

CORPORATE GOVERNANCE REPORT

2012/13



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.

Introduction

Ubank is committed to conducting its affairs with integrity and holds itself responsible and accountable towards all its Stakeholders.

The Bank complies with the Banks Act 94 of 1990 and the Companies Act 71 of 2008, as amended and; subscribes to the principles underlying the King III Report on Governance for South Africa 2009.

Ethical Leadership

The Board of Directors and the Executive Management of Ubank provide responsible leadership to ensure performance of Ubank with regard to the agreed strategy and business goals; and to ensure proper discharge of Ubank's mandate.

The Board and Management are committed and strive to achieve the highest moral and ethical business standards and subscribes to the general principles of good corporate governance practices.

The Bank adopted and pledges to the following behaviors to embed an ethical foundation:

CARE – Treating colleagues and customers with dignity, integrity and respect;

HARONA – Protecting and enhancing our reputation. Being proud of who we are;

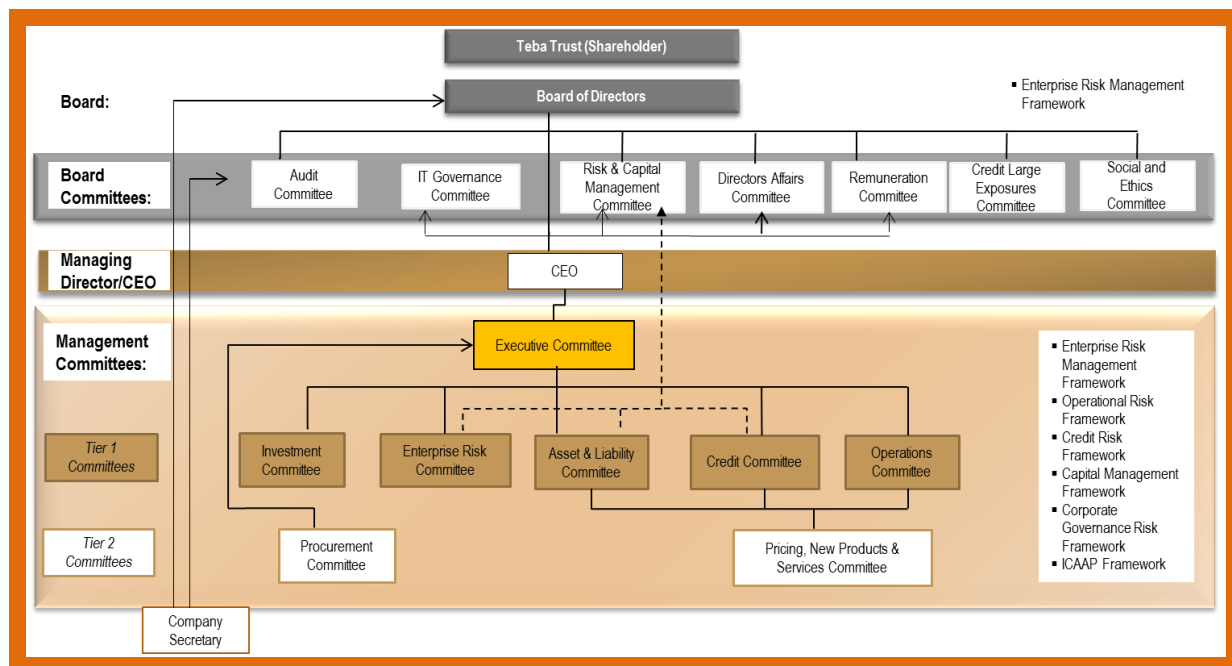
ACHIEVE – Driving performance at pace and delivering on our promises;

NATURE – Actively participating in our communities;

GROW – Developing ourselves and our people; and

ENERGISE – Demonstrating positive energy, enthusiasm and passion: Celebrating success.

The Ubank Corporate Governance Structure and Accountability



The Board of Directors

In terms of Section 66(1) of the Companies Act, the business and affairs of a company must be managed by or under the direction of its Board of Directors, which has the authority to exercise all of the powers and perform any functions of the Bank, except to the extent that the Act or the Articles of Association (Memorandum of Incorporation) prescribes. This provision is supported by Sec 60B of the Banks Act 94 of 1990.

The Board of Directors is the focal point and is the custodian of corporate governance. The Shareholder appoints the Board of Directors and holds the Board accountable for managing and controlling Ubank's operations in accordance with its mandate.

▪ The responsibility of the Board

The Board of Directors is the custodian of corporate governance within Ubank.

In carrying its duties, the Board ensures compliance with all relevant laws and regulations and codes of best practice; and ensures that effective risk management processes are in place.

The directors are entitled to seek independent professional advice concerning the affairs of Ubank and have access to any information they may require in discharging their duties.

▪ Composition of the Board of Directors and Committees

Ubank's Articles of Association provides that there shall not be more than 15 directors. The Board of Directors comprises of 10 Directors, 6 of whom are Nominee Non-Executive Directors, 2 Independent Non-Executive Directors and 2 Executive Directors.

Board and Committees	Director Member	Status	Date of Appointment
Board of Directors	JH De Villiers Botha	INED – Chairman	29 November 2005
	L Mangope	INED	24 December 2008
	CB Stofile	NED	19 June 2001
	Z Macanda	NED	16 August 2007
	AW Mjekula	NED	06 November 2008
	ZN Miya	NED	21 June 2010
	H Groenewald	NED	01 September 2011
	T Dlamini	NED	11 March 2013
	DP Elbrecht	NED	15 October 2008 and resigned on the 28 February 2013
	L Vutula	ED, CEO	01 November 2012
H Heymans	ED, CFO	12 March 2013	
Audit Committee	Z Macanda (Chairman), L Mangope, H Groenewald, A Mjekula JH De Villiers Botha (invitee)		
Risk and Capital Management Committee	L Mangope (Chairman), Z Macanda, T Dlamini, N Miya, H Groenewald JH De Villiers Botha (invitee)		
Directors Affairs Committee	JH De Villiers Botha (Chairman), Z Macanda, C Stofile, N Miya, L Mangope,		
Remuneration Committee	C Stofile (Chairman), L Mangope, T Dlamini, N Miya, A Mjekula JH De Villiers Botha (invitee)		
Social and Ethics Committee	C Stofile (Chairman), L Mangope, T Dlamini, N Miya, A Mjekula JH De Villiers Botha (invitee)		
IT Governance Committee	N Miya (Chairman), C Stofile, A Mjekula Z Malele (Co-opted Director); JH De Villiers Botha (invitee)		
Credit for Large Exposures Committee	L Mangope (Chairman), Z Macanda, N Miya, T Dlamini JH De Villiers Botha (invitee)		

▪ **Board Committees**

The Board has delegated some of its powers to various sub-committees. The specific responsibilities and powers delegated to sub-committees are clearly set out in the Terms of Reference approved by the Board.

The mandates of the Board Committees are set out below.

<p>Audit Committee</p>	<ul style="list-style-type: none"> •The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank’s process for monitoring compliance with laws and regulations and the accuracy of financial reporting. The Audit Committee is the custodian for financial reporting, accountability and adequacy of efficient controls planning.
<p>Risk and Capital Management</p>	<ul style="list-style-type: none"> •The Board of Directors is responsible for the total process of risk and capital management, as well as for forming its own independent and objective opinion on the effectiveness of the process. •The Committee therefore assists the Board in reviewing the overall quality, integrity and reliability of the Bank’s risk management process and all significant risks facing the Bank..
<p>Remuneration Committee</p>	<ul style="list-style-type: none"> •The Committee assists the Board of Directors in establishing, overseeing and reviewing Remuneration and Human Resources strategies, policies, guidelines, procedures and practices.
<p>Directors Affairs</p>	<ul style="list-style-type: none"> •The Board of Directors is the custodian of the quality and effectiveness of the overall corporate governance in the Bank, the implementation of a formal process of reviewing the balance and effectiveness of the Board as a whole, the identification of skills needed by the Board and the recommendation for appointment of those individuals that possess the skills needed as well as the effective functioning of the Board. •The Directors Affairs Committee assists the Board in determining, evaluating and if necessary reviewing year on year, the efficiency, adequacy and appropriateness of the Bank’s Corporate Governance framework and practices.
<p>IT Governance Committee</p>	<ul style="list-style-type: none"> •The Committee assists the Board in fulfilling its oversight responsibility for the Governance of IT and for providing assurance of the effectiveness of IT internal controls.
<p>Social and Ethics Committee</p>	<ul style="list-style-type: none"> •The Board is required to ensure that Ubank’s overall governance is effective, appropriate and within the bounds of sound corporate governance practices and that the bank is a responsible corporate citizen. The Board shall ensure compliance with legislation/ legal requirements and codes in relation to: Social and economic development, Good corporate citizenship; Environment, health and public safety; Consumer relationships, and Labour and employment. •The Social and Ethics Committee assists the Board with the maintenance of business ethics and ensure that the bank’s ethics are managed effectively; and that compliance with laws, rules, codes and standards is incorporated in the code of conduct of the bank.
<p>Credit Large Exposures Committee</p>	<ul style="list-style-type: none"> •The Committee assists the Board of Directors in fulfilling its oversight responsibilities for credit granting, credit risk management and the assurance that the approved capital reserves are not exceeded without the Board’s approval.

- **Board and Committee meetings and attendance**

The attendance of meeting for the Board Committees is set out below:

Member	BOD	BAC	BRC	ITGC	REMCO	SEC	DAC	CLEC
JH De Villiers Botha	13/13	10/10	4/5	4/4	9/9	-	4/4	-
Zoli Macanda	12/13	10/10	4/5	-	-	-	3/4	-
Lerato Mangope	12/13	10/10	5/5	-	9/9	-	3/4	-
Harry Groenewald	12/13	8/10	4/5	-	-	-	1/4	-
Derick Elbrecht	12/13	9/10	5/5	4/4	-	-	-	-
Ayanda Mjekula	13/13	9/10	3/5	4/4	7/9	-	-	-
Nelson Miya	13/13	-	4/5	4/4	9/9	-	3/4	-
Charles Stofile	13/13	-	-	4/4	9/9	-	4/4	-
Thandeka Dlamini	-	-	-	-	-	-	-	-
Luthando Vutula	3/13	2/10	2/5	1/4	2/9	-	-	-
Harriet Heymans	-	-	-	-	-	-	-	-

Delegation of Authority

The Board retains full and effective control over Ubank's affairs through a balanced governance structure. The Board has however delegated the day to day running of Ubank operations to the Chief Executive Officer "CEO" as set out in the approved Corporate Delegations of Authority.

Through the CEO the Board has further delegated the day to day management of the Bank to the Executive Management Committee as set out in the Corporate Delegations of Authority.

Even though the CEO is ultimately responsible for the management of the Bank, the Board of Directors holds the Committee accountable for the decisions and actions delegated to them.

The CEO reports to the Board of Directors quarterly on business performance and provides monthly and regular updates as and when required.

The Remuneration Committee and the Chairman of the Board subject to consultation with the other Directors evaluates the performance of the CEO.

- **The Chairman**

In June 2012 the former Chairman of the Board of Directors Mr Ayanda Mjekula was appointed as the Acting CEO for Ubank until September 2012 and Mr De Villiers Botha was appointed the Chairman.

The current Chairman of the Board is an Independent Non-Executive Director. The roles and the responsibilities of the Chairman are clearly articulated in Board Charter and are distinct from the roles and responsibilities of the CEO.

- **The Chief Executive Officer "CEO"**

The "CEO" has a crucial and strategic role in ensuring operational and business success of Ubank.

The collective responsibility of Management vests in the CEO and therefore the CEO bears the ultimate responsibility for all management functions.

In November 2012, Mr Luthando Vutula was appointed the CEO of the Bank.

Remuneration of Directors

The Non-Executive Directors, the Executive Directors and the Executive Managers of Ubank are remunerated fairly and responsibly in line with Ubank policies and best practices aligned with the company strategy. The remuneration policies are reviewed regularly and are linked to the company's performance.

The Directors and Executive remuneration for year under review is set out in the Annual Financial Statements.

Company Secretary

The Company Secretary is the gatekeeper for governance and is responsible for developing systems and processes which enable the Board to discharge its functions.

The office of the Company Secretary is responsible for advising the Board and the Bank on corporate governance and legal issues; developing the annual plan for the Board and sub-committees and monitoring compliance with the Companies Act and other relevant legislation; and keeping the Board updated on new legislation. All directors have access to the advice and services of the Company Secretary, whose appointment is in accordance with the provisions of the Companies Act 71 of 2008.

The Company Secretary and Legal Executive, Ms Andiswa Ndoni resigned on the 21st of December 2012 and Mr Jonty Tsipa from Moadi Attorneys was appointed as an interim Company Secretary from January to April 2013.

In May 2013, Ms Nohlanga Motaung was appointed as the Company Secretary and Legal Executive for the Bank.

Prescribed Officers

The Companies Act determines that prescribed officers are required to perform their functions and exercise their duties to the standard of conduct as it applies to directors. Prescribed officers are subject to the same liability provisions as it applies to directors.

The Bank has identified the prescribed officers who meet the requirements of the Companies Act, and has ensured that they understand the implications and potential consequences of accepting appointment to the particular office.

Code of Ethics

Ubank is committed to upholding the highest standard of ethical behaviour amongst its directors, management and staff in line with the adopted Code of Ethics. The Code of Ethics has been communicated to Ubank staff.

Ubank promotes sound values and is committed to these values; the Bank's Values are:

- ✓ Sincerity
- ✓ Passion
- ✓ Respect
- ✓ Empowering
- ✓ Excellence

Reported transgressions with the code and other policies:

39 significant allegations of misconduct have been reported in the financial year under review.

Month	Warnings	Suspensions	Dismissals
Feb-12	4	4	2
Mar-12	4	2	3
Apr-12	2	5	2
May-12	22	3	5
Jun-12	15	1	1
Jul-12	14	1	0
Aug-12	11	1	2
Oct-12	10	4	7
Nov-12	7	2	7
Jan-13	13	1	6
Feb-13	15	3	4
Total	117	27	39

Conflict of Interest

All Directors and Executives are required to disclose any conflict or potential conflict of interest that they may have regarding any matter relating to the activities of the Bank and/or any matter discussed at Board, Board Committees and Executive Management meetings.

The Company Secretary maintains a Conflict of interest and Related Party Disclosures register of the all Directors and for the Bank at large.

On appointment, the Directors sign an undertaking to disclose any conflict of interest that might arise during their tenure at every meeting. The declaration of interest is also a standard item in the agenda of all meetings of the Board and Board Committees, Executive and Procurement Committee meetings.

- **Declared interest**

In April 2011 the Bank verbally extended the agreement between the Bank and Pan-African Investment and Research Services (Pty) Ltd of which the current Chairman of the Board, Mr De Villiers Botha is related to, with effect from the 1st of April 2011 to the 30th of June 2012. The agreement was ratified by the Board at their meeting of the 26th of June 2012.

The interest of Mr Botha was formally declared and recorded. At all meetings of the Board and of the Directors Affairs, where the matter was considered and/ or discussed, Mr Botha recused himself from the meetings.

Board Affairs

- **Appointment of Directors**

The Board has defined, and kept under ongoing review, its skill requirements. Potential Directors are nominated for appointment to the Board on the basis of their identified skills, knowledge and experience to meet the needs of the Board at the time their appointment is proposed.

- **Induction and Training**

All new directors appointed to the Board undertake a formal induction program coordinated by the Company Secretary.

The Company Secretary facilitates education session for the newly appointed directors on the nature of business, current issues, the corporate strategy and the expectations of Ubank concerning performance.

The Directors have an opportunity and are encouraged to visit the offices of Ubank and meet with Management to gain a better understanding of business practices.

All directors are continuously updated on Ubank business at all times.

- **Performance Assessment**

The Board recognizes that regular reviews of its effectiveness and performance is crucial to the improvement of the governance of Ubank.

In the year under review the Board undertook an independent review and evaluation of its own performance and the performance of its Committees.

- **Access to Information**

As a general rule, a director has two key areas of protection – the right to information and the ability to be insured against specific risks of being a director.

The Board believes that it was provided with all the relevant information to enable it to carry out its duty and for each Director to carry out their fiduciary duties.

- **Independence**

The Directors currently have no material relationship to Ubank that may interfere with the exercise of their objective independence.

Governance of Risk

Ubank endeavors to have risk management processes entrenched in the day-to-day operations of the business by continuous identification, understanding of risk factors and incidents that may impact on the business objectives, development of appropriate response strategies and continual monitoring and reporting.

The governance of risk within Ubank rests in the following structures:

- a) **Board of Directors:** the Board ensures that there are processes in place for the management of risk in Ubank. The Board together with Management identifies risks and determines the risk appetite of the company.
- b) **Board Risk and capital Management:** the Committee is appointed to assist the Board in reviewing the overall quality, integrity and reliability of the Bank’s risk management process and all significant risks facing the Bank. This committee oversees the management of risk. The Committee reviews risks management strategies, policies and procedures to ensure that they are appropriate. The Committee considers the risk assessment reports and monitors the implementation of the risk mitigation plans thereto.
- c) **Audit Committee:** The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the accuracy of financial reporting. The Committee is the custodian for financial reporting, accountability and adequacy of efficient controls planning.
- d) **Chief Executive Officer:** The CEO manages the organisational risks.
- e) **Executive Management:** Each Line manager in all business units within Ubank is accountable and responsible for identifying and managing risks to the operations of his/her business unit.
- f) **Risk Management:** the Department is responsible for ensuring that an effective framework for risk management is in place and for driving its implementation throughout Ubank by increasing Managements awareness of risk.
- g) **Internal Audit:** The Internal Audit function independently audits the adequacy and effectiveness of Ubank’s risk management, controls and governance processes.

The Three Lines of Defence Model

In order to implement the ERM methodology the Bank has adopted three lines of defence structure to manage risk, which highlights the layering of principal responsibilities that extend across the Bank as:

First Line of Defence	Second Line of Defence	Third Line of Defence
<p>Focused and informed involvement by the Board and EXCO. Their main role is accountability and responsibility of business management and finance. They are all supported by appropriate internal control, risk management and governance structures and processes.</p>	<p>Link capital and management performance throughout the Bank for risk management improvements, focusing business unit effort and investment on improving risk mitigation and internal controls.</p> <p>Assist, guide and support the Business Units with risk and assurance.</p> <p>The Risk, the Compliance; and Secretariat and Legal Functions respectively play a key role in assisting the Business Units.</p>	<p>Independent assurance provided by Internal and External Audit.</p>

The following are the top 5 risks identified and effectively managed in the year under review:

	Category	Risk identified	Mitigation Control	Outcome
1.	Strategic Risk	Strategic Risk Profile remains high and will continue to do so for at least the next two years due to Inherent Risks relating to Strategy, Capitalization and the time to embed the same. It is further emphasized that the Concentration Risk of operating in the mining industry will take time to diversify into the adjacent market to sufficiently address the risk on a sustainable basis.	Capitalisation Programme Retail Expansion Programme	New strategy for the Bank has been approved in 2013. Capitalisation programme is on-going Branch Roll-out Plan on-going
2.	Solvency Risk	The Bank's Capital Adequacy (18.6% March 2012) is currently above our internal buffer of 17.5% and above the regulatory capital requirement of 14.5%, however Solvency is a concern	The ICAAP process is underway in order to effectively manage the process. The Capital Raising Project remains a critical strategy to raise Tier 1 Capital to fund future growth.	ICAAP was approved by the Board in 2012 and is currently under review for 2013. Capitalisation programme is on-going
3.	Credit Risk	Ineffective credit systems and a lack of a single customer view in terms of account management increases the Credit risk in the Bank	Building Credit Capability Project	Project on-going implementation December 2013
4.	Interest Rate Risk	The low interest rate environment contributing to the interest margin squeeze has resulted in an increase in the Interest Rate Risk rating with effect from 2010.	The annual ALCO policy review for 2013 will include enhancement of interest rate risk management to ensure comprehensive management of interest rate movements.	ALCO Policy reviewed and approved.
5.	Operational Risk	Operational Risk remains consistently high as improvement on internal controls are still required as majority of the risks emanate from compliance and internal audit findings.	Risk and Control Self Assessments were implemented to focus on the residual risk (risk after control) so as to improve the control environment.	Operational Risks are prioritized and a risk based approach to the control environment is on-going

The top 5 risks have been identified for 2013/2014 in line with the Banks Strategy and mitigating plans have been developed and are being implemented by Management:

	Risk name	Risk Identified
1.	Sustainability Risk / Strategic Risk	Capital Supply Concentration risk still predominantly in the gold and platinum mines
2.	Reputational Risk	Limited investment in brand awareness in the wider banking market
3.	Regulatory Risk	Business Units not adhering to the requirements of core regulations and legislation.
4.	Credit Risk	High level of indebtedness of clients (potential and existing) due to the current economic conditions
5.	People Risk	Realignment of the Organisational Structural Design to the Bank's Strategy as the current Organisational Structure may not optimally align with the new strategy which could result in under and over utilisation of human capital, incorrect job fit and duplication of functions.

▪ **Stakeholder Management**

The Board of Directors recognizes that the stakeholders' perception may affect Ubank's reputation and therefore endeavors to find an appropriate balance between its stakeholder groups in the best interest of Ubank.

The management of stakeholder engagement has been delegated to Management by the Board. Management is in the process of development an inclusive Stakeholder Management Framework.

▪ **IT Governance**

Chapter 5 of the King III Code of Corporate Governance highlights the importance of Information Technology in business and has placed the responsibility of IT Governance on the Board to ensure that IT Governance supports the effective and efficient management of IT resources and facilitates the achievement of the Ubank' strategic objectives.

An IT Governance Committee, chaired by a Non-Executive Director, was formed in 2009. The committee was constituted to assist the Board in fulfilling its duties in terms of IT performance.

Ubank has a Chief Information Officer (CIO) who is responsible for the implementation of IT Governance and IT Security. The CIO is accountable to the CEO on matters related to Information Technology.

Ubank complies with the principles outlined in chapter 5 of the King III Code of Corporate Governance as follows:

- The Board is responsible for IT Governance
- IT is aligned with the performance and sustainability objectives of the company
- The Board has delegated to management the responsibility for the implementation of an IT Governance framework
- The Board evaluates and monitors significant IT investment and expenditure
- IT forms an integral part of the company's risk management
- The Board ensures the information assets are managed effectively
- The IT Governance Committee assists the Board in carrying out its IT responsibilities



Management is in the process of reviewing all IT Policies and developing an IT Policy Framework that will consist of IT Governance processes, IT Governance charter, IT Risk register template and an Information Security Charter.

For the 2013/14 financial year, the Bank has adopted a three year IT Roadmap that is aimed at further entrenching Information Security best practices in Ubank.

Directors Report

The Directors Report for 2012/13 is set out in Annual Financial Statements from page 2 to 6.

Audit Committee Report

The Audit Committee Report is set on pages 7 and 8 of the Annual Financial Statements.

By the Board of Directors