

Union Homes Savings and Loans PLC

**Individual Financial Statements
For the year ended 31 December 2012
Together with Directors' and Auditor's Report**

Table of contents

Corporate information	2
Directors' report	3
Corporate governance report	7
Statement of directors' responsibilities	10
Report of the statutory audit committee	11
Independent auditor's report	12
Statement of financial position	14
Statement of comprehensive income	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the financial statements	18
Valued Added Statement	81
Financial summary	82

Corporate Information

Directors, officers and advisors

E. Emuwa	- Chairman (appointed w.e.f. 1 November 2012)
O. I. Osibodu	- Chairman (resigned w.e.f. 1 November 2012)
J.A. Orimoloye	- Acting Managing Director/CEO (appointed w.e.f. 19 March 2012)
S. O. Thomas	- Managing Director/CEO (retired w.e.f. 26 March 2012)
J. M. Garba	- Executive Director (resigned w.e.f. 6 February 2013)
S. Yusuf	- Executive Director (appointed w.e.f. 15 January 2013)
O. Adewale	- Director (appointed w.e.f. 5 February 2013)
A. M. Adeosun	- Director (appointed w.e.f. 12 July 2012)
C. J. Omo-Ijiade	- Director
F. A. Shonubi	- Director (resigned w.e.f. 1 May 2012)
I. S. Muhammed	- Director

Carol George	Ag. Company Secretary
--------------	-----------------------

Registered number	RC208457
--------------------------	----------

Date of incorporation	6 November, 1992
------------------------------	------------------

Operating license number :	000288
-----------------------------------	--------

FRC Number	FRC/2013/00000000000812
-------------------	-------------------------

Corporate head office

Union Homes Savings and Loans PLC
153 Ikorodu Road,
Onipanu, Lagos
Telephone: +234 01 5820799
Website: www.unionhomes.com.ng

Independent auditors

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island, Lagos
Telephone: (01) 271 8955
Website: www.ng.kpmg.com

Bankers

Union Bank of Nigeria PLC
36, Marina,
Lagos

Registrars

Union Registrars Ltd
2 Burma Road,
Apapa, Lagos
Telephone: +234 01 5878057
+234 01 5871240

Directors' Report

For the year ended 31 December 2012

The directors hereby present the annual report on the affairs of Union Homes Savings and Loans PLC ("the Mortgage Bank" or "the Company"), together with the financial statements and the auditor's report thereon, for the year ended 31 December 2012.

Legal form

Union Homes Savings and Loans PLC was incorporated on 6 November 1992 as a private company limited by shares and licensed to carry out mortgage banking business. It began operations on 22 August 1994. The Company became a public liability company on 14 February, 2006 and was listed on the Nigerian Stock Exchange on 24 April, 2006.

Principal activity and business review

The Company was set up primarily to carry on business as a mortgage institution in accordance with the provisions of the Mortgage Institutions Act 1989 and the revised guidelines of the Central Bank of Nigeria for Primary Mortgage Institutions. The Company has 50% interest in Saffer Union West Africa Limited, a jointly controlled entity which has 30 June 2012 as its year end. It also has an associate, Union Homes Real Estate Investment Trust Scheme (REITS) which has 30 November 2012 as its year end. The jointly controlled entity and the associate were accounted for using the equity method of accounting in the individual annual financial statements.

Operating results

The following is a summary of the operating results for the year:

	31 Dec. 2012	31 Dec. 2011
In thousands of Naira		
Gross earnings	7,441,685	7,100,132
Loss before tax	(3,855,441)	(5,515,739)
Taxation (expense)/credit	(2,777,165)	581,481
Loss after tax	(6,632,606)	(4,934,258)

Board of directors

O. I. Osibodu	- Chairman (resigned <i>w.e.f.</i> 1 November 2012)
E. Emuwa	- Chairman (appointed <i>w.e.f.</i> 1 November 2012)
S. O. Thomas	- Managing Director/CEO (retired <i>w.e.f.</i> 26 March 2012)
J.A. Orimoloye	- Acting Managing Director/CEO (appointed <i>w.e.f.</i> 19 March 2012)
J. M. Garba	- Executive Director (resigned <i>w.e.f.</i> 6 February 2013)
S. Yusuf	- Executive Director (appointed <i>w.e.f.</i> 15 January 2013)
O. Adewale	- Director (appointed <i>w.e.f.</i> 5 February 2013)
A. M. Adeosun	- Director (appointed <i>w.e.f.</i> 12 July 2012)
C. J. Omo-Ijiade	- Director
F. A. Shonubi	- Director (resigned <i>w.e.f.</i> 1 May 2012)
I. S. Muhammed	- Director

Directors and their interests

The Directors who served during the year, together with their interests in the issued share capital of the Mortgage Bank as recorded in the register of Directors' shareholding and as notified by the Directors for the purposes of Sections 275 and 276 of the Companies and Allied Matters Act and listing requirements of the Nigerian Stock Exchange are noted below:

Number of Ordinary Shares of 50k each held as at
31 Dec. 2012

	<u>Shares held</u> <u>2012</u>	<u>Shares held</u> <u>2011</u>
O. I. Osibodu	-	-
S. O. Thomas	46,955,897	46,955,897
E. Emuwa	-	-
J.O. Orimoloye	-	-
J. M. Garba	14,227,357	14,357,357
S. Yusuf	-	-
O. Adewale	-	-
A. M. Adeosun	-	-
C. J. Omo-Ijiade	-	-
F. A. Shonubi	-	-
I. S. Muhammed	750,000	750,000
	<u>61,933,254</u>	<u>62,063,254</u>

Directors' interest in contracts

None of the directors notified the Mortgage Bank for the purpose of section 277 of the Companies and Allied Matters Act, Cap C20, Laws of the Federation of Nigeria, 2004 of any disclosable interest in contracts with which the Mortgage Bank was involved as at 31 December 2012 (31 December 2011: nil).

Frauds and forgeries

Information relating to frauds and forgeries is disclosed in note 36 to the financial statements

Analysis of shareholding:

The authorised share capital of the Mortgage Bank for the year ended 31 December 2012 was ₦ 5billion (2011: ₦5 billion) divided into 10 billion ordinary shares of 50kobo each while the paid – up capital of the Mortgage Bank is N3,906,250,000 (2011: N3,906,250,000) divided into 7,812,500,000 ordinary shares of 50kobo each. The called up and fully paid up shares of the Mortgage Bank were beneficially held as follows:

	<u>31 Dec. 2012</u>		<u>31 Dec. 2011</u>	
	Shares held	% share holdings	Shares held	% share holdings
Union Bank of Nigeria PLC	2,391,666,663	30.6%	2,391,666,663	30.6%
Union Trustees Limited	1,108,058,119	14.2%	1,108,058,119	14.2%
Williams Street Trustees Limited	239,166,665	3.1%	239,166,665	3.1%
FPCNL/PPL/UBN Legacy Scheme	573,999,997	7.3%	573,999,997	7.3%
Others (members of the public and members of staff)	3,499,608,556	44.8%	3,499,608,556	44.8%
Total	<u>7,812,500,000</u>	<u>100%</u>	<u>7,812,500,000</u>	<u>100%</u>

The shareholding patterns of the Mortgage Bank were as follows:

<u>31 Dec 2012</u>				
Range	Number of Shareholders	% of Shareholders	Number of Holdings	% of Shareholders
Domestic Shareholders				
1-1,000	2,142	7.54	1,234,237	0.02
1,001-5,000	6,955	24.48	19,789,038	0.25
5,001-10,000	4,499	15.84	33,946,570	0.43
10,001-50,000	9,339	32.87	216,620,119	2.77
50,001- 100,000	2,251	7.92	164,164,968	2.10
100,001-500,000	2,408	8.48	505,834,874	6.47
500,001-1,000,000	376	1.32	274,597,721	3.51
1,000,001-5,000,000	363	1.28	737,130,074	9.44
5,000,001-10,000,000	37	0.13	254,798,599	3.26
10,000,001 and above	41	0.14	5,604,383,800	71.74
TOTAL	28,411	100	7,812,500,000	100

<u>31 Dec 2011</u>				
Range	Number of Shareholders	% of Shareholders	Number of Holdings	% of Shareholders
Domestic Shareholders				
1-1,000	2,142	7.54	1,243,237	0.02
1,001-5,000	6,957	24.48	19,792,041	0.25
5,001-10,000	4,503	15.85	33,983,507	0.43
10,001-50,000	9,340	32.87	216,663,882	2.77
50,001- 100,000	2,247	7.91	164,025,158	2.10
100,001-500,000	2,413	8.49	506,752,360	6.49
500,001-1,000,000	375	1.32	273,876,591	3.51
1,000,001-5,000,000	361	1.27	732,694,097	9.38
5,000,001-10,000,000	37	0.13	251,967,199	3.23
10,000,001 and above	42	0.15	5,611,501,928	71.83
TOTAL	28,417	100	7,812,500,000	100

Property and equipment

Information relating to the changes in property and equipment during the year is given in note 22 in the financial statements.

Contribution for charitable purposes

The Mortgage Bank did not make any contribution to charitable and non-political organizations during the year (2011: N50,000)

Compliance with the laws and regulations

The Board ensures that Management complies with all the laws relating to banking, especially the Money Laundering Laws, The Know Your Customer (KYC) Principles, Code of Corporate Governance for Nigerian Banks and public companies and all the guidelines of the Central Bank of Nigeria and the Federal Mortgage Bank of Nigeria. The Board also ensures that the Mortgage Bank cooperates with all statutory agencies in the course of carrying out its responsibilities. The Directors confirm that the Mortgage Bank complied fully with the above within the financial year.

In line with the prudential guidelines for Primary Mortgage Institutions (PMIs) issued by the Central Bank of Nigeria, national PMIs are required to have a minimum capital requirement of N5 billion while state PMIs are required to have a minimum capital base of N2.5 billion. Union Homes Savings and Loans PLC, being a national PMI, was required to have a minimum of N5 billion as its total equity or shareholders' fund unimpaired by losses to be able to operate. Based on the audited balance sheet of the Mortgage Bank as at 31 December 2012, the Bank's shareholders' fund stood at negative N11.2 billion which was below the minimum required by the guidelines. However, the Central Bank of Nigeria in a letter dated 6 March 2012 extended the timelines for compliance with the new prudential guidelines by the existing PMIs to 31 December 2013. The implication of this is that the licenses of existing PMIs will not be withdrawn if they fail to meet up with the new minimum capital requirement until 31 December 2013.

Post balance sheet event

There are no significant post balance sheet events which have not been taken into account for or disclosed in these accounts.

Employment of physically challenged persons

The Mortgage Bank operates an equal opportunity recruitment policy which makes the Mortgage Bank's employment open to all classes of persons (including the physically challenged). However, no disabled person was employed by the Mortgage Bank during the year under review. (2011: nil)

Health, safety and welfare of employees

The Mortgage Bank has continued to operate a well equipped First Aid Box within the Mortgage Bank's premises, for the in-house treatment of minor ailments occurring at work.

The Mortgage Bank's premises are well equipped with up-to-date security gadgets, such as, smoke detectors, fire alarms and fire extinguishers which are strategically positioned to forestall, control and extirpate fire outbreaks and are regularly tested to ensure their effectiveness. Fire prevention and control drills are also regularly held for the benefit of the Mortgage Bank's staff.

The Mortgage Bank maintains a Pension Scheme for all its staff and Group Life Insurance Scheme

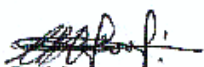
Employees' involvement and training

The Mortgage Bank has continued to encourage active involvement of its staff in the Mortgage Bank's affairs. Regular coordination meetings are held at different levels (Department/Unit/Group) with staff members to deliberate on and proffer suggestions in respect of matters which affect both the staff and the Mortgage Bank.

In line with its belief in continuous education and human resources development, suitable local training courses are provided as deemed necessary; towards also sharpening and better positioning the realization of the Mortgage Bank's aims, the Mortgage Bank constantly organises in-house staff training programmes for all members of staff. These are complimented by regular on-the-job training.

Auditor

Messrs KPMG Professional Services have indicated their willingness to continue in office as auditors, in accordance with Section 357 (2) of the Companies and Allied Matters Act of Nigeria.



Carol George
Ag. Company Secretary
16 April 2013

Corporate Governance Report

Introduction

Union Homes Savings and Loans PLC (“the Mortgage Bank”) is committed to improving shareholders' value through transparent conduct of its business. In addition to the principles of the “Code of Corporate Governance for Banks in Nigeria Post Consolidation” issued by the Central Bank of Nigeria (CBN), the Mortgage Bank benchmarks itself against local and international best practices. The Code of Corporate Governance of Union Homes Savings and Loans PLC provides the basis for promoting the highest standards of corporate governance in the Mortgage Bank. The Mortgage Bank is governed by a framework that facilitates checks and balances and ensures that appropriate controls are put in place. The Corporate Governance Practices of the Mortgage Bank are designed to ensure accountability of the Board and Management to stakeholders.

The business of the Mortgage Bank is driven by the Board of Directors, which exercises its oversight function through its various committees, namely, the Board Credit Risk and Investment Committee, the Board Establishment Committee, the Board Project Committee, the Board Finance and General Purpose Committee. Through these committees, interactive dialogue is employed to set broad policy guidelines, and to ensure the proper management and direction of the Mortgage Bank on a regular basis.

In addition to the Board Committees, there are three management committees: Executive Management Committee, Assets and Liability Committee, Management Credit Committee and Assets Committee to ensure effective and good corporate governance at the management level. These committees form the bedrock for the long-term professional management of the business of the Mortgage Bank.

Governance structure

Board of Directors: Composition and Role

O. I. Osibodu	- Chairman (resigned w.e.f. 1 November 2012)
E. Emuwa	- Chairman (appointed w.e.f. 1 November 2012)
S. O. Thomas	- Managing Director/CEO (retired w.e.f. 26 March 2012)
J.A. Orimoloye	- Acting Managing Director/CEO (appointed w.e.f. 19 March 2012)
J. M. Garba	- Executive Director (resigned w.e.f. 6 February 2013)
S. Yusuf	- Executive Director (appointed w.e.f. 15 January 2013)
O. Adewale	- Director (appointed w.e.f. 5 February 2013)
A. M. Adeosun	- Director (appointed w.e.f. 12 July 2012)
C. J. Omo-Ijiade	- Director
F. A. Shonubi	- Director (resigned w.e.f. 1 May 2012)
I. S. Muhammed	- Director

The Board of Directors of Union Homes Savings and Loans Plc comprises seven (7) members, five (5) of whom (inclusive of the Chairman of the Board) are Non-Executive Directors, while one (1) is the Managing Director. The Directors are listed in the directors' report. The Board is made up of a crop of seasoned professionals who have excelled in their various professions including banking and law and possess the requisite integrity, skills and experience to bring independent judgment to bear on the board's deliberations. The primary purpose of the Board is to provide strategic direction for the Mortgage Bank in order to deliver long term value to shareholders through its oversight function of the Mortgage Bank's business.

Board Committees

The Board Committees during the year were the Board Credit Risk and Investment Committee, Board Establishment Committee, Board Projects Committee, and the Board Finance and General Purpose Committee.

The Board meets quarterly and additional meetings are convened as required. Decisions may be taken between meetings by way of written resolution, as provided for in the Articles of Association. The non-executive directors are provided with comprehensive information at each of the quarterly board meetings and are also briefed on business developments between board meetings.

Name	Board Credit & Investment Committee	Board Establishment Committee	Board Project Committee	Board Finance and General Purpose Committee
Mrs O. I. Osibodu ^{1**}	-	-	-	-
E. Emuwa ^{1*}	-	-	-	-
Mr S.O. Thomas ^{2***}	M	M	M	M
J.A. Orimoloye ^{2*}	M	M	M	M
Mr J. M. Garba ^{2**}	M	M	M	M
S. Yusuf ^{2*}	M	M	M	M
O. Adewale ^{1*}	M	M	M	M
A. M. Adeosun ¹	M	M	C	M
Prince C. J. Omo-Ijiade ¹	M	C	M	M
Mr. I.S. Muhammed ¹	C	M	M	C
Mr. F. A. Shonubi ^{1**}	M	M	M	M

Keys

- C Chairman of Committee
- M Member
- Not a member
- 1 Non- Executive
- 2 Executive
- * Newly appointed
- ** Resigned
- *** Retired

The roles and responsibilities of these committees are discussed below:

Board Credit Risk and Investment Committee

This Committee is responsible for the consideration of loan applications above certain limits (as defined by the Board from time to time). The Mortgage Bank also through the committee ensures that all risks are identified and properly managed; and shareholders' investments as well as Mortgage Bank's assets are safeguarded. The internal control system is reviewed regularly to ensure its efficiency and effectiveness. The Committee met five (5) times during the financial year.

Board Establishment Committee

The Committee makes recommendations to the Board on the policy framework on executive remuneration and its costs; considers and approves appointments, promotions and discipline of Senior Managers and above, and considers and reviews staff welfare members and make appropriate recommendations to the Board. The Committee met four (4) times during the financial year.

Board Projects Committee

The Committee considers and reviews all tenders, property purchases and leases above Executive Committee (EXCO) limit and where appropriate recommends to the Board, considers and reviews all proposals on estate/ property development and where appropriate recommends to the Board. The Committee met four (4) times during the financial year

Board Finance and General Purpose Committee

The Committee reviews budget proposals and recommends to the Board, receives and considers monthly/ quarterly reports on expenditures above EXCO limit, formulates guidelines from time to time on cost control reduction consistent with maximum efficiency and makes appropriate recommendations to the Board. The Committee met four (4) times during the financial year.

NAMES OF DIRECTORS	Meeting				
	BOD	BCRICO	BEC	BPC	BF&GPC
Mrs O. I. Osibodu ^{1**}	5	N/A	N/A	N/A	N/A
E. Emuwa ^{1*}	N/A	N/A	N/A	N/A	N/A
Mr S.O. Thomas ^{2***}	1	2	1	1	1
J.A. Orimoloye ^{2*}	4	4	3	4	4
Mr J. M. Garba ^{2**}	5	5	4	4	4
S. Yusuf ^{2*}	N/A	N/A	N/A	N/A	N/A
A. Oyinkan ^{1*}	N/A	N/A	N/A	N/A	N/A
A. M. Adeosun ¹	4	3	2	3	2
Prince C. J. Omo-Ijiade ¹	5	5	4	4	4
Mr. I.S. Muhammed ¹	4	5	4	4	4
Mr. F. A. Shonubi ^{1**}	1	2	1	2	1

Key

BOD – Board of Directors' meeting

BCRICO – Board Credit and Investment Committee meeting

BEC – Board Establishment Committee meeting

BPC – Board Project Committee meeting

BF&GPC – Board Finance and General Purpose Committee meeting

1 Non- Executive

2 Executive

* Newly appointed

** Resigned

*** Retired

Statement of Directors' Responsibilities in Relation to the Financial Statements for the year ended 31 December 2012

The Directors accept responsibility for the preparation of the annual financial statements set out on pages 14 to 80 that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria and relevant Central Bank of Nigeria regulations.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act of Nigeria and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Going Concern Assessment

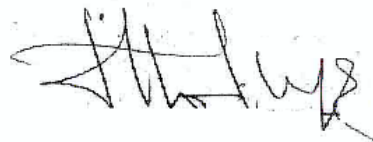
The Directors have made an assessment of the Mortgage Bank's ability to continue as a going concern and have concluded that there are material uncertainties surrounding the Mortgage Bank's ability to continue as a going concern.

The directors' assessment has been disclosed in note 34 to the financial statements.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



E. Emuwa
Chairman
16 April 2013



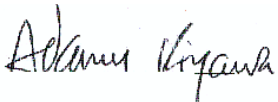
J. A. Orimoloye
Managing Director
16 April 2013

Report of the Audit Committee

To the members of **Union Homes Savings and Loans PLC**

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act of Nigeria, the members of the Audit Committee of Union Homes Savings and Loans PLC hereby report on the financial statements for the year ended 31 December 2012, as follows:

- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act of Nigeria and acknowledge the co-operation of management and staff in the conduct of these responsibilities.
- We are of the opinion that the accounting and reporting policies of the Mortgage Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2012 were satisfactory and reinforce the Mortgage Bank's internal control systems.
- We are satisfied that the Mortgage Bank has complied with the provisions of Central Bank of Nigeria circular BSD/1/2004 dated 18 February 2004 on "Disclosure of insider related credits in the financial statements of banks", and hereby confirm that an aggregate amount of N528,751,000 (31 December 2011: N468,980,000) was outstanding as at 31 December 2012 out of which N319,637,000 (31 December 2011: N417,503,000) was non performing (see note 37).
- We have deliberated with the external auditors, who have confirmed that necessary cooperation was received from management in the course of their statutory audit and we are satisfied with management's responses to the external auditor's recommendations on accounting and internal control matters and with the effectiveness of the Mortgage Bank's system of accounting and internal control. However, we would like to draw the attention of the shareholders to the Qualified Opinion paragraph contained in the external auditor's report on page 13 - 14 and the going concern disclosure made by the directors in note 34 to the financial statements.



Mallam Adamu A. Kiyawa

Chairman

10 April 2013

Members of the Committee are:

- | | | |
|---|-------------------------|--------------------------|
| 1 | Mallam Adamu A. Kiyawa | - Shareholder (Chairman) |
| 2 | Chief T. Adesiyon | - Shareholder (member) |
| 3 | Mrs. O. Thorpe | - Shareholder (member) |
| 4 | Prince C. J Omo- Ijiade | - Director (member) |
| 5 | Mr S. I. Mohammed | - Director (member) |
| 6 | Mrs O. Adewale | - Director (member) |

INDEPENDENT AUDITOR'S REPORT

To the Members of Union Homes Savings and Loans PLC

Report on the Financial Statements

We have audited the accompanying individual financial statements of Union Homes Savings and Loans PLC (“the Mortgage Bank”) which comprise the statements of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 14 to 80.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 judgment, 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 that give a true and fair view 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 qualified audit opinion.

Basis for Qualified Opinion

At the reporting date, the Mortgage Bank had a net loss of N5.9billion (2011: N5.4billion) and a negative Shareholders' fund of N11.2billion (2011: N5.3billion). The minimum regulatory capital at the reporting date was N100million. In addition, the revised guidelines for Primary Mortgage Banks issued by the Central Bank of Nigeria require a minimum regulatory capital of N5billion by 31 December 2013. The negative shareholders' fund of N11.2billion is significantly below the current and revised minimum capital by N11.3billion and N16.2billion respectively. The negative shareholders' fund constitutes non-compliance with the regulatory capital requirement which could lead to the withdrawal of the Mortgage Bank's operating license. Furthermore, the inadequate capital threatens the Mortgage Bank's ability to carry out its normal operations. This situation indicates the existence of material uncertainty that casts significant doubt on the Mortgage Bank's ability to continue as a going concern and therefore the Mortgage Bank may be unable to realize its assets and discharge its liabilities in the normal course of business.

As described in Note 34 to the financial statements, the directors have indicated that they are evaluating strategic options appropriate for the continued operation of the Mortgage Bank and expect to have a formal plan to meet the regulatory deadline of 31 December 2013. Nonetheless, the directors have prepared the financial statements on a going concern basis.

The financial statements and the notes thereto do not fully disclose the specific plans that the Mortgage Bank will adopt to address the capital inadequacy.

Qualified Opinion

In our opinion, except for the unavailability of specific plans to address the capital inadequacy referred to in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Union Homes Savings and Loans PLC as at 31 December 2012, and of its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria

In our opinion, proper books of account have been kept by the Mortgage Bank, so far as appears from our examination of those books and the Mortgage Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Compliance with Section 27 (2) of the Banks and Other Financial Institutions Act of Nigeria and Central Bank of Nigeria circular BSD/1/2004

- (i) The Mortgage Bank paid penalties in respect of contraventions of the Banks and Other Financial Institutions Act during the year ended 31 December 2012. Details of these contraventions and penalties paid are as disclosed in note 35 to the financial statements.
- (ii) Related party transactions and balances are disclosed in note 37 of the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

KPMG

4 June 2013

Lagos, Nigeria

FRC/2012/ICAN/00000000428

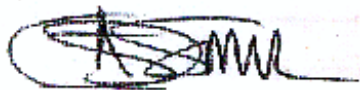


Statement of Financial Position

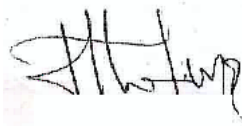
As at year ended 31 December 2012

<i>In thousands of Naira</i>	<i>Notes</i>	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Cash and cash equivalents	17	6,885,516	535,797	1,467,561
Loans and advances to customers	18	13,146,789	12,475,158	14,332,883
Investment securities	19	2,898,466	3,125,039	5,076,950
Investments in equity-accounted investee	20	5,453,200	5,365,203	5,191,860
Investment properties	21	7,738,641	11,757,311	15,677,463
Property and equipment	22	1,191,154	1,414,831	2,086,261
Intangible assets	23	246,942	332,052	375,291
Deferred tax assets	24	-	2,603,331	2,021,850
Other assets	25	1,788,307	1,456,598	1,461,642
TOTAL ASSETS		39,349,015	39,065,320	47,691,761
LIABILITIES				
Deposits from customers	26	37,945,657	34,985,679	41,943,471
Current tax liabilities	27	88,598	70,820	103,575
Deferred tax liabilities	24	173,834	-	-
Other liabilities	28	6,670,462	2,142,376	2,800,461
Employee benefit obligations	29	2,438,057	1,814,536	1,784,110
Other borrowed funds	30	3,276,581	5,354,720	981,480
TOTAL LIABILITIES		50,593,189	44,368,131	47,613,097
EQUITY				
Share capital	31b	3,906,250	3,906,250	3,906,250
Share Premium	31c	2,033,088	2,033,088	2,033,088
Statutory reserves	31d	1,212,963	1,212,963	1,212,963
Fair value reserves	31e	(805,201)	(1,514,222)	(1,090,168)
Retained deficit	31f	(17,591,274)	(10,940,890)	(5,983,469)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		(11,244,174)	(5,302,811)	78,664
TOTAL LIABILITIES AND EQUITY		39,349,015	39,065,320	47,691,761

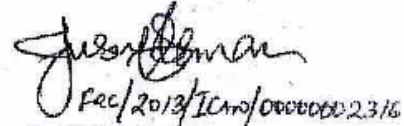
The financial statements and notes on pages 14 to 80 were approved by the Board of Directors on 16 April 2013 and signed on its behalf by:



Chairman
Mr. E. Emuwa



Managing Director/CEO
Mr. J.A. Orimoloye



Chief Financial Officer
Mr. S. Yusuf

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 80 form an integral part of these financial statement.

Statement of Comprehensive Income

For the year ended 31 December 2012

<i>In thousands of Naira</i>	<i>Notes</i>	31 December 2012	31 December 2011
Interest income	8	6,011,017	5,206,662
Interest expense	8	(3,573,201)	(3,010,602)
Net interest income		2,437,816	2,196,060
Net fee and commission income	9	287,034	290,891
Net trading (loss)/income	10	(841,483)	420,885
Other operating income	11	258,545	990,914
Operating income		2,141,912	3,898,750
Net impairment loss on financial assets	12	(1,216,879)	(4,233,043)
Net operating income/(loss) after impairment loss on financial assets		925,033	(334,293)
Personnel expenses	13	(2,500,631)	(2,896,544)
Depreciation and amortization	22,23	(346,603)	(400,378)
Other operating expenses	14	(2,021,237)	(2,057,867)
Total expenses		(4,868,471)	(5,354,789)
Net operating loss after impairment loss on financial assets & total expense		(3,943,438)	(5,689,082)
Share of profit of equity-accounted investee		87,997	173,343
Loss before minimum and income tax		(3,855,441)	(5,515,739)
Minimum tax	15	(17,778)	(23,163)
Income tax	15	(2,777,165)	581,481
Loss for the year		(6,650,384)	(4,957,421)
Other comprehensive income, net of income tax			
Fair value gains/(losses) on available-for-sale investments - bonds		67,789	(4,086)
Fair value gains/(losses) on available-for-sale investments - equities		641,882	(419,967)
Other comprehensive income for the year		709,671	(424,054)
Total comprehensive loss for the year		(5,940,713)	(5,381,475)
Loss attributable to:			
Equity holders of the Mortgage Bank		(5,940,713)	(5,381,475)
Loss for the year		(5,940,713)	(5,381,475)
Total comprehensive income attributable to:			
Equity holders of the Mortgage Bank		(5,940,713)	(5,381,475)
Earning per share - basic and diluted		(76) k	(69) k

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 80 form an integral part of these financial statement.

Statement of changes in equity

For the year ended 31 December 2012

<i>In thousands of Naira</i>	Share Capital	Share premium	Statutory reserves	Fair value reserves	Retained (deficit)	Total equity
Balance at 1 January 2012	3,906,250	2,033,088	1,212,963	(1,514,872)	(10,940,890)	(5,303,461)
Loss for the year	-	-	-	-	(6,650,384)	(6,650,384)
Other comprehensive income						
Fair value reserve (available-for-sale) financial assets - bonds	-	-	-	67,789	-	67,789
Fair value reserve (available-for-sale) financial assets - equities	-	-	-	641,882	-	641,882
Total Income for the year	-	-	-	709,671	(6,650,384)	(5,940,713)
Balance at 31 December 2012	3,906,250	2,033,088	1,212,963	(805,201)	(17,591,274)	(11,244,174)

<i>In thousands of Naira</i>	Share Capital	Share premium	Statutory reserves	Fair value reserves	Retained (deficit)	Total equity
Balance at 1 January 2011	3,906,250	2,033,088	1,212,963	(1,090,168)	(5,983,469)	78,664
Loss for the year	-	-	-	-	(4,957,421)	(4,957,421)
Other comprehensive income						
Fair value reserve (available-for-sale) financial assets-bonds	-	-	-	(4,086)	-	(4,086)
Fair value gains/(losses) on available-for-sale investments - equities	-	-	-	(419,967)	-	(419,967)
Total Income for the year	-	-	-	(424,054)	(4,957,421)	(5,381,475)
Balance at 31 December 2011	3,906,250	2,033,088	1,212,963	(1,514,222)	(10,940,890)	(5,302,811)

Refer to note 31 for detailed descriptions of capital and reserves.

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 80 form an integral part of these financial statement.

Statement of cashflows

For the year ended 31 December 2012

<i>In thousands of Naira</i>	<i>Notes</i>	31 December 2012	31 December 2011
Cash flows from operating activities			
Loss for the year		(6,650,384)	(4,957,421)
Adjustments for:			
Depreciation of property and equipment	22	261,493	357,139
Amortization of intangible assets	23	85,110	43,239
Share of profit in associate	20	(87,997)	(173,343)
Additional provision for defined benefit obligation	29(iv)	307,743	54,926
Benefit paid on defined benefit obligation	29(iv)	(137,237)	(68,596)
Fair value loss on investment properties	10	1,726,572	190,780
Net impairment loss on financial assets	12	1,216,879	4,233,043
Loss on disposal of investment securities	14	619,070	-
Profit on disposal of investment property	10	(848,029)	(603,013)
Profit on disposal of property and equipment	11	(870)	(197,768)
Dividend on available for sale equity securities		(1,317)	(90,744)
Income tax expenses/(credit)	15	2,794,943	(558,318)
		(714,024)	(1,770,076)
Change in loans and advances to customers		(1,381,241)	(1,460,293)
Change in available-for-sale investment securities		51,093	1,527,858
Change in other assets		(669,273)	230,449
Change in deposits from customers		2,959,978	(6,957,792)
Change in other liabilities		2,578,068	(658,085)
Change in employee benefit obligation		453,015	44,096
		3,277,616	(9,043,843)
Income tax paid		-	(55,918)
Net cash provided by/(used in) operating activities		3,277,616	(9,099,761)
Cash flows from investing activities			
Proceeds from disposal of investment securities		265,432	-
Dividend on available for sale equity securities		1,317	90,744
Purchase of property and equipment	22	(38,790)	(128,091)
Proceeds from the sale of property and equipment		1,844	653,212
Purchase of investment properties	21	(56,266)	(488,046)
Proceeds from disposal of investment properties		4,976,704	3,666,938
Net cash provided by investing activities		5,150,241	3,794,757
Cash flows from financing activities			
Increase in long term borrowings		(2,078,139)	4,373,240
Net cash (used in)/provided by financing activities		(2,078,139)	4,373,240
Net (decrease) /increase in cash and cash equivalents		6,349,718	(931,764)
Cash and cash equivalents at beginning of year		535,797	1,467,561
Cash and cash equivalents at end of year	17	6,885,515	535,797

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 80 form an integral part of these financial statement.

Notes to the financial statement

1 Reporting Entity

Union Homes Savings and Loans PLC (“the Mortgage Bank or the Company”) is a Mortgage Bank domiciled in Nigeria. The address of the Mortgage Bank’s registered office is 153 Ikorodu Road, Onipanu, Lagos. The Mortgage Bank is primarily involved in the provision of mortgage facilities to corporate institutions and individuals.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). These are the Mortgage Bank’s first financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cashflow of the Mortgage Bank is provided in note 39. This note includes reconciliations of statement of financial position, comprehensive income and equity for comparative periods reported under Statement of Accounting Standards of Nigeria (SAS) as issued by the Financial Reporting Council of Nigeria to those reported under IFRS.

The financial statements were authorised for issue by the board of directors on 16 April 2013.

(b) Functional and presentation currency

These financial statements are presented in Nigerian Naira, which is the Mortgage Bank’s functional and presentation currency. Except as indicated, financial information presented in Naira has been rounded to the nearest thousand.

(c) Basis of measurement

These financial statements are prepared on the historical cost basis except for the following:

- available-for-sale financial assets measured at fair value;
- investment property measured at fair value;
- financial instruments measured at fair value through profit or loss; and
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5 to the financial statements.

3 Summary of significant accounting policies

The principal accounting policies adopted by the Mortgage Bank in the preparation of the financial statements are set out below. These accounting policies have been consistently applied by the Mortgage Bank for the current and prior periods.

3.1 Basis of accounting for investments in equity accounted investee companies

(a) Associates

Associates are those entities in which the Mortgage Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Mortgage Bank holds 20 to 50 percent of the voting power of another entity. The individual financial statements include the Mortgage Bank’s share of the total recognised gains and losses of associates on an equity-accounted basis from the date that significant influence commences until the date that significant influence ceases. When the Mortgage Bank’s share of losses exceeds its interest in an associate, the Mortgage Bank’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Mortgage Bank has incurred legal or constructive obligations or made payments on behalf of an associate.

(b) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Mortgage Bank has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investment in jointly controlled entities are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The financial statements include the Mortgage Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Mortgage Bank, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Mortgage Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Mortgage Bank has an obligation or has made payments on behalf of the investee.

3.2 Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset held for trading and for non-monetary financial assets designated at fair value through profit or loss, unrealized exchange differences are recognized in the income statement. For non-monetary financial investments available-for-sale, unrealized exchange differences are recorded directly in equity until the asset is sold or becomes impaired.

3.3 Interest income and expenses

Interest income and expense for all interest bearing financial instruments, except for those classified at fair value through profit or loss, are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Mortgage Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the statement of comprehensive income.

3.4 Net fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.5 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest, rental income, dividend and foreign exchange differences on trading assets.

3.6 Other operating income

Other operating income comprises dividend income, foreign exchange gain or losses and gain on disposal of properties and equipment. Other operating income are recognised when the services are provided or the input to receive income is established.

3.6.1 Dividends

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income and are recognised net of withholding tax.

3.7 Current and deferred tax

Income tax expense comprises current and deferred taxes. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- (i) temporary differences arising on the initial recognition of goodwill;
- (ii) temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- (iii) temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Mortgage Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3.8 Financial Instrument

(a) Initial recognition

(i) Classification

The Mortgage Bank classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held to maturity, available for sale and financial liabilities are designated at fair value through profit or loss or held as other financial liabilities. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

(ii) Recognition

All financial instruments are initially recognized at fair value, which includes directly attributable transaction costs for financial instruments not classified as fair value through profit and loss. Financial instruments are derecognized when the rights to receive cash flows from the financial instruments have expired or where the Mortgage Bank has transferred substantially all risks and rewards of ownership.

(b) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification:

(i) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Mortgage Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassification that are so close to maturity that changes on the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassification after the Mortgage Bank has collected substantially all the asset's original principal.
- Sales or reclassification attributable to non-recurring isolated events beyond the Mortgage Bank's control that could not have been reasonably anticipated.

(ii) Financial assets held at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as trading unless they are designated as hedges.

Financial assets may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different basis; or
- A group of financial assets is managed and its performance evaluated on a fair value basis.

Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes therein are recognised in the income statement in 'net trading income' for trading assets, and in 'net income from other financial instruments carried at fair value' for financial assets designated at fair value through profit or loss at inception.

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in other operating income. Trading assets are not reclassified subsequent to their initial recognition.

(iii) Available-for-sale

Financial assets classified by the Mortgage Bank as available-for-sale financial assets are generally those that are not designated as another category of financial assets, or strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in fair value reserve in equity until the financial asset is derecognised or impaired. When available-for-sale financial assets are disposed of, the fair value adjustments accumulated in equity are recognised in the statement of comprehensive income.

Interest income, calculated using the effective interest method, is recognised in the statement of comprehensive income. Dividends received on available-for-sale instruments are recognised in income statement when the Mortgage Bank's right to receive payment has been established.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Mortgage Bank as at fair value through profit or loss, or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Transaction costs that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. All of the Mortgage Bank's loans and advances are included in the loans and receivable category.

(v) Financial liabilities

Financial liabilities designated at fair value through profit or loss is measured at fair value with fair value changes recognised in the statement of comprehensive income. Other financial liabilities are measured at amortised cost with changes in amortised cost recognised in the statement of comprehensive income.

c) Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Mortgage Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Mortgage Bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Mortgage Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk return factors inherent in the financial instrument.

The Mortgage Bank uses valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The best evidence of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the instrument is closed out. Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Mortgage Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Mortgage Bank believes a third-party market participant would take this into account in pricing a transaction.

(d) Impairment of financial assets

(i) Assets carried at amortised cost (loans and receivables and held to maturity instruments)

The Mortgage Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred 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 assets (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following factors are considered in assessing objective evidence of impairment:

- whether the customer's obligation is more than 90 days past due;
- the Mortgage Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments; or
- there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

The Mortgage Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset 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 (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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, less 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 computed on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with similar credit risk characteristics. 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 exist currently.

To the extent that a loan is irrecoverable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in the statement of comprehensive income, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

When an available-for-sale financial instrument is carried at cost because fair value is not reliably measured, an impairment loss is measured as the difference between the carrying amount and the present value of estimated future cashflows discounted at current market rate of return for similar instruments.

(e) Offsetting financial instruments

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Mortgage Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions such as in the Mortgage Bank's activity.

(f) Derecognition of financial instruments

The Mortgage Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. The Mortgage Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Any interest in transferred financial assets that is created or retained by the Mortgage Bank is recognised as a separate asset or liability.

The Mortgage Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. In transactions where the Mortgage Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Mortgage Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3.9 Impairment of non-financial assets

The carrying amounts of the Mortgage Bank's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.10 Sale and repurchase agreements

Securities sold subject to linked repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included in deposit from Banks, or other deposits, as appropriate.

3.11 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Mortgage Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Property and equipment

(i) Recognition and measurement

Items of property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Mortgage Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with *IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations*.

The estimated useful lives for the current and comparative period are as follows:

	Over the shorter of the useful life of item or lease period
Leasehold improvements	
Land and Buildings	40 years
Computer hardware	5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Capital work in progress	Not depreciated

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's value less costs to sell or the value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amount. Gains and losses are included in the profit and loss account for the period.

(iv) De-recognition

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.13 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production of goods and services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other income. Fair values are determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location.

In an active market, an independent valuer, holding a recognized and relevant professional qualification and with recent experience in the location and category of investment property being valued, values the portfolio annually. Any gain and loss arising from a change in the fair value is recognized in the statement of comprehensive income.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent measurement.

3.14 Intangible assets

Purchased software

Software acquired by the Mortgage Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Mortgage Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is five years. This is reassessed annually.

3.15 Leases

(a) *Leased assets - lessee*

Leases in terms of which the Mortgage Bank assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating lease.

(b) *Lease payments made*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.16 Provisions

A provision is recognised if, as a result of a past event, the Mortgage Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Mortgage Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Mortgage Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Mortgage Bank recognises any impairment loss on the assets associated with that contract.

3.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the Mortgage Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable and the unamortised premium. Financial guarantees are included within other liabilities.

3.18 Employee benefits

(i) Post-employment benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

With effect from October 2011, the Company commenced a defined contribution pension scheme. Employees are entitled to join the scheme on commencement of employment. Employee and the Company contributions are 7.5% each of the employee's annual basic salary, housing and transport allowance respectively. Employee contributions are funded through payroll deductions while the Company's contribution is charged to the profit and loss account. Contributions under this scheme are remitted to the individual employee's pension fund administrator.

Defined benefit plans

The Mortgage Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted.

The discount rate was the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Mortgage Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Mortgage Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reduction in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Actuarial gains and losses that arise in calculating the Mortgage Bank's obligations in respect of a plan is recognised in the statement of comprehensive income.

When the calculation above results in a benefit to the Mortgage Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefit available in the form of any refunds from the plan or reductions in future contribution to the plan. An economic benefit is available to the Mortgage Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

The Mortgage Bank operates the following defined benefits schemes as at year end:

Staff and directors' pension fund liability

Prior to the year 2004, the Mortgage Bank operated a non-contributory pension scheme in which it sets aside 25% on the total staff cost and invested in securities and fixed deposits on behalf of the staff. All employees, in the services of the Mortgage Bank, prior to 2004 qualified under this legacy pension scheme in line with the trust deed executed in support of this pension scheme. The liability under this scheme was determined by the actuaries periodically.

On the promulgation of the Pension Reform Act 2004, the Company sets aside 25% of the staff cost and remits to the individual staff's pension fund administrator (PFA) on a monthly basis. The amount sets aside by the Mortgage Bank was amended to 25% of the staff's Basic, Housing and Transport in August 2007. The accruals for this liability were charged against the profit and loss account in the period they relate.

Gratuity scheme

The Company also operates gratuity scheme for its employees as stated in the trust deed executed on behalf of the Company's legacy pension scheme. The benefits under this scheme are related to employees' length of service and the terminal monthly basic salary, housing, lunch and transport allowances for each year of service provided. A minimum of five years of service is mandatory for any employee to qualify for gratuity.

Prior to the year 2004, this scheme was funded by the Mortgage Bank as part of the legacy pension scheme. However, the scheme was unfunded from the year 2005 till date. Likewise, the Mortgage Bank's liability under this scheme was accrued for up till the year 2004. The Mortgage Bank's liability under this scheme is determined by the actuaries periodically.

Staff provident fund

The Mortgage Bank also operates a contributory staff provident fund scheme for all its employees. The Mortgage Bank and the employee contributes 5% and 2.5% respectively of the employee's basic salary. This scheme was discontinued in August 2007 and the funds contributed is invested by the Company.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Mortgage Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Other long-term employee benefits

The Mortgage Bank's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Mortgage Bank's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

The Mortgage Bank also operates a long service award scheme for its employees who has spent up to 10 years and above. The benefits under this scheme are related to employees' length of service and the terminal monthly basic salary for each year of service provided.

3.19 Share capital and reserves

(i) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(ii) Dividend on ordinary shares

Dividends on the Mortgage Bank's ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Mortgage Bank's shareholders.

(iii) Treasury shares

Where the Mortgage Bank purchases its share capital, the consideration paid is deducted from the shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

3.20 Earnings per share and diluted

The Mortgage Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Mortgage Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.21 Segment reporting

An operating segment is a component of the Mortgage Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Mortgage Bank's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.22 Borrowings

Borrowing costs are interest and other costs incurred by the Mortgage Bank in connection with the borrowing of funds. Borrowing costs are recognised as an expense in the period in which they are incurred, except for those that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of the cost of that asset.

3.23 New standards and interpretations not yet adopted

As at 31 December 2012, a number of standards and interpretations, and amendments thereto, had been issued by the IASB which are not yet effective for these consolidated financial statements. Below, the most significant new standards are addressed:

(i) *IFRS 9 (Amended): Financial Instrument: Classification and Measurement*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represents a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories of financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividend on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investments. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluation the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

(ii) *IFRS 10 (Amended): Consolidated Financial Statements*

IFRS 10 replaces all of the consolidation guidance of IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Consolidation is required when there is control that is defined as a combination of power, exposure to variability in returns and a link between the two. IFRS 10 is effective for annual years beginning on or after 1 January 2013. The Mortgage Bank is currently reviewing IFRS 10 and will assess the impact on its subsequent financial statements.

(iii) *IFRS 11 (Amended): Joint Arrangements*

IFRS 11 overhauls the accounting for joint ventures and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities. It uses the principles of control in IFRS 10 in defining joint control and whether joint control exists may change. The new standard does not allow proportional consolidation of joint ventures and the equity method must be applied. IFRS 11 is effective in annual years beginning on or after 1 January 2013.

(iv) *IFRS 12 (Amended): Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associated and structured entities. Changes include the requirement to disclose the judgements made to determine whether it controls another entity. IFRS 12 is effective in annual years beginning on or after 1 January 2013. Early adoption of IFRS 10, 11 and 12 is permitted but is required to take place simultaneously. Only IFRS 12 can be early adopted without IFRS 10 and 11. IFRS 12 has not been early adopted but the Mortgage Bank is currently assessing the disclosure requirements for interests in its associates in comparison with the existing disclosures.

(v) *IFRS 13: Fair Value Measurement*

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Mortgage Bank is currently reviewing its methodologies for determining fair values (see Notes 3.9(v)). Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Mortgage Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The Mortgage Bank has not early adopted IFRS 13 and it is currently evaluating its impact on assets and liabilities recognized at fair values.

(vi) *Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)*

Disclosures- Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Mortgage Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

(vii) *IAS 12 Income Taxes*

The amendments to IAS 12 provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40; Investment Property. The amendment introduces a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. This standard is applicable for annual years beginning on or after 1 January 2013, with early adoption permitted. The Mortgage Bank is assessing the impact of this standard on its financial statements.

(viii) *IAS 19 (Amended): Employee Benefits*

The amended IAS 19 states that changes in the defined benefit obligations and fair value of plan assets are recognized in the year as they occur. The "corridor" method is eliminated and actuarial gains and losses and unrecognized past service costs are recognized directly in other comprehensive income. Because actuarial gains and losses are longer deferred, affecting both the net defined benefit liability/asset and the amounts recognized in profit or loss are affected. The amended standard splits changes in defined benefit liabilities/ assets in:

- Service cost (including past service costs, curtailments and settlements)- in profit or loss:
- Net interest costs (i.e. net interest on the net defined benefit liability) - in profit or loss:
- Remeasurement of the defined benefit liability/asset -in other comprehensive income.

The Amended IAS 19 is effective for years beginning on or after 1 January 2013.

4.3 Financial risk management

4.3.1 Introduction

(a) Introduction and overview

Union Homes Savings and Loans Plc ("the Mortgage Bank") has a well-established risk governance structure and an experienced risk management team. The risk management framework provides essential tools to enable the Mortgage Bank take timely and informed decisions to maximize opportunities and mitigate potential threats. The Mortgage Bank has taken pre-emptive actions to reshape the portfolio and increase the frequency of risk monitoring and stress testing in case of adverse scenarios or downturns.

(b) The Mortgage Bank's approach to risk

Risk is an inherent part of the Mortgage Bank's business activities. Union Homes Savings and Loans Plc's overall risk tolerance is established in the context of the Mortgage Bank's earnings power, capital, and diversified business model. Effective risk management is critical to any financial institution for achieving financial soundness.

In view of this, aligning risk management to the Mortgage Bank's organizational structure and business strategy has become integral in our business. Union Homes Savings and Loans Plc's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. It is also intended to create a culture of risk awareness and personal responsibility throughout the Mortgage Bank. The Mortgage Bank has taken pre-emptive action to reshape its credit portfolio and increase the frequency of risk monitoring and integrated stress testing. These actions will not immunize the Mortgage Bank from the effects of a cyclical downturn in its core markets, but should mitigate their impact.

The Mortgage Bank's risk management architecture is carefully crafted to balance corporate oversight with well-defined risk management functions which fall into one of three categories where risk must be managed: lines of business, governance and control and corporate audit. The Board of Directors and management of the Mortgage Bank are committed to constantly establishing, implementing and sustaining tested practices in risk management to match those of leading international Mortgage Banks. We are convinced that the long-term sustainability of our Mortgage Bank depends critically on the proper governance and effective management of our business. As such, risk management occupies a significant position of relevance and importance in the Mortgage Bank.

The Board of Directors determines the Mortgage Bank's overall objectives in terms of risk by issuing risk policies. These policies define acceptable levels of risk for day-to-day operations as well as the willingness of the Mortgage Bank to assume risk, weighed against the expected rewards. The umbrella risk policy is detailed in the Enterprise Risk Management (ERM) Framework, which is a structured approach to identifying opportunities, assessing the risk inherent in these opportunities and actively managing these risks in a cost-effective manner. It is a top-level integrated approach to events identification and analysis for proper assessment, monitoring and identification of business opportunities. Specific policies are also in place for managing risks in the different core risk areas of credit, market and operational risks as well as for other key risks such as liquidity, strategic and reputational risk.

The evolving nature of risk management practices and the dynamic character of the Mortgage Banking industry necessitate regular review of the effectiveness of each enterprise risk management component. In light of this, the Mortgage Bank's ERM Framework is subject to continuous review to ensure effective and cutting-edge risk management. The review is done in either or both of the following ways: via continuous self-evaluation and monitoring by the risk management and compliance functions in conjunction with internal audit; and through independent evaluation by external auditors, examiners and consultants.

Head, Risk Assets Management and Control has primary responsibility for risk management and the review of the ERM Framework and to provide robust challenge to the management teams based on quantitative and qualitative metrics. All amendments to the Mortgage Bank's ERM Framework require Board approval. The risk management division is responsible for the enforcement of the Mortgage Bank's risk policy by constantly monitoring risk, with the aim of identifying and quantifying significant risk exposures and acting upon such exposures as necessary. Overall, we view risk not only as a threat or uncertainty, but also as a potential opportunity to grow and develop the business, within the context of our clearly articulated and Board driven risk appetite. Hence our approach to risk management is not limited to considering downside impacts or risk avoidance; it also encompasses taking risk knowingly for competitive advantage. The Mortgage Bank approaches risk, capital and value management robustly and we believe that our initiative to date has positioned the Mortgage Bank at the leading edge of risk management.

(c) Risk and capital drive value

The pursuit of value requires us to balance risk assumed against capital required. Hence, we have embarked on a journey, which requires us to undertake analysis involving optimizing the upside and minimizing the downside on an ongoing and rigorous basis. We believe that this process will add value for our shareholders, and provide security to our other capital providers and clients, as well as ensure overall sustainability in our business activities.

Every business activity in our Mortgage Bank requires us to put capital at risk, in exchange for the prospect of earning a return. In some activities, the level of return is quite predictable, whereas in other activities the level of return can vary over a very wide range, ranging from a loss to a profit. Accordingly, over the past year we have expended substantial energy on improving our risk and capital management framework, to focus on taking risks where we:

- Understand the nature of the risks we are taking, and what the range of outcomes could be under various scenarios, for taking these risks.
- Understand the capital required in order to assume these;
- Understand the range of returns that we can earn on the capital required to back these risks; and
- Attempt to optimize the risk-adjusted rate of return we can earn, by reducing the range of outcomes and capital required arising from these risks, and increasing the certainty of earning an acceptable return

Our objective of balancing risk, return and capital has led us to enhance substantially our risk management methodologies, in order to be able to identify threats, uncertainties and opportunities and in turn develop mitigation and management strategies to achieve an optimal outcome. Value is added for shareholders if our process allows us to demonstrate sustainable risk-adjusted returns in excess of our cost of capital. The process provides security to our capital providers and clients by assuring them that we are not taking on incremental risks which adversely affect the outcomes we have contracted to deliver to them.

(d) Risk Management Philosophy, Culture, Appetite and Objectives

(i) Risk Management Philosophy and Culture

Risk management is at the core of the operating structure of the Mortgage Bank. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and the prudent management of liquidity

Risk management is integral to the Mortgage Bank's decision-making and management process. It is embedded in the role and purpose of all employees via the organizational culture, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions. Union Homes Savings and Loans considers risk management philosophy and culture as the set of shared beliefs, values, attitudes and practices that characterize how the Mortgage Bank considers risk in everything it does, from strategy development and implementation to its day-to-day activities. In this regard, the Mortgage Bank's risk management philosophy is that a moderate and guarded risk attitude ensures sustainable growth in shareholder value and reputation.

The Mortgage Bank believes that enterprise risk management provides the superior capabilities to identify and assess the full spectrum of risks and to enable staff at all levels to better understand and manage risks. This will ensure that:

- Risk acceptance is done in a responsible manner;
- The executive management and the Board of the Mortgage Bank have adequate risk management support;
- Uncertain outcomes are better anticipated;
- Accountability is strengthened; and
- Stewardship is enhanced.

The Mortgage Bank identifies the following attributes as guiding principles for its risk culture.

Management and staff:

- Consider all forms of risk in decision-making
- Create and evaluate business-unit risk profile to consider what is best for their individual business units/department and what is best for the Mortgage Bank as a whole;
- Adopt a portfolio view of risk in addition to understanding individual risk elements;
- Retain ownership and accountability for risk and risk management at the business unit or other point of
- Accept that enterprise risk management is mandatory, not optional;
- Strive to achieve best practices in enterprise risk management
- Document and report all significant risks and enterprise-risk management deficiencies;
- Adopt a holistic and integrated approach to risk management and bring all risks together under one or a limited number of oversight
- Empower risk officers to perform their duties professionally and independently without undue interference;
- Ensure a clearly defined risk management governance structure
- Ensure clear segregation of duties between market facing business units and risk management/control functions
- Strive to maintain a conservative balance between risk and profit considerations; and
- Continue to demonstrate appropriate standards of behaviour in development of strategy and pursuit of objectives.

Risk officers work as allies and thought partners to other stakeholders within and outside the Mortgage Bank and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties

Risk management is a shared responsibility. Therefore, the Mortgage Bank aims to build a shared perspective on risks that is based on consensus.

Risk management is governed by well-defined policies, which are clearly communicated within the Mortgage Bank.

Equal attention is paid to both quantifiable and non-quantifiable risks

The Mortgage Bank avoids products and businesses it does not understand.

(ii) *The Mortgage Bank's risk oversight approach*

Our oversight starts with the strategy setting and business planning process. These plans help us articulate our appetite for risk, which is then set as risk appetite limits for each business unit to work within. The Mortgage Bank's risk management division provides a central oversight of risk management within the Mortgage Bank to ensure that the full spectrum of risks facing the Mortgage Bank are properly identified, measured, monitored and controlled in order to minimize adverse outcomes.

The division is complemented by the financial control in the management of strategic risks respectively. The Head, Risk Assets Management and Control coordinates the process of monitoring and reporting risks across the Mortgage Bank. Internal audit has the responsibility of auditing the risk management and control function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of internal control and makes appropriate recommendations where there are weaknesses.

(iii) *Strategy and Business Planning*

Risk management is embedded in our business strategy and planning cycle. Testament to this is the inclusion of risk management as one of our strategic priorities. By setting the business and risk strategy, we are able to determine appropriate capital allocation and target setting for the Mortgage Bank and each of our businesses.

All business units are required to consider the risk implications of their annual plans. These plans include analysis of the impact of objectives on risk exposure. Throughout the year, we monitored business performance regularly focusing both on financial performance and risk exposure. The aim is to continue the process of integrating risk management into the planning and management process and to facilitate informed decisions.

Through ongoing review, the links between risk appetite, risk management and strategic planning are embedded in the business so that key decisions are made in the context of the risk appetite for each business unit.

(iv) *Risk Appetite*

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Mortgage Bank is willing to accept in pursuit of its strategy, duly set and monitored by the Executive Committee and the Board, and integrated into our strategy, business, risk and capital plans. Risk appetite reflects the Mortgage Bank's capacity to sustain potential losses arising from a range of potential outcomes under different stress scenarios.

The Mortgage Bank defines its risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. Our risk appetite can be expressed in terms of how much variability of return the Mortgage Bank is prepared to accept in order to achieve a desired level of result. It is determined by considering the relationship between risk and return. We measure and express risk appetite qualitatively and in terms of quantitative risk metrics. The quantitative metrics include earnings at risk (or earnings volatility) and, related to this, the chance of regulatory insolvency, chance of experiencing a loss and economic capital adequacy. These comprise the Mortgage Bank's risk appetite metrics. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. credit, market and asset and liability management risks).

The Mortgage Bank's risk profile is assessed through a 'bottom-up' analytical approach covering the Mortgage Bank's products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

(v) *Risk management objectives*

The broad risk management objectives of the Mortgage Bank are:

- To identify and manage existing and new risks in a planned and coordinated manner with minimum disruption and cost;
- To protect against unforeseen losses and ensure stability of earnings;
- To maximize earnings potential and opportunities
- To maximize share price and stakeholder protection;
- To enhance credit ratings and depositor, analyst, investor and regulator perception; and
- To develop a risk culture that encourages all staff to identify risks and associated opportunities and to respond to them with cost effective actions.

(vi) *Scope of risks*

The scope of risks that are directly managed by the Mortgage Bank is as follows:

- Credit risk
- Operational risk
- Market and liquidity risk
- Legal and compliance risk
- Strategic risk
- Reputational risk
- Capital risk

These risks and the framework for their management are detailed in the enterprise risk management framework.

(vii) *Responsibilities and functions*

The responsibilities of the Risk Assets Management and Control Unit, and the Financial Control unit with respect to risk management are highlighted below:

(viii) *Risk Assets Management and Control Department*

- Champion the implementation of the ERM Framework within the Mortgage Bank.

- Develop risk policies, principles, process and reporting standards that define the Mortgage Bank's risk strategy and appetite in line with the Mortgage Bank's overall business objectives

- Ensure that controls, skills and systems are in place to enable compliance with the Mortgage Bank's policies and standards
- Facilitate the identification, measurement, assessment, monitoring and control of the level of risks in white the Mortgage Bank Collect, process, verify, monitor and distribute risk information within the Mortgage Bank and other material risk issues to senior management, the Board and regulators.
- Monitor compliance within the Mortgage Bank risk policies and limits
- Provide senior management with practical, cost effective recommendations for improvement of risk management
- Act as a key contact for senior management who may wish to request ad hoc reviews/investigations
- Ensure that laws, regulations and supervisory requirements are complied with including consequence management
- Promote risk awareness and provide education on risk
- Provide assurance on compliance with internal and external policies with respect to risk management

(ix) *Business Development and Strategy*

- a) Prepare and monitor the implementation of the Mortgage Bank's strategic plan
- b) Conduct strategic and operational review of the Mortgage Bank's activities
- c) Conduct regular scanning of the Mortgage Bank's operating environment
- d) Coordinate and monitor the Mortgage Bank's rating exercises by external rating agencies
- e) Prepare business intelligence reports for the Mortgage Bank's management
- f) Prepare periodic management reports on subsidiaries and associates
- g) Perform competitive analysis in comparison with industry peers
- h) Conduct strategic/operational review of branches

(x) *Risk Management Governance Framework*

- 1) The enterprise-wide risk management and corporate governance committee forums
- 2) The executive management committees
- 3) Risk management responsibilities per risk area

(xi) *Credit risk*

- Approve the Mortgage Bank's overall risk tolerance in relation to credit risk based on the recommendation of the chief risk and compliance officer
- Ensure that the Mortgage Bank's overall credit risk exposure is the available capital through quarterly review of various types of credit exposure maintained at prudent levels and consistent with the available capital through quarterly review of various types of credit exposure
- Ensure that top management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function
- Ensure that the Mortgage Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk
- Ensure that detailed policies and procedures for credit risk exposure creation, management and recovery are in place
- Appoint credit officers and delegate approval authorities to individuals and committees

(xii) *Operational risk*

- Oversee the overall governance of the Mortgage Bank's operational risk management process
- Set the Mortgage Bank's operational risk strategy and direction in line with the Mortgage Bank's corporate strategy
- Approve the Mortgage Bank's operational risk management framework
- Periodically review the framework to ensure its relevance and effectiveness
- Ensure that senior management is performing their risk management responsibilities
- Ensure that the Mortgage Bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff

(xiii) *Market and liquidity risk*

- Define the Mortgage Bank's overall risk appetite in relation to market risk
- Ensure that the Mortgage Bank's overall market risk exposure is maintained at levels consistent with the available capital
- Ensure that top management as well as individuals possess sound expertise and knowledge to accomplish the risk management function and are responsible for market risk management process.
- Approve the Mortgage Bank's strategic direction and tolerance level for liquidity risk
- Ensure that the Mortgage Bank's senior management has the ability and required authority to manage liquidity risk
- Approve the Mortgage Bank's liquidity risk management framework
- Ensure that liquidity risk is identified, measured, monitored and controlled

(xiv) *Compliance risk*

- Approve the Mortgage Bank's code of conduct and ethics;
- Monitor the Mortgage Bank's compliance with laws and regulations, its code of conduct and ethics and Corporate governance
- Ensure that the Mortgage Bank has a process for ensuring new and changed legal and regulatory requirements are identified monitored and reflected in Mortgage Bank processes
- Approve the compliance structure, mechanisms and processes established by management to ensure compliance with current laws, regulations and supervisory requirements
- Ensure the Mortgage Bank has a compliance culture that contributes to the overall objective of risk management

(xv) *Operational risk*

- Oversee the overall governance of the Mortgage Bank's operational risk management process;
- Set the Mortgage Bank's operational risk strategy and direction in line with the Mortgage Bank's corporate strategy;
- Approve the Mortgage Bank's operational risk management framework;
- Periodically review the framework to ensure its relevance and effectiveness;
- Ensure that senior management is performing their risk management responsibilities; and
- Ensure that the Mortgage Bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff.

(xvi) *Reputational risk*

- Set an appropriate tone and guidelines regarding the reputation risk management practices, including an explicit statement of a zero tolerance policy for all development and implementation of effective unethical behaviour.
- Approve the Mortgage Bank's framework for the identification, measurement, control and management of reputational risk.
- Monitor the Mortgage Bank's compliance with its reputational risk management policies and recommend sanctions for material breaches of internal policies.
- Review all exception reports by external parties such as regulators and auditors; ensure that appropriate sanctions are applied to erring officers; demand from management appropriate explanations for all exceptional items; ensure that management puts in place effective and remedial actions and reports on progress to the Board on an ongoing basis.
- Ensure that Board members do not compromise their fit and proper status with regulators. They shall ensure that only board members who do not tarnish the Mortgage Bank's image and reputation remain as members
- Ensure that only fit and proper persons are appointed to senior management positions in the Mortgage Bank.

(e) **Board of Directors**

The Board of Directors of the Mortgage Bank comprises seven (7) members, five (5) of whom (inclusive of the Chairman of the Board) are Non-Executive Directors, one (1) Executive Director and the Managing Director. The directors are listed in the directors' report. The Board is made up of a crop of seasoned professionals who have excelled in their various professions including Mortgage Banking and law and possess the requisite integrity, skills and experience to bring independent judgment to bear on the Board's deliberations.

The primary purpose of the Board is to provide strategic direction for the Mortgage Bank in order to deliver long term value to shareholders through its oversight function of the Mortgage Bank's business.

Other functions of the Board include:

- to review management succession plans and determine their compensation;
- to ensure that the Mortgage Bank operates ethically and complies with applicable laws and regulations;
- to approve capital projects and investments;
- to consider and approve the annual budget of the Mortgage Bank and monitor its performance;
- to ensure that adequate system of internal control; financial reporting and compliance are in place;
- to ensure that an effective risk management process exists and is sustained; and
- to constitute board committees and determine their terms of reference and procedures; including reviewing and approving the reports of these committees.

The Board meets quarterly and additional meetings are convened as required. Decisions may be taken between meetings by way of written resolution, as provided for in the Articles of Association. The non-executive directors are provided with comprehensive Mortgage Bank information at each of the quarterly board meetings and are also briefed on business developments between board meetings.

The Board carries out the above responsibilities through its committees. All committees have clearly defined terms of reference, which set out their roles, responsibilities, functions and scope of authority. All committees in the exercise of their powers so delegated conform to the regulations laid down by the board. The committees render reports to the Board at its quarterly meetings. The roles and responsibilities of the committees are as stated hereunder:

Board Committees

The Board carries out the above responsibilities through its standing committees. All committees have clearly defined terms of reference, which set out their roles, responsibilities, functions and scope of authority. All committees in the exercise of their powers so delegated conform to the regulations laid down by the board. The committees render reports to the Board at its quarterly meetings. The roles and responsibilities of the committees are as stated hereunder:

The Board is made up of five committees, which are as follows;

- Finance and General Purposes Committee
- Projects Committee
- Establishment Committee
- Credit Risk and Investment Committee
- Audit Committee

The roles and responsibilities of these committees are discussed below:

(i) Finance and General Purposes Committee

Its main functions are to:

- Review Budget Proposal and recommend to Board.
- Receive and consider monthly/quarterly reports on expenditure above EXCO Limit.
- Receive and consider monthly expenditure on leases, sale of assets, donations and where appropriate recommend to Board.
- Formulate guidelines from time to time on cost control reduction consistent with maximum efficiency and make appropriate recommendations to Board.
- Consider proposals on strategic planning and make appropriate recommendation to Board.

(ii) Project Committee

Definition:

The Project Committee of the Board shall be responsible ensuring prudent and diligent management of the property and property-related projects/undertakings of the Company and in ensuring the integrity and protection of titles and transparency, prudence and profitability in any acquisition and disposal of company real property.

Functions:

- Consider and review all tenders, property purchases and leases above EXCO limit and where appropriate recommend to Board.
- Consider and review all proposals on Estate/Property development and where appropriate recommend to Board.
- Consider and review Branch/Premises fitting out proposals and recommend to Board.

(iii) **Establishment Committee**

Definition:

An Establishment Committee shall be set up to cater for selection, compensation and performance management of directors of the

Functions:

- Consider and approve appointments, promotions and Discipline of Senior Managers and Principal Managers.
- Consider and recommend to Board appointments, promotions and discipline of Assistant General Managers and above.
- Consider and recommend increments for staff from Principal Managers and above
- Consider and recommend changes in the remuneration and conditions of service of Directors.
- Consider and review staff Welfare matters and make appropriate recommendation to Board

(iv) **Credit Risk and Investment Committee**

Definition:

The highest lending authority resides in the Mortgage Bank's Board of Directors and there is established a Board Credit Risk and Investment Committee (The "CRICO") to exercise the Board's responsibilities on credit and credit related matters. CRICO shall provide oversight of Management's activities in managing credit risks of the Company

Functions:

- Define acceptable credit risk acceptance criteria and approve the Company's credit policy manual as well as clearly specify criteria for determining unacceptable risk;
- Approve all credit facilities above the authority limits of Management's Credit Committee in line with the Mortgage Bank's credit process manual;
- Review and ratify credit policy changes initiated by Executive Management;
- Review of the Company's internal control systems and procedures to ensure that the Mortgage Bank maintains high quality risk assets portfolio;
- Recommending major changes in the Company's credit policies and procedures;
- Recommending the establishment of the Company's credit risk management structure including approval authorities and limits;
- Approving sector limits for the Company's loan portfolio in line with Government's regulations;
- Periodical review of the Company's assets and liability report and non-performing loans with authority to approve provisions for loan losses in excess of management approval limit;
- Review of the Company's credit and regulatory reports;
- Approving charge-offs in excess of the limits delegated to Management Credit Committee responsible for credit matters;
- Approving all proposals on the Mortgage Bank's exception list;
- Provide regular reports to the board; and
- Play such other roles as the full Board may mandate the Committee to play.

(v) **Audit Committee**

Definition:

The principal function of the Mortgage Bank's Audit Committee is to raise standards of corporate governance in the Mortgage Bank. The Committee has power to examine any financial, operating or strategic matters in relation to the Mortgage Bank.

Functions

- Reviewing the integrity, reliability and accuracy of accounting and financial reporting systems;
- Reviewing with external auditors and management, the adequacy and effectiveness of internal controls, risk, compliance and forensic investigation of management functions in relation to their coverage plans against best practice;
- Keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditors;
- Where the auditors also supply a substantial volume of non-audit services to the Company, the Committee shall keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- Carrying out such other roles and responsibilities as mandated under the internal regulations of the Mortgage Bank.

Composition of Board and Board Committees

Board of Directors	Finance and General Purposes Committee	Projects Committee	Establishment Committee	Credit, Risk and Investment Commitment	Audit Committee
Chairman of the Board.	Chairman	Chairman	Chairman	Chairman	Chairman
1 Managing Director, 1 Executive directors & 4 Non-Executive directors	& 5 Members	& 5 Members	& 5 Members	& 5 Members	& 5 Members

(vi) **Assets and Liability Committee**

This Committee is responsible for the management of a variety of risks arising from the Mortgage Bank's business including, market and liquidity risk management, loan to deposit ratio analysis, cost of funds analysis, establishing guidelines for pricing on deposit and credit facilities, risks analysis, balance sheet structuring, regulatory considerations and monitoring of the status of implemented assets and liability strategies.

Composition of the Committee is made up of senior management staff of the Mortgage Bank, including the Managing Director/CEO of the Mortgage Bank.

(vii) **Management Credit Committee**

This is the Committee responsible for ensuring that the Mortgage Bank complies fully with the Credit Policy guide as laid down by the Board. The Committee also provides inputs for the Board Credit Committee. This Committee is empowered to approve credit facilities to individual obligors not exceeding in aggregate, a sum determined by the Board from time to time. The Committee also provides inputs for the Board Credit Committee. This Committee is empowered to approve credit facilities to individual obligors not exceeding in aggregate a sum determined by the Board from time to time. The Committee meets at least once a week or once a fortnight depending on the number of credit applications to be considered.

(viii) **Whistle blowing**

Union Homes has a whistle-blowing policy which provides the procedure for reporting suspected breaches of their internal policies, laws and regulations. The whistle blowing policy adopted is that of the parent company (Union Bank Plc). There is a special e-mail address and telephone hotline dedicated for whistle blowing. The Mortgage Bank's Chief Compliance Officer (CCO) is responsible for monitoring and reporting on whistle blowing.

4.3.2 Credit Risk Management

Credit risk is the current or potential risk to earnings and capital arising from the failure of an obligor of the Mortgage Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. This risk is compounded if the assigned collateral only partly covers the claims made to the borrower, or if its valuation is exposed to frequent changes due to changing market conditions (i.e. market risk). Credit risk arises anytime the Mortgage Bank commits its funds with the result that capital or earnings are dependent on borrower's performance.

The Mortgage Bank's Risk Management philosophy is that moderate and guarded risk attitude will ensure sustainable growth in shareholder value and reputation. The Plan also sets out the roles and responsibilities of different individuals and committees involved in the credit process. Extension of credit in the Mortgage Bank is guided by its Credit Risk and Portfolio Management Plan, which sets out specific rules for risk origination and management of the loan portfolio.

We recognize the fact that our main asset is our loan portfolio. Therefore, we actively safeguard and strive to continually improve the health of our loan portfolio. We scrutinize all applications and weed out potential problem loans during the loan application phase, as well as constantly monitor existing loan portfolio.

The goal of the Mortgage Bank is to apply sophisticated but realistic credit models and systems to monitor and manage credit risk. Ultimately these credit models and systems are the foundation for the application of internal rating-based approach to calculation of capital requirements. The development, implementation and application of these models are guided by Basel II strategy.

The pricing of each credit granted reflects the level of risks inherent in the credit. Subject to competitive forces, the Mortgage Bank implements a consistent pricing model for loans to its different target markets. The client's interest is guarded at all times, and collateral quality is never the sole reason for a positive credit decision.

Provisions for credit losses meet prudential guidelines set forth by the Central Bank of Nigeria, both for loans for which specific provisions exist as well as for the portfolio of performing loans. The Mortgage Bank's credit process requires rigorous proactive and periodic review of the quality of the loan portfolio. This helps us to identify and remediate credit issues proactively.

The Risk Assets Management and Control department performs a quarterly review of loans with emerging signs of weakness; the Management Credit Committee and the Board Credit and Investment Committee also perform reviews of the quality of our loan portfolio on a quarterly basis. These are in addition to routine reviews performed by our Risk Assets Management and Control department.

Principal Credit Policies

The following are the principal credit policies of the Mortgage Bank:

- **Extension of credit:** Every extension of credit must be approved by at least three officers. The final approving officer must have a credit limit for the total facilities extending to the obligor (or group of related obligors).
- **Special Approvals:** Extension of credit to certain sectors may require unique approvals or prohibited altogether.
- **Credit Analysis Policy:** There are consistent standards of credit analysis within the Mortgage Bank for approval of credit facilities.
- **Annual Review of facilities:** All extension of credits must be reviewed at least once every 12 months.
- **Industry Limits:** The Mortgage Bank utilizes industry limits to maintain a diversified portfolio of risk assets.
- **Problem Recognition:** There are uniform and consistent standards for recognition of credit migration and remediation within the

(a) Credit process

The Mortgage Bank's credit process starts with portfolio planning and target market identification. Within identified target markets, credits are initiated by relationship managers. The proposed credits are subjected to review and approvals by applicable credit approval authorities. Further to appropriate approvals, loans are disbursed to beneficiaries. On-going management of loans is undertaken by both relationship management teams and our Risk Management group.

If a preliminary analysis of a loan request by the account manager indicates that it merits further scrutiny, it is then analyzed in greater detail by the account manager, with further detailed review by Risk Management. The concurrence of Risk Management must be obtained for any credit extension. If the loan application passes the detailed analysis it is then submitted to the appropriate approval authority for the size of facilities.

The standard credit evaluation process is based both on quantitative figures from the Financial Statements and on an array of qualitative factors. Factual information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector, etc. These subjective factors are assessed by the analyst and all individuals involved in the credit approval process, relying not only on quantitative factors but also on extensive knowledge of the company in question and its management.

(b) Credit Risk Control & Mitigation policy

(i) Authority Limits on Credit

The highest credit approval authority is the Board of Directors, supported by the Board Credit Committee and further by the Management Credit Committee. Individuals are also assigned credit approval authorities in line with the Mortgage Bank's criteria for such delegation set out in its Credit Risk and Portfolio Management Plan. The principle of central management of risk and decision authority is maintained by the Mortgage Bank.

The credit approval limits of the principal officers of the Mortgage Bank are shown in the table below:

Approving Authority	Approval Limit
Board of Directors	Up to Statutory Lending Limit
Board Credit and Investment Committee (BCIC)	Up to N250million
Management Credit Committee (MCC)	Up to N100million
Managing Director	Up to N10million
Executive Directors	Up to N5million
GM/DGM	Up to N2million

(ii) *Collateral Policies*

It is the Mortgage Bank's policy that all credit exposures are adequately collateralized. Credit risk mitigation is an activity of reducing credit risk in an exposure or transferring it to counterparty, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance.

In the Mortgage Bank, strategies for risk reduction at the transaction level differ from that at the portfolio level. At transaction level, the most common technique used by the Mortgage Bank is the collateralization of the exposures, by first priority claims or obtaining a third party guarantee.

However primary consideration when approving credits is always the obligor's financial strength and debt-servicing capacity.

The range of collaterals acceptable to the Bank include:

- Cash / Deposit (domestic currency) with Bank including certificates of deposit or comparable instruments issued by the Bank.
- Mortgage on Landed Property
- Legal Mortgage over financed properties
- Asset-backed securities.
- Lien on Asset being financed

(iii) *Master Netting arrangements*

It is the Mortgage Bank's policy that all credit exposures are adequately collateralized. Notwithstanding, our account opening documentation allows the Mortgage Bank to net off customers' deposits against their exposure to the Mortgage Bank. Generally transactions are allowed to run on a gross basis, however, in cases of unfavorable credit migration, the Mortgage Bank may elect to invoke the netting agreement.

(iv) *Credit related commitments*

It is the Mortgage Bank's policy that all credit exposures are adequately collateralized. Credit risk mitigation is an activity of reducing credit risk in an exposure.

(v) *Provisioning policy*

The credit risk and limit control system described above focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, loan loss provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date using the principle of the incurred loss model based on objective evidence of impairment.

(c) Credit definitions

Impaired loans and securities

Individually impaired loans and securities are loans and investment debt securities for which the Mortgage Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan /investment security agreement(s).

Past due but not impaired loans

Past due but not impaired loans and investment debt securities are those for which contractual interest or principal payments are past due but the Mortgage Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Mortgage Bank.

Allowances for impairment

The Mortgage Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Mortgage Bank writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Management Credit Committee determines that the loan or security are uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Mortgage Bank's exposure to credit risk is as outlined below:

Loans and advances to customers				
<i>In thousands of Naira</i>	<i>Note</i>	31 December 2012	31 December 2011	1 January 2011
Assets at amortised cost				
Individually impaired:				
Impaired		19,653,334	18,001,523	15,146,705
Gross amount		19,653,334	18,001,523	15,146,705
Allowance for impairment		(17,292,032)	(16,653,235)	(14,070,537)
Carrying amount, net of allowance		2,361,302	1,348,288	1,076,168
Collectively impaired:				
Neither past due or impaired		9,589,022	8,193,308	12,215,256
Past due but not impaired loans		1,899,964	3,837,419	1,245,956
Impaired		-	-	-
Gross amount		11,488,986	12,030,727	13,461,212
Allowance for impairment		(703,499)	(903,857)	(204,497)
Carrying amount, net of allowance		10,785,487	11,126,870	13,256,715
Total carrying amount -amortised cost				
	18	13,146,789	12,475,158	14,332,883

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets:

Loans and advances to customers			
<i>In thousands of Naira</i>	<i>Note</i>	Gross	Net
31 December 2012			
Individually impaired		19,653,334	2,361,302
Total		19,653,334	2,361,302
31 December 2011			
Individually impaired		18,001,523	1,348,288
Total		18,001,523	1,348,288
1 January 2011			
Individually impaired		15,146,705	1,076,168
Total		15,146,705	1,076,168

At the reporting date there were no available-for-sale assets that were overdue but not impaired

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers and banks is shown below:

Loans and advances to customers			
<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Against individually impaired	2,361,302	1,348,288	1,076,168
Against collectively impaired	4,528,580	7,195,280	2,733,796
Total	6,889,882	8,543,568	3,809,964

(d) Credit concentration

The Mortgage Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

		Loans and advances to customers	Investment Securities
In thousands of Naira	Note	31 December 2012	31 December 2011
			1 January 2011
Concentration by sector:			
Mortgage		9,168,979	11,459,901
Real Estate & Construction		7,921,439	7,476,701
Credit & Financial Institutions		-	524,110
Others		14,051,902	10,571,538
		31,142,320	30,032,250
Concentration by location:			
Abuja & North Central		3,936,136	3,998,557
Lagos		21,583,229	10,025,541
South East		4,870,349	4,264,059
South West		752,606	11,744,093
Rest of Africa		-	-
		31,142,320	30,032,250
			28,607,917

Concentration by location for loans and advances is measured based on the location of the financed properties. Concentration by sector is based on the industry where corporate customers operate, and where the individual customers work.

4.3.3 Market risk management

The Mortgage Bank's ability to effectively identify, assess, monitor and manage market risks involved in its activities is critical to its soundness and profitability. It's strategy is to invest its own capital on a limited and carefully selected basis in transactions, and activities that involve market risk. The Mortgage Bank is exposed to market risk through adverse movements in equity prices, property prices, foreign exchange and interest rates.

The Mortgage Bank separates its exposure to market risk between lending and non-lending portfolios. The Risk Management and Legal Units handle the lending portfolio, including positions arising from market making and reputational hazards. For our non-lending portfolios, Treasury and Project Management Units, supported by Risk Management Unit bring their expertise in the relevant areas to bear.

Overall authority for the management and reporting of market and liquidity risks inherent in our businesses across the Mortgage Bank is vested in the Assets and Liabilities Management Committee. Furthermore, the Assets and Liabilities Management Committee is responsible for the development of market risk management policy and monitors specific market risks inherent in our business. The Risk Management and Legal Units are also responsible for ensuring that any exposure is efficiently identified, measured, monitored and managed..

The Mortgage Bank's MD is responsible for approving specific position limits, which are used for positions, which are sometimes specific medium-term investment cases and other times strategic (or have the potential of becoming strategic) in the medium term

Each trading unit within the Mortgage Bank adheres to the general rules set out by the Board of Directors. Moreover, each trading unit has its own set of working procedures and rules that further specify their targets, limits and scope in trading.

The Head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Oversight and support is provided to the business by the central market risk team.

Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates, yield curves and credit spreads. The Mortgage Bank is exposed to interest rate risk through the interest bearing assets and liabilities in its trading and banking books.

Mortgage Bank's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. The risk is managed by the treasury function, subject to modest risk limits and other controls.

Exposure to other market risks - non-trading portfolios (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Mortgage Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (BP) parallel fall or rise in all yield curves. The financial assets and liabilities sensitive to interest rate risk are loans and advances and deposits. An analysis of the Mortgage Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

December 2012

<i>In thousands of Naira</i>	Note	Amount	Weighted average interest rate	Interest due at current weighted average rate	Total 200bps	Total (200bps)
Loans and advances to customers	18	31,142,320	18.54%	5,773,760	6,396,606	5,150,913
Deposits from customers	26	37,945,657	8.10%	3,074,638	3,833,551	2,315,725
				<u>2,699,122</u>	<u>2,563,055</u>	<u>2,835,188</u>
					<u>(136,067)</u>	<u>136,067</u>

December 2011

<i>In thousands of Naira</i>	Note	Amount	Weighted average interest rate	Interest due at current weighted average rate	Total 200bps	Total (200bps)
Loans and advances to customers	18	30,032,250	17.30%	5,194,158	5,794,803	4,593,513
Deposits from customers	26	34,985,679	7.61%	2,663,686	3,363,400	1,963,972
				<u>2,530,472</u>	<u>2,431,403</u>	<u>2,629,541</u>
					<u>(99,069)</u>	<u>99,069</u>

Foreign exchange risk

Foreign exchange risk is the exposure of the Mortgage Bank's financial condition to adverse movements in exchange rates. The Mortgage Bank is exposed to foreign exchange risk primarily through its assets, managing customers' deposits and through acting as an intermediary in foreign exchange transactions between central and commercial banks.

The table below summarises the Mortgage Bank's financial instruments at carrying amount, categorised by currency:

Financial instruments by currency

31 December 2012		Total	Naira	GBP	Others
<i>In thousands of Naira</i>	<i>Note</i>				
Cash and cash equivalents	17	6,885,516	6,831,424	3,636	50,456
Loans and advances to customers	18	12,781,715	12,781,715	-	-
Investment securities	19	2,898,466	2,667,990	-	230,476
Other assets		1,597,891	1,597,891	-	-
		24,163,588	23,879,020	3,636	280,932
Deposits from customers	26	37,945,657	37,945,657	-	-
Other borrowed funds	30	3,276,581	3,276,581	-	-
Other liabilities		6,449,942	6,449,942	-	-
		47,672,180	47,672,180	-	-

Financial instruments by currency

31 December 2011		Total	Naira	GBP	Others
<i>In thousands of Naira</i>	<i>Note</i>				
Cash and cash equivalents	17	535,717	460,845	36,231	38,641
Loans and advances to customers	18	12,371,310	12,371,310	-	-
Investment securities	19	3,125,039	2,856,625	-	268,414
Other assets		603,412	603,412	-	-
		16,635,478	16,292,192	36,231	307,055
Deposits from customers	26	34,985,679	34,985,679	-	-
Other borrowed funds	30	5,354,510	5,354,510	-	-
Other liabilities		2,101,440	2,101,440	-	-
		42,441,629	42,441,629	-	-

Financial instruments by currency

1 January 2011

In thousands of Naira

	<i>Note</i>	Total	Naira	GBP	Others
Cash and cash equivalents	17	1,467,561	1,438,926	-	28,635
Loans and advances to customers	18	14,332,883	14,332,883	-	-
Investment securities	19	5,076,950	4,802,306	-	274,644
Other assets		755,227	755,227	-	-
		21,632,621	21,329,342	-	303,279
Deposits from customers	26	41,943,471	41,943,471	-	-
Other borrowed funds	30	981,480	981,480	-	-
Other liabilities		2,551,512	2,551,512	-	-
		45,476,463	45,476,463	-	-

The Mortgage Bank does not have significant assets or liabilities denominated in foreign currencies. Consequently, no sensitivity analysis is disclosed.

4.3.4 Liquidity risk management

Liquidity risk is the risk that the Mortgage Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The Mortgage Bank's liquidity management process is primarily the responsibility of the Risk Management, Financial Control and the Treasury Department.

Funding and liquidity risk management activities are centralized within the Treasury Department and monitored by the risk management department. We believe that a centralized approach to funding and liquidity risk management enhances our ability to monitor liquidity requirements, maximizes access to funding sources, minimizes borrowing costs and facilitates timely responses to liquidity events. We analyze and monitor our liquidity risk, maintain excess liquidity and access diverse funding sources including our stable deposit base.

The Board approves the Mortgage Bank's liquidity policy and contingency funding plan, including establishing liquidity risk tolerance levels. The ALCO, in conjunction with the Board and its committees, monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. Liquidity positions are measured by calculating the Mortgage Bank's net liquidity gap and by comparing selected ratios with targets as specified in the liquidity risk management manual.

(i) **Liquidity risk management process**

The Mortgage Bank's liquidity risk management process is primarily the responsibility of the Treasury Department and Risk Management Department of the Mortgage Bank. A brief overview of the Mortgage Bank's liquidity management processes includes the following:

- Maintenance of minimum levels of liquidity above the regulatory requirement of 20%. The Mortgage Bank has also set for itself more stringent in-house limits above this regulatory requirement to which it adheres.
- Monitoring of its cash flow and balance sheet trends. The Mortgage Bank also makes forecasts of anticipated deposits withdrawals to determine their potential effect on the Mortgage Bank to guide against bank run/panic withdrawals.
- Monitoring of deposit concentration.
- Ensure diversification of funding sources.
- Asset and Liability committee meeting is held regularly to monitor the implementation of in-house limits /liquidity policy in the Mortgage Bank as stated by the management.

(iv) **Exposure to liquidity risk**

The key measure used by the Mortgage Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar calculation is used to measure the Mortgage Bank's compliance with the liquidity limit established by the Mortgage Bank's lead regulator (The Central Bank of Nigeria).

Details of the reported ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	31 December 2012	31 December 2011	1 January 2011
At end of year	(87.36)	(110.97)	(95.92)
Average for the year	(103.55)	(100.57)	(89.20)
Maximum for the year	(113.63)	(112.27)	(102.03)
Minimum for the year	(87.36)	(95.51)	(81.54)

The following table shows the undiscounted cash flows on the Mortgage Bank's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

31 December 2012 In thousands of Naira	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 month	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Non-derivative assets:								
Cash and cash equivalents	17	6,885,516	6,885,516	6,885,516	-	-	-	-
Loans and advances to customer	18	13,146,789	30,777,246	7,608,858	2,129,424	4,478,816	2,638,448	13,921,700
Investment securities	19	2,898,466	3,816,074	-	-	-	1,624,598	2,191,476
Other assets		1,788,307	3,931,770	118,019	1,792	1,742,060	2,069,899	-
		24,719,078	45,410,606	14,612,393	2,131,216	6,220,876	6,332,945	16,113,176
Non-derivative liabilities								
Deposits from customers	26	37,945,657	37,721,870	9,607,530	28,073,537	40,803	-	-
Other borrowed funds	30	3,276,581	3,276,581	-	-	2,879,583	-	396,998
Other liabilities		6,670,462	6,670,463	-	48,100	3,267,297	3,355,066	-
		47,892,700	47,668,914	9,607,530	28,121,637	6,187,683	3,355,066	396,998
Gap (asset - liabilities)				5,004,863	(25,990,421)	33,193	2,977,879	15,716,178
Cumulative liquidity gap				5,004,863	(20,985,558)	(20,952,365)	(17,974,486)	(2,258,308)

31 December 2011 <i>In thousands of Naira</i>	Note	Carrying amount	Gross nominal inflow /(outflow)	Less than 3 month	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Non-derivative assets:								
Cash and cash equivalents	17	535,797	535,717	535,717	-	-	-	-
Loans and advances to customer	18	12,475,158	29,928,402	8,104,110	1,654,263	4,234,530	3,012,458	12,923,041
Investment securities	19	3,125,039	4,709,468	-	-	-	2,480,054	2,229,414
Other assets		1,456,598	2,429,993	17,770	186,422	280,640	1,715,161	230,000
		17,592,592	37,603,580	8,657,597	1,840,685	4,515,170	7,207,673	15,382,455
Non-derivative liabilities								
Deposits from customers	26	34,985,679	34,750,635	33,291,875	1,412,698	44,481	1,581	-
Other borrowed funds	30	5,354,720	5,354,510	1,905,782	3,000,000	-	-	448,728
Other liabilities		2,142,376	2,142,375	-	88,998	750,966	1,302,411	-
		42,482,775	42,247,520	35,197,657	4,501,696	795,447	1,303,992	448,728
Gap (asset - liabilities)				(26,540,060)	(2,661,011)	3,719,723	5,903,681	14,933,727
Cumulative liquidity gap				(26,540,060)	(29,201,071)	(25,481,348)	(19,577,667)	(4,643,940)
1 January 2011 <i>In thousands of Naira</i>								
Non-derivative assets:								
Cash and cash equivalents	17	1,467,561	-	1,467,561	-	-	-	-
Loans and advances to customer	18	14,332,883	28,607,917	7,233,204	1,147,323	2,307,280	3,216,319	14,703,791
Investment securities	19	5,076,950	7,878,298	-	-	-	5,642,654	2,235,644
Other assets		1,461,642	1,321,398	4	6,487	207,640	1,107,267	-
		22,339,036	37,807,613	8,700,769	1,153,810	2,514,920	9,966,240	16,939,435
Non-derivative liabilities								
Deposits from customers	26	41,943,471	41,743,943	40,948,220	468,129	105,628	221,966	-
Other borrowed funds	30	981,480	981,481	-	-	294,253	-	687,228
Other liabilities		2,800,461	2,800,460	-	51,724	802,333	1,946,403	-
		45,725,412	45,525,884	40,948,220	519,853	1,202,214	2,168,369	687,228
Gap (asset - liabilities)				(32,247,451)	633,957	1,312,706	7,797,871	16,252,207
Cumulative liquidity gap				(32,247,451)	(31,613,494)	(30,300,788)	(22,502,917)	(6,250,710)

4.3.5 Operational risks

Operational risk is the risk of loss resulting from inadequate or fatal internal processes, people and systems, or from external events. This definition includes legal and compliance risk, but excludes strategy/business and reputation risk. During the six-month period ended 30 June 2012, no significant operational losses have occurred.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. Our definition of operational risk excludes regulatory risks, strategic risks and potential losses related solely to judgments with regard to taking credit, market, interest rate, liquidity, or insurance risks. It also includes the reputation and franchise risk associated with business practices or market conduct in which the Bank is involved. Operational risk is inherent in Bank's global business activities and, as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well-defined independent risk management. This framework includes:

- recognized ownership of the risk by the businesses;
- oversight by independent risk management; and
- independent review by Corporate Audit.

The goal is to keep operational risk at appropriate levels relative to the characteristics of our businesses, the markets in which we operate, our capital and liquidity, and the competitive, economic and regulatory environment. Notwithstanding these controls, the Mortgage Bank incurs operational losses.

Our operational risk strategy seeks to minimise the impact that operational risk can have on shareholders' value. The Mortgage Bank's strategy is to:

- Reduce the likelihood of occurrence of expected events and related cost by managing the risk factors and implementing loss prevention or reduction techniques to reduce variation to earnings.
- Minimise the impact of unexpected and catastrophic events and related costs through risk financing strategies that will support the Mortgage Bank's long term growth, cash flow management and balance sheet protection.
- Eliminate bureaucracy, improve productivity, reduce capital requirements and improve overall performance through the institution of well designed and implemented internal controls.

In order to create and promote a culture that emphasizes effective operational risk management and adherence to operating controls, there are three distinct levels of operational risk governance structure in Union Homes Savings and Loans Plc.

Level 1 refers to the oversight function carried out by the board of directors, board risk committee and the executive management. Responsibilities at this level include ensuring effective management of operational risk and adherence to the approved operational risk policies.

Level 2 refers to the management function carried out by operational risk management group. It has direct responsibility for formulating and implementing the Mortgage Bank's operational risk management framework including methodologies, policies and procedures approved by the board.

Level 3 refers to the operational function carried out by all business units and support functions in the Mortgage Bank. These units/functions are fully responsible and accountable for the management of operational risk in their units. They work in liaison with operational risk management to define and review controls to mitigate identified risks. Internal audit provides independent assessment and evaluation of the Mortgage Bank's operational risk management framework. This periodic confirmation of the existence and utilisation of controls in compliance with approved policies and procedures, provide assurance as to the effectiveness of the Mortgage Bank's operational risk management framework. Some of the tools being used to assess, measure and monitor operational risks in the Bank include; a loss database of operational risk events; an effective risk and control self-assessment process that helps to analyse business activities and identify operational risks that could affect the achievement of business objectives; and key risk indicators which are used to monitor operational risks on an ongoing basis.

4.3.6 Capital management

The Mortgage Bank is required to hold a minimum capital level determined by its regulator. The Mortgage Bank is directly supervised by the Central Bank of Nigeria (CBN). Central Bank of Nigeria sets and monitors capital requirements for the Mortgage Bank. In implementing current capital requirements, Central Bank of Nigeria requires the Mortgage Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Mortgage Bank's regulatory capital is analysed into two tiers:

-Tier 1 capital, which includes ordinary share capital, capital reserve, share premium, retained earnings, translation reserve and minority interests after deductions for other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities and general provision allowances. The qualifying tier 2 capital cannot exceed tier 1 capital.

The capital adequacy ratio is the quotient of the capital base of the Mortgage Bank and the Mortgage Bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained. The following table provides an overview of the development of the capital ratios and risk-weighted assets (RWA):

In line with the prudential guidelines for Primary Mortgage Institutions (PMIs) issued by the Central Bank of Nigeria, national PMIs are required to have a minimum capital requirement of N5 billion while state PMIs are required to have a minimum capital base of N2.5 billion. Union Homes Savings and Loans PLC, being a national PMI, was required to have a minimum of N5 billion as its total equity or shareholders' fund unimpaired by losses to be able to operate. Based on the audited balance sheet of the Mortgage Bank as at 31 December 2012, the Bank's shareholders' fund stood at negative N11.2 billion which was below the minimum required by the guidelines. However, the Central Bank of Nigeria in a letter dated 6 March 2012 extended the timelines for compliance with the new prudential guidelines by the existing PMIs to 31 December 2013.

At the reporting date, the Mortgage Bank was significantly below the minimum capital adequacy requirement as show below:

		31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Naira</i>	<i>Note</i>			
Tier 1 capital				
Share capital	31b	3,906,250	3,906,250	3,906,250
Share premium	31c	2,033,088	2,033,088	2,033,088
Statutory reserves	31d	1,212,963	1,212,963	1,212,963
Other reserves	31	(17,591,274)	(10,940,890)	(5,983,469)
		(10,438,973)	(3,788,589)	1,168,832
Less intangible assets:				
Deferred tax asset	24	-	(2,603,331)	(2,021,850)
Computer software	23	(246,942)	(332,052)	(375,291)
Total qualifying Tier 1 capital		(10,685,915)	(6,723,972)	(1,228,309)
Tier 2 capital				
Fair value reserve for available-for-sale securities		(805,201)	(1,514,222)	(1,090,168)
Collective allowances for impairment		703,499	903,857	204,497
Total qualifying Tier 2 capital		(101,702)	(610,365)	(885,671)
Total regulatory capital		(10,787,617)	(7,334,337)	(2,113,980)
Risk-weighted assets				
On-balance sheet		26,832,307	30,925,286	39,421,426
Off-balance sheet				
Total risk-weighted assets		26,832,307	30,925,286	39,421,426
Total regulatory capital expressed as a percentage of total risk-weighted assets		-40.20%	-23.72%	-5.36%
Total tier 1 capital expressed as a percentage of total risk-weighted		-39.82%	-21.74%	-3.12%

5 Use of estimates and judgements and disclosure of financial risk management

5.1 Key sources of estimation uncertainty

(i) Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.8(d).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held to maturity investment securities with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held to maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

Investments in equity securities were evaluated for impairment on the basis described in note 3.8(d)(ii). For an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In this respect, the Mortgage Bank regarded a decline in fair value in excess of 20 percent to be significant and a decline in a quoted market price that persisted for nine months or longer to be prolonged.

(ii) Determination of regulatory risk reserves

Provisions under prudential guidelines are determined using the time based provisioning regime prescribed by the Revised Central Bank of Nigeria (CBN) Prudential Guidelines for Primary Mortgage Institutions. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision regime, there will be variances in the impairments allowances required under the two methodologies.

(a) Impairment for loans recognised in the statement of comprehensive income account is determined based on the requirements of IFRS. However, the IFRS impairment is compared with provisions determined under prudential guidelines and the expected impact/changes is recognised in general reserves as follows:

- If prudential provisions is greater than IFRS impairment; the excess provision resulting therefrom is transferred from the general reserve account to a "regulatory risk reserve".
- If prudential provisions is less than IFRS impairment; IFRS determined impairment is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

- (b) The regulatory risk reserve is considered a non-distributable reserve and is classified under Tier 1 as part of the core capital. The Mortgage Bank has complied with the requirements of the guidelines as follows:

Statement of prudential adjustments		December	December	January
<i>In thousands of Naira</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
<i>IFRS-based impairments and credit losses:</i>				
<i>Specific impairment allowances on loans to customers</i>	18(a(i))	17,292,032	16,653,235	14,070,537
<i>Collective impairment allowances on loans to customers</i>	18(a(ii))	703,499	903,857	204,497
<i>Impairment allowance on other assets</i>	25	2,218,466	1,711,196	796,171
Total impairment allowances by the Bank				
(a)		20,213,996	19,268,288	15,071,205
<i>Prudential provisions and credit losses:</i>				
<i>Specific provision on loans to customers</i>		9,181,831	8,735,338	9,441,884
<i>General provision on loans to customers</i>		89,334	83,733	85,946
<i>Interest in suspense on loans to customers</i>		8,557,156	5,838,528	4,038,779
<i>Specific impairment on other assets</i>		2,218,466	1,826,580	566,171
Total regulatory impairment based on prudential guidelines (b)		20,046,786	16,484,179	14,132,780
Required balance in regulatory risk reserves (c = b - a), where b>a		-	-	-

(iii) *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 3.8(c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iv) *Financial asset and liability classification*

The Mortgage bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories.

- (i) In classifying financial assets or liabilities as "trading", the Mortgage Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.8.
- (ii) In designating financial assets or liabilities as available for sale, the Mortgage Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3.9.
- (iii) In classifying financial assets as held-to-maturity, the Mortgage Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3.9.

Details of the Mortgage Bank's classification of financial assets and liabilities and related fair values to the financial statement are given in note 7.

(v) *Depreciation of property and equipment*

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

(vi) *Determination of impairment of property and equipment, and intangible assets excluding goodwill*

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. The Mortgage Bank applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

(vii) *Valuation of financial instruments*

The Mortgage Bank's accounting policy on fair value measurements is discussed under note 3.8(c)

The Mortgage Bank measures fair values using the following hierarchy of methods.

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly- i.e. as prices or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: This includes financial instruments, the valuation of which incorporate significant inputs for the asset or liability that is not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on inputs of a similar nature, historic observations on the level of the input or analytical techniques. This category includes investment in unquoted equity.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2012	Note	Level 1	Level 2	Level 3	Total
------------------	------	---------	---------	---------	-------

In thousands of Naira

Investment securities available for sale	19	937,466	-	1,961,000	2,898,466
--	----	---------	---	-----------	-----------

31 December 2011	Note	Level 1	Level 2	Level 3	Total
------------------	------	---------	---------	---------	-------

In thousands of Naira

Investment securities available for sale	19	1,164,039	-	1,961,000	3,125,039
--	----	-----------	---	-----------	-----------

1 January 2011	Note	Level 1	Level 2	Level 3	Total
<i>In thousands of Naira</i>					
Investment securities available for sale	19	3,115,950	-	1,961,000	5,076,950

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Mortgage Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free interest rates, credit spreads and other premia used in estimating discount rates, bonds and equity prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Mortgage Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(viii) *Income Taxes*

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Mortgage Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ix) *Defined benefit plan*

The present value of a long term benefit plan depends on a number of factors that are determined in an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Mortgage Bank determines the appropriate discount rate at the end of the reporting period. In determining the appropriate discount rate, reference is made to the yield on Nigerian Government Bonds that have maturity dates approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

6 Segment analysis

(a) Business segment

The Mortgage Bank operates the following main business segments:

Mortgage banking – The Mortgage Banking Division provides mortgage, real estate and overdraft products and services to corporate organizations and individuals to meet the needs of this segment of the Mortgage Bank's customers. This department is also responsible for deposit mobilisation.

Estate Management – The Estate Management Division has presence in all major cities in the country. It provides facilitates the construction and disposal of properties, and also oversees the collection of the Mortgage Bank's rental income.

(b) The business segment result is as follows

<i>In thousands of Naira</i>	Mortgage Banking		Estate Management		Unallocated		Total	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Gross earnings:								
Derived from external customers	6,298,051	5,497,553	(841,483)	420,885	346,542	1,164,257	5,803,110	7,082,695
Derived from other segments	-	-	-	-	-	-	-	-
	6,298,051	5,497,553	(841,483)	420,885	346,542	1,164,257	5,803,110	7,082,695
Interest and similar expenses	(3,074,638)	(2,687,209)	-	-	(498,563)	(323,393)	(3,573,201)	(3,010,602)
Net operating income/(loss)	3,223,413	2,810,344	(841,483)	420,885	(152,021)	840,864	2,229,909	4,072,093
Expense:								
Operating expenses	(1,154,114)	(1,218,562)	(427,270)	(303,288)	(439,853)	(536,014)	(2,021,237)	(2,057,864)
Personnel expenses	(1,557,593)	(1,735,757)	(943,038)	(1,649,609)	-	-	(2,500,631)	(3,385,366)
Impairment on financial assets	(709,609)	(3,318,018)	-	-	(507,270)	(2,532,683)	(1,216,879)	(5,850,701)
Depreciation and amortisation	-	(400,378)	-	-	(346,603)	-	(346,603)	(400,378)
Total cost	(3,421,316)	(6,672,715)	(1,370,308.51)	(1,952,897.18)	(1,293,726)	(3,068,697)	(6,085,350)	(11,694,309)
(Loss)/profit on ordinary activities before taxation	(197,903)	(3,862,371)	(2,211,792)	(1,532,012)	(1,445,747)	(2,227,833)	(3,855,441)	(7,622,216)
Taxation	(2,777,165)	581,481	-	-	-	-	(2,777,165)	581,481
	(2,975,068)	(3,280,890)	(2,211,792)	(1,532,012)	(1,445,747)	(2,227,833)	(6,632,606)	(7,040,735)

	Mortgage Banking		Estate Management		Unallocated		Total	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Assets and Liabilities:								
Tangible segment assets	23,614,935	18,072,150	14,297,572	17,175,214	1,189,567	882,515	39,102,074	36,129,879
Intangible segment assets	246,942	2,935,383	-	-	-	-	246,942	2,935,383
Total assets	23,861,877	21,007,533	14,297,572	17,175,214	1,189,567	882,515	39,349,016	39,065,262
Segment liabilities	22,635,881	21,549,298	25,390,417	20,908,484	2,566,269	1,910,288	50,592,567	44,368,070
Unallocated segment liabilities	-	-	-	-	-	-	-	-
Total liabilities	22,635,881	21,549,298	25,390,417	20,908,484	2,566,269	1,910,288	50,592,567	44,368,070
Net assets/(liabilities)	1,225,996	(541,765)	(11,092,845)	(3,733,270)	(1,376,702)	(1,027,773)	(11,243,551)	(5,302,808)

(c) Geographical segment

The Mortgage Bank operates only in Nigeria. Thus, no geographical segment information has been provided in these financial statements as there is only one geographical segment.

7 Classification of financial assets and liabilities

Accounting classification measurement basis and fair values

The table below sets out the Mortgage Bank's classification of each class of financial assets and liabilities, and their face values:

	Notes	Held-to-maturity	Loans and receivables at amortised cost	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
31 December 2012							
<i>In thousands of Naira</i>							
Cash and cash equivalents	17	-	6,885,516	-	-	6,885,516	6,885,516
Loans and advances to customers	18	-	13,146,789	-	-	13,146,789	12,239,654
Investment securities	19	-	-	2,898,466	-	2,898,466	2,898,466
Other assets		-	1,194,201	-	-	1,194,201	1,194,201
Total financial assets		-	21,226,506	2,898,466	-	24,124,972	23,217,837
Deposits from customers	26	-	-	-	37,945,657	37,945,657	37,945,657
Other borrowed funds	30	-	-	-	3,276,581	3,276,581	3,276,581
Other liabilities		-	-	-	6,296,563	6,296,563	6,296,563
Total financial liabilities		-	-	-	47,518,801	47,518,801	47,518,801
31 December 2011							
<i>In thousands of Naira</i>							
Cash and cash equivalents	17	-	535,797	-	-	535,797	535,719
Loans and advances to customers	18	-	12,475,158	-	-	12,475,158	11,267,864
Investment securities	19	-	-	3,125,039	-	3,125,039	3,125,039
Other assets		-	460,926	-	-	460,926	460,926
Total financial assets		-	13,471,881	3,125,039	-	16,596,920	15,389,548
Deposits from customers	26	-	-	-	34,985,679	34,985,679	34,985,679
Other borrowed funds	30	-	-	-	5,354,720	5,354,720	5,354,510
Other liabilities		-	-	-	2,101,291	2,101,291	2,101,291
Total financial liabilities		-	-	-	42,441,690	42,441,690	42,441,480

	Notes	Held-to-maturity	Loans and receivables at amortised cost	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
1 January 2011							
<i>In thousands of Naira</i>							
Cash and cash equivalents	17	-	1,467,561	-	-	1,467,561	1,467,561
Loans and advances to customers	18	-	14,332,883	-	-	14,332,883	13,742,582
Investment securities	19	-	-	5,076,950	-	5,076,950	5,076,950
Other assets		-	755,227	-	-	755,227	755,227
Total financial assets		-	16,555,671	5,076,950	-	21,632,621	21,042,320
Deposits from customers	26	-	-	-	41,943,471	41,943,471	41,943,471
Other borrowed funds	30	-	-	-	981,480	981,480	981,479
Other liabilities		-	-	-	2,551,512	2,551,512	2,551,512
Total financial liabilities		-	-	-	45,476,463	45,476,463	45,476,462

The above table includes ₦1.96 billion (2011: N1.96 billion and 2010: N1.96 billion) of unquoted equity investment securities in both the carrying amount and fair value columns that are measured at cost and for which disclosure of fair value is not provided because there are no observable data to determine reliably their fair values.

8 Net interest income

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Interest income		
Cash and cash equivalents	339	12,504
Loans and advances to banks and customers	5,773,760	5,194,158
Available for sale securities	236,918	-
<i>Total interest income</i>	<i>6,011,017</i>	<i>5,206,662</i>
Interest expense		
Deposits from customers	3,074,638	2,663,686
Long term borrowing	498,563	323,393
Other borrowed funds	-	23,523
<i>Total interest expense</i>	<i>3,573,201</i>	<i>3,010,602</i>
Net interest income	2,437,816	2,196,060

9 Net fees and commission income

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Fees and Commission Income		
Mortgage banking customer fees & commissions	287,034	290,891
<i>Total fee and commission income</i>	<i>287,034</i>	<i>290,891</i>
Fees and Commission expenses		
Mortgage banking customer fees & commissions	-	-
<i>Total fee and commission expense</i>	<i>-</i>	<i>-</i>
Net fee and commission income	287,034	290,891

Mortgage banking credit related fees and commissions relate to fees charged to mortgage customers other than fees included in determining the effective interest rates relating to loans and advances carried at amortized cost.

10 Net trading (loss)/income

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Rental income	37,060	8,652
Profit on disposal of investment property	848,029	603,013
Net fair value loss on investment properties	(1,726,572)	(190,780)
<i>Net trading (loss)/income</i>	<i>(841,483)</i>	<i>420,885</i>

Net trading income includes the gains and losses arising both on the purchase, sale and changes in fair value of investment properties.

11 Other operating income

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Dividends on available-for-sale equity securities	1,317	90,744
Gains on disposal of property and equipment	870	197,768
Sundry income	256,358	702,402
<i>Other operating income</i>	<i>258,545</i>	<i>990,914</i>

12 Net impairment loss on financial assets

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Impairment losses on loans and advances		
-specific impairment (see note 18(a)(i))	2,045,979	4,471,413
-(writeback)/portfolio impairment (see note 18(a)(ii))	(200,358)	699,360
Impairment loss on other assets (see note 25(d))	550,976	1,160,179
Allowance on longer required on other asset (see note 25(d))	(43,706)	(245,154)
Recoveries on loans and advances		
-specific impairment (see note 18(a)(i))	(1,136,011)	(1,852,755)
	1,216,879	4,233,043

13 Personnel expenses

(a) (i) Staff and executive directors' costs

Employee costs, including executive directors, during the year is shown below:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Wages and salaries	1,708,225	2,401,354
Pension cost : -		
Defined contribution plans	64,109	171,078
Defined benefit plans	728,297	324,112
	2,500,631	2,896,544

(ii) The average number of persons employed by the Mortgage Bank during the year was as follows:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Executive directors	1	2
Management	10	14
Staff	569	665
	580	681

(b) (ii) Employees other than non-executive directors, earning more than ₦900,000 per annum, whose duties were wholly or mainly discharged in Nigeria, received emoluments (excluding pension contributions and certain benefits) in the following ranges:

	31 December 2012	31 December 2011
	Number	Number
₦ 1 - ₦ 999,999	36	57
₦ 1,000,000 - ₦ 1,500,000	31	49
₦ 1,500,001 - ₦ 2,000,000	177	200
₦ 2,000,001 - ₦ 2,500,000	222	207
₦ 2,500,001 - ₦ 3,000,000	44	33
₦ 3,000,001 - ₦ 3,500,000	30	45
₦ 3,500,001 - ₦ 4,000,000	-	34
₦ 4,000,001 - ₦ 4,500,000	12	-
₦ 4,500,001 - ₦ 5,000,000	-	14
₦ 5,000,001 - ₦ 6,000,000	11	-
₦ 6,000,001 - ₦ 6,500,000	-	15
₦ 7,000,001 - ₦ 7,500,000	6	-
₦ 7,500,001 - ₦ 8,000,000	8	10
₦ 8,500,001 - ₦ 9,000,000	-	5
₦ 9,000,001 - ₦ 9,500,000	-	6
₦ 9,500,001 - ₦ 10,000,000	-	2
Above ₦10,000,000	3	4
	580	681

(c) **Directors' remuneration:**

(i) Directors' remuneration (excluding pension contributions and certain benefits) was provided as follows:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Fees as directors	2,226	5,013
Other emoluments	64,486	84,092
	<u>66,712</u>	<u>89,105</u>

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Chairman	<u>8,455</u>	<u>9,546</u>
Highest paid director	<u>9,483</u>	<u>10,245</u>

(ii) The emoluments of other directors fell within the following ranges:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
N1,000,001 - N15,000,000	<u>5</u>	<u>5</u>

14 Other operating expenses

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Auditor's remuneration	12,960	12,960
NDIC premium	161,217	211,974
Directors' emoluments	66,713	89,105
Rents, rates and taxes	215,963	275,627
Business development expenses	33,389	54,819
Repair and maintenance	14,054	22,412
Professional fees	101,394	346,837
General administrative expenses	412,839	500,642
Insurance	96,452	84,369
Penalties and charges	1,310	2,330
Loss on disposal of investments	619,070	-
Others	285,876	456,792
	<u>2,021,237</u>	<u>2,057,867</u>

15 Income tax

(a) **Recognised in profit or loss**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Current tax		
Company Income Tax	-	-
Deferred tax		
Reversal/(origination) of temporary differences	2,777,165	(581,481)
NITDA Levy	-	-
	<u>2,777,165</u>	<u>(581,481)</u>
Minimum tax	17,778	23,163
<i>Total income tax expense/(credit)</i>	<u>2,794,943</u>	<u>(558,318)</u>

(b) **Reconciliation of effective tax rate**

<i>In thousands of Naira</i>		31 December 2012		31 December 2011
Loss before income tax		(3,855,441)		(5,515,739)
Income tax using the Federal inland revenue service tax rate	30%	(1,156,632)	30%	(1,654,722)
Non-deductible expenses	-22%	850,326	-5%	275,981
Reversal/(origination) of temporary differences	-72%	2,777,165	11%	(581,481)
Effect of unutilised tax losses	-16%	634,881	-36%	1,967,736
Tax exempt income	9%	(328,575)	11%	(588,996)
Total income tax expense in comprehensive income	-72%	2,777,165	11%	(581,481)

16 Earnings per share

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Mortgage Bank by the weighted average number of ordinary shares in issue during the year. The calculation of basic earnings per share at 31 December 2012 was based on the loss attributable to ordinary shareholders and the number of ordinary shares in issue of 7,812,500,000 as at year end:

(a(i)) **Number of ordinary shares**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Weighted average of ordinary shares in issue	7,812,500	7,812,500

(a(ii)) **Earnings attributable to ordinary shareholders**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Earnings for the year attributable to equity holders	(5,940,713)	(5,381,475)
Basic earnings per share	(76) k	(69) k

The Mortgage Bank does not have any dilutive potential ordinary shares. Therefore, Basic EPS and Diluted EPS are the same for the Mortgage Bank.

17 Cash and cash equivalents

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Cash in hand	103,844	116,400	138,974
Cash and balances with banks	151,671	419,397	674,512
Money market placements	503,629	-	654,075
Treasury bills	6,126,372	-	-
	6,885,516	535,797	1,467,561

18 Loans and advances to customers

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Gross amount	31,142,320	30,032,250	28,607,917
Specific impairment (see (a(i)) below)	(17,292,032)	(16,653,235)	(14,070,537)
Portfolio impairment (see (a(ii)) below)	(703,499)	(903,857)	(204,497)
Total impairment	(17,995,531)	(17,557,092)	(14,275,034)
Carrying amount	13,146,789	12,475,158	14,332,883

(a) **Impairment allowance on loans and advances to customers**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
(a(i)) Specific impairment			
Balance, beginning of year	16,653,235	14,070,537	9,023,585
Impairment loss for the year:			
- Charge for the year	2,045,979	4,471,413	5,874,401
- Recoveries	(1,136,011)	(1,852,755)	(577,222)
Net impairment for the year	17,563,203	16,689,195	14,320,764
Write-offs	(271,171)	(35,960)	(250,227)
Balance, end of year	17,292,032	16,653,235	14,070,537

(a(ii)) **Portfolio impairment**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
<i>Balance, beginning of the year</i>	903,857	204,497	-
<i>Impairment loss for the year:</i>			
- (Write back)/charge for the year	(200,358)	699,360	204,497
<i>Balance, end of the year</i>	703,499	903,857	204,497

19 Investment securities categorised as available for sale:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Federal Government bonds	545,817	516,122	520,509
Unquoted equity (see note (a) below)	1,961,000	1,961,000	1,961,000
Quoted securities	391,649	647,917	4,213,099
	2,898,466	3,125,039	6,694,608
Less: impairment loss	-	-	(1,617,658)
	2,898,466	3,125,039	5,076,950

(a) **Unquoted investment comprises:**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Investment in Union Assurance Company Limited (see note (i) below)	1,466,000	1,466,000	1,466,000
Investment in UBN Property Company Limited (see note (ii) below)	495,000	495,000	495,000
	1,961,000	1,961,000	1,961,000

These investment securities are carried at cost as there were no observable market data that could be used to readily determine their fair values.

- (i) This represents the Company's investment in 1,134,615,384 shares (2011: 1,134,615,384 shares) of Union Assurance Company Limited, which is also a subsidiary of Union Bank PLC, the parent company.
- (ii) This represents the Company's investment in 495,000,000 shares (2011: 495,000,000 shares) of UBN Property Company Limited, which is also a subsidiary of Union Bank PLC, the parent company.

20 Investment in equity-accounted investee

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Investment in associates - REITS (see note 20.1 below)	5,453,200	5,365,203	5,191,860
Investment in jointly controlled entity - Saffer Union (see note 20.2 below)	-	-	-
	<u>5,453,200</u>	<u>5,365,203</u>	<u>5,191,860</u>

20.1 Investment in associates

This comprises the Company's investment in the Union Homes Real Estate Investment Scheme (REITS), in which the Mortgage Bank has 40% equity holding and also serves as the Fund manager. The Fund has 30 November 2012 as its year end. The Company's share of the associate's financial position as at 30 November 2012 is as shown below:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Cost			
Balance, beginning of the year	5,365,203	5,191,860	5,194,871
Share of current year result	87,997	173,343	79
Disposal during the year			(3,090)
<i>Balance, end of the year</i>	<u>5,453,200</u>	<u>5,365,203</u>	<u>5,191,860</u>

The summarised financial information of Union Homes Real Estate Investment Scheme (REITS) is as set out below :

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Total assets	14,242,998	13,413,007	13,822,838
Total liabilities	(609,997)	(380,667)	(843,189)
Net assets	<u>13,633,001</u>	<u>13,032,340</u>	<u>12,979,649</u>
Gross revenue	1,076,134	1,095,302	403,441
Profit after taxation	<u>591,123</u>	<u>667,475</u>	<u>199</u>

20.2 Investment in jointly controlled entity

This represents investment in Saffer Union (West Africa) Limited, a jointly controlled entity (JCE) located in Nigeria. Due to the loss making nature of the entity, the Mortgage Bank has set up impairment allowance for the entire amount, being the excess of the Mortgage Bank's share of the JCE's loss over and above its investment in the JCE.

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Cost	65,450	65,450	65,450
Impairment	(65,450)	(65,450)	(65,450)
<i>Carrying value, end of the year</i>	<u>-</u>	<u>-</u>	<u>-</u>

The summarised financial information of the Mortgage Bank's jointly controlled entity is as set out below:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Total assets	569,395	319,013	274,271
Total liabilities	(1,235,005)	(833,642)	(667,267)
Net liabilities	<u>(665,610)</u>	<u>(514,629)</u>	<u>(392,996)</u>
Gross revenue	166,658	266,402	95,934
Loss after taxation	<u>(150,982)</u>	<u>(121,633)</u>	<u>(97,656)</u>

21 Investment Properties

This represents the carrying value of real estate properties held by the Mortgage Bank for rental income or capital appreciation. The movement on the investment properties account during the year was as follows:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Balance, beginning of year	9,580,623	12,914,026	11,827,347
Additions	56,266	488,046	2,850,873
Reclassification to deposit	1,950,018	-	-
Reclassification to other assets	(169,707)	(1,153,491)	(60,510)
Disposal	(1,949,924)	(2,667,958)	(1,703,684)
	9,467,276	9,580,623	12,914,026
Impairment loss during the year	-	-	(66,029)
Net fair value (loss)/gain (see note (a(i)) below)	(1,728,635)	2,176,688	2,829,466
Balance, end of the year	7,738,641	11,757,311	15,677,463

(a) Fair value (loss)/gain

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Net fair value (loss)/gain is as shown below:			
Fair value gain	1,738,340	3,503,792	4,156,570
Fair value loss	(3,466,975)	(1,327,104)	(1,327,104)
	(1,728,635)	2,176,688	2,829,466

(a(ii)) The movement in fair value (loss)/gain is as shown below

This represents movement in fair value changes of the Mortgage Bank's investment properties during the reporting year. The movement in this account was as shown below:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Balance, beginning of year	2,176,688	2,829,466	-
Fair value (loss)/gain during the year	(1,380,134)	-	2,829,466
Transfer to profit and loss on disposal	(2,178,751)	(395,970)	-
Reversed on transfer of investment property to other assets	(346,438)	(256,808)	-
	(1,728,635)	2,176,688	2,829,466

The Mortgage Bank's investment properties were valued by Bode Adediji Partnership as at 31 December 2012 using the comparative method of valuation to arrive at the open market value. These are firms of independent professionally qualified estate surveyors and valuers.

22 Property and equipment

As at 31 December 2012

	Land & Building	Leashold Improvements	Furniture & Fittings	Motor Vehicles	Computer Equipment	Total
<i>In thousands of Naira</i>						
(a) Cost						
Balance, beginning of the year	924,191	853,044	868,895	427,741	400,329	3,474,200
Additions	19,248	1,370	8,276	-	9,896	38,790
Disposals	-	-	(6,284)	-	-	(6,284)
Reclassification to other assets	-	-	-	-	-	-
Balance, end of the year	943,438	854,414	870,887	427,741	410,225	3,506,706
(b) Accumulated depreciation						
Balance, beginning of the year	263,777	624,380	595,220	322,499	253,493	2,059,369
Charge for the year	63,533	78,123	39,870	49,249	30,719	261,493
Disposals	-	-	(5,310)	-	-	(5,310)
Reclassification to other assets	-	-	-	-	-	-
Balance, end of the year	327,310	702,503	629,780	371,748	284,212	2,315,552
(c) Net Book Value						
End of year	616,129	151,911	241,108	55,993	126,013	1,191,154
Beginning of the year	660,414	228,664	273,675	105,242	146,836	1,414,831

- (i) No leased assets are included in the above property and equipment (31 December 2011: nil)
- (ii) The Mortgage Bank has no capital commitment as at year end (2011: nil)
- (iii) There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2011: nil).

22 Property and equipment

As at 31 December 2011

	Land & Building	Leashold Improvements	Furniture & Fittings	Motor Vehicles	Computer Equipment	Total
<i>In thousands of Naira</i>						
(a) Cost						
Balance, beginning of the year	1,247,478	554,160	552,051	287,312	385,749	3,026,750
Additions	35,910	23,641	50,335	3,625	14,580	128,091
Disposals	(471,135)	-	-	-	-	(471,135)
Reclassification to other assets	111,938	275,243	266,509	136,804	-	790,494
Balance, end of the year	924,191	853,044	868,895	427,741	400,329	3,474,200
(b) Accumulated depreciation						
Balance, beginning of the year	104,792	275,333	225,182	136,804	198,378	940,489
Charge for the year	65,202	73,598	114,333	48,891	55,115	357,139
Disposals	(15,692)	-	-	-	-	(15,692)
Reclassification to other assets	109,474	275,449	255,705	136,804	-	777,432
Balance, end of the year	263,777	624,380	595,220	322,499	253,493	2,059,369
(c) Net Book Value						
End of year	660,414	228,664	273,675	105,242	146,836	1,414,831
Beginning of the year	1,142,686	278,827	326,869	150,508	187,371	2,086,261

- (i) No leased assets are included in the above property and equipment (31 December 2010: nil)
- (ii) The Company has no capital commitment as at year end (2010: nil)
- (iii) There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2010: nil).

23 Intangible assets

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
<i>Purchased Software - Cost</i>		
Balance, beginning of year	443,009	443,009
Additions	-	-
Balance as at year end	443,009	443,009
Amortization and impairment losses		
Balance, beginning of year	110,957	67,718
Amortisation for the year	85,110	43,239
Balance as at year end	196,067	110,957
Balance, beginning of year	332,052	375,291
Balance, end of year	246,942	332,052

24 Deferred tax asset/(liabilities)

(a) Movement on the net deferred tax assets/(liabilities) account during the year was as follows:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Balance, beginning of the year	2,603,331	2,021,850	(630,864)
Additions	-	516,203	3,068,371
Revaluation gain on investment property	176,545	65,278	(415,657)
	2,779,876	2,603,331	2,021,850
Derecognition	(2,953,710)	-	-
Net deferred tax (liabilities)/assets	(173,834)	2,603,331	2,021,850

(b) Recognised deferred tax (liabilities)/assets are attributable to the following:

31 December 2012

<i>In thousands of Naira</i>	Assets	Liabilities	Net
Property and equipment	-	-	-
Allowances for loan losses	-	-	-
Unrelieved losses	-	-	-
Investment property	-	(173,834)	(173,834)
Net deferred tax (liabilities)/assets	-	(173,834)	(173,834)

31 December 2011

<i>In thousands of Naira</i>	Assets	Liabilities	Net
Property and equipment	291,771	-	291,771
Allowances for loan losses	271,157	-	271,157
Unrelieved losses	2,390,783	-	2,390,783
Investment property	-	(350,379)	(350,379)
Net deferred tax (liabilities)/assets	2,953,710	(350,379)	2,603,331

31 December 2010

<i>In thousands of Naira</i>	Assets	Liabilities	Net
Property and equipment	287,194	-	287,194
Allowances for loan losses	61,349	-	61,349
Unrelieved losses	2,088,964	-	2,088,964
Investment property	-	(415,657)	(415,657)
Net deferred tax (liabilities)/assets	2,437,507	(415,657)	2,021,850

- (c) There was unrecognised deferred tax asset of N634.88 million (2011: N1.97 billion). The deferred tax asset was not recognised due to uncertainties surrounding the availability of future taxable profits with which the deferred tax asset can be utilised.

The unrecognised deferred tax asset during the year is attributable to the following:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
Property and equipment	100,860	-
Allowances for loan losses	-	-
Unrelieved losses	534,021	1,967,736
Net deferred tax (liabilities)/assets	634,881	1,967,736

25 Other assets

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Restricted deposits with central banks (see note (a) below)	15,831	15,831	15,831
Receivable from Saffer Union (see note (b) below)	150,800	150,800	150,800
Prepayments	578,275	979,841	690,584
Due from financial institutions (see note (c) below)	384,405	296,487	613,837
Deposit for property (see note (e) below)	999,491	999,491	-
Other receivables	1,877,971	725,344	786,761
	4,006,773	3,167,794	2,257,813
Impairment on other assets (see note (d) below)	(2,218,466)	(1,711,196)	(796,171)
	1,788,307	1,456,598	1,461,642

- (a) This balance is made up of Central Bank of Nigeria's cash reserve requirement. Restricted deposits with central banks are not available for use in the Mortgage Bank's day-to-day operations.
- (b) This represents receivable from Saffer Union (West Africa) Limited, a jointly controlled entity (JCE) located in Nigeria. Due to the loss making nature of the entity, the Mortgage Bank has set up impairment allowance for the entire amount, being the excess of the Mortgage Bank's share of the JCE's loss over and above its investment in the JCE.
- (c) Due from other financial institutions represents balances due from Union Bank of Nigeria Plc, the parent company of the Mortgage Bank (see note 37(b)(iii)).
- (d) **Movement in impairment on other assets:**

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Balance, beginning of year	1,711,196	796,171	322,496
Charge for the year	550,976	1,160,179	473,675
Allowance no longer required	(43,706)	(245,154)	-
Balance, end of year	2,218,466	1,711,196	796,171

- (e) The developer of the Tejuosho market project, Stormberg Estates Limited, was placed under receivership by its major financier, subsequent to year end. The Mortgage Bank's investment in this property of N0.9 billion was consequently transferred to other assets and fully provided for as the Mortgage Bank has equitable and not legal title to the property.

26 Deposits from customers

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Term deposits	32,226,393	28,648,979	35,445,252
Current deposits	2,679,026	3,097,137	3,321,447
Savings	3,040,238	3,239,563	3,176,772
	37,945,657	34,985,679	41,943,471

27 Tax Payable

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Balance, beginning of year	70,820	103,575	103,575
Charge for the year	17,778	23,163	-
Payments during the year	-	(55,918)	-
Balance, end of year	88,598	70,820	103,575

28 Other liabilities

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Deposit for properties (see note (a) below)	4,256,866	1,178,812	1,697,455
PAYE and other statutory deductions	227,682	2,278	155,550
Draft and bills payable	148,960	48,026	231,948
Creditors and accruals	227,993	79,636	108,443
Accounts payable	325,243	532,933	275,357
Unearned income	146,217	38,807	93,399
Sundry creditors	1,337,501	261,884	238,309
	6,670,462	2,142,376	2,800,461

- (a) This represents deposits received from various customers for purchase of investment properties.

29 Employee benefit obligations

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Gratuity liability	2,025,431	1,678,388	1,623,895
Directors' pension fund liability	293,954	141,799	86,872
Staff provident fund	192,344	192,344	192,344
Staff pension fund liability	845,132	804,139	161,756
Defined benefit obligation	3,356,861	2,816,670	2,064,867
Planned Assets	(1,074,183)	(1,134,354)	(409,591)
	2,282,678	1,682,316	1,655,276
Long service award liability	155,379	132,220	128,834
	2,438,057	1,814,536	1,784,110

This represents the Mortgage Bank's liability to its staff under the legacy pension scheme, gratuity scheme and provision for liability to its directors as retirement benefits.

The defined benefit obligation was actuarially determined by HR Nigeria Limited as at 31 December 2004 and 31 March 2012.

The actuarial valuation for staff under legacy pension scheme was adjusted for 5% interest per annum up till 31 October 2011, which is the actuarial report date, to be N804 million .

The gratuity scheme is as stated in the Mortgage Bank's staff pension trust scheme. Employees with 5 years and above qualify under this scheme.

- (ii) The movement in defined benefit obligation during the year was as follows:

Defined benefit obligation

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Present value of unfunded obligation	2,319,384	1,820,187	1,710,767
Present value of funded obligation	1,037,476	996,483	354,100
Total present value of the obligations	3,356,860	2,816,670	2,064,867
Fair value of plan assets	(1,074,183)	(1,134,354)	(409,591)
Present value of net obligation	2,282,677	1,682,316	1,655,276
Recognized liability for defined benefit obligation	2,282,678	1,682,316	1,655,276

(iii) **Plan assets**

Plan assets comprise:

In thousands of Naira

	31 December 2012	31 December 2011	1 January 2011
Equity securities	882,155	882,155	844,630
Impairment loss on planned assets	(450,354)	(390,183)	(435,039)
	431,801	491,972	409,591
Balance with Pension Fund Administrator (see note (a) below)	642,382	642,382	-
	<u>1,074,183</u>	<u>1,134,354</u>	<u>409,591</u>
Actual return on plan assets	<u>-</u>	<u>-</u>	<u>-</u>

(a) Balances with pension fund administrator represents the amounts transferred to pension fund administrators in the name of the legacy pension scheme.

(iv) Movement in present value of defined benefit obligation includes

In thousands of Naira

	2012	2011
Defined benefit obligation at 1 January	2,816,670	2,707,250
Actuarial losses	-	9,181
Actuarial gain	-	(242,052)
Benefit paid by the plan	(137,237)	(68,596)
Benefit accrued by the plan	307,743	54,926
Current service costs and interest	369,684	355,961
Defined benefit obligation at 31 December	<u>3,356,860</u>	<u>2,816,670</u>

(v) Movement in the fair value of plan assets includes

In thousands of Naira

	2012	2011
Fair value of plan assets at 1 January	1,134,354	409,591
Contribution paid into the plan	-	642,382
Benefit paid by the plan	-	-
(Losses)/gain on the plan assets	(60,171)	82,381
Fair Value of plan assets at 31 December	<u>1,074,183</u>	<u>1,134,354</u>

(vi) **Expenses recognised in profit or loss**

In thousands of Naira

	2012	2011
Current service cost	158,013	162,247
Interest on obligation	211,671	193,264
	<u>369,684</u>	<u>355,511</u>

(vii) **Actuarial assumptions**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

In thousands of Naira

	31 December 2012	31 December 2011	1 January 2011
Discount rates	13%	13%	12%
Future salary increases	12%	12%	11%
Inflation rate increase	10%	10%	10%

The valuation assumptions fall under financial assumptions and demographic assumptions. Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 25 for male and female staff.

The overall expected long-term rate of return on assets is 5 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation.

(viii) **Historical information**

In thousands of Naira

	31 December 2012	31 December 2011	1 January 2011
Present value of the defined benefit obligation	3,356,860	2,816,670	2,064,867
Fair value of the plan assets	1,074,183	1,134,354	409,591
Deficit in the plan	(2,282,677)	(1,682,316)	(1,655,276)

The Mortgage Bank expects N107.94 million in contributions to be paid to its defined benefit plan in 2013

(ix) **Other long term benefits**

This represents the Company's provision for liability arising from long service award to be given to staff member who has spent from 10 years and above. The Mortgage Bank's liability was determined by HR Nigeria Limited, an actuary, as at 31 December 2011.

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Present value of unfunded long term benefit	155,379	132,220	128,834
Present value of funded long term benefit	-	-	-
Total present value of the long term benefit	155,379	132,220	128,834
Fair value of plan assets	-	-	-
Present value of net long term benefit	155,379	132,220	128,834
Recognized liability for other long term benefit	155,379	132,220	128,834

(x) Movement in present value of other long term benefit includes

<i>In thousands of Naira</i>	2012	2011
Other long term benefit at 1 January	132,220	128,834
Actuarial gain	-	(18,852)
Benefit paid by the plan	(8,553)	(8,883)
Current service costs and interest	31,712	31,121
Defined benefit obligation at 31 December	155,379	132,220

30 Other borrowed funds

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Due to Banks (see note (a) below)	2,879,583	4,905,782	294,252
Due to FMBN(see note (b) below)	396,998	448,938	687,228
	3,276,581	5,354,720	981,480

(a) Due to Banks comprise of the Mortgage Bank's overdrawn position with the parent company, Union Bank of Nigeria Plc.

(b) Amount represents balances on various loan amounts disbursed by FMBN (Federal Mortgage Bank of Nigeria), for the purpose of on-lending to customers. The loan was granted in various tranches with repayment periods ranging from 2017 to 2032. Interest is payable on the loan amount at 4% per annum. Loans obtained by the Mortgage Bank on behalf of the on-lending customers are secured by mortgaged properties.

31 Capital and reserves

Share capital

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
(a) Authorised :			
10,000,000,000 Ordinary shares of 50kobo each (31 December 2011: 10,000,000,000 shares of 50kobo each)	5,000,000	5,000,000	5,000,000
(b) Issued and fully paid -			
7,812,500,000 Ordinary shares (31 December 2011: 7,812,500,000 ordinary shares) of 50kobo each	3,906,250	3,906,250	3,906,250

(c) **Share premium**

This represents the excess paid by shareholders over the nominal value of their shares.

Share premium	2,033,088	2,033,088	2,033,088
---------------	-----------	-----------	-----------

(d) Statutory Reserves:

Nigerian banking regulations require the Mortgage Bank to make an annual appropriation to a statutory reserve. As stipulated by section 11 of the Guidelines for Primary Mortgage Institutions, an appropriation of 20% of profit after tax is made if the statutory reserve is less than paid-up share capital and 10% of profit after tax if the statutory reserve is greater than the paid up share capital. However, the Bank made no transfer to statutory reserves at the reporting date because all identifiable losses accumulated in retained deficit account had not been made good (31 December 2011: nil)

(e) Fair value reserve

The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised.

(f) Retained deficits

Accumulated deficits are the carried forward recognised losses plus current year profit/(loss) attributable to shareholders.

32 Claims, litigations and Contingencies

(a) Contingencies

There are no contingent liabilities as at 31 December 2012 (31 December 2011: N460m)

(b) Claims and litigations

The Mortgage Bank in its ordinary course of business is involved in 71 litigation suits (31 December 2011: 79). The total amount claimed in the 71 cases against the Mortgage Bank is estimated at N2,639,202,430 (31 December 2011: N4,360,000,000). The Directors, having sought the advice of professional legal counsel, are of the opinion that based on the advice received, no significant liability will crystallize from these cases. No provisions are therefore deemed necessary for these claims.

33 Subsequent events

There were no post balance sheet events which could have a material effect on the financial position of the Mortgage Bank as at 31 December 2012 and its financial performance for the year then ended which have not been adequately adjusted for or disclosed.

34 Going concern

At the reporting date, the Mortgage Bank had deficit Shareholders' Funds of N11.2billion (2011: N5.3billion) and a reported loss after tax of N6.65billion (2011:N6.57billion).

These operating losses were largely created by impairment charges on defaulted loans and other operating costs.

Shareholders' funds were significantly below the minimum regulatory capital of N100m at the reporting date. In line with the prudential guidelines for Primary Mortgage Institutions issued by the Central Bank of Nigeria in November 2011, with an extended compliance deadline for minimum capital at 31 December 2013, the Mortgage Bank is required to have minimum regulatory capital of N5billion by 31 December 2013. Given the level of the Shareholders' funds as at 31 December 2012, the minimum fresh capital required by the Mortgage Bank will not be less than N16.2billion to meet the revised regulatory minimum capital. This amount may increase if the Mortgage Bank continues to incur losses during the financial year ending 31 December 2013. Non-compliance with the regulatory capital requirement could lead to the withdrawal of the Mortgage Bank's operating license.

These conditions create material uncertainty about the Mortgage Bank's ability to continue to operate in the foreseeable future. The directors of the Mortgage Bank are taking the following steps in dealing with the conditions:

- evaluation of the strategic options available and appropriate for the Mortgage Bank's circumstances. The evaluation of strategic options is in progress and the directors expect to have a plan in place to address the capital inadequacy before the regulatory deadline of 31 December 2013.
- pursuit of recovery of defaulted loans and sale of relevant investment assets to provide the needed liquidity and realise related gains;
- strategic cost reduction initiatives.

In view of the material uncertainty surrounding the going concern status of the Mortgage Bank, the directors of the Mortgage Bank believe that if the plans and the steps they are taking to address the capital inadequacy of the Mortgage Bank do not achieve the intended results, including the regulatory capital requirements, the Mortgage Bank may not be able to realise its assets and settle its obligations in the normal course of business in the foreseeable future.

35 Contraventions

The Mortgage Bank was penalised by the Nigeria Stock Exchange (NSE) during the year for an infraction of late submission of its audited financial statements for the year ended 31 December 2011 (Penalty: N1,309,770.00).

36 Frauds and forgeries

During the year, there were attempted frauds and forgeries of N5,935,500 (2011: N1,200,000) which are still under investigation.

37 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes associates, joint ventures and the Mortgage Bank's pension schemes, as well as key management personnel.

(a) Parent and ultimate controlling party

The parent company, which is also the ultimate parent company, is Union Bank PLC of Nigeria.

(b) Transactions with related parties

A number of banking transactions were entered into with related parties in the normal course of business. These include bank balances, deposits, placements, loans and advances, receivables and other borrowing. The volume of related-party transactions and outstanding balances as at year end are as follows:

(ii) Cash and cash equivalent

<i>In thousands of Naira</i>	<i>Relationship</i>	31 December 2012	31 December 2011	1 January 2011
Bank balances: Union Bank of Nigeria PLC	Parent company	3,636	380,678	351,624
Placements with financial institutions:				
Union Bank of Nigeria PLC	Parent company	500,000	-	502,953
Consolidated Discounts Limited	Related company	-	-	150,000
		503,636	380,678	1,004,577

(iii) Receivables from related parties

<i>In thousands of Naira</i>		31 December 2012	31 December 2011	1 January 2011
Saffer Union West Africa Ltd	Jointly controlled entity	150,800	150,800	150,800
Union Homes REIT	Associate	118,539	137,160	33,015
Union Bank of Nigeria PLC	Parent company	384,405	296,487	613,837
		653,744	584,447	797,652

(iv) Deposit liabilities

<i>In thousands of Naira</i>		31 December 2012	31 December 2011	1 January 2011
Union Bank of Nigeria PLC	Parent company	-	-	412
Consolidated Discounts Limited	Related company	-	500,000	-
Union Assurance Company Limited	Sister company	137,579	210,023	383,567
Union Registrars Limited	Sister company	1,100,000	1,500,000	2,306,600
Union Trustees Limited	Sister company	1,000,000	1,200,000	1,750,000
UBN Property Company Limited	Sister company	-	4,557	-
		2,237,579	3,414,580	4,440,578

(v) Other borrowed funds

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Short term loan (Union Bank of Nigeria Plc)	2,663,627	4,500,000	-

(c) Transactions with key management personnel

The Mortgage Bank's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. The definition of key management personnel includes close members of family of key personnel and any entity over which key management personnel exercises control. The key management personnel have been identified as the executive and non-executive directors of the Mortgage Bank. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Mortgage Bank and its related parties.

Key management personnel and their close family members engaged in the following transactions with the Mortgage Bank during the year:

Loans and advances:

<i>In thousands of Naira</i>	31 December 2012	31 December 2011	1 January 2011
Secured loans and advances	177,159	161,227	203,595
Other loans and advances	351,592	307,753	248,535
	528,751	468,980	452,130

The secured loans granted are secured over legal mortgage, equitable mortgage, equity and other assets of the respective borrowers. impairment losses have been recorded against balances outstanding during the year with key management personnel, and specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the year end.

(d) Loans and advances to directors and companies related by common directorship as at 31 December 2012:

Account name	Relationship	Balance	Quality	Impairment	Security
Ramat Hotels & Suites	Managed by spouse of an ex-AGM	233,733,624	Performing	14,345,782	Nil
Dogo Isuwa	Ex- Executive Director	70,932,529	Non-performing	70,932,529	Nil
Garba J.M.	Ex- Executive Director	54,192,813	Performing	120,445	Legal Mortgage
Omo-Ijiade C.	Director	32,518,735	Performing	1,995,890	Legal Mortgage
Akanbi Timothy	Ex-DGM of Holding Company	30,325,345	Non-performing	30,325,345	Nil
Kofon Effiom	Ex-Director	36,342,358	Non-performing	14,160,323	Nil
Amuka Frederick	AGM	23,542,569	Performing	138,998.13	Legal Mortgage
Azinge V.N.	Spouse to Ex-DGM of Holding Compa	21,731,269	Non-performing	21,731,269	Nil
Adamu Ismail	AGM	18,097,501	Performing	118,442	Legal Mortgage
Ugochukwu C.O.	Ex-AGM	16,217,579	Performing	-	Legal Mortgage
Yusuf A.L.A.	Ex-AGM	14,983,629	Performing	-	Legal Mortgage
Uwaobiala C.	Ex-AGM	11,585,253	Performing	145,873	Legal Mortgage

Key management personnel compensation for the year comprises:

Directors' remuneration

<i>In thousands of Naira</i>	31 December 2012	31 December 2011
<i>Non-executive Directors</i>		
Fees as directors	2,226	5,013
Other allowances	48,088	59,985
	-	50,314
<i>Executive directors</i>		
Short term employer's benefit	16,398	24,107
Long term incentive plan	-	-
	-	16,398
		24,107
Total compensation to key management personnel	66,712	89,105

39 Explanation of transition to IFRSs

(a) Implementation of IFRSs

As stated in note 3 on significant accounting policies, these are the Mortgage Bank's first financial statements prepared in accordance with IFRSs. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Mortgage Bank's date of transition). An explanation of how the transition from Nigerian GAAP to IFRSs has affected the Mortgage Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		31 December 2011			1 January 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
<i>In thousands of Naira</i>		<i>Notes</i>					
Assets							
Cash and cash equivalents	c(i)	551,548	(15,751)	535,797	829,316	638,245	1,467,561
Short term investment	c(ii)	-	-	-	650,000	(650,000)	-
Loans and advances to customers	c(ii)	15,540,022	(3,064,864)	12,475,158	15,255,382	(922,499)	14,332,883
Investment securities	c(ii)	8,416,097	(5,291,058)	3,125,039	10,237,403	(5,160,453)	5,076,950
Investments in equity-accounted investee	c(ii)	-	5,365,203	5,365,203	-	5,191,860	5,191,860
Investment properties		11,757,311	-	11,757,311	15,677,463	-	15,677,463
Property and equipment		1,414,831	-	1,414,831	2,086,261	-	2,086,261
Intangible assets		332,052	-	332,052	375,291	-	375,291
Deferred tax assets	c(iii)	2,332,174	271,157	2,603,331	1,960,501	61,349	2,021,850
Other assets	c(iv)	1,698,253	(241,655)	1,456,598	1,526,865	(65,223)	1,461,642
Total assets		42,042,288	(2,976,968)	39,065,320	48,598,482	(906,721)	47,691,761
Liabilities							
Deposit Liabilities	c(v)	34,750,635	235,044	34,985,679	41,743,943	199,528	41,943,471
Current tax liabilities		70,820	-	70,820	103,575	-	103,575
Other liabilities	c(vi)	2,605,560	(463,184)	2,142,376	2,975,739	(175,278)	2,800,461
Employee benefit obligations	c(vii)	1,850,857	(36,321)	1,814,536	896,045	888,065	1,784,110
Other borrowed funds		5,354,720	-	5,354,720	981,480	-	981,480
Total liabilities		44,632,592	(264,461)	44,368,131	46,700,782	912,315	47,613,097
Net assets		(2,590,304)	(2,712,507)	(5,302,811)	1,897,700	(1,819,036)	78,664
Equity							
Share capital		3,906,250	-	3,906,250	3,906,250	-	3,906,250
Share premium		2,033,088	-	2,033,088	2,033,088	-	2,033,088
Statutory Reserve		1,212,963	-	1,212,963	1,212,963	-	1,212,963
Retained deficit	c(ix)	(12,896,018)	1,955,128	(10,940,890)	(8,995,514)	3,012,045	(5,983,469)
AFS Reserves	c(viii)	-	(1,514,222)	(1,514,222)	-	(1,090,168)	(1,090,168)
Other component of equity	c(x)	3,153,413	(3,153,413)	-	3,740,913	(3,740,913)	-
Total equity attributable to owners of the Mortgage Bank		(2,590,304)	(2,712,507)	(5,302,811)	1,897,700	(1,819,036)	78,664
Total liabilities and equity		42,042,288	(2,976,968)	39,065,320	48,598,482	(906,721)	47,691,761

Reconciliation of comprehensive income for the year ended 31 December 2011

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
<i>In thousands of Naira</i>				
Interest income	d(i)	3,406,913	1,799,749	5,206,662
Interest expense	d(ii)	(2,687,208)	(323,394)	(3,010,602)
Net interest income		719,705	1,476,355	2,196,060
Fees and commission income	d(iii)	230,314	60,577	290,891
Net trading income	d(iv)	1,007,634	(586,749)	420,885
Other operating income	d(v)	1,021,728	(30,814)	990,914
Operating income		2,979,381	919,369	3,898,750
Net impairment loss on financial assets	d(vii)	(545,438)	(3,687,605)	(4,233,043)
Net operating income/(loss) after impairment loss on financial assets		2,433,943	(2,768,236)	(334,293)
Personnel expenses	d(viii)	(2,346,206)	(550,338)	(2,896,544)
Depreciation and amortization		(400,378)	-	(400,378)
Other operating expenses	d(ix)	(2,552,336)	494,469	(2,057,867)
Total expenses		(5,298,920)	(55,869)	(5,354,789)
Net operating loss after impairment loss on financial assets & total expense		(2,864,977)	(2,824,105)	(5,689,082)
Share of profit of equity-accounted investee	d(vi)	194,226	(20,883)	173,343
Loss before income tax		(2,670,751)	(2,844,988)	(5,515,739)
Income tax expense	d(x)	283,232	275,086	558,318
Loss for the year		(2,387,519)	(2,569,902)	(4,957,421)
Other comprehensive income, net of income tax				
Fair value (losses)/gains on available-for-sale investments - bonds		-	(4,086)	(4,086)
Fair value gains/(losses) on available-for-sale investments - Equities		-	(419,967)	(419,967)
Other comprehensive income for the year	d(xi)	-	(424,054)	(424,054)
Total comprehensive loss for the year		(2,387,519)	(2,993,956)	(5,381,475)
Loss attributable to:				
Equity holders of the Mortgage Bank		(2,387,519)	(2,993,956)	(5,381,475)
Loss for the year		(2,387,519)	(2,569,902)	(5,381,475)
Total comprehensive loss for the year		(2,387,519)	(2,993,956)	(5,381,475)

Statement of cash flows

There are no material difference between the statement of cash flows presented under IFRS and the statement of cash flows presented under the previous GAAP.

(b) Transitional arrangements

The Mortgage Bank adopted IFRSs effective 1 January 2011. The key principle of IFRS 1 – First-time Adoption of International Financial Reporting Standards for reporting entities with adoption date subsequent to 1 January 2006 is a full retrospective application of IFRSs. The mandatory exceptions on estimates, derecognition of financial instruments, non-controlling interests, assets and liabilities of subsidiaries, associates and joint ventures has been applied in the preparation of the financial statements.

However, this statement provides exemption from retrospective application in certain instances due to costs and practical considerations. The Mortgage Bank's transitional elections in this regard are set out below:

S/N	Exemption Topic	Options		Option Adopted
1	Deemed cost - Initial recognition (on transition date) of property, plant & equipment, intangible assets (that meet the recognition and revaluation criteria in IAS 38) and investment properties (if cost model is elected)	A	Deemed cost as fair value on date of transition	Option B
		B	Deemed cost as fair value determined prior to date of transition	
		C	A previous GAAP revaluation based on depreciated cost	
2	Business combinations	A	Restate all business combinations prior to date of transition	Not applicable to the Mortgage Bank
		B	Restate business combinations after a certain date prior to date of transition	
		C	Do not restate	
3	Employee benefits - Recognition of actuarial gains or losses on defined benefit plans at transition date	A	"Corridor" Method: Method in which recognition of the actuarial gains or losses is deferred.	Option A(ii)
		(i)	Recognition of amount outside the "corridor" over average remaining working life	
		(ii)	Immediate recognition of all amounts in profit or loss (faster method)	
		B	Immediate recognition in other comprehensive income (OCI)	
4	Cumulative translation differences of foreign operations	A	Apply IAS 21 The Effects of Changes in Foreign Exchange Rates retrospectively to determine the cumulative translation difference (CTD) for each foreign operation	Option B
		B	Deem the cumulative translation differences to be zero at the date of transition, and reclassify any amounts recognised in accordance with previous GAAP at that date as retained earnings	
5	Borrowing cost	A	Application of IAS 23 to borrowing cost of qualifying assets whose commencement date for capitalisation is on or after the effective date (the later of 1 January 2009 or the transition date)	Not applicable to the Mortgage Bank
		B	Designation of a date before the effective date and apply IAS 23 to borrowing costs of qualifying assets whose commencement date for capitalisation is on or after that date	
6	Adoption of IFRS 9 (Classification and measurement of financial instruments)	A	Adopt IFRS 9 at mandatory date of 1 January 2015	Option A
		B	Early adopt IFRS	
		(i)	Restate comparatives in line with IFRS 9	
		(ii)	Do not restate comparatives in line with IFRS 9	
7	Measurement of assets and liabilities of subsidiary that adopts IFRS after the parent	A	Measured at the amounts included in the consolidated financial statements of the parent, based on the parent's date of transition, excluding effects of consolidation procedures.	Not applicable to the Mortgage Bank
		B	Measured at the carrying amounts required by IFRS 1 based on the subsidiary's own date of transition.	

(c) Notes to the reconciliations:

The Mortgage Bank adopted IFRSs effective 1 January 2011. The key principle of IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.

Key impact analysis of IFRS on the financial position from 1 January 2011, date of transition, till 31 December 2011.

(i) Explanation of material adjustments to cash and cash equivalents

The net impact of application of IFRS on cash and cash equivalents of the Mortgage Bank is an increase and decrease in cash and cash equivalents for the year ended 1 January 2011 and 31 December 2011 respectively. The changes are net impact of reclassification of placements with financial institutions to cash and cash equivalent.

Net impact of IFRS adjustment on cash and cash equivalent are as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reclassification of placements with financial institutions to cash and cash equivalents	-	650,000
Reclassification of interest receivable on placements from other assets	80	4,076
Reclassification of restricted balance with CBN to other assets	(15,831)	(15,831)
	<u>(15,751)</u>	<u>638,245</u>

(ii) IAS 32, 39 and IFRS 7 financial instruments

Under IFRSs, financial assets and liabilities are required to be classified as fair value through profit or loss, available for sale, loans and receivables and held to maturity and other financial liabilities. Financial instruments are subsequently measured based on their classification. Nigerian GAAP does not require such classification of financial instruments and measurement. The basis of valuation of individual instruments is provided in the accompanying statement of accounting policy.

(a) Placements with financial institution

Under IFRS, placements with financial institutions meet the definition of cash and cash equivalent. Therefore, placements with financial institution of (1 January 2011: N650 million) have been reclassified to cash and cash equivalent.

(b) Loans and advances

Net impact of IFRS adjustment on loans and advances are as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Impact arising from impairment (see note (1) below)	(2,899,491)	(708,426)
Reclassification of interest receivable on loans to principal balance	103,847	-
Impact arising from fair valuation of staff loans (see note (2) below)	(269,219)	(214,074)
	<u>(3,064,865)</u>	<u>(922,500)</u>

Analysis of the above IFRS impact on loans and advances are stated below:

(1) Impairment of loans and advances:

Under Nigerian GAAP, loans and advances are measured at cost net of impairment losses using a time-based provisioning model as defined by the revised CBN prudential guidelines. A specific risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the related facility. A general reserve of at least 1% is made for all performing accounts to recognize losses in respect of risks inherent in any credit portfolio. Under IFRS, an impairment loss can only be accounted for if there is objective evidence that a loss has occurred after the initial recognition but before the reporting date. IFRS also allows for the creation of a portfolio impaired for incurred but not reported losses in order to provide latent losses in a portfolio of loans that have not yet been individually identified as impaired and the general reserve to be reversed. Generally, where the impairment for credit losses is lower than the level required by the regulatory authorities, the shortfall on impairment for credit losses is set aside in a regulatory risk reserve within equity.

The difference in the measurement basis of impairment losses between IFRS and Nigerian GAAP decreased the net assets of the Mortgage Bank by N708 million and N2.89 billion as at 1 January 2011 and 31 December 2011 respectively.

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reversal of SAS provisions on loans and advances	14,657,600	13,566,608
Specific Impairment on loans and advances	(16,653,234)	(14,070,537)
General Impairment on loans and advances	(903,857)	(204,497)
	<u>(2,899,491)</u>	<u>(708,426)</u>

(2) Fair value of staff loans

Under IFRS, low-interest loans to employees are measured at fair value on initial recognition which is the present value of the estimated future cash flows discounted using a market interest related rate. Under Nigerian GAAP, low-interest loans to employees are measured at the contractual amount advanced to employees. The difference between the fair value of employee loans and the amount advanced has been recognized as employee benefit in the financial statements

The impact arising from the change is summarized as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Net prepaid staff benefit	(269,219)	(214,073)
	<u>(269,219)</u>	<u>(214,073)</u>

(c) Investment Securities

Available for Sale investment securities(AFS)

Available-for-Sale investment securities are carried at fair value, with gains/losses recognised in OCI. The following adjustments have been made to restate these balances at fair value.

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Recognition of fair value gain on investment in investment in HFC Ghana.	152,753	158,985
Reclassification of interest receivable on FGN bonds from other assets	12,474	12,774
Reversal of fair value loss on quoted investment previously recognised in profit or loss in 2010 to fair value reserve.	-	650
Recognition of fair value loss on AFS Bonds	(70,199)	(66,113)
Reclassification of investment in associates from investment securities.	(5,386,086)	(5,266,749)
	<u>(5,291,058)</u>	<u>(5,160,453)</u>

(d) Investments in equity-accounted investee

Net impact of IFRS adjustment on investment in associates are as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reclassification of investment in associates from investment securities.	5,386,086	5,266,749
Recognition of the share of loss from investee company	(20,883)	(74,889)
	<u>5,365,203</u>	<u>5,191,860</u>

(iii) Deferred tax asset

The impact of changes in deferred tax asset from the Nigerian GAAP to IFRS were mainly attributable to the impact of IFRS conversion adjustments on temporary differences.

The impact arising from the change is summarized as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Deferred tax on additional collective impairment charges	271,157	61,349
	<u>271,157</u>	<u>61,349</u>

(iv) Explanation of material adjustments to other assets

The major difference in other assets resulted from the reclassification of interest receivable and prepaid interest to their respective principal balances. The restricted balance with CBN has also been reclassified from cash and cash equivalents to other assets.

The net impact is as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reclassification of interest receivable on placements to cash and cash equivalents	(80)	(4,076)
Reclassification of interest receivable on loans to principal balance	(103,847)	-
Reclassification of prepaid interest on term deposit to principal balance	(102,675)	(64,748)
Reclassification of interest receivable on AFS Bonds to principal balance	(12,325)	(12,230)
Derecognition of provision no longer required on other assets.	(38,559)	-
Reclassification of restricted balance with CBN from cash and cash equivalents	15,831	15,831
	<u>(241,655)</u>	<u>(65,223)</u>

(v) Deposit from banks and customers

The impact of changes in deposits from banks and customers from the Nigerian GAAP to IFRS were mainly attributable to interest payable on customers deposit accounts being reclassified from other liabilities. These changes do not have significant impact on the statement of comprehensive income or equity.

(vi) Other liabilities

The impact of changes in liabilities from the Nigerian GAAP to IFRS were mainly attributable to reclassification of interest payable and unearned interest /discount to their respective principal liability balances. The changes can be analyzed as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reclassification of interest payable to their respective principal balances	337,608	264,278
Reversal of excess provision	154,000	
Recognition of unearned management fees on loans and advances.	(28,423)	(88,999)
	<u>463,185</u>	<u>175,279</u>

These changes do not have significant impact on the profit or loss or equity.

(vii) Employee benefit obligations

The IFRS changes to employee benefit obligations are as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Recognition of additional provision on long service award	-	86,872
(Reversal)/recognition of provision on defined benefit obligations	(36,321)	801,193
	<u>(36,321)</u>	<u>888,065</u>

(viii) Explanation of changes to fair value reserves

The changes in fair value reserves are summarized as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Fair value adjustment on AFS Bonds	(70,199)	(66,113)
Reclassification of cumulative fair value on quoted equities investment to fair value reserve from retained earnings and income statement	(1,596,777)	(1,183,040)
Net fair value gain on investment in HFC Ghana	152,754	158,985
	<u>(1,514,222)</u>	<u>(1,090,168)</u>

(ix) Explanation of changes to general reserves

The changes in general reserves are summarized as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Recognition of interest income on AFS Bonds using effective interest rate	91	544
Reclassification of cumulative fair value on quoted equities investment to fair value reserve from retained earnings and income statement	1,596,777	1,183,690
Reversal of previous GAAP provision on loans and advances	12,857,851	9,527,829
Adjustment for specific and collective impairment on loans and advances	(15,757,343)	(10,236,255)
Recognition of unearned portion of management fees on loans and advances.	(28,422)	(88,999)
Recognition of deferred tax on collective impairment of loans and advances	271,157	61,350
Adjustment to reclassify previous fair value gains on valuation of properties to retained earnings	3,153,413	3,740,913
Fair value adjustment on staff loans	(269,220)	(214,073)
Recognition of additional provision for employee benefit obligations	(1,286,389)	(888,065)
Recognition of share of profit of investee company	(95,772)	(74,889)
Reversal of entries passed to restate opening retained earnings in 2011	1,512,985	-
	<u>1,955,128</u>	<u>3,012,045</u>

(x) Explanation of material adjustment on other component of equity

Net impact of IFRS adjustment on other component of equities are as follows:

	31 December 2011	1 January 2011
<i>In thousands of Naira</i>		
Reclassification of revaluation gain on investment properties from revaluation reserves to retained earnings	<u>(3,153,413)</u>	<u>(3,740,913)</u>

(d) Explanation of material changes to income statement items

(i) Interest income and expense

Under IFRSs, interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Under Nigerian GAAP, interest income and expense are recognized in accordance with the contractual terms of the related facility on an accrual basis.

(ii) Interest expense

Net impact of IFRS adjustment on interest expense is as follows:

	31 December 2011
<i>In thousands of Naira</i>	
Reclassification of interest expense on borrowed funds from other operating expenses to interest expense	<u>(323,394)</u>

(iii) Net fees and commission income

Under Nigerian GAAP, fees and commission income comprise of all fees received from customers. This includes originating which, under IFRS should form part of the effective interest rate. Such fees were reclassified to interest income. The following summary explains the major difference noted between Nigerian GAAP and IFRS.

	31 December 2011
<i>In thousands of Naira</i>	
Recognition of unearned management fees	<u>60,577</u>

(iv) Net trading income

Changes in trading income were mainly to recognize fair value gain/loss on investment properties. This is summarized below:

	31 December 2011
<i>In thousands of Naira</i>	
Net impact of fair value changes to investment properties	(190,780)
Reversal of revaluation reserves unwind to profit and loss under NG GAAP on disposed properties	<u>(395,969)</u>
	<u>(586,749)</u>

(v) Other operating income

The impact arising from the change is summarized as follows:

	31 December 2011
<i>In thousands of Naira</i>	
Recognition of FGN Bonds at amortized cost	(395)
Recognition of fair value loss on investment properties	(256,809)
Reclassification of fair value gain on investment properties from net impairment loss on financial assets.	66,029
Fair value changes on quoted equities	(650)
Reclassify of gain on actuarial valuation of pension fund liability	(29,769)
Net impact of fair value changes to investment properties	<u>190,780</u>
	<u>(30,814)</u>

(vi) Share of profit of equity-accounted investee

The impact arising from the change is summarized as follows:

	31 December 2011
<i>In thousands of Naira</i>	
Recognition of share of loss of associate in line with IFRS	<u>20,883</u>

(vii) Net impairment loss on financial assets

The impact arising from the change is summarized as follows:

	31 December 2011
<i>In thousands of Naira</i>	
Recognition of collective allowance on loans and advances	(701,573)
Recognition of specific allowance on loans and advances	(1,489,495)
Reclassification of fair value loss on quoted investment (AFS) to other comprehensive income	413,737
Reclassification of diminution in other assets to diminution in pension fund	(159,880)
Reclassification of fair value gain on investment properties to other operating income	(66,029)
Provision no longer required on other assets	<u>115,384</u>
	<u>(3,687,605)</u>

(viii) Personnel expenses

The impact arising from the change is summarized as follows:

31 December 2011

In thousands of Naira

Fair value adjustment on staff loans	55,147
Reversal of excess provision for long service award	(27,731)
Recognition of additional provision for staff gratuity	351,847
Reclassification of defined contribution pension expenses from other operating expenses	171,075
	<u>550,338</u>

(ix) Other operating expenses

The impact arising from the change is summarized as follows:

31 December 2011

In thousands of Naira

Reclassification of defined contribution pension expenses from other operating expenses	171,075
Reclassification of interest expense on borrowed funds from other operating expenses to interest expense	323,394
	<u>494,469</u>

(x) Income tax expense

The impact arising from the change is summarized as follows:

31 December 2011

In thousands of Naira

Recognition of deferred tax on investment properties previously charged to equity under NG GAAP to income statement.	(65,278)
Recognition of deferred tax on additional general allowance during the year	(209,808)
	<u>(275,086)</u>

(xi) Other comprehensive income

The impact arising from the change is summarized as follows:

31 December 2011

In thousands of Naira

Recognition of fair value loss on AFS financial assets (unquoted investments).	(6,230)
Recognition of fair value loss on AFS financial assets (FGN Bonds).	(4,086)
Recognition of fair value changes on AFS financial assets (Quoted investments).	(413,738)
	<u>(424,054)</u>

Value Added Statement

For the year ended 31 December 2012

<i>In thousands of Naira</i>	<u>31-Dec-12</u>	%	<u>31-Dec-11</u>	%
Gross earnings	7,441,685	(211)	7,100,132	(138)
Less:				
Interest expense:	(3,573,201)	101	(3,010,602)	59
Loan loss writeback/(expenses) on other risk assets	(709,609)	20	(3,318,018)	65
Allowance for other assets	(507,270)	14	(915,025)	18
Impairment loss on investment securities carried as available for sale	<u>-</u>		<u>-</u>	
	2,651,605		(143,513)	
Bought in materials and services - Local	(6,178,221)	175	(4,995,011)	97
Value eroded	<u><u>(3,526,616)</u></u>	<u><u>100</u></u>	<u><u>(5,138,524)</u></u>	<u><u>100</u></u>
Distribution				
Employees				
- Employees as wages, salaries and pensions	-	-	-	-
Government				
- Taxation charge/(credit)	2,777,165	(79)	(581,481)	11
Retained in business:				
Depreciation and amortisation	346,603	(10)	400,378	(7)
Loss for the year	(6,650,384)	189	(4,957,421)	96
Value eroded	<u><u>(3,526,616)</u></u>	<u><u>100</u></u>	<u><u>(5,138,524)</u></u>	<u><u>100</u></u>

Five year financial summary
For the year ended 31 December 2012

	31 Dec 2012	31 Dec 2011	31 Dec 2010	*31 Dec 2009	*31 Mar 2009
In thousands of Naira					
Assets					
Cash and cash equivalents	6,885,516	535,797	1,467,561	199,032	325,530
Loans and advances to customers	13,146,789	12,475,158	14,332,883	17,148,636	16,065,222
Long term investments	-	-	-	9,307,721	14,434,616
Short term investments	-	-	-	1,503,836	37,381,754
Investment securities available for sale	2,898,466	3,125,039	5,076,950	-	-
Investments in equity-accounted investee	5,453,200	5,365,203	5,191,860	-	-
Investment properties	7,738,641	11,757,311	15,677,463	11,761,318	7,761,032
Property and equipment	1,191,154	1,414,831	2,086,261	3,869,572	2,753,768
Intangible assets	246,942	332,052	375,291	-	-
Deferred tax assets	-	2,603,331	2,021,850	-	-
Other assets	1,788,307	1,456,598	1,461,642	8,036,203	6,333,483
Total assets	39,349,015	39,065,320	47,691,761	51,826,318	85,055,405
Financed by:					
Deposits from customers	37,945,657	34,985,679	41,943,471	37,168,370	53,223,639
Current tax liabilities	88,598	70,820	103,575	308,538	300,492
Deferred tax liabilities	173,834	-	-	630,864	309,843
Other liabilities	6,670,462	2,142,376	2,800,461	5,462,723	3,173,887
Employee benefit obligations	2,438,057	1,814,536	1,784,110	980,512	-
Other borrowed funds	3,276,581	5,354,720	981,480	1,566,401	20,832,171
Share capital	3,906,250	3,906,250	3,906,250	3,906,250	3,906,250
Share Premium	2,033,088	2,033,088	2,033,088	2,033,088	2,035,032
Statutory reserves	1,212,963	1,212,963	1,212,963	1,212,963	1,212,963
AFS revaluation reserves	(805,201)	(1,514,222)	(1,090,168)	-	-
Retained deficit	(17,591,274)	(10,940,890)	(5,983,469)	(1,443,391)	61,128
Shareholders' fund	39,349,015	39,065,320	47,691,761	51,826,318	85,055,405
INCOME STATEMENT					
	12 months to 31 Dec 2012	12 months to 31 Dec 2011	*12 months to 31 Dec 2010	*9 months to 31 Dec 2009	*12 months to 31 Mar 2009
In thousands of Naira					
Gross earnings	7,441,685	7,100,132	7,221,904	5,521,082	9,816,634
Loss before taxation	(3,855,441)	(5,515,739)	(9,541,476)	(1,315,846)	(1,916,395)
Current taxation	(2,777,165)	581,481	(16,298)	(32,919)	(305,090)
Deferred taxation	(17,778)	(23,163)	3,007,022	(321,021)	(24,273)
Loss after taxation	(6,650,384)	(4,957,421)	(6,550,752)	(1,669,786)	(2,245,758)
Loss per share- Kobo	(76)	(69) k	(84)	(21)	(29)

* - Information relating to these years have been presented based on a different financial reporting framework, Statement of Accounting Standards (Nigerian GAAP), and is therefore not directly comparable.