

Union Homes Savings and Loans PLC

**Individual Financial Statements
For the year ended 31 December 2013
Together with Directors' and Auditor's Reports**

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Corporate Information

Directors, officers and advisors

E. Emuwa	- Chairman
J.A. Orimoloye	- Acting Managing Director/CEO (recalled to UBN Plc w.e.f 15 May, 2013)
P.C Kanu	- Acting Managing Director/CEO (appointed w.e.f. 16 April 2013)
J. M. Garba	- Executive Director (resigned w.e.f. 6 February 2013)
S. Yusuf	- Executive Director (appointed w.e.f. 5 February 2013, resigned w.e.f. 15 June 2013)
O. Adewale	- Non-executive Director (appointed w.e.f. 5 February 2013)
A. M. Adeosun	- Non-executive Director
C. J. Omo-Ijiade	- Non-executive Director
I. S. Muhammed	- Non-executive Director
K. Kasongo	- Non-executive Director
A. Kolarinwa	- Non-executive Director (appointed w.e.f. 16 April 2013)
A. A Owode	- Chief Financial Officer
Carol George	- Ag. Company Secretary

Registered number	RC208457
Date of registration	8 April, 1994
Operating license number :	000288
Date licensed	30 May, 1994
FRC Number	FRC/2013/0000000000812

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 2013

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 2013.

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 2013 as its year end. It also has an associate, Union Homes Real Estate Investment Trust Scheme (REITS) which has 31 December 2013 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:

<i>In thousands of Naira</i>	31 Dec. 2013	31 Dec. 2012 <i>*Restated</i>
Gross earnings	7,480,635	7,210,137
Loss before tax	(3,230,677)	(3,257,829)
Taxation expense	(27,652)	(2,794,943)
Loss after tax	(3,258,329)	(6,052,772)

Board of directors

E. Emuwa	- Chairman
J.A. Orimoloye	- Acting Managing Director/CEO (recalled to UBN Plc w.e.f 15 May, 2013)
P.C. Kanu	- Acting Managing Director/CEO (appointed w.e.f. 16 April 2013)
J. M. Garba	- Executive Director (resigned w.e.f. 6 February 2013)
S. Yusuf	- Executive Director (appointed w.e.f. 5 February 2013, resigned w.e.f. 15 June 2013)
O. Adewale	- Non-executive Director (appointed w.e.f. 5 February 2013)
A. M. Adeosun	- Non-executive Director
C. J. Omo-Ijiade	- Non-executive Director
I. S. Muhammed	- Non-executive Director
K. Kasongo	- Non-executive Director
A. Kolarinwa	- Non-executive Director (appointed w.e.f. 16 April 2013)

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:

	Shares held 2013	Shares held 2012
E. Emuwa	-	-
J.A. Orimoloye	-	-
P.C Kanu	-	-
J. M. Garba	14,227,357	14,227,357
S. Yusuf	-	-
O. Adewale	-	-
A. M. Adeosun	-	-
C. J. Omo-Ijiade	-	-
K. Kasongo	-	-
I. S. Muhammed	750,000	750,000
A .Kolarinwa	-	-
	14,977,357	14,977,357

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 2013 (31 December 2012: 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 2013 was ₦ 5billion (2012: ₦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 (2012: 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:

	31 Dec. 2013		31 Dec. 2012	
	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	7,812,500,000	100%	7,812,500,000	100%

The shareholding patterns of the Mortgage Bank were as follows:

31 Dec 2013

Range	Number of Shareholders	% of Shareholders	Number of Holdings	% of Shareholders
Domestic Shareholders				
1-1,000	2,142	7.55	1,234,547	0.02
1,001-5,000	6,949	24.49	19,778,229	0.25
5,001-10,000	4,496	15.84	33,927,803	0.43
10,001-50,000	9,334	32.89	216,580,761	2.77
50,001- 100,000	2,246	7.91	164,026,912	2.10
100,001-500,000	2,402	8.46	504,940,835	6.46
500,001-1,000,000	377	1.33	274,381,794	3.51
1,000,001-5,000,000	432	1.52	6,597,629,119	84.45
TOTAL	28,378	100	7,812,500,000	100

31 Dec 2012

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	15.85	33,946,570	0.43
10,001-50,000	9,339	32.87	216,620,119	2.77
50,001- 100,000	2,251	7.91	164,164,968	2.10
100,001-500,000	2,408	8.49	505,834,874	6.49
500,001-1,000,000	376	1.32	274,597,721	3.51
1,000,001-5,000,000	363	1.27	737,130,074	9.38
5,000,001-10,000,000	37	0.13	254,798,599	3.23
10,000,001 and above	41	0.15	5,604,383,800	71.83
TOTAL	28,411	100	7,812,500,000	100

Property, plant and equipment

Information relating to the changes in property, plant 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 (2012: Nil)

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 Statement of Financial Position of the Mortgage Bank as at 31 December 2013, the Bank's shareholders' fund stood at negative N13.2 billion which was below the minimum required by the guidelines. Information relating to the Mortgage Bank's recapitalization plans is disclosed in note 34 in the financial statements.

Events after the reporting period

Apart from the result of the tax audit carried out by the tax authorities which is disclosed in note 33 and steps taken to capitalise the Mortgage Bank which is disclosed in note 34 to the financial statements, there were no other events after the reporting period which could have a material effect on the financial position of the Mortgage Bank as at 31 December 2013 which have not been adequately adjusted or disclosed in these financial statements.

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 (2012: 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 a 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

FRC/2013/NBA/00000003580

21 May 2014

Corporate Governance Report

For the year ended 31 December 2013

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 leading 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

E. Emuwa	- Chairman
J.A. Orimoloye	- Acting Managing Director/CEO (Recalled to UBN Plc w.e.f 15 May, 2013)
P.C Kanu	- Acting Managing Director/CEO (appointed w.e.f. 16 April 2013)
J. M. Garba	- Executive Director (resigned w.e.f. 6 February 2013)
S. Yusuf	- Executive Director (appointed w.e.f. 5 February 2013, resigned w.e.f. 15 June 2013)
O. Adewale	- Non-executive Director (appointed w.e.f. 5 February 2013)
A. M. Adeosun	- Non-executive Director
C. J. Omo-Ijiade	- Non-executive Director
K. Kasongo	- Non-executive Director
I. S. Muhammed	- Non-executive Director
A. Kolarinwa	- Non-executive Director (appointed w.e.f. 16 April 2013)

The Board of Directors of Union Homes Savings and Loans Plc comprises eight (8) members, seven (7) of whom (inclusive of the Chairman of the Board) are Non-Executive Directors, while one (1) is the Managing Director. The Directors are listed above and 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 met on a quarterly basis from January 2013 to December 2013. 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 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
E. Emuwa ^{1*}	-	-	-	-
P C Kanu ^{2*}	M	M	M	M
O. Adewale ^{1*}	M	C	-	M
A. M. Adeosun ¹	-	M	C	-
Prince C. J. Omo-Ijiade ¹	C	-	M	-
I.S. Muhammed ¹	-	M	-	C
K. Kasongo ¹	M	-	-	M
A. Kolarinwa ^{1*}	-	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
E. Emuwa ^{1*}	11	N/A	N/A	N/A	N/A
J.A. Orimoloye ^{2**}	3	1	3	1	1
P C Kanu(Mrs)	9	1	1		1
J. M. Garba ^{2**}	1	N/A	1	1	1
S. Yusuf ^{2**}	4	1	3		2
A. Oyinkan ^{1*}	11	1	3		3
A. M. Adeosun ¹	9	N/A	4	1	2
Prince C. J. Omo-Ijiade ¹	11	2	4	1	3
I.S. Muhammed ¹	10	2	4	1	4
A. Kolarinwa ^{1*}	7	-	-	-	-

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 2013

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 the Mortgage Bank will continue to be a going concern in the year ahead as there are plans to capitalise the Mortgage Bank. These plans are disclosed in note 34 to the financial statements.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



E. Emuwa
Chairman
FRC/2013/CIBN/00000001774
21 May 2014



Kanu C. Pearl (Mrs)
Managing Director (Acting)
FRC/2013/NIM/00000004907
21 May 2014

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 2013, 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 2013 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 N627,680,000 (31 December 2012: N528,751,000) was outstanding as at 31 December 2013 out of which N466,543,000 (31 December 2012: N319,637,000) was non performing (see note 38).
- 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 emphasis of matter paragraph contained in the external auditor's report on page 12 - 13 and the capitalisation plans disclosed by the directors in note 34 to the financial statements.


Mallam Adamu A. Kiyawa
Chairman
FRC/2013/NTINIG/00000003646
29 April 2014

Members of the Committee are:

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

**KPMG Professional Services**

KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
234 (1) 271 8599
Fax 234 (1) 271 0540
Internet www.kpmg.com/ng

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 statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity, and statement 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 84.

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 directors determine 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 audit opinion.



Opinion

In our opinion, these financial statements give a true and fair view of the financial position of **Union Homes Savings and Loans PLC** as at 31 December 2013, and of its financial performance and cash flows for the year then 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.

Emphasis of matter

We draw attention to Note 34 which explains the Mortgage Bank's capitalisation plans to address the shareholders' deficit of ₦13.27 billion (2012: ₦10.66 billion). Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

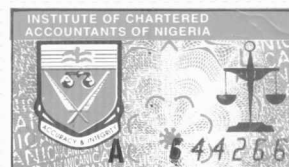
In our opinion, proper books of account have been kept by the Mortgage Bank, so far as appears from our examination of those books and the Mortgage Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

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

Related party transactions and balances are disclosed in note 38 of the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

Signed:

Akinyemi J. Ashade, ACA
FRC/ICAN/2013/00000000786
For: KPMG Professional Services
Chartered Accountants
27 May 2014
Lagos, Nigeria



Statement of Comprehensive Income

For the year ended 31 December 2013

<i>In thousands of Naira</i>	<i>Notes</i>	2013	2012 <i>*Restated</i>
Interest income	8	6,617,193	6,011,017
Interest expense	8	(3,462,896)	(3,573,201)
Net interest income		3,154,297	2,437,816
Net fee and commission income	9	373,258	287,034
Net trading income/(loss)	10	242,136	(841,483)
Other operating income	11	469,696	26,997
Operating income		4,239,387	1,910,364
Net impairment loss on financial assets	12	(4,961,083)	(1,216,880)
Net operating income after impairment loss on financial assets		(721,696)	693,484
Personnel expenses	13	(1,068,990)	(1,656,980)
Depreciation and amortization	22,23	(383,723)	(346,603)
Other operating expenses	14	(1,283,583)	(2,021,237)
Total expenses		(2,736,296)	(4,024,820)
Net operating loss after impairment loss on financial assets & total expenses		(3,457,992)	(3,331,336)
Share of profit of equity-accounted investee	20	227,315	73,507
Loss before minimum and income tax		(3,230,677)	(3,257,829)
Minimum tax	15	(27,652)	(17,778)
Income tax	15	-	(2,777,165)
Loss for the year		(3,258,329)	(6,052,772)
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Fair value gains/(losses) on employee benefit obligations	29	230,380	(12,176)
Items that may or may not be reclassified to profit or loss			
Fair value gains on available-for-sale investments - bonds		-	67,789
Fair value gains on available-for-sale investments - equities		413,945	641,882
Other comprehensive income for the year, net of income tax		644,325	697,495
Total comprehensive loss for the year		(2,614,004)	(5,355,277)
Loss attributable to:			
Equity holders of the Mortgage Bank		(3,258,329)	(6,052,772)
Loss for the year		(3,258,329)	(6,052,772)
Total comprehensive loss attributable to:			
Equity holders of the Mortgage Bank		(2,614,004)	(5,355,277)
Earnings per share - basic and diluted		(42) k	(77) k

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 84 form an integral part of these financial statements.

Statement of Financial Position

As at year ended 31 December 2013

<i>In thousands of Naira</i>	<i>Notes</i>	2013	2012 <i>*Restated</i>
ASSETS			
Cash and cash equivalents	17	71,291	6,885,516
Loans and advances to customers	18	9,712,766	13,146,789
Investment securities	19	2,573,420	2,898,466
Investments in equity-accounted investees	20	5,434,477	5,207,162
Investment properties	21	4,348,571	7,738,641
Property, plant and equipment	22	791,736	1,191,154
Intangible assets	23	205,431	246,942
Other assets	25	348,646	1,788,307
TOTAL ASSETS		23,486,338	39,102,977
LIABILITIES			
Deposits from customers	26	30,005,692	37,945,657
Current tax liabilities	27	116,250	88,598
Deferred tax liabilities	24	173,834	173,834
Other liabilities	28	3,838,983	6,670,462
Employee benefit obligations	29	365,220	1,606,583
Other borrowed funds	30	2,259,101	3,276,581
TOTAL LIABILITIES		36,759,080	49,761,715
EQUITY			
Share capital	31(b)	3,906,250	3,906,250
Share premium	31(c)	2,033,088	2,033,088
Statutory reserve	31(d)	1,212,963	1,212,963
Fair value reserve	31(e)	(546,778)	(817,377)
Regulatory risk reserve	31(f)	3,684,201	-
Retained deficit	31(g)	(23,562,466)	(16,993,662)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		(13,272,742)	(10,658,738)
TOTAL LIABILITIES AND EQUITY		23,486,338	39,102,977

The financial statements and notes on pages 14 to 80 were approved by the Board of Directors on 21 May 2014 and signed on its behalf by:



Chairman
Mr. E. Emuwa
FRC/2013/CIBN/00000001774



Managing Director/ CEO
(Acting)
Mrs. Kanu C. Pearl
FRC/2013/NIM/00000004907



Chief Financial Officer
Mr. Adekunle A. Owode
FRC/2013/ICAN/00000004904

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 84 form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2013

<i>In thousands of Naira</i>	Share capital	Share premium	Statutory reserves	Fair value reserves	Regulatory risk reserves	Retained deficit	Total equity
Balance at 1 January 2013 as reported previously	3,906,250	2,033,088	1,212,963	(805,201)	-	(17,591,274)	(11,244,174)
Prior year adjustment (see Note 37)	-	-	-	(12,176)	-	597,612	585,436
Balance at 1 January 2013 as restated	3,906,250	2,033,088	1,212,963	(817,377)	-	(16,993,662)	(10,658,738)
Loss for the year	-	-	-	-	-	(3,258,329)	(3,258,329)
Transfer to regulatory risk reserve	-	-	-	-	3,684,201	(3,684,201)	-
Other comprehensive income							
Actuarial gain on employee benefit obligations	-	-	-	230,380	-	-	230,380
Fair value reserve (available-for-sale) financial assets - equities	-	-	-	413,945	-	-	413,945
Reclassification of fair value on available for sale equities disposed	-	-	-	(311,739)	-	311,739	-
Reclassification of fair value on available for sale bonds disposed	-	-	-	(61,987)	-	61,987	-
Total Loss for the year	-	-	-	270,599	3,684,201	(6,568,804)	(2,614,004)
Total contributions by and distributions to equity holders	-	-	-	-	-	-	-
Balance at 31 December 2013	3,906,250	2,033,088	1,212,963	(546,778)	3,684,201	(23,562,466)	(13,272,742)
<i>In thousands of Naira</i>	Share capital	Share premium	Statutory reserves	Fair value reserves	Regulatory risk 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	-	-	-	-	-	(6,052,772)	(6,052,772)
Other comprehensive income							
Fair value reserve (available-for-sale) financial assets - bonds	-	-	-	67,789	-	-	67,789
Fair value reserve on available-for-sale investments - equities	-	-	-	641,882	-	-	641,882
Fair value reserve on valuation of gratuity and long service awards	-	-	-	(12,176)	-	-	(12,176)
Total Loss for the year	-	-	-	697,495	-	(6,052,772)	(5,355,277)
Balance at 31 December 2012	3,906,250	2,033,088	1,212,963	(817,377)	-	(16,993,662)	(10,658,738)

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 84 form an integral part of these financial statements.

Statement of cashflows

For the year ended 31 December 2013

<i>In thousands of Naira</i>	<i>Notes</i>	2013	2012 <i>*Restated</i>
Cash flows from operating activities			
Loss after tax for the year		(3,258,329)	(6,052,772)
Add back: Income tax expense		27,652	2,794,943
Loss before tax		(3,230,677)	(3,257,829)
Adjustments for:			
Depreciation of property, plant and equipment	22	339,703	261,493
Amortization of intangible assets	23	44,020	85,110
Net interest income	8	(3,154,297)	(2,437,816)
Share of profit in equity accounted investees	20(a)	(227,315)	(73,507)
Fair value (gain)/loss on investment properties	10	(221,648)	1,726,572
Net impairment loss on financial assets	12	4,961,083	1,216,880
Loss on disposal of investment securities	14	-	619,070
Profit on disposal of investment property	10	-	(848,029)
Profit on disposal of property, plant and equipment	11	(51)	(870)
Dividend on available for sale equity securities	11	(16,885)	(1,317)
		(1,506,067)	(2,710,243)
Changes in loans and advances to customers		2,060,944	2,657,538
Changes in available-for-sale investment securities		325,046	51,093
Changes in other assets		1,412,080	(669,273)
Changes in deposits from customers		(7,939,964)	2,959,978
Changes in other liabilities		(2,831,479)	2,578,068
Changes in employee benefit obligation		(1,131,053)	(220,129)
		(9,610,493)	4,647,032
Interest received		3,001,607	1,972,238
Interest paid		(3,462,896)	(3,573,201)
Dividend on available for sale equity securities	11	16,885	1,317
Dividend from equity accounted investees	20	-	231,548
Income tax paid		-	-
Net cash (used in)/provided by operating activities		(10,054,897)	3,278,934
Cash flows from investing activities			
Proceeds from disposal of investment securities		-	265,432
Purchase of property, plant and equipment	22	(5,911)	(38,790)
Proceeds from the sale of property, plant and equipment		4,760	1,844
Purchase of intangible assets	23	(2,509)	-
Purchase of investment properties	21	(8,570)	(56,266)
Proceeds from disposal of investment properties		4,270,382	4,976,704
Net cash provided by investing activities		4,258,152	5,148,924
Cash flows from financing activities			
Repayment of other borrowed funds	30	(2,464,561)	(2,457,722)
Net cash used in financing activities		(2,464,561)	(2,457,722)
Net (decrease)/increase in cash and cash equivalents		(8,261,306)	5,970,136
Cash and cash equivalents at beginning of year		6,505,933	535,797
Cash and cash equivalents at end of year	17	(1,755,373)	6,505,933

The accompanying statement of accounting policies and notes to the accounts on pages 14 to 84 form an integral part of these financial statements.

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) as issued by the International Accounting Standards Board (IASB). The financial statements comply with the Companies and Allied Matters Act of Nigeria, Bank and Other Financial Institutions Act, Financial Reporting Council of Nigeria Act and relevant Central Bank of Nigeria circulars.

The financial statements were authorised for issue by the board of directors on 29 April 2014. Details of the Company's accounting policies, including changes during the year, are included in Note 3 below.

(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 properties measured at fair value;
- available-for-sale financial assets are measured at fair value.
- the liability for defined benefit obligations is recognised as the fair value of planned assets less the present value of the defined benefit obligation.

(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(i) Changes in accounting policies

Except as noted below, the Mortgage Bank has consistently applied the accounting policies as set out in Note 3(ii) to all periods presented in these financial statements.

The Mortgage Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
- IAS 19 Post-employment defined benefits plan

The nature and the effects of the changes are explained below.

a. Joint Arrangements

As a result of IFRS 11, the Mortgage Bank has changed its accounting policy for interest in joint arrangements. Under IFRS 11, the Mortgage Bank classified its interests in joint arrangements as either joint operations (if the Mortgage Bank has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Mortgage Bank has rights only to the net assets of an arrangement). When making this assessment, the Mortgage Bank considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of the classification.

The Mortgage Bank has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognised by applying the equity method and there has been no impact on the recognised assets, liabilities and comprehensive income of the Mortgage Bank.

b. Disclosure of interests in other entities

As a result of IFRS 12, the Mortgage Bank has expanded its disclosures about its interests in equity-accounted investees (see Note 20). The Mortgage Bank does not have interest in any unconsolidated structured entity.

c. Fair Value Measurement

In accordance with the transitional provisions of IFRS 13, the Mortgage Bank has applied the new definition of fair value, as set out in Note 3.8 (c), prospectively. The change had no significant impact on the measurements of the Mortgage Bank's assets and liabilities, but the Mortgage Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Mortgage Bank has provided the relevant comparative disclosures under those standards.

d. Presentation of items of OCI

As a result of the amendments to IAS 1, the Mortgage Bank has modified the presentation of items of OCI in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be.

e. Post-employment defined benefits plan

As a result of IAS 19 (2011), the Mortgage Bank has changed its accounting policy with respect to the basis for determining the income or expenses relating to its defined benefit.

Under IAS 19 (2011), the Mortgage Bank determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/asset, taking into the account any changes in the defined benefit liability/asset during the period as a result of contributions and benefit payments

Consequently the net interest on the net defined benefit liability/asset now comprises interest cost on the defined benefit obligation, interest income on plan assets and interest on the effect on the asset ceiling.

Previously, the Mortgage Bank determined interest income on plan assets based on their long-term rate of expected return. See Note 29 for the impact of this amendment in the financial statements

3(ii) Summary of significant accounting policies

Except for the changes explained in Note 3(i) above, the Mortgage Bank has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise stated. The principal accounting policies adopted in the preparation of the financial statements are set out below.

3.1 Basis of accounting for interest in equity accounted investees

(a) Interest in equity accounted investees

The Mortgage Bank's interest in equity accounted investees comprise interest in an associate and a joint venture.

Associates are those entities in which the Mortgage Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Mortgage Bank has joint control, whereby the Mortgage Bank has rights to the net assets of the arrangement, rather than right to its assets and obligations for its liabilities.

Interests in associates and joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the individual financial statements include the Mortgage Bank's share of the total comprehensive income of the equity accounted investees, until the date on which significant influence or joint control ceases.

3.2 Foreign currency translation

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Mortgage Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated using the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in OCI.

3.3 Interest

Interest income and expense are recognised in profit or loss 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 financial liability (or, where appropriate, a shorter period) to the carryin amount of the financial liability. when calculating the effective interest rate, the group estimates future cash flow considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the statement of total comprehensive income include:

- Interest on financial asset and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the group's trading operation and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see 3.5 below).

3.4 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 (see 3.3 above). 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.

If a loan commitment is not expected to result in the draw-down of a loan, then the related 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.

3.6 Other operating income

Other operating income comprises dividend income, foreign exchange gain or losses and gain on disposal of property, plant 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. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net of net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

3.7 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

(a) Current tax

Current tax comprises the expected tax payable on the taxable income or loss for the year and any adjustment to the tax payable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(b) Deferred tax

Deferred tax is recognised in respect of 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:

- (i) 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;
- (ii) temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are 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 this purpose, the carrying amount of investment properties measured at fair value presumed to be recovered through sale, and the Mortgage Bank has not been rebutted this presumption.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to 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 assets and financial liabilities

(i) Recognition

The Mortgage Bank initially recognises loans and advances and deposits issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Mortgage Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

(a) Financial assets

The Mortgage Bank classifies its financial assets into one of the following categories:

- loan and receivables
- held to maturity
- available-for-sale

See accounting policies 3.10 and 3.11.

(b) Financial liabilities

The Mortgage Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. See accounting policies 3.17, 3.18, 3.19 and 3.20.

(iii) Derecognition of financial instruments

(a) Financial assets

The Mortgage Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Mortgage Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition 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 or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Mortgage Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Mortgage Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, 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.

In certain transactions the Mortgage Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(b) Financial liabilities

The Mortgage Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Offsetting

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 under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') remain on the statement of financial position; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos') are recorded as money market placement. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

(vi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vii) Fair value measurement

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Mortgage Bank has access at that date. The fair value of a liability reflects its non performance risk.

When available, the Mortgage Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Mortgage Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Mortgage Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Mortgage Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Mortgage Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Mortgage Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

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 a valuation technique. 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.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transaction in the same instrument (without modification or repackaging) or based on a valuation technique whose variable include only data from observable market, then the difference is recognised in profit or loss on initial recognition of the instrument. In order cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Mortgage Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Mortgage Bank has position with offsetting risk, mid market prices are used to measure the offsetting risk position and a bid or ask price adjustment is applied only to the net open position as appropriate.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount will be required to be paid.

(viii) Identification and measurement of impairment

At each reporting date the Mortgage Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower resulting in a breach of contract, restructuring of a loan or advance by the Mortgage Bank on terms that the Mortgage Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment.

In assessing collective impairment the Mortgage Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in OCI.

The Mortgage Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Mortgage Bank determines that there is no realistic prospect of recovery.

3.9 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 three months or less from the acquisition date that 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.

3.10 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Mortgage Bank does not intend to sell immediately or in the near term.

Loans and advances to customers include loans and receivables

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method except where the Mortgage Bank chooses to carry the loans and advances at fair value through profit or loss.

When the Mortgage Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Mortgage Bank's financial statements.

3.11 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held for trading, held-to-maturity, fair value through profit or loss or available-for-sale.

(i) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Mortgage Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the cumulative gains and losses previously recognised in equity are reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Mortgage Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3.12 Investment properties

Investment properties are properties 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 properties are measured at fair value with any change therein recognised in profit or loss. 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.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

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.

3.13 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant 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 that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant 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. Ongoing repairs and maintenance are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual value using the straight-line method over the estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Mortgage Bank will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property and equipment are as follows:

Leasehold improvements	Over the shorter of the useful life of item or lease period
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 reviewed at each reporting date and adjusted if appropriate.

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, plant 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.

3.14 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.

(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.

3.16 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 or cash-generating unit.

Impairment losses are recognised in profit or loss. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17 Deposits and other borrowed funds

Deposits and other borrowed funds are the Mortgage Bank's sources of debt funding.

When the Mortgage Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Mortgage Bank's financial statements.

The Mortgage Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Mortgage Bank designates liabilities at fair value through profit or loss.

3.18 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.

3.19 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.

3.20 Financial guarantees and loan commitments

Financial guarantees 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. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee liabilities or commitments 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 liability under financial guarantees or commitments is measured at the higher of the present value of any expected payment, when a payment under the contract has become probable. Financial guarantees or commitments are included within other liabilities.

3.21 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company operates a defined contribution pension scheme. This scheme was started post 2004. 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 expensed in profit or loss. Contributions under this scheme are remitted to the individual employee's pension fund administrator.

(ii) 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; discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Mortgage Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding arrangements.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Mortgage Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Mortgage Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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

(a) 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 Mortgage Bank discontinued the defined pension scheme and started the contributory pension scheme (see 3.21(i)). This liability was funded and a large portion of the funds transferred to a pension fund administrator in the name of the scheme.

(b) 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. The Mortgage Bank's liability is actuarially determined annually. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in other comprehensive income in the period in which they arise.

(c) Staff provident fund

The Mortgage Bank 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 Mortgage Bank on behalf of the scheme.

(d) Long service award

The Mortgage Bank also operates a long service award which is open to all its employees. The benefits under this scheme are related to employees' length of service and the terminal monthly basic salary for each year of service provided. A minimum of ten years of service is mandatory for any employee to qualify. The Mortgage Bank's liability is actuarially determined annually. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in other comprehensive income in the period in which they arise.

(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 other comprehensive income in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Mortgage Bank can no longer withdraw the offer of those benefits and when the Mortgage Bank recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(v) Short-term employee benefits

Short-term employee benefits expensed as the related service is provided. A liability 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.

3.22 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.

3.23 Earnings per share

The Mortgage Bank presents basic and diluted 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.

3.24 Segment reporting

Segment results that are reported to the Mortgage Bank's Board of Directors (being the chief operating decision maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.25 New standards, interpretations and amendments to existing standards that are not yet effective

As at 31 December 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB which are not yet effective for these individual financial statements. Below, the most significant new standards are addressed:

The Mortgage Bank plan to adopt these standards at their respective effective dates.

(i) IFRS 9 Financial Instruments: Classification and Measurement (2010 and 2009)

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.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for 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 specified 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 an 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 is recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

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.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separate; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9(2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. However, application of IFRS 9 is permitted.

The Mortgage Bank has started the process of evaluating 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 Mortgage Bank's operations, this standard is expected to have a pervasive impact on the Mortgage Bank's financial statements.

(ii) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The 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. Early application is permitted.

The Mortgage Bank is still evaluating the potential effect of the amendments to IAS 32.

(iii) IFRIC 21 Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Mortgage Bank's financial statements

4 Financial risk management

4.1 Introduction

4.1.1 Introduction and overview

Union Homes Savings and Loans Plc ("the Mortgage Bank") has a risk governance structure and a 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.

4.1.2 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.

4.1.3 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.

4.1.4 Risk Management Philosophy, Culture, Appetite and Objectives

4.1.4.1 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.

(a) 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.

4.1.4.2 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.

4.1.4.3 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.

4.1.4.4 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.

4.1.4.5 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.

4.1.4.6 Scope of risks

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

- (a) Credit risk
- (b) Operational risk
- (c) Market and liquidity risk
- (d) Legal and compliance risk
- (e) Strategic risk
- (f) Reputational risk
- (g) Capital risk

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

4.1.4.7 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:

(i) 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□

(ii) Financial Control

- Prepare and monitor the implementation of the Bank's strategic plan and budget
- Conduct regular strategic and operational review of the Bank's activities
- Conduct regular scanning of the Bank's operating environment
- Coordinate and monitor the Bank's rating exercises by external rating agencies
- Prepare periodic business intelligence reports for the Bank's management
- Prepare periodic management reports on the Bank, subsidiaries and associates
- Perform competitive analysis in comparison with industry peers
- Conduct strategic/operational review of branches and other strategic business units of the Group.

(a) Business Development and Strategy

- i) Prepare and monitor the implementation of the Mortgage Bank's strategic plan
- ii) Conduct strategic and operational review of the Mortgage Bank's activities
- iii) Conduct regular scanning of the Mortgage Bank's operating environment
- iv) Coordinate and monitor the Mortgage Bank's rating exercises by external rating agencies
- v) Prepare business intelligence reports for the Mortgage Bank's management
- vi) Prepare periodic management reports on subsidiaries and associates
- vii) Perform competitive analysis in comparison with industry peers
- viii) Conduct strategic/operational review of branches

(b) Risk Management Governance Framework

- i) The enterprise-wide risk management and corporate governance committee forums
- ii) The executive management committees
- iii) Risk management responsibilities per risk area

(c) 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

(d) 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.

(e) 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

(f) 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

(g) 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.

(ii) 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:

(iii) 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:

(iv) 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.

(v) 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.

(vi) Establishment Committee

Definition:

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

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

(vii) 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.

(viii) 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

(ix) 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.

(x) 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.

4.1.4.8 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.

4.2 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.

4.2.1 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 Mortgage Bank

4.2.2 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.

4.2.2 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.

4.2.3 Credit definitions

(i) 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).

(ii) 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.

(iii) 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.

(iv) 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.

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

<i>In thousands of Naira</i>	<i>Note</i>	Loans and advances to customers		Investment securities		Cash and cash equivalents	
		2013	2012	2013	2012	2013	2012
Carrying amount	18, 19	9,712,766	13,146,789	37,302	545,817	55,199	6,781,672
Assets at amortised cost							
Individually impaired:							
Impaired		27,529,094	19,653,334	-	-	-	-
Gross amount		27,529,094	19,653,334	-	-	-	-
Allowance for impairment		(22,624,681)	(17,292,032)	-	-	-	-
Carrying amount, net of allowance		4,904,413	2,361,302	-	-	-	-
Collectively impaired:							
Neither past due or impaired		2,359,333	9,589,022	-	-	-	-
Past due but not impaired loans		2,808,535	1,899,964	-	-	-	-
Impaired		-	-	-	-	-	-
Gross amount		5,167,868	11,488,986	-	-	-	-
Allowance for impairment		(359,515)	(703,499)	-	-	-	-
Carrying amount, net of allowance		4,808,353	10,785,487	-	-	-	-
Neither past due nor impaired:							
Available-for-sale assets (AFS) and Cash and cash equivalent							
Low-fair risk		-	-	37,302	545,817	55,199	6,781,672
Impaired		-	-	-	-	-	-
Total carrying amount	18	9,712,766	13,146,789	37,302	545,817	55,199	6,781,672

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

<i>In thousands of Naira</i>	Loans and advances to customers	
	Gross	Net
31 December 2013		
Individually impaired	27,529,094	4,904,413
Total	27,529,094	4,904,413
31 December 2012		
Individually impaired	19,653,334	2,361,302
Total	19,653,334	2,361,302

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 is shown below:

<i>In thousands of Naira</i>	Loans and advances to customers	
	2013	2012
Against individually impaired	4,848,760	2,361,302
Against collectively impaired	4,392,707	4,528,580
Total	9,241,467	6,889,882

<i>In thousands of Naira</i>	Loans and advances to customers	
	2013	2012
Against individually impaired:		
- Property	4,517,881	2,361,302
- Cash and cash equivalent	330,879	-
Against collectively impaired:		
- Property	4,392,707	4,528,580
- Cash and cash equivalent	-	-
Total	9,241,467	6,889,882

4.2.5 Credit concentration

The Mortgage Bank monitors concentrations of credit risk by sector and by geographic location. Gross loans and advances to customers per sector is analysed as follows:

		Loans and advances to customers		Investment securities		Cash and cash equivalents	
<i>In thousands of Naira</i>	<i>Note</i>	2013	2012	2013	2012	2013	2012
Concentration by sector:							
Mortgage		7,029,436	9,168,979	-	-	-	-
Real Estate & Construction		10,216,029	7,921,439	-	-	-	-
Credit & Financial Institutions		-	-	-	-	55,199	655,300
Others		15,451,497	14,051,902	37,302	545,817	-	6,126,372
		32,696,962	31,142,320	37,302	545,817	55,199	6,781,672
Concentration by location:							
Abuja & North Central		4,223,392	3,936,136	37,302	545,817	-	6,126,372
Lagos		21,942,483	21,583,229	-	-	55,199	655,300
South East		5,953,372	4,870,349	-	-	-	-
South West		577,715	752,606	-	-	-	-
		32,696,962	31,142,320	37,302	545,817	55,199	6,781,672

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 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.

4.3.1 Equity price risk

The Mortgage Bank's investment securities are mostly in unquoted investments (92% in 2013 and 68% in 2012) and these equities are not actively traded. Hence, the Mortgage Bank is not materially exposed to equity price risk and thus, has not presented the sensitivity of its investment securities to movement in equity prices.

4.3.2 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.

The 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 2013						
<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	32,696,962	18.59%	6,078,953	6,732,892	5,425,014
Deposits from customers	26	30,005,692	9.93%	2,978,524	3,578,638	2,378,410
				3,100,429	3,154,254	3,046,604
					53,825	(53,825)

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	17.78%	5,537,033	6,159,879	4,914,186
Deposits from customers	26	37,945,657	8.10%	3,074,638	3,833,551	2,315,725
				2,462,395	2,326,328	2,598,461
					(136,067)	136,067

4.3.2 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 2013

<i>In thousands of Naira</i>	<i>Note</i>	Total	Naira	GBP	Others
Cash and cash equivalents	17	71,291	16,092	4,583	50,616
Loans and advances to customers	18	9,712,766	9,712,766	-	-
Investment securities	19	2,573,420	2,573,420	-	-
Other assets		348,645	348,645	-	-
		12,706,122	12,650,923	4,583	50,616
Deposits from customers	26	30,005,692	30,005,692	-	-
Other borrowed funds	30	2,259,101	2,259,101	-	-
Other liabilities		3,838,983	3,838,983	-	-
		36,103,776	36,103,776	-	-

Financial instruments by currency

31 December 2012

<i>In thousands of Naira</i>	<i>Note</i>	Total	Naira	GBP	Others
Cash and cash equivalents	17	6,885,516	6,831,424	3,636	50,456
Loans and advances to customers	18	13,146,789	13,146,789	-	-
Investment securities	19	2,898,466	2,667,990	-	230,476
Other assets		1,597,891	1,597,891	-	-
		24,528,662	24,244,094	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	-	-

The Mortgage Bank's exposure to foreign currency risk is largely concentrated in currencies other than the British pound and the US Dollars. The foreign currency position of the Mortgage Bank is not material to the operations of the Mortgage Bank, and hence, the Mortgage Bank's reported earnings' sensitivity to foreign currencies is not disclosed in this financial statements.

4.4 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.

4.4.1 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.

(a) 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).

(i) 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 2013	31 December 2012
At end of year	(88.00)	(87.36)
Average for the year	(105.00)	(103.55)
Maximum for the year	(114.00)	(113.63)
Minimum for the year	(89.00)	(87.36)

(ii) 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 2013		Carrying amount	Gross nominal inflow /(outflow)	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
<i>In thousands of Naira</i>	<i>Note</i>							
<i>Non-derivative assets:</i>								
Cash and cash equivalents	17	71,291	71,291	71,291	-	-	-	-
Loans and advances to customers	18	9,712,766	9,712,766	-	5,709,104	1,446,439	2,557,223	-
Investment securities	19	2,573,420	2,573,420	-	-	-	2,573,420	-
Other assets	25	348,646	348,646	-	-	348,646	-	-
		12,706,123	12,706,123	71,291	5,709,104	1,795,085	5,130,643	-
<i>Non-derivative liabilities:</i>								
Deposits from customers	26	30,005,692	30,005,692	8,305,488	21,407,074	293,130	-	-
Other borrowed funds	30	2,259,101	2,259,101	-	-	1,892,804	-	366,297
Other liabilities		3,838,983	3,838,983	-	695,204	1,580,966	1,562,813	-
		36,103,776	36,103,776	8,305,488	22,102,278	3,766,900	1,562,813	366,297
Gap (asset - liabilities)				(8,234,197)	(16,393,174)	(1,971,815)	3,567,830	(366,297)
Cumulative liquidity gap				(8,234,197)	(24,627,371)	(26,599,186)	(23,031,356)	(23,397,653)

31 December 2012		Carrying	Gross nominal	Less than 3	3 - 6 months	6 - 12 months	1 - 5 years	More than 5
<i>In thousands of Naira</i>	Note	amount	inflow	months				years
<i>Non-derivative assets:</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	1,688,315	1,654,263	4,234,530	5,569,681	-
Investment securities	19	2,898,466	2,898,466	-	-	-	2,898,466	-
Other assets	25	1,788,307	1,788,307	17,770	186,422	1,584,115	-	-
		24,719,078	24,719,078	8,591,601	1,840,685	5,818,645	8,468,147	-
<i>Non-derivative liabilities</i>								
Deposits from customers	26	37,945,657	37,945,657	9,831,317	28,073,537	40,803	-	-
Other borrowed funds	30	3,276,581	3,276,581	-	-	2,879,583	-	396,998
Other liabilities	28	6,670,462	6,670,462	-	48,100	3,267,297	3,355,065	-
		47,892,700	47,892,700	9,831,317	28,121,637	6,187,683	3,355,065	396,998
Gap (asset - liabilities)				(1,239,716)	(26,280,952)	(369,038)	5,113,082	(396,998)
Cumulative liquidity gap				(1,239,716)	(27,520,668)	(27,889,706)	(22,776,624)	(23,173,622)

(iii) The following table shows amount expected to be recovered or settled after more than twelve months (non current) for each asset and liability line item that combines amounts expected to be recovered or settled no more than twelve months after the reporting period (current) and more than twelve months after the reporting period (non-current).

31 December 2013					31 December 2012		
<i>In thousands of Naira</i>	Note	Current	Non-current	Total	Current	Non-current	Total
ASSETS							
Cash and cash equivalents	17	71,291	-	71,291	6,885,516	-	6,885,516
Loans and advances to customers	18	7,155,543	2,557,223	9,712,766	7,577,108	5,569,681	13,146,789
Investment securities	19	-	2,573,420	2,573,420	-	2,898,466	2,898,466
Investments in equity-accounted investees	20	-	5,434,477	5,434,477	-	5,207,162	5,207,162
Investment properties	21	-	4,348,571	4,348,571	-	7,738,641	7,738,641
Property, plant and equipment	22	-	791,736	791,736	-	1,191,154	1,191,154
Intangible assets	23	-	205,431	205,431	-	246,942	246,942
Other assets	25	348,646	-	348,646	1,788,307	-	1,788,307
TOTAL ASSETS		7,575,480	15,910,858	23,486,338	16,250,931	22,852,046	39,102,977
LIABILITIES							
Deposits from customers	26	30,005,692	-	30,005,692	37,945,657	-	37,945,657
Current tax liabilities	27	116,250	-	116,250	88,598	-	88,598
Deferred tax liabilities	24	-	173,834	173,834	-	173,834	173,834
Other liabilities	28	2,276,170	1,562,813	3,838,983	3,315,397	3,355,065	6,670,462
Employee benefit obligations	29	-	365,220	365,220	-	1,606,583	1,606,583
Other borrowed funds	30	1,892,804	366,297	2,259,101	2,879,583	396,998	3,276,581
TOTAL LIABILITIES		34,290,916	2,468,164	36,759,080	44,229,235	5,532,480	49,761,715
GAP		(26,715,436)	13,442,694	(13,272,742)	(27,978,304)	17,319,566	(10,658,738)

4.5 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 2013, 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
- 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.

4.6 Strategy risk

Strategy risk is defined as the possibility that the Mortgage Bank's strategy may be inappropriate to support long-term corporate goals such as sustainable growth, due to the inadequacy of its strategic planning and/or decision-making process, or the inadequate implementation of such strategies. This could include the risk that the strategy is unclear, clear but not viable or clear and viable but badly implemented, or strategy failure due to unexpected circumstances.

In conclusion, Union Homes Savings and Loans Plc recently reviewed its strategy and adopted a mid-term plan that will take the Mortgage Bank through 2015. As part of the implementation process, the Bank has started putting in place appropriate structures in place for the identified key risk areas, and stricter measures to minimizing the Mortgage Bank's exposure to risks.

4.7 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, statutory reserve, share premium, retained earnings, regulatory risk reserve after deductions for other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

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.

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 statement of financial position of the Mortgage Bank as at 31 December 2013, the Mortgage Bank's shareholders' fund stood at negative N13.3 billion, which was below the minimum required by the guidelines. However, as stated in note 34 to these financial statements, the Central Bank of Nigeria has agreed to waive certain regulatory requirements, including capital adequacy ratio, liquidity ratio, etc to enable the Mortgage Bank trade out of its accumulated deficit..

At the reporting date, the Mortgage Bank was significantly below the minimum capital adequacy requirement as shown below. See Note 34 for capitalization plan

Union Homes Savings and Loans PLC
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<i>In thousands of Naira</i>	Note	31 December 2013	31 December 2012
Tier 1 capital			
Share capital	31b	3,906,250	3,906,250
Share premium	31c	2,033,088	2,033,088
Statutory reserves	31d	1,212,963	1,212,963
Regulatory risk reserve	31(f)	3,684,201	-
Retained deficit	31(g)	(23,562,466)	(16,993,662)
		(12,725,964)	(9,841,361)
Less intangible assets:			
Deferred tax asset	24	-	-
Computer software	23	(205,431)	(246,942)
Total qualifying Tier 1 capital		(12,931,395)	(10,088,303)
Tier 2 capital			
Fair value reserve for available-for-sale securities	31(e)	(546,778)	(817,377)
Total qualifying Tier 2 capital		(546,778)	(817,377)
Total regulatory capital		(13,478,173)	(10,905,680)
Risk-weighted assets			
On-balance sheet		22,632,080	30,925,286
Off-balance sheet		-	-
Total risk-weighted assets		22,632,080	30,925,286
Total regulatory capital expressed as a percentage of total risk-weighted assets		-59.55%	-35.26%
Total tier 1 capital expressed as a percentage of total risk-weighted assets		-57.14%	-32.62%

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

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management discusses with the Audit Committee on the development, selection and disclosure of the Mortgage Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the individual financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management (see note 4).

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(viii).

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 counter party'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(viii). 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.

Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria stipulates that Banks would be

- (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
In thousands of Naira	Note	2013	2012
<i>IFRS-based impairments and credit losses:</i>			
<i>Specific impairment allowances on loans to customers</i>	18(a(i))	22,624,681	17,292,032
<i>Collective impairment allowances on loans to customers</i>	18(a(ii))	359,515	703,499
<i>Impairment allowance on other assets</i>	25	2,025,290	2,218,495
<i>Fair value loss on investment properties</i>	21	968,655	1,728,635
<i>Fair value loss on quoted securities</i>		917,608	
<i>Impairment loss on pension fund assets</i>	29(ii)	379,903	450,015
Total impairment allowances by the Bank (a)		27,275,652	22,392,676
<i>Prudential provisions and credit losses:</i>			
<i>Specific provision on loans to customers</i>		13,373,555	9,181,831
<i>General provision on loans to customers</i>		100,723	89,344
<i>Interest in suspense on loans to customers</i>		12,172,741	8,427,324
<i>Specific impairment on other assets</i>		5,312,834	2,218,466
Total regulatory impairment based on prudential guidelines (b)		30,959,853	19,916,965
Required balance in regulatory risk reserves (c = b - a), where b>a		3,684,201	-

(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.
- (ii) In designating financial assets 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 3.11.
- (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.

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, plant 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, plant and equipment will have an impact on the carrying value of these items.

(vi) *Determination of impairment of property, plant 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. This category includes investment in quoted securities
- 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 securities.

- (a) 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 2013

<i>In thousands of Naira</i>	Note	Level 1	Level 2	Level 3	Total
Investment securities available for sale	19	198,475	-	2,374,945	2,573,420

31 December 2012

<i>In thousands of Naira</i>	Note	Level 1	Level 2	Level 3	Total
Investment securities available for sale	19	937,466	-	1,961,000	2,898,466

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.

- (b) **Level 3 fair value measurements**
(i) *Reconciliation*

The following table shows a reconciliation from the beginning to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

BANK December 2013	GROUP 31 December 2013	BANK 31 December 2012
<i>In thousands of Naira</i>	Investment securities	Investment securities
Balance at 1 January	1,961,000	1,961,000
Settlement/purchase	-	-
Total gains in OCI	413,945	-
Balance at 31 December	2,374,945	1,961,000

The total gains above is presented in the statement of total comprehensive income as fair value gains on available-for-sale investments - equities recognised in equity.

(ii) *Unobservable inputs used in measuring fair value*

The table below sets out information about significant unobservable inputs used in 31 December 2013 in measuring financial instruments categorised as Level 3 in fair value hierarchy.

Type of financial instrument	Valuation technique	Significant unobservable input	Fair value measurement sensitivity to unobservable input
<i>Investment in unquoted securities</i>	Discounted cashflow	- Risk adjusted discount rate - Cash flow estimates	A significant increase in the spread above the risk-free rate would result in a lower fair value

(c) *Fair values of financial instruments not measured at fair value*

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised

December 2013 <i>In thousands of Naira</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalent	-	71,291	-	71,291
Loans and advances to customers	-	-	8,441,940	8,441,940
Other assets	-	-	215,793	215,793
	-	71,291	8,657,733	8,729,024
Deposits from customers	-	-	30,005,692	30,005,692
Other borrowed funds	-	-	2,259,101	2,259,101
Other liabilities	-	-	3,838,983	3,838,983
	-	-	36,103,776	36,103,776

December 2012	Level 1	Level 2	Level 3	Total
<i>In thousands of Naira</i>				
Cash and cash equivalent	-	6,885,516	-	6,885,516
Loans and advances to customers	-	-	12,239,654	12,239,654
Other assets	-	-	1,210,032	1,210,032
	-	6,885,516	13,449,686	20,335,202
Deposits from customers	-	-	37,945,657	37,945,657
Other borrowed funds	-	-	3,276,581	3,276,581
Other liabilities	-	-	6,670,462	6,670,462
	-	-	47,892,700	47,892,700

Where observable market transactions are not available, fair valuation is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques interest rates, expected losses, prepay rates and primary origination. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

(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	
	2013	2012	2013	2012	2013	2012	2013	2012
Gross earnings:								
Derived from external customers	6,990,451	6,298,051	242,136	(841,483)	469,696	346,542	7,702,283	5,803,110
Derived from other segments	-	-	-	-	-	-	-	-
	6,990,451	6,298,051	242,136	(841,483)	469,696	346,542	7,702,283	5,803,110
Interest and similar expenses	(2,978,524)	(3,074,638)			(484,372)	(498,563)	(3,462,896)	(3,573,201)
Net operating income/(loss)	4,011,927	3,223,413	242,136	(841,483)	(14,676)	(152,021)	4,239,387	2,229,909
Expense:								
Operating expenses	(1,009,822)	(1,154,114)	(267,558)	(427,270)	(6,203)	(439,853)	(1,283,583)	(2,021,237)
Personnel expenses	(834,814)	(1,557,593)	(14,819)	(943,038)	-	-	(849,633)	(2,500,631)
Impairment on financial assets	(5,004,325)	(709,609)	-	-	24,518	(507,270)	(4,979,807)	(1,216,879)
Depreciation and amortisation	-	-			(383,723)	(346,603)	(383,723)	(346,603)
Total cost	(6,848,961)	(3,421,316)	(282,377)	(1,370,308)	(365,408)	(1,293,726)	(7,496,746)	(6,085,350)
(Loss)/profit on ordinary activities before taxation	(2,837,034)	(197,903)	(40,241)	(2,211,792)	(380,084)	(1,445,747)	(3,257,359)	(3,855,441)
Taxation	(27,617)	(2,777,165)	-	-	-	-	(27,617)	(2,777,165)
	(2,864,651)	(2,975,068)	(40,241)	(2,211,792)	(380,084)	(1,445,747)	(3,284,976)	(6,632,606)
	Mortgage Banking		Estate Management		Unallocated		Total	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Assets and Liabilities:								
Tangible segment assets	17,638,902	23,614,935	5,400,020	14,297,572	241,984	1,189,567	23,280,906	39,102,074
Intangible segment assets	205,431	246,942	-	-	-	-	205,431	246,942
Total assets	17,844,333	23,861,877	5,400,020	14,297,572	241,984	1,189,567	23,486,337	39,349,016
Segment liabilities	22,173,342	22,635,881	1,701,037	25,390,417	12,884,667	2,566,269	36,759,046	50,592,567
Unallocated segment liabilities								-
Total liabilities	22,173,342	22,635,881	1,701,037	25,390,417	12,884,667	2,566,269	36,759,046	50,592,567
Net assets/(liabilities)	(4,329,009)	1,225,996	3,698,983	(11,092,845)	(12,642,683)	(1,376,702)	(13,272,709)	(11,243,551)

(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 fair values:

31 December 2013	Notes	Held-to-maturity	Loans and receivables at amortised cost	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
<i>In thousands of Naira</i>							
Cash and cash equivalents	17	-	71,291	-	-	71,291	71,291
Loans and advances to customers	18	-	9,712,766	-	-	9,712,766	8,441,940
Investment securities	19	-	-	2,573,420	-	2,573,420	2,573,420
Other assets		-	215,793	-	-	215,793	215,793
Total financial assets		-	9,999,850	2,573,420	-	12,573,270	11,302,444
Deposits from customers	26	-	-	-	30,005,692	30,005,692	30,005,692
Other borrowed funds	30	-	-	-	2,259,101	2,259,101	2,259,101
Other liabilities		-	-	-	3,838,983	3,838,983	3,838,983
Total financial liabilities		-	-	-	36,103,776	36,103,776	36,103,776

31 December 2012	Notes	Held-to-maturity	Loans and receivables at amortised cost	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
<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		-	1,210,032	-	-	1,210,032	1,210,032
Total financial assets		-	21,242,337	2,898,466	-	24,140,803	23,233,668
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		-	-	-	6,670,462	6,670,462	6,670,462
Total financial liabilities		-	-	-	47,892,700	47,892,700	47,892,700

8 Net interest income

<i>In thousands of Naira</i>	31 December 2013	31 December 2012 <i>Restated</i>
Interest income		
Cash and cash equivalents	265,491	237,066
Loans and advances to banks and customers	6,078,953	5,537,033
Investment securities	272,749	236,918
Total interest income	6,617,193	6,011,017

Interest income for the year ended 31 December 2013 includes N3,615,585,824 (December 2012: N4,038,779,200) accrued on impaired financial assets.

Interest expense		
Deposits from customers	2,978,524	3,074,638
Other borrowed funds	484,372	498,563
Total interest expense	3,462,896	3,573,201
Net interest income	3,154,297	2,437,816

9 Net fees and commission income

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Fees and Commission Income		
Mortgage banking customer fees & commissions	373,258	287,034
Total fee and commission income	373,258	287,034
Fees and Commission expenses		
Mortgage banking customer fees & commissions	-	-
Total fee and commission expense	-	-
Net fee and commission income	373,258	287,034

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 income/(loss)

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Rental income	20,488	37,060
Profit on disposal of investment property	-	848,029
Net fair value gain/(loss) on investment properties	221,648	(1,726,572)
Net trading income/(loss)	242,136	(841,483)

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 2013	31 December 2012 <i>Restated</i>
Dividends on available-for-sale equity securities	16,885	1,317
Gains on disposal of property, plant and equipment	51	870
Sundry income	452,760	24,810
Other operating income	469,696	26,997

12 Net impairment loss on financial assets

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Impairment losses on loans and advances		
- specific impairment (see note 18(a)(i))	6,956,893	2,045,979
- (writeback)/portfolio impairment (see note 18(a)(ii))	(343,984)	(200,358)
Impairment loss on other assets (see note 25(d))	180,986	550,976
Allowance no longer required on other asset (see note 25(d))	(208,568)	(43,706)
Recoveries on loans and advances		
-specific impairment (see note 18(a)(i))	(1,624,244)	(1,136,011)
	4,961,083	1,216,880

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 2013	31 December 2012
		<i>*Restated</i>
Wages and salaries	1,087,715	1,708,225
Pension cost :-		
Defined contribution plans	37,558	64,109
Defined benefit plans (see Note 29(x))	(56,283)	(115,354)
	1,068,990	1,656,980

(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 2013	31 December 2012
Executive directors	-	1
Management	2	10
Staff	249	569
	251	580

(b) (ii) Employees other than non-executive directors, earning more than ₦18,000 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 2013	31 December 2012
	Number	Number
₦ 18,000 - ₦ 999,999	1	36
₦ 1,000,000 - ₦ 1,500,000	6	31
₦ 1,500,001 - ₦ 2,000,000	108	177
₦ 2,000,001 - ₦ 2,500,000	47	222
₦ 2,500,001 - ₦ 3,000,000	38	44
₦ 3,000,001 - ₦ 3,500,000	22	30
₦ 3,500,001 - ₦ 4,000,000	12	-
₦ 4,000,001 - ₦ 4,500,000	3	12
₦ 4,500,001 - ₦ 5,000,000	8	-
₦ 5,000,001 - ₦ 6,000,000	1	11
₦ 6,000,001 - ₦ 6,500,000	2	-
₦ 7,000,001 - ₦ 7,500,000	-	6
₦ 7,500,001 - ₦ 8,000,000	-	8
₦ 8,000,001 - ₦ 8,500,000	1	-
₦ 9,000,001 - ₦ 9,500,000	1	-
₦ 9,500,001 - ₦ 10,000,000	1	-
Above ₦10,000,000		3
	251	580

(c) **Directors' remuneration:**

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Fees as directors	688	2,226
Other emoluments	4,255	64,487
	4,943	66,713

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Chairman	-	8,455
Highest paid director	-	9,483

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
N1,000,001 - N15,000,000	5	5

14 Other operating expenses

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Auditor's remuneration	13,500	12,960
NDIC premium	188,114	161,217
Directors' emoluments	4,943	66,713
Rents, rates and taxes	598,110	215,963
Business development expenses	16,583	33,389
Repairs and maintenance	9,842	14,054
Professional fees	103,194	101,394
General administrative expenses	305,406	412,839
Insurance	30,914	96,452
Penalties and charges	3,290	1,310
Loss on disposal of investments	-	619,070
Others	9,687	285,876
	1,283,583	2,021,237

15 Income tax

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Current tax		
Company Income Tax	-	-
Deferred tax		
Reversal of temporary differences	-	2,777,165
NITDA Levy	-	-
	-	2,777,165
Minimum tax	27,652	17,778
Total income tax expense	27,652	2,794,943

This amount excludes the Company's share of tax expense of the Company's equity accounted investees of N12 million (2012: N16 million)

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

<i>In thousands of Naira</i>		31 December 2013		31 December 2012
			<i>Restated</i>	<i>Restated</i>
Loss before income tax		(3,230,677)		(3,257,829)
Income tax using the Federal Inland Revenue Service tax rate	30%	(969,203)	30%	(977,349)
Non-deductible expenses	-11%	356,367	-18%	597,231
Reversal of temporary differences	0%	-	-85%	2,777,165
Effect of share of equity accounted investees	2%	(68,195)	1%	(22,052)
Minimum tax	-1%	27,652	-1%	17,778
Current year losses for which no deferred tax asset is recognised	-23%	754,783	-20%	634,881
Tax exempt income	2%	(73,752)	7%	(232,712)
Total income tax expense in comprehensive income	-1%	27,652	-86%	2,794,943

16 Earnings per share

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing the net profit or loss 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 2013 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 2013	31 December 2012
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 2013	31 December 2012
Loss for the year attributable to equity holders	(3,258,329)	(6,052,772)
Basic earnings per share	(42) k	(77) 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 2013	31 December 2012
Cash in hand	16,092	103,844
Cash and balances with banks	55,199	151,671
Money market placements	-	503,629
Treasury bills	-	6,126,372
	71,291	6,885,516
Overdrawn account	(1,826,664)	(379,583)
Cash and cash equivalent for the purpose of cash flows	(1,755,373)	6,505,933

18 Loans and advances to customers

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Gross amount	32,696,962	31,142,320
Specific impairment (see (a(i)) below)	(22,624,681)	(17,292,032)
Portfolio impairment (see (a(ii)) below)	(359,515)	(703,499)
Total impairment	(22,984,196)	(17,995,531)
Carrying amount	9,712,766	13,146,789

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
(a(i)) Specific impairment		
Balance, beginning of year	17,292,032	16,653,235
Impairment loss for the year:		
- Charge for the year	6,956,893	2,045,979
- Recoveries	(1,624,244)	(1,136,011)
Net impairment for the year	22,624,681	17,563,203
Write-offs	-	(271,171)
Balance, end of year	22,624,681	17,292,032

(a(ii)) Portfolio impairment		
<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Balance, beginning of the year	703,499	903,857
Impairment loss for the year:		
- Write back during the year	(343,984)	(200,358)
Balance, end of the year	359,515	703,499

19 Investment securities

Investment securities categorised as available for sale:

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Federal Government bonds	37,302	545,817
Unquoted equity (see note (a) below)	2,374,945	1,961,000
Quoted securities	161,173	391,649
	2,573,420	2,898,466
Less: impairment loss	-	-
	2,573,420	2,898,466

(a) Unquoted investment comprises:

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Investment in Union Assurance Company Limited (see note (i) below)	1,879,945	1,466,000
Investment in UBN Property Company Limited (see note (ii) below)	495,000	495,000
	2,374,945	1,961,000

(i) This represents the Company's investment in 1,134,615,384 shares (2012: 1,134,615,384 shares) of Union Assurance Company Limited, which is also a subsidiary of Union Bank PLC, the parent company. This investment is carried at fair value which was determined as the Mortgage Bank's share of the fair value of the investee company. In the previous year however, it was carried at cost as there were no observable market data that could be used to readily determine its fair value.

(ii) This represents the Company's investment in 495,000,000 shares (2012: 495,000,000 shares) of UBN Property Company Limited, which is also a subsidiary of Union Bank PLC, the parent company. This investment is being carried at cost as there were no observable market data that could be used to readily determine its fair value.

20 **Investment in equity-accounted investees**

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Interest in associates (see note 20(a) below)	5,434,477	5,453,200
Interest in joint venture (see note 20(b) below)	-	-
	5,434,477	5,453,200

(a) **Interest in associates**

- (i) This comprises the Company's investment in the Union Homes Real Estate Investment Scheme ("REITS" or "the Fund"), in which the Mortgage Bank has 39% equity holding and also serves as the Fund manager. The Mortgage Bank has determined that it has significant influence and not control as the investment decisions of the Fund were made by an Investment Committee in which the Mortgage Bank has only two representatives out of five and the Chairman of this committee is a representative of the Fund's Trustees. The Fund has 31 December 2013 as its year end. The Company's share of the associate's financial position as at 31 December 2013 is as shown below:

<i>In thousands of Naira</i>	31 December 2013	31 December 2012 <i>Restated</i>
Carrying amount of interests in associates	5,207,162	5,365,203
Share of profit from continuing operations	227,315	73,507
Dividend received	-	(231,548)
	5,434,477	5,207,162

The following table summarises the financial information of Union Homes Real Estate Investment Scheme (REITS) as included in its own financial statements. The table also reconciles the summarised financial information of REITS to the carrying amount of the Mortgage Bank's interest in REITS.

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Percentage ownership interest	39%	39%
Current assets	3,011,709	2,236,918
Non-current assets	11,603,572	11,869,589
Current liabilities	(665,162)	(702,161)
Non-current liabilities	(15,562)	(52,646)
Net assets (100%)	13,934,557	13,351,700
Mortgage Bank's share of net assets (39%)	5,434,477	5,207,163
Carrying amount of interest in associates	5,434,477	5,207,163
Revenue	844,559	1,028,587
Operating expenses	(231,536)	(318,417)
Tax expenses	(30,165)	(39,663)
Profit and total comprehensive income (100%)	582,858	670,507
Profit and total comprehensive income (39%)	227,315	261,498
Change in ownership interest		(132,749)
Previously unrecognised expenses	-	(55,242)
Mortgage Bank's share of profit and total comprehensive income	227,315	73,507
Dividend received by the Mortgage Bank	-	231,548

- (ii) The Mortgage Bank has 31% of the equity interest in Union Assurance Company Limited ("UAC"), a sister company. The Mortgage Bank has determined, however, that it has no significant influence as both companies are under the control of the parent company, Union Bank PLC and it has no direct representation on the Board of UAC. Hence, the Mortgage Bank's interest in UAC has been accounted for as an available for sale financial asset and not equity accounted for.

The following table summarises the financial information of UAC as included in its own financial statements is shown below.

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Percentage ownership interest	31%	31%
Total assets	9,026,992	9,261,109
Total liabilities	(5,712,478)	(4,909,192)
Net assets (100%)	3,314,514	4,351,917
Revenue	4,839,582	5,303,686
Operating expenses	(5,758,160)	(5,881,625)
Tax expenses	(229,025)	(104,928)
Other comprehensive income	110,200	68,904
Profit and total comprehensive income (100%)	(1,037,403)	(613,963)

(b) **Interest in joint venture**

This represents the Mortgage Bank's interest in Saffer Union (West Africa) Limited ("Saffer"), a company located in Nigeria. In addition, the Mortgage Bank has a receivable of N150.8m from this joint venture company (see note 25(b)). Due to the loss making nature of Saffer, the Mortgage Bank has set up impairment allowance for its cost of investment (see below) and the receivable from Saffer (see note 25(b)). However, the Mortgage Bank has not recognised losses totalling N140 million (2012: N118 million) in relation to its interest in the joint venture, because the Mortgage Bank has no obligation in respect of these losses. This joint venture has 30 June 2013 as its year end and its financial position did not improve as at 31 December 2013.

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Cost	65,450	65,450
Impairment	(65,450)	(65,450)
<i>Carrying value, end of the year</i>	-	-

The Mortgage Bank has not disclosed the financial information of this joint venture as it has determined that its interest in this joint venture is not material.

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 2013	31 December 2012
Balance, beginning of year	9,467,276	9,580,623
Additions	8,570	56,266
Reclassification to deposit for investment properties	-	1,950,018
Reclassification to other assets	-	(169,707)
Disposal	(4,158,620)	(1,949,924)
	5,317,226	9,467,276
Net fair value loss (see note (a(i)) below)	(968,655)	(1,728,635)
<i>Balance, end of year</i>	4,348,571	7,738,641

(a) **Fair value loss**

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Net fair value loss is as shown below:		
Fair value gain	1,739,040	1,738,340
Fair value loss	(2,707,695)	(3,466,975)
	(968,655)	(1,728,635)

(a(ii)) **The movement in fair value loss 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 2013	31 December 2012
		<i>Restated</i>
Balance, beginning of year	(1,728,635)	2,176,688
Fair value gain/(loss) during the year	221,648	(1,726,572)
Set-off against the asset on disposal	538,332	(2,178,751)
	(968,655)	(1,728,635)

The Mortgage Bank's investment properties were valued by Bode Adediji Partnership with FRC number FRC/NIGSV/00000001517 as at 31 December 2013 using the comparative method of valuation to arrive at the open market value. This is a firm of independent professionally qualified estate surveyors and valuers.

(b) **Measurement of fair value**

(i) *Fair value hierarchy*

The fair value of investment properties was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuer, Bode Adediji Partnership (Estate Surveyors and Valuers) valued the properties on the basis of open market value as at 31 December 2013.

The fair value measurement for the investment properties of N4.35 billion (2012: N7.7 billion) has been categorised as a Level 3 fair value based on the inputs into the valuation technique used.

(ii) *Level 3 fair value*

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The fair values are determined by applying the direct market evidence comparative method of valuation to derive the open market value. This valuation model reflects the current price on actual transaction for similar properties in the neighbourhood in recent time. References were made to prices of land and comparable properties in the neighbourhood. The data obtained were analysed and adjustment was made to reflect differences in site area and the actual location, quality of construction and off-site facilities.	- Prices per square meter - Rate of development in the area - Quality of the building -Influx of people and/or businesses to the area - Rental income	The estimated fair value would increase (decrease) if the rate of development in the area increases (decreases), quality of the building increases (decreases), influx of people, rental income increases (decreases) and/or business to the area increases (decreases).

22 Property, plant and equipment

As at 31 December 2013

<i>In thousands of Naira</i>	Land & Building	Leashold Improvements	Furniture & Fittings	Motor Vehicles	Computer Equipment	Total
(a) Cost						
Balance, beginning of the year	943,438	854,414	870,887	427,741	410,225	3,506,706
Additions	-	-	92	-	5,819	5,911
Disposals	-	(56,815)	(234,483)	(148,067)	(90,593)	(529,958)
Balance, end of the year	943,438	797,599	636,496	279,674	325,451	2,982,659
(b) Accumulated depreciation						
Balance, beginning of the year	327,310	702,503	629,780	371,748	284,212	2,315,552
Charge for the year	58,859	72,485	119,161	46,249	42,949	339,703
Disposals	(262)	(35,050)	(198,377)	(145,346)	(85,298)	(464,333)
Balance, end of the year	385,907	739,938	550,564	272,651	241,863	2,190,923
(c) Net Book Value						
End of year	557,532	57,661	85,932	7,023	83,588	791,736
Beginning of the year	616,129	151,911	241,108	55,993	126,013	1,191,154

- (i) No leased assets are included in the above property, plant and equipment (31 December 2012: nil)
- (ii) The Mortgage Bank has no capital commitment as at year end (2012: nil)
- (iii) There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2012: nil).

23 Intangible assets

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
<i>Purchased Software - Cost</i>		
Balance, beginning of year	443,009	443,009
Additions	2,509	-
Balance as at year end	445,518	443,009
Amortization and impairment losses		
Balance, beginning of year	196,067	110,957
Amortisation for the year	44,020	85,110
Balance as at year end	240,087	196,067
Balance, beginning of year	246,942	332,052
Balance, end of year	205,431	246,942

24 Deferred tax liabilities

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Balance, beginning of the year	(173,834)	2,603,331
Additions	-	-
Revaluation gain on investment property	-	176,545
	(173,834)	2,779,876
Derecognition	-	(2,953,710)
Net deferred tax liabilities	(173,834)	(173,834)

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

31 December 2013

<i>In thousands of Naira</i>	Assets	Liabilities	Net
Investment properties	-	(173,834)	(173,834)
Net deferred tax liabilities	-	(173,834)	(173,834)

31 December 2012

<i>In thousands of Naira</i>	Assets	Liabilities	Net
Investment properties	-	(173,834)	(173,834)
Net deferred tax liabilities	-	(173,834)	(173,834)

(c) There was unrecognised deferred tax asset of N5.70 billion (2012: N4.86 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 2013	31 December 2012
Property, plant and equipment	750,777	556,032
Allowances for loan losses	107,855	211,050
Unrelieved losses	4,843,795	4,089,332
Net deferred tax assets	5,702,426	4,856,414

25 Other assets

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Restricted deposits with central banks (see note (a) below)	15,831	15,831
Receivable from Saffer Union (see note (b) below)	150,800	150,800
Receivable from defunct Savannah Bank	230,000	230,000
Prepayments	132,853	578,275
Due from financial institutions (see note (c) below)	202,202	384,405
Deposit for property (see note (e) below)	999,491	999,491
Other receivables	642,759	1,648,000
	2,373,936	4,006,802
Impairment on other assets (see note (d) below)	(2,025,290)	(2,218,495)
	348,646	1,788,307

- (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 ("Saffer"), a joint venture company 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 Saffer's loss over and above its investment in the Saffer.
- (c) Due from other financial institutions represents balances due from Union Bank of Nigeria Plc, the parent company of the Mortgage Bank (see note 38(b)(iii)).

(d) Movement in impairment on other assets:

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Balance, beginning of year	2,218,495	1,711,196
Charge for the year	180,986	321,005
Impairment loss on receivable from defunct Savannah Bank	-	230,000
Allowance no longer required	(374,191)	(43,706)
Balance, end of year	2,025,290	2,218,495

- (e) During the year under review, the developer of the Tejuosho market project, Stormberg Estates Limited, was placed under receivership by its major financier. The Mortgage Bank's investment in this property of approximately N1 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 2013	31 December 2012
Term deposits	25,593,705	32,226,393
Current deposits	2,038,975	2,679,026
Savings	2,373,012	3,040,238
	30,005,692	37,945,657

27 Tax Payable

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Balance, beginning of year	88,598	70,820
Charge for the year	27,652	17,778
Payments during the year	-	-
Balance, end of year	116,250	88,598

28 Other liabilities

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Deposit for properties (see note (a) below)	940,602	4,256,866
PAYE and other statutory deductions	217,238	227,682
Draft and bills payable	322,382	148,960
Creditors, accruals and provisions (see note (b) below)	1,016,545	227,993
Accounts payable	287,591	325,243
Unearned income	387	146,217
Sundry creditors	1,054,238	1,337,501
	3,838,983	6,670,462

- (a) This represents deposits received from various customers for purchase of investment properties.
- (b) Included in creditors, accruals and provisions is the provision for various taxes (CIT, WHT and VAT) which arose from various tax audits carried out by the relevant authorities but which are being contested by the Mortgage Bank. The Mortgage Bank has engaged the services of qualified tax professionals and is of the view that its liabilities on these tax audits cannot exceed the amount provided for. However, in order not to prejudice the outcome of its discussions with the tax authorities, it has elected for a disclosure exemption pursuant to IAS 37.

29 Employee benefit obligations

<i>In thousands of Naira</i>	31 December 2013	31 December 2012 <i>*Restated</i>
Gratuity liability	481,259	1,200,383
Directors' pension fund liability	163,851	293,954
Staff provident fund	4,819	192,344
Staff pension fund liability	839,698	845,132
Defined benefit obligation	1,489,627	2,531,813
Planned Assets	(1,175,225)	(1,074,522)
	314,402	1,457,291
Long service award liability	50,818	149,292
	365,220	1,606,583

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 2013 and 31 March 2012.

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 2013	31 December 2012 <i>*Restated</i>
Present value of unfunded obligation	645,110	1,493,997
Present value of funded obligation	844,517	1,037,476
Total present value of the obligations	1,489,627	2,531,473
Fair value of plan assets	(1,175,225)	(1,074,522)
Present value of net obligation	314,402	1,456,951
Recognized liability for defined benefit obligation	314,402	1,456,951

(iii) Plan assets

Plan assets comprise:

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Equity securities	912,746	882,155
Impairment loss on planned assets	(379,903)	(450,015)
	532,843	432,140
Balance with Pension Fund Administrator (see note (a) below)	642,382	642,382
	1,175,225	1,074,522
Actual return on plan assets	-	-

- (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

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		<i>*Restated</i>
Defined benefit obligation at 1 January	2,531,473	2,816,670
Plan amendment	-	(712,943)
Curtailment gain	(102,820)	-
Actuarial (gains)/losses	(198,094)	18,118
Benefit paid by the plan	(1,024,736)	(152,864)
Benefit accrued by the plan	-	192,807
Current service and interest costs	283,804	369,685
Defined benefit obligation at 31 December	1,489,627	2,531,473

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

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		
Fair value of plan assets at 1 January	1,074,183	1,134,354
Contribution paid into the plan	-	-
Benefit paid by the plan	-	-
Gain/(losses) on the plan assets	101,042	(60,171)
Fair Value of plan assets at 31 December	1,175,225	1,074,183

- (vi) **Actuarial assumptions**

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

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Discount rates	14%	13%
Future salary increases	12%	12%
Inflation rate increase	9%	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 both 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.

- (vii) **Historical information**

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		<i>*Restated</i>
Present value of the defined benefit obligation	1,489,627	2,531,473
Fair value of the plan assets	1,175,225	1,074,522
Deficit in the plan	(314,402)	(1,456,951)

(viii) **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 2013.

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		<i>*Restated</i>
Present value of unfunded long term benefit	50,818	149,292
Present value of funded long term benefit	-	-
Total present value of the long term benefit	50,818	149,292
Fair value of plan assets	-	-
Present value of net long term benefit	50,818	149,292
Recognized liability for other long term benefit	50,818	149,292

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

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		<i>*Restated</i>
Other long term benefit at 1 January	149,292	132,220
Actuarial gain	(32,286)	(5,942)
Curtailment gains	(99,595)	-
Benefit paid by the plan	(5,274)	(8,698)
Current service costs and interest	38,681	31,712
Defined benefit obligation at 31 December	50,818	149,292

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

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		
Current service cost and interest on staff gratuity	283,804	369,685
Curtailment gain on staff gratuity	(102,820)	(843,651)
Current service cost and interest on other long term benefits	38,681	31,712
Curtailment gain on other long term benefits	(99,595)	-
(Reversal)/Provision for Staff Provident Fund	(176,353)	326,900
	(56,283)	(115,354)

(xi) **Amount recognised in other comprehensive income as actuarial gain is as follows;**

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		<i>*Restated</i>
Actuarial (gain)/loss on defined benefit obligation (see Note 29(iv) above)	(198,094)	18,118
Actuarial gain on other long term benefits (see Note 29(ix) above)	(32,286)	(5,942)
	(230,380)	12,176

30 Other borrowed funds

	31 December 2013	31 December 2012
<i>In thousands of Naira</i>		
Bank overdraft (see note (a) below)	1,826,664	379,583
Intercompany loan (see note (b) below)	-	2,500,000
Due to FMBN (see note (c) below)	432,437	396,998
	2,259,101	3,276,581

(a) Bank overdraft comprise of the Mortgage Bank's temporary overdrawn position with the parent company, Union Bank of Nigeria Plc. This

overdraft was granted at a rate of 17% per annum (2012: 17%) for a period of 1 year with a limit of N1.5 billion (2012: N1.5 billion).

(b) Intercompany loan comprise of loan from the parent company, Union Bank of Nigeria PLC which was availed to the Mortgage Bank in 2012 at a rate of 17% per annum (2012: 17%) for a period of 1 year with a maximum drawdown of N3 billion (2012: N2.5 billion). This loan was fully repaid in 2013.

- (c) 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 2013	31 December 2012
(a) Authorised :		
20,000,000,000 Ordinary shares of 50kobo each (31 December 2012: 20,000,000,000 shares of 50 kobo each)	10,000,000	10,000,000
(b) Issued and fully paid -		
7,812,500,000 Ordinary shares (31 December 2012: 7,812,500,000 ordinary shares of 50kobo each)	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
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(d) Statutory reserve:

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 2012: 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) Regulatory risk reserve

The regulatory risk reserve warehouses the difference between the impairment on loans and advances computed under the Nigerian GAAP based on the Central Bank of Nigeria prudential guidelines and the incurred loss model used in calculating the impairment under IFRSs.

(g) 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

The Mortgage Bank, in the normal course of business guaranteed a mortgage facility availed by the Federal Mortgage Bank of Nigeria ("FMBN") to the Abia State Government to the tune of N1.3 billion. (31 December 2012: Nil).

There are no other contingent liabilities as at 31 December 2013 except as disclosed in the note on events after the reporting period.

(b) Claims and litigations

The Mortgage Bank in its ordinary course of business is involved in 18 litigation suits (31 December 2012: 71). The total amount claimed in the 18 cases against the Mortgage Bank is estimated at N1,006,639,725 (31 December 2012: N2,639,202,430). 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 provision is therefore deemed necessary for these claims.

33 Events after the reporting period

Subsequent to the reporting period, the Federal Inland Revenue Service ("FIRS") presented its initial findings in respect of CIT, VAT and WHT verification monitoring service for a 5 year period on the Mortgage Bank and emerged with an initial back duty assessment of N4.4 billion (inclusive of penalty and interest) (31 December 2012: N460 million). The Directors are currently contesting this tax liability and have engaged the services of a qualified tax consultant to discuss with FIRS. The initial assessment is preliminary and the directors believe that no offset of future economic resources is probable and it has adequate provision for all its taxes that may fall due as disclosed in note 28(b) and hence, no additional provision was made in this financial statements.

In addition, subsequent to the reporting period, steps were taken to capitalise the Mortgage Bank. This is stated in note 34 below.

Apart from the tax audit above and the steps taken to capitalise the Mortgage Bank, there were no other events after the reporting period which could have a material effect on the financial position of the Mortgage Bank as at 31 December 2013 and its financial performance for the year then ended which have not been adequately adjusted for or disclosed.

34 Capitalisation plans

The Mortgage Bank incurred a loss of N2.61 billion for the year ended 31 December 2013 (2012: N5.36 billion) and has net liabilities of N13.27 billion as of that date (2012: N10.66 billion). These operating losses were largely created by impairment charges on defaulted loans and other operating costs.

In addition, the revised guidelines for Primary Mortgage Banks issued by the Central Bank of Nigeria ("CBN") on 20 March 2013, requires a minimum regulatory capital of N5 billion by 31 December 2013. The negative shareholders' fund of N13.27 billion is significantly below the revised minimum capital by N18.3 billion; while the capital adequacy ratio is significantly below the minimum requirement of 10%. These constitute non-compliance with the regulatory capital requirements 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.

However, the parent company, Union Bank of Nigeria PLC ("UBN") and a preferred investor have executed a memorandum of understanding ("MOU") and a Share Purchase Agreement ("SPA") for a Central Bank of Nigeria ("CBN") assisted sale of the Mortgage Bank. Key terms of the agreement include:

- The acquisition of controlling shares of UBN, the current majority shareholder, by the preferred investor;
- Provision of N12 billion liquidity support by CBN to the preferred investor by way of long term loan for capitalisation of the Mortgage Bank as Tier II capital
- Injection of N5 billion fresh capital into the Mortgage Bank by the preferred investor;
- Waiver of certain regulatory requirements, including capital adequacy ratio, liquidity ratio, etc to enable the Mortgage Bank trade out of its accumulated deficit.

Subsequent to the reporting period, the CBN committee of Governors and Board of Directors have approved the preferred investor's acquisition of the Mortgage Bank, as well as the N12 billion liquidity support to the preferred investor for the use of the Mortgage Bank. The approvals were conveyed by CBN through a No Objection letter to the acquisition of the Mortgage Bank by the preferred investor dated 5 March 2014.

The final draft of the financial accommodation agreement from CBN in respect of the N12 billion liquidity support is expected to be received and executed along with other regulatory approvals.

The directors believe that these activities will enable the Mortgage Bank meet the new capital and operational requirements and therefore be able to settle its obligations in the normal course of business as they fall due and continue as a going concern.

35 Contraventions

The Mortgage Bank did not pay any penalty in relation to the provisions of BOFIA during the year under review (2012: Nil).

36 Frauds and forgeries

During the year, there were no attempted frauds and forgeries (2012: N5,935,000).

37 Prior Period Adjustments

- (a) The analysis below presents the summary of quantitative impacts of the prior period restatements on the results of the Mortgage Bank for the year ended;

The restatement relates to the reversal of prior period's excess provision for staff gratuity and long service awards. The restatement as shown below did not have any impact on the results of operations of the Mortgage Bank for 2011, therefore the Mortgage Bank did not prepare a third statement of financial position. The restatement was done so as to ensure that the expense items and other comprehensive income were appropriately classified and recognised in the year to which they relate.

(a)(i) Summary of Restatement to 2012 figures - Statement of Financial Position

<i>In thousands of Naira</i>	<i>Notes</i>	Reported 2012	Adjustments	Restated 2012
ASSETS				
Cash and cash equivalents		6,885,516	-	6,885,516
Loans and advances to customers		13,146,789	-	13,146,789
Investment securities		2,898,466	-	2,898,466
Investments in equity-accounted investees	a(v)	5,453,200	(246,038)	5,207,162
Investment properties		7,738,641	-	7,738,641
Property, plant and equipment		1,191,154	-	1,191,154
Intangible assets		246,942	-	246,942
Other assets		1,788,307	-	1,788,307
TOTAL ASSETS		39,349,015	(246,038)	39,102,977
LIABILITIES				
Deposits from customers		37,945,657	-	37,945,657
Current tax liabilities		88,598	-	88,598
Deferred tax liabilities		173,834	-	173,834
Other liabilities		6,670,462	-	6,670,462
Employee benefit obligations	a(ii)	2,438,057	(831,474)	1,606,583
Other borrowed funds		3,276,581	-	3,276,581
TOTAL LIABILITIES		50,593,189	(831,474)	49,761,715
EQUITY				
Share capital		3,906,250	-	3,906,250
Share premium		2,033,088	-	2,033,088
Statutory reserve		1,212,963	-	1,212,963
Fair value reserve	a(iii)	(805,201)	(12,176)	(817,377)
Retained deficit	a(iv)	(17,591,274)	597,612	(16,993,662)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		(11,244,174)	585,436	(10,658,738)
TOTAL LIABILITIES AND EQUITY		39,349,015	(246,038)	39,102,977

Statement of financial position

The impact of restatement on statement of financial position

(a)(ii) Employee benefit obligations

<i>In thousands of naira</i>	31 December 2012
Employee benefit obligations as previously reported	2,438,057
Reversal of excess provision for staff gratuity	(b)(ii) (843,650)
Recognition of provision for long service awards	(a)(iii) 12,176
Restated balance	1,606,584

(a)(iii) Fair value reserve

<i>In thousands of naira</i>	31 December 2012
Fair value reserve as previously reported	805,201
Recognition of actuarial gain for long service awards (b)(iv)	12,176
Restated balance	817,377

(a)(iv) Retained deficit

<i>In thousands of naira</i>	31 December 2012
Retained deficit as previously reported	17,591,274
Recognition of curtailment gain for staff gratuity (b)(ii)	(825,387)
Recognition of curtailment gain for long service awards (b)(ii)	(18,264)
Restated balance	16,747,623

(a)(v) Investments in equity-accounted investees

<i>In thousands of naira</i>	31 December 2012
Investment in equity accounted investees as previously reported	5,453,200
Recognition of dividend paid by investee company (b)(i)	(231,548)
Reduction of excess share of profit previously recognised (b)(iii)	(14,490)
Restated balance	5,207,162

(b) Summary of Restatement to 2012 figures - Statement of Comprehensive Income

<i>In thousands of Naira</i>	<i>Notes</i>	Reported 2012	Adjustments	Restated 2012
Interest income		6,011,017	-	6,011,017
Interest expense		(3,573,201)	-	(3,573,201)
Net interest income		2,437,816	-	2,437,816
Net fee and commission income		287,034	-	287,034
Net trading income/(loss)		(841,483)	-	(841,483)
Other operating income (b)(i)		258,545	(231,548)	26,997
Operating income		2,141,912	(231,548)	1,910,364
Net impairment loss on financial assets		(1,216,879)		(1,216,879)
Net operating income after impairment loss on financial assets		925,033	(231,548)	693,485
Personnel expenses (b)(ii)		(2,500,631)	843,651	(1,656,980)
Depreciation and amortization		(346,603)	-	(346,603)
Other operating expenses		(2,021,237)	-	(2,021,237)
Total expenses		(4,868,471)	843,651	(4,024,820)
Net operating loss after impairment loss on financial assets & total expense		(3,943,438)	612,103	(3,331,335)
Share of profit of equity-accounted investee (b)(iii)		87,997	(14,490)	73,507
Loss before minimum and income tax		(3,855,441)	597,613	(3,257,828)
Minimum tax		(17,778)	-	(17,778)
Income tax		(2,777,165)	-	(2,777,165)
Loss for the year		(6,650,384)	597,613	(6,052,771)

Other comprehensive income:

Items that will never be reclassified to profit or loss

Fair value gains/(losses) on employee benefit obligations	(b)(iv)	-	(12,176)	(12,176)
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Items that may or may not be reclassified to profit or loss

Fair value gains on available-for-sale investments - bonds		67,789	-	67,789
Fair value gains on available-for-sale investments - equities		641,882	-	641,882

Other comprehensive income for the year		709,671	(12,176)	697,495
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Total comprehensive loss for the year	c(i)	(5,940,713)	585,437	(5,355,276)
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Loss attributable to:

Equity holders of the Mortgage Bank		(5,940,713)	585,437	(5,355,276)
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Total comprehensive loss attributable to:

Equity holders of the Mortgage Bank		(5,940,713)	585,437	(5,355,276)
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Earnings per share - basic and diluted		(85) k	(11)	(74) k
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Statement of total comprehensive income

The impact of restatement on statement of total comprehensive income

(b)(i) Other operating income

<i>In thousands of naira</i>		31 December 2012
Other operating income as previously reported		258,545
Reversal of dividend received from associates but credited to income	(a)(v)	(231,548)
		-
Restated balance		26,997

(b)(ii) Personnel expenses

<i>In thousands of naira</i>		31 December 2012
Personnel expenses as previously reported		(2,500,631)
Recognition of curtailment gain for staff gratuity	(a)(iv)	825,387
Recognition of curtailment gain for long service awards	(a)(iv)	18,264
Total adjustments	(a)(ii)	843,650
Restated balance		(1,656,981)

(b)(iii) Share of profit of equity-accounted investee

<i>In thousands of naira</i>		31 December 2012
Share of profit of equity-accounted investee as previously reported		87,997
Reduction of excess share of profit previously recognised	(a)(v)	(14,490)
		-
Restated balance		73,507

(b)(iv) Other comprehensive income

<i>In thousands of naira</i>		31 December 2012
Fair value gains/losses on employee benefits as previously reported		-
Recognition of actuarial gain for staff gratuity		18,118
Recognition of actuarial gain for long service awards		(5,942)
Restated balance	(a)(iii)	12,176

(c) **Summary of Restatement to 2012 figures - Statement of Cashflows**

<i>In thousands of Naira</i>	<i>Notes</i>	Reported 2012	Adjustments	Restated 2012
Cash flows from operating activities				
Loss after tax for the year	c(i)	(6,650,384)	597,612	(6,052,772)
Add back: Income tax expense		2,794,943	-	2,794,943
Loss before tax		(3,855,441)	597,612	(3,257,829)
Adjustments for:				
Depreciation of property, plant and equipment		261,493	-	261,493
Amortization of intangible assets		85,110	-	85,110
Net interest income	c(ii)	-	(2,437,816)	(2,437,816)
Share of profit in equity accounted investees	(b)(iii)	(87,997)	14,490	(73,507)
Additional provision for defined benefit obligation	c(iii)	307,743	(307,743)	-
Benefit paid on defined benefit obligation	c(iii)	(137,237)	137,237	-
Fair value loss on investment properties		1,726,572	-	1,726,572
Net impairment loss on financial assets		1,216,880	(0)	1,216,880
Loss on disposal of investment securities		619,070	-	619,070
Profit on disposal of investment property		(848,029)	-	(848,029)
Profit on disposal of property and equipment		(870)	-	(870)
Dividend on available for sale equity securities		(1,317)	-	(1,317)
		(714,023)	(1,996,220)	(2,710,243)
Change in loans and advances to customers	c(iv)	(1,381,241)	4,038,779	2,657,538
Change in available-for-sale investment securities		51,093	-	51,093
Change in other assets		(669,273)	-	(669,273)
Change in deposits from customers		2,959,978	-	2,959,978
Change in other liabilities		2,578,068	-	2,578,068
Change in employee benefit obligation	c(iii)	453,015	(673,144)	(220,129)
		3,277,617	1,369,415	4,647,032
Interest received	c(v)	-	1,972,238	1,972,238
Interest paid	c(vi)	-	(3,573,201)	(3,573,201)
Benefit paid on defined benefit obligation		-	1,317	1,317
Dividend from equity accounted investees	(a)(v)	-	231,548	231,548
Income tax paid		-	-	-
Net cash provided by operating activities		3,277,617	1,317	3,278,934
Cash flows from investing activities				
Proceeds from disposal of investment securities		265,432	-	265,432
Benefit paid on defined benefit obligation		1,317	(1,317)	-
Purchase of property and equipment		(38,790)	-	(38,790)
Proceeds from the sale of property and equipment		1,844	-	1,844
Purchase of investment properties		(56,266)	-	(56,266)
Proceeds from disposal of investment properties		4,976,704	-	4,976,704
Net cash provided by investing activities		5,150,241	(1,317)	5,148,924
Cash flows from financing activities				
Repayment of other borrowed funds	c(vii)	(2,078,139)	(379,583)	(2,457,722)
Net cash (used in)/provided by financing activities		(2,078,139)	(379,583)	(2,457,722)
Net (decrease) /increase in cash and cash equivalents		6,349,719	(379,583)	5,970,136
Cash and cash equivalents at beginning of year		535,797	-	535,797
Cash and cash equivalents at end of year	c(iiii)	6,885,516	(379,583)	6,505,933

Statement of cashflow

The impact of restatement on statement of cashflow is as follows:

c(i) Loss after tax for the year

<i>In thousands of naira</i>		31 December 2012
Loss after tax as previously reported		(6,650,384)
Reversal of dividend received from associates but credited to income	(b)(i)	(231,548)
Reduction in personnel expenses	(b)(ii)	843,651
Reduction of excess share of profit previously recognised	(b)(iii)	(14,490)
		<u>597,613</u>
Restated balance		<u>(6,052,771)</u>

c(ii) Net interest income

<i>In thousands of naira</i>		31 December 2012
Net interest income as previously reported on the statement of cashflow		-
Interest income recognised in the financial statements	8	(6,011,017)
Interest expense recognised in the financial statements	8	3,573,201
Recognition of net interest income in the statement of cashflow	8	(2,437,816)
Restated balance		<u>(2,437,816)</u>

c(iii) Change in presentation of movement in employee benefits account in the statement of cashflow

<i>In thousands of naira</i>	Reported 2012	Adjustments	Restated 2012
Additional provision for defined benefit obligation	307,743	(307,743)	-
Benefit paid on defined benefit obligation	(137,237)	137,237	-
Change in employee benefit obligation	453,015	(673,144)	(220,129)
	623,521	(843,650)	<u>(220,129)</u>

The net adjustment to employee benefits of N843,650,000 is derived from the reduction of the provision for employee benefits as stated in note a(ii) and b(ii) above

c(iv) Change in loans and advances to customers

<i>In thousands of naira</i>		31 December 2012
Change in loans and advances as previously reported		(1,381,241)
Less: interest income on impaired loans, not received		4,038,779
Restated balance		<u>2,657,538</u>

c(v) Interest received

<i>In thousands of naira</i>		31 December 2012
Interest received as previously reported		-
Interest income in the financial statement		6,011,017
Less: interest on impaired financial assets, not received		(4,038,779)
Restated balance		<u>1,972,238</u>

c(vi)	Interest paid		
	In thousands of naira		31 December 2012
	Interest paid as previously reported		-
	Interest expense in the financial statement		(3,573,201)
	Restated balance		(3,573,201)
c(vii)	Repayment of other borrowed funds		
	In thousands of naira		31 December 2012
	Repayment of borrowed fund as previously reported		(2,078,139)
	Reclassification of overdraft balance to cash and cash equivalent	c(viii)	(379,583)
	Restated balance		(2,457,722)
c(viii)	Cash and cash equivalent		
	In thousands of naira		31 December 2012
	Cash and cash equivalent as previously reported		6,885,516
	Reclassification of overdraft balance from repayment of borrowings	c(vii)	(379,583)
	Restated balance		6,505,933

38 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 2013	31 December 2012
Bank balances: Union Bank of Nigeria PLC	Parent company	4,583	3,636
Placements with financial institutions: Union Bank of Nigeria PLC	Parent company	-	500,000
Consolidated Discounts Limited	Related company	-	-
		4,583	503,636

(iii) Receivables from related parties

<i>In thousands of Naira</i>		31 December 2013	31 December 2012
Saffer Union West Africa Ltd	Jointly controlled entity	150,800	150,800
Union Homes REIT	Associate	117,009	118,539
Union Assurance Company Limited	Sister company	10,000	-
Union Bank of Nigeria PLC	Parent company	192,202	384,405
		470,011	653,744

(iv) Deposit liabilities

<i>In thousands of Naira</i>		31 December 2013	31 December 2012
Union Bank of Nigeria PLC	Parent company	-	-
Consolidated Discounts Limited	Related company	-	-
Union Assurance Company Limited	Sister company	130,345	137,579
Union Registrars Limited	Sister company	750,000	1,100,000
Union Trustees Limited	Sister company	950,000	1,000,000
UBN Property Company Limited	Sister company	-	-
UBN Express Limited	Sister company	384	-
		1,830,729	2,237,579

(v) Other borrowed funds

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
Short term loan (Union Bank of Nigeria Plc)	1,673,336	2,663,627

(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 2013	31 December 2012
Secured loans and advances	448,657	177,159
Other loans and advances	179,023	351,592
	627,680	528,751

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 2013:

<i>Account name</i>	<i>Relationship</i>	<i>Balance</i>	<i>Quality</i>	<i>Impairment</i>	<i>Security</i>
Ramat Hotels & Suites	Managed by spouse of an ex-AGM	287,399,350	Non-performing	287,399,350	Legal Mortgage
Dogo Isuwa	Ex- Executive Director	86,692,845	Non-performing	86,692,845	Nil
Garba J.M.	Ex- Executive Director	54,192,813	Performing	120,445	Legal Mortgage
Omo-Ijiade C.	Director	27,592,527	Performing	-	Legal Mortgage
Akanbi Timothy	Ex-DGM of Holding Company	38,084,437	Non-performing	38,084,437	Nil
Kofon Effiom	Ex-Director	28,043,387	Non-performing	28,043,387	Nil
Amuka Frederick	Ex-AGM	22,715,353	Performing	-	Legal Mortgage
Azing V.N.	Spouse to Ex-DGM of Holding Company	26,202,819	Non-performing	26,202,819	Nil
Adamu Ismail	Ex- AGM	15,767,992	Performing	-	Legal Mortgage
Ugochukwu C.O.	Ex-AGM	12,326,249	Performing	-	Legal Mortgage
Yusuf A.L.A.	Ex-AGM	20,944,761	Performing	-	Legal Mortgage
Uwaobiala C.	Ex-AGM	7,717,775	Performing	-	Legal Mortgage
		627,680,308		466,543,283	

Key management personnel compensation for the year comprises:

Directors' remuneration

<i>In thousands of Naira</i>	31 December 2013	31 December 2012
<i>Non-executive Directors</i>		
Fees as directors	688	2,226
Other allowances	4,255	48,088
	4,943	50,314
<i>Executive directors</i>		
Short term employer's benefit	-	16,398
Long term incentive plan	-	-
	-	16,398
Total compensation to key management personnel	4,943	66,712

Value Added Statement

For the year ended 31 December 2013

<i>In thousands of Naira</i>	31-Dec-13	%	31-Dec-12	%
Gross earnings	7,480,635	(421)	7,210,137	(575)
Less:				
Interest expense	(3,462,896)	195	(3,573,201)	285
Loan loss writeback/(expenses) on other risk asset:	(4,988,665)	281	(709,610)	57
Allowance for other assets	27,582	(2)	(507,270)	40
	(943,344)		2,420,056	
Bought in materials and services - Local	(834,620)	47	(3,674,303)	293
Value eroded	(1,777,964)	100	(1,254,246)	100
Distribution				
Employees				
- Employees as wages, salaries and pensions	1,068,990	(60)	1,656,980	(132)
Government				
- Taxation	27,652	(2)	2,794,943	(223)
Retained in business:				
Depreciation and amortisation	383,723	(22)	346,603	(27)
Loss for the year	(3,258,329)	184	(6,052,772)	482
Value eroded	(1,777,964)	100	(1,254,246)	100

Five year financial summary
For the year ended 31 December 2013

	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	*31 Dec 2009
In thousands of Naira					
Assets					
Cash and cash equivalents	71,291	6,885,516	535,797	1,467,561	199,032
Loans and advances to customers	9,712,766	13,146,789	12,475,158	14,332,883	17,148,636
Long term investments	-	-	-	-	9,307,721
Short term investments	-	-	-	-	1,503,836
Investment securities	2,573,420	2,898,466	3,125,039	5,076,950	-
Investments in equity-accounted investee	5,434,477	5,207,162	5,365,203	5,191,860	-
Investment properties	4,348,571	7,738,641	11,757,311	15,677,463	11,761,318
Property, plant and equipment	791,736	1,191,154	1,414,831	2,086,261	3,869,572
Intangible assets	205,431	246,942	332,052	375,291	-
Deferred tax assets	-	-	2,603,331	2,021,850	-
Other assets	348,646	1,788,307	1,456,598	1,461,642	8,036,203
Total assets	23,486,338	39,102,977	39,065,320	47,691,761	51,826,318
Liabilities					
Deposits from customers	30,005,692	37,945,657	34,985,679	41,943,471	37,168,370
Current tax liabilities	116,250	88,598	70,820	103,575	308,538
Deferred tax liabilities	173,834	173,834	-	-	630,864
Other liabilities	3,838,983	6,670,462	2,142,376	2,800,461	5,462,723
Employee benefit obligations	365,220	1,606,583	1,814,536	1,784,110	980,512
Other borrowed funds	2,259,101	3,276,581	5,354,720	981,480	1,566,401
Total liabilities	36,759,080	49,761,715	44,368,131	47,613,097	46,117,408
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	2,033,088
Statutory reserves	1,212,963	1,212,963	1,212,963	1,212,963	1,212,963
Regulatory risk reserve	3,684,201	-	-	-	-
Fair value reserve	(546,778)	(817,377)	(1,514,222)	(1,090,168)	-
Retained deficit	(23,562,466)	(16,993,662)	(10,940,890)	(5,983,469)	(1,443,391)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	(13,272,742)	(10,658,738)	(5,302,811)	78,664	5,708,910
TOTAL LIABILITIES AND EQUITY	23,486,338	39,102,977	39,065,320	47,691,761	51,826,318
INCOME STATEMENT					
	12 months to 31 Dec 2013	12 months to 31 Dec 2012	12 months to 31 Dec 2011	*9 months to 31 Dec 2010	*12 months to 31 Mar 2009
In thousands of Naira					
Gross earnings	7,480,635	7,441,685	7,100,132	7,221,904	5,521,082
Loss before taxation	(3,230,677)	(3,257,829)	(5,515,739)	(9,541,476)	(1,315,846)
Minimum tax	(27,652)	(17,778)	581,481	(16,298)	(32,919)
Income tax	-	(2,777,165)	(23,163)	3,007,002	(321,021)
Loss after taxation	(3,258,329)	(6,052,772)	(4,957,421)	(6,550,772)	(1,669,786)
Other comprehensive income	644,325	697,495	-	-	-
Total comprehensive loss	(2,614,004)	(5,355,277)	(4,957,421)	(6,550,772)	(1,669,786)
Loss per share - Kobo	(42) k	(74) k	(69) k	(84) k	(21) k

* - 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.