Furniture and fittings	12,515	(8,912)	3,603
Office equipment	29,808	(23,926)	5,882
Computer equipment	148,376	(120,282)	28,094
ATM's	13,884	(8,492)	5,392
	248,514	**(189,996)**	**58,518**

	OPENING NET CARRYING VALUE	ADDITIONS	DISPOSALS	IMPAIRMENTS	DEPRECIATION	CLOSING NET CARRYING VALUE
2014	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
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**
2013						
Leasehold improvements	13,480	2,346	-	-	(3,861)	11,965
Freehold land	2,080	-	(125)	-	-	1,955
Motor vehicles	2,222	56	(232)	-	(419)	1,627
Furniture and fittings	3,574	1,209	-	-	(1,180)	3,603
Office equipment	8,099	253	(1)	-	(2,469)	5,882
Computer equipment	14,806	24,243	(29)	-	(10,926)	28,094
ATM's	3,509	2,878	-	-	(995)	5,392
	47,770	**30,985**	**(387)**	**-**	**(19,850)**	**58,518**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. PROPERTY AND EQUIPMENT (CONTINUED)

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 2014 (2013 :Rnil), were leased under a finance lease.

19. INTANGIBLE ASSETS

	COST	ACCUMULATED AMORTISATION	NET CARRYING VALUE
2014	R'000	R'000	R'000
Software development cost	101,714	(25,395)	76,319
	101,714	**(25,395)**	**76,319**
2013			
Software development cost	85,217	(16,833)	68,384
	85,217	**(16,833)**	**68,384**

	OPENING NET CARRYING VALUE	ADDITIONS	DISPOSALS	IMPAIRMENT	AMORTISATION	CLOSING NET CARRYING VALUE
2014	R'000	R'000	R'000	R'000	R'000	R'000
Software development cost	68,384	16,708	-	-	(8,773)	76,319
	68,384	**16,708**	**-**	**-**	**(8,773)**	**76,319**
2013						
Software development cost	71,269	3,380	-	-	(6,266)	68,384
	71,269	**3,380**	**-**	**-**	**(6,266)**	**68,384**

The remaining amortisation period for the Flexcube software is 71 months as at 28 February 2014.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

20. DEFERRED TAX ASSETS AND LIABILITIES

Deffered tax assets and liabilities are attributable to the following:

	2014			2013		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Provisions	5,741	-	5,741	4,246	-	4,246
Investment securities fair valued through profit and loss	-	(99)	(99)	84	-	84
Straight lining of lease and admin fees	9,188	-	9,188	9,950	-	9,950
Impairments - Loans and advances	8,296	-	8,296	5,519	-	5,519
Prepaid expenses	-	(2,291)	(2,291)	-	(1,324)	(1,324)
Impaired available-for-sale investment	31,754	-	31,754	32,666	-	32,666
Investment securities - fair value adjustments (OCI)	747	-	747	327	-	327
Provisional assessed loss	29,983	-	29,983	32,258	-	32,258
Disposal of bonds	409	-	409	548	-	548
Fixed assets	-	-	-	-	-	-
Finance lease liability	-	-	-	-	-	-
Post-employment medical benefits reserve	-	-	-	-	-	-
Net tax assets/(liabilities)	**86,118**	**(2,390)**	**83,728**	**85,598**	**(1,324)**	**84,274**

Movements in deffered tax assets and liabilities during the year

	2014	2013
	R'000	**R'000**
Provisions	1,495	(1,345)
Investment securities - fair value adjustments (OCI)	420	(230)
Investment securities adjustments (Comprehensive Income)	(182)	54
Straight lining of lease and admin fees	(762)	(1,090)
Impairments - Loans and advances	2,776	4,688
Prepaid expenses	(967)	286
Impaired available for sale investment	(912)	3,490
Disposal of bonds	(139)	-
Fixed assets	-	351
Finance lease liability	-	(304)
Post-employment medical benefits reserve	-	(1,028)
Provisional assessed loss	(2,275)	17,344
Net movement in deferred tax assets/(liabilities)	**(546)**	**22,216**
Deferred tax movement through other comprehensive income	(216)	(1,215)
Deferred tax movement through profit and loss	(330)	23,551
Deferred tax movement		(120)
	(546)	**22,216**

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. TRADE PAYABLES AND OTHER LIABILITIES

	2014	2013
	R'000	**R'000**
Unallocated deposits	102	343
Liabilities under operating lease	1,623	1,862
Deferred income - Administration fees	31,193	33,675
Sundry accruals	3,053	2,753
Trade creditors	15,198	17,907
System clearing accounts	21,596	9,961
VAT payable	194	406
Electronic banking	819	1,052
African Bank	2,133	1,550
Accruals and other creditors	9,508	17,317
Sundry creditors	881	12,536
	86,299	**99,362**

22. DEPOSITS AND SAVINGS DUE TO CUSTOMERS

Deposits and savings due to customers	3,728,808	2,942,152
Interest accrued	10,332	8,019
	3,739,140	**2,950,171**

The average interest rate during 2014 for deposits by customers was 2.8% (2013 - 1.25%)

23. PROVISIONS

	OPENING BALANCE	PROVISION RAISED DURING THE YEAR	PROVISION UTILISED DURING THE YEAR	CLOSING BALANCE
2014	**R'000**	**R'000**	**R'000**	**R'000**
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**
2013				
Provision for Leave pay	7,574	4,746	(4,353)	8,917
Bonus provision	9,110	960	(9,570)	500
Long term incentive provision	7,388	3,421	(5,062)	5,747
	24,072	**9,126**	**(18,985)**	**15,164**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. SHARE CAPITAL AND SHARE PREMIUM

	2014	2013
	R'000	**R'000**
Authorised		
25 000 000 ordinary shares of R1 each	25,000	25,000
Issued and fully paid		
24 500 000 ordinary shares of R1 each	24,500	24,500
Share premium		
Ordinary shares	220,500	220,500
Share issue expenses written off	(125)	(125)
	220,375	**220,375**

All unissued shares are under the control of the directors.

25. AVAILABLE -FOR-SALE RESERVE

Unrealised gain on available-for-sale investment	**3,788**	**1,751**

26. POST-EMPLOYMENT MEDICAL BENEFITS RESERVE

Post-employment medical benefit liability	-	-

27. COMMITMENTS

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

	2014	2013
	R'000	**R'000**
Commitments		
Capital expenditure authorised but not contracted	112,181	66,932
- Property and equipment	85,497	64,693
- Intangible assets	26,684	2239
Capital expenditure authorised and committed	12,946	14,861
	125,127	**81,793**

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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. COMMITMENTS (CONTINUED)

Operating lease commitments	2014	2013
	R'000	R'000
Within one year	10,027	13,791
After one year but not more than five years	17,408	16,065
	27,435	**29,856**

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 (2013: R4.6 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.

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

In the current year related party transactions relating to trust costs of R6.1 million (2013: R4.4 million) were paid by the Bank. Interest is not levied on the receivable balance; has no fixed maturity date and is unsecured. The debtor is recorded in trade receivables note 16.

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

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

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

	2014	2013
	R'000	R'000
Loans and advances		
Other key management personnel - Exco		
Opening balance	299	201
Loans granted during the year	274	200
Interest income	27	15
Repayments	(346)	(117)
	254	**299**

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.

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

	2014	2013
	R'000	**R'000**
Profit/(Loss) before tax	24,953	(75,216)
Adjustments for non-cash flow items:		
(Profit)/Loss on disposal of property and equipment	(83)	(779)
Amortisation of intangible assets	8,773	6,266
Straight-lining of operating lease	(239)	519
Net (gain)/loss on short term investments	529	(449)
Impairment charge on available for sale investment	-	26,169
Straight-lining of admin fees received	(2,482)	(4,411)
Depreciation of property and equipment	18,673	19,850
Impairment charge on loans and advances	99,191	209,729
	149,315	**181,678**
Movement in working capital:		
Decrease in trade receivables and other assets	(12,178)	12,678
Increase in trade payables and other current liabilities	(5,003)	16,895
Cash available from operating activities	**132,134**	**211,251**
Taxation (paid)/received:		
Statement of comprehensive income	782	22,523
Deferred taxation balance movement	546	(22,216)
Current tax asset movement	2,438	16,473
	3,766	**16,780**

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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.

2014	ON DEMAND	WITHIN 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
	R'000	R'000	R'000	R'000	R'000
Financial assets					
Cash and cash balances	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**	**2,639,326**	**747,049**	**6,639**	**4,156,095**
Other assets					
Property and equipment	-	-	-	-	71,125
Intangible assets	-	-	-	-	76,319
Current tax asset	-	-	-	-	-
Deferred taxation	-	-	-	-	83,728
Prepayments	-	-	-	-	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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30. LIQUIDITY ANALYSIS (CONTINUED)

2013	ON DEMAND	WITHIN 1 YEAR	FROM 1 TO 5 YEAR	MORE THAN 5 YEARS	TOTAL
	R'000	R'000	R'000	R'000	R'000
Financial assets					
Cash and cash balances	445 976	-	-	-	445 976
Investments		1 769 423	250 000	-	2 019 423
Trade receivables and other assets	-	13 558	-	-	13 558
Loans and advances to customers	20 092	193 143	624 387	6 515	844 137
Total financial assets	**466 068**	**1 976 124**	**874 387**	**6 515**	**3 323 094**
Future interest*	-	36 659	10 829	-	47 488
Total financial assets including future interest	**466 068**	**2 012 783**	**885 216**	**6 515**	**3 370 582**
Other assets					
Property and equipment	-	-	-	-	58 518
Intangible assets	-	-	-	-	68 384
Current tax asset	-	-	-	-	2 438
Deferred taxation	-	-	-	-	84 274
Other trade receivables	-	-	-	-	11 378
Total other assets	**-**	**-**	**-**	**-**	**224 992**
Total assets	**466 068**	**2 012 783**	**885 216**	**6 515**	**3 595 574**
Financial liabilities					
Trade payables and other liabilities	-	35 401	-	-	35 401
Deposits and savings due to customers	2 330 076	596 394	23 701	-	2 950 171
Lease liability	-	-	-	-	-
Total financial liabilities	2 330 076	631 795	23 701	-	2 985 572
Future interest **	-	9 450	1 013	-	10 463
Total financial liabilities including future interest	**2 330 076**	**641 245**	**24 714**	**-**	**2 996 035**
Other liabilities					
Trade payables and other liabilities	-	-	-	-	63 961
Post-employment medical benefits liability	-	-	-	-	-
Provisions	-	-	-	-	15 164
Total other liabilities	**-**	**-**	**-**	**-**	**79 125**
Total liabilities	**2 330 076**	**641 245**	**24 714**	**-**	**3 075 160**
Equity					
Share capital and share premium	-	-	-	-	244 875
Available-for-sale reserve	-	-	-	-	1 752
Post-employment medical benefits reserve	-	-	-	-	-
Retained earnings	-	-	-	-	236 762
Total equity	**-**	**-**	**-**	**-**	**483 389**
Total liabilities and equity	**2 330 076**	**641 245**	**24 714**	**-**	**3 558 549**

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. CLASSIFICATION OF ASSETS AND LIABILITIES

Classification of assets

2014	LOANS AND RECEIVABLES	HELD TO MATURITY	DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	HELD AS AVAILABLE FOR SALE	NON-FINANCIAL ASSETS	TOTAL
	R'000	R'000	R'000	R'000	R'000	R'000
Financial assets						
Cash and cash balances	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
Current tax asset	-	-	-	-	-	-
Deferred taxation	-	-	-	-	83,728	83,728
Total assets	**1,622,410**	**140,404**	**2,303,788**	**42,005**	**248,711**	**4,357,318**

2013	LOANS AND RECEIVABLES	HELD TO MATURITY	DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	HELD AS AVAILABLE FOR SALE	NON-FINANCIAL ASSETS	TOTAL
	R'000	R'000	R'000	R'000	R'000	R'000
Financial assets						
Cash and cash balances	445,976	-	-	-	-	445,976
Investments	-	339,978	1,640,056	39,389	-	2,019,423
Trade receivables and other assets (excluding prepayments)	13,558	-	-	-	-	13,558
Loans and advances to customers	844,137	-	-	-	-	844,137
Other assets						
Prepayments	-	-	-	-	11,378	11,378
Intangible assets	-	-	-	-	68,384	68,384
Property and equipment	-	-	-	-	58,518	58,518
Current tax asset	-	-	-	-	2,438	2,438
Deferred taxation	-	-	-	-	84,274	84,274
Total assets	**1,303,671**	**339,978**	**1,640,056**	**39,389**	**224,992**	**3,548,086**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. CLASSIFICATION OF ASSETS AND LIABILITIES (CONTINUED)

Classification of liabilities

2014	HELD AT AMORTISED COST	NON-FINANCIAL LIABILITIES	TOTAL
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	65,440	86,299
Other liabilities			
Provisions	-	20,503	20,503
Total liabilities	**3,759,998**	**85,944**	**3,845,943**

2013	HELD AT AMORTISED COST	NON-FINANCIAL LIABILITIES	TOTAL
Financial liabilities	**R'000**	**R'000**	**R'000**
Deposits and savings due to customers	2,950,171	-	2,950,171
Trade payables and other liabilities	35,401	63,961	99,362
Other liabilities			
Provisions	-	15,164	15,164
Total liabilities	**2,985,572**	**79,125**	**3,064,697**

Fair value hierarchy

The table below analyses financial instuments 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 (2013: none). Please refer to note 15 for the hierarchy on Investments.

2014	LEVEL 1*	LEVEL 2*	LEVEL 3*	TOTAL
ASSETS (Excluding Investments)	*FAIR VALUES ARE BASED ON QUOTED MARKET PRICES	*FAIR VALUES ARE CALCULATED USING OBSERVABLE INPUTS (QUOTED PRICES FOR SIMILAR ASSETS/ LIABILITIES), EITHER DIRECTLY OR INDIRECTLY	*FAIR VALUES ARE CALCULATED USING SIGNIFICANT UNOBSERVABLE INPUTS	
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	-	86,311	-	86,311
	-	**3,825,451**	**-**	**3,825,451**
2013				
Assets (Excluding investments)				
Cash and cash balances	-	445,976	-	445,976
Loans and Advances	-	844,137	-	844,137
Trade receivables	-	24,936	-	24,936
	-	**1,315,049**	**-**	**1,315,049**
Liabilities				
Deposits	-	2,950,171	-	2,950,171
Trade payables	-	99,362	-	99,362
	-	**3,049,533**	**-**	**3,049,533**

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. SHARE BASED PAYMENTS (CONTINUED)

	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
Cash-settled instruments	(1,833)	3,421	2,192	3,747

Movement in number of instruments

	NUMBER OF INSTRUMENTS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF INSTRUMENTS	WEIGHTED AVERAGE EXERCISE PRICE
CASH-SETTLED INSTRUMENTS	2014	2014	2013	2013
Outstanding at the beginning of the year	**797,582**	**20.97**	**1,634,378**	**17.98**
- SARs	411,226	20.97	797,149	17.98
- SPRs	386,356	20.97	837,229	17.98
Granted	-	-	496,606	17.98
- SARs	-	-	235,235	17.98
- SPRs	-	-	261,371	17.98
Exercised	124,214	20.97	266,820	17.98
- SARs	56,890	20.97	56,033	17.98
- SPRs	67,324	20.97	210,787	17.98
Expired	-	-	-	-
- SARs	-	-	-	-
- SPRs	-	-	-	-
Forfeited	371,612	18.96	1,066,583	20.97
- SARs	189,733	18.96	565,126	20.97
- SPRs	181,879	18.96	501,457	20.97
Outstanding at the end of the year	**301,756**	**18.97**	**797,582**	**20.97**
- SARs	164,603	18.97	411,226	20.97
- SPRs	137,151	18.97	386,356	20.97
Exercisable at the end of the year	73,022	18.97	128,518	20.97
- SARs	26,764	18.97	41,451	20.97
- SPRs	46,258	18.97	87,067	20.97
Weighted average share price for rights exercised in Rands	124,214	20.97	266,820	17.98
- SARs	56,890	20.97	56,033	17.98
- SPRs	67,324	20.97	210,787	17.98

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. SHARE-BASED PAYMENTS (CONTINUED)

Instruments outstanding at the end of the year by issue price.

	NUMBER OF INSTRUMENTS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF INSTRUMENTS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
CASH-SETTLED INSTRUMENTS	**2014**	**2014**	**2013**	**2013**
- SARs	164,603	2.2	411,226	1.9
15.54	-	-	19,399	-
19.38	12,366	-	44,103	-
18.28	28,796	1.0	78,361	1.0
18.43	41,634	2.0	111,773	2.0
17.98	81,807	3.0	157,590	3.0
- SPRs	137,153	2.7	386,356	2.2
15.54	-	-	-	-
19.38	-	-	-	-
18.28	-	1.0	87,067	1.0
18.43	46,258	2.0	124,190	2.0
17.98	90,895	3.0	175,099	3.0
	301,756	2.4	797,582	2.1

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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		CASH SETTLED INSTRUMENTS	
		2014		2013
	SARs	SPRs	SARs	SPRs
Number of instruments granted	-	-	235,235	261,371
Weighted average fair value per instrument granted (R)	-	-	17.98	17.98
Weighted average share price (R)	18.97	18.97	20.97	20.97
Weighted average exercise price (R)	20.97	20.97	17.98	17.98
Weighted average projected exercise price* (R)	19.30	19.30	19.11	19.11
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	16.46%	n/a	49.78%
Weighted average life (years)	3.0	3.0	3.0	3.0
Number of participants	3	3	6	6
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 Offier (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and Managing Executive of Retail Banking Services (Retail Exec), including their related acting officers, will be identified as Prescribed Officers Of Ubank Limited.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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

	FEES	GROSS PAY	LONG TERM INCENTIVE PLAN	BONUS #	PENSION AND RETIREMENT BENEFITS	OTHER BENEFITS ##	TOTAL COST TO COMPANY
2014	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**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	2595	14,967
Total	**3,003**	**16,528**	**1,721**	**950**	**1,097**	**3,041**	**26,340**

\# Bonus includes sign on bonusses
\## Other benefits amongst others include leave pay, travel allowances, medical aid benefits and disability insurances.

* Resigned 10 December 2013.
^ Appointed 11 March 2013.
^^^ Appointed 12 March 2013.
** Resigned 28 February 2013.
^^ Appointed 10 December 2013.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

	FEES	GROSS PAY	LONG TERM INCENTIVE PLAN	BONUS	PENSION & RETIRE-MENT BENEFITS	OTHER BENEFITS #	TOTAL COST TO COMPANY
2013	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Non-executive directors							
J.H. De Villiers Botha*	656	-	-	-	-	-	656
A.W. Mjekula**	115	-	-	-	-	-	115
D.P. Elbrecht	391	-	-	-	-	-	391
H. Groenewald	428	-	-	-	-	-	428
Z. Macanda	378	-	-	-	-	-	378
L. Mangope	518	-	-	-	-	-	518
Z.N. Miya	345	-	-	-	-	-	345
C.B. Stofile	355	-	-	-	-	-	355
Total	**3,186**	**-**	**-**	**-**	**-**	**-**	**3,186**
Executive directors							
L. Vutula (CEO)^	-	998	-	-	56	18	1,072
M. Williams (CEO)^^	-	836	1,507	-	53	396	2,791
J. Pohl (CFO)^^	-	532	1,057	-	36	250	1,875
Total	**-**	**2,367**	**2,564**	**-**	**145**	**664**	**5,739**
Executive officers							
A.W. Mjekula (Acting CEO)**	-	2,193	-	-	-	23	2,216
H. Du Preez (Acting CFO)***	-	49	-	-	-	-	49
Total	**-**	**2,242**	**-**	**-**	**-**	**23**	**2,265**
Prescribed officers							
B. Radebe (COO)	-	2,097	-	-	88	164	2,349
K. Pather (Retail Exec)^^^	-	706	-	499	55	294	1,554
Total	**-**	**2,803**	**-**	**499**	**143**	**458**	**3,903**
Other executive management personnel	-	8,035	2,499	1,947	507	817	13,803
Total	**3,186**	**15,445**	**5,063**	**2,446**	**794**	**1,961**	**28,896**

Other benefits amongst others include leave pay, travel allowances, medical aid benefits and disability insurances.
* Appointed 1 April 2012 as Chairman of the board.
** Mr A.W. Mjekula was a non-executive director and Chairman of the board until 31 March 2012 and was appointed as acting CEO from 1 April 2012 to 30 November 2012.
*** Mr H. Du Preez was appointed as acting CFO from 1 July 2012 to 28 February 2013, thus amount disclosed only reflects the acting CFO's acting allowance.
^ Appointed 1 November 2012.
^^ Resigned 30 June 2012.
^^^ Resigned 31 September 2012.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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	

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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
2014		R'000		R'000	R'000
Non-Executive directors	-	-	-	-	-
Executive directors					
L. Vutula (CEO)	-	-	-	-	-
H. Heymans (CFO)	-	-	-	-	-
Prescribed officers					
B. Radebe (COO)	-	-	-	-	-
K. Pather (Retail Exec)	-	-	-	-	-
Other executives	-	-	-	-	-
2013					
Non-Executive directors	-	-	-	-	-
Executive directors					
M. Williams (CEO)	-	-	-	-	-
J. Pohl (CFO)	-	-	-	-	-
Prescribed officers					
B. Radebe (COO)	35,605	640	39,561	711	1,351
K. Pather (Retail Exec)	28,770	517	31,966	575	1,092
Other executives	170,860	3,073	189,844	3,414	6,487

UBANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Movements in number of instruments:

	EXECUTIVE DIRECTORS		PRESCRIBED OFFICERS		OTHER EXECUTIVES	
	L. Vutula (CEO)	H. Heymans (CFO)	B. Radebe (COO)	K. Pather (Retail Exec)	Other executives	Total
2014						
Cash-settled instruments						
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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Movements in number of instruments:

	EXECUTIVE DIRECTORS		PRESCRIBED OFFICERS		OTHER EXECUTIVES	
	M. Williams (CEO)	J. Pohl (CFO)	B. Radebe (COO)	K. Pather (Retail Exec)	Other executives	Total
2013						
Cash-settled instruments						
Outstanding at the beginning of the year	416,266	279,089	-	111,866	827,157	1,634,378
- SARs	190,664	135,285	-	52,989	418,211	797,149
- SPRs	225,602	143,804	-	58,877	408,946	837,229
Granted	-	-	75,166	60,736	360,704	496,606
- SARs	-	-	35,605	28,770	170,860	235,235
- SARs	-	-	39,561	31,966	189,844	261,371
Exercised	79,867	57,430	-	-	129,523	266,820
- SARs	17,238	13,715	-	-	25,080	56,033
- SPRs	62,629	43,715	-	-	104,443	210,787
Expired	-	-	-	-	-	-
- SARs	-	-	-	-	-	-
- SPRs	-	-	-	-	-	-
Forfeited	336,399	221,659	-	172,602	335,923	1,066,583
- SARs	173,426.00	121,570	-	81,759	188,371	565,126
- SPRs	162,973	100,089	-	90,843	147,552	501,457
Outstanding at the end of the year			75,166		722,416	797,582
- SARs	-	-	35,605	-	375,621	411,226
- SPRs	-	-	39,561	-	346,795	386,356

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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. In line with the bank's policy, the assets held by Guardrisk were paid over to the bank and a net of R9.4 million was recognised in other income (Note 9).

	2014	2013
	R'000	**R'000**
Medical obligation		
Liability at the beginning of the year	(15,218)	(30,534)
Annual cost		
Interest cost	-	(2,490)
Service cost	-	(1,372)
Actuarial (gains)/losses	-	18,459
Additional agreed settlement	(2,207)	-
Net cost	**(17,425)**	**14,642**
Total benefit payments	17,425	**674**
Liability at the end of the year	**-**	**(15 218)**
Plan assets		
Plan assets at the beginning of the year	26,982	26,861
Cost/Interest adjustment to plan assets	(110)	121
Plan assets refunded	(26,872)	-
Plan assets at the end of the year	**-**	**26,982**
Unrecognised plan asset (IAS 19:58 (b))	-	(11,764)
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)		
Witdrawals:		
0% - 15% (Males and Females) (2013)		
Valuation date:		28 February 2013

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

2013	1% DECREASE	VALUATION BASIS	1% INCREASE
	R'000	R'000	R'000
Employer's accrued liability	(5,505)	(5,946)	(6,451)
Employer's service and interest cost	(392)	(426)	(464)