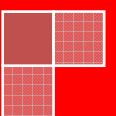




United Bank for Africa Plc

RC: 2457

Statement of Accounting Policies



The following are the significant accounting policies which have been consistently applied in the preparation of our financial statements:

1. BASIS OF PREPARATION

These financial statements are the consolidated financial statements of United Bank for Africa Plc, a company incorporated in Nigeria on 23 February, 1961 and its subsidiaries (hereinafter collectively referred to as "the Group"). The financial statements are prepared under the historical cost convention modified by the revaluation of property, plant and equipment, and comply with the Statement of Accounting Standards issued by the Nigerian Accounting Standards Board.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

2. CONSOLIDATION

a) Subsidiaries

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over their operations, have been consolidated. Where necessary, the accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made for non controlling interest.

The acquisition method is used to account for business combinations. The cost of an acquisition is measured as the market value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their market values at acquisition date, irrespective of the extent of any non controlling interest. The excess of the cost of acquisition over the value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

b) Associates

An associate is an entity in which the Group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the Group holding in excess of 20%, but no more than 50%, of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement; its share of post-acquisition movements in reserves is recognized in reserves.

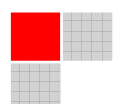
The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

c) Joint ventures

A company is accounted for as a joint venture where the Group has a contractual arrangement with one or more parties to undertake activities typically, though not necessarily, through entities which are subject to joint control. The Group's investment in a joint venture is initially recorded at cost and increased or reduced each year by the Group's share of the post-acquisition profit or loss, or other movements reflected directly in the equity of the jointly controlled entity.

3. SEGMENT REPORTING

A business segment is a distinguishable component of the Group that is engaged in providing related products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of other segments operating in other economic environments.



Segment information is presented in respect of the Group's geographical and business segments. The segments are determined by management based on the Bank's internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. FOREIGN CURRENCY TRANSLATION

Reporting currency

The consolidated financial statements are presented in Nigerian Naira, which is the Bank's reporting currency.

Transactions and balances

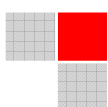
Foreign currency transactions are translated into the reporting currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Group companies

The results and financial position of all Group entities that have a currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of reserves.

On consolidation, exchange differences arising from the translation of the investment in foreign entities are taken to shareholders' funds. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.



5. LOANS AND ADVANCES

Loans and advances are stated net of provision for bad and doubtful items. Recoveries are written back to the profit and loss account when received. Interest income on non-performing loans are suspended and only recognized on cash basis.

Credit facilities are classified as either performing or non-performing. For the purpose of this, non-performing facilities are classified in line with the Prudential Guidelines issued by the Central Bank of Nigeria and are provided for in line with loan type and performance status as specified in the prudential guidelines, as follows:

Non specialised loans:

Interest and or principal

outstanding for :	Classification	Provision %
90 days but less than 180 days	Substandard	10
180 days but less than 360 days	Doubtful	50
360 days and above	Lost	100

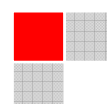
Specialised Loans:

Provision has been made for specialized loans in accordance with the prudential guidelines issued by the Central bank of Nigeria.

Provisions in respect of non-performing specialized loans are determined as follows:

Real estate and object financing

	% repayment on outstanding obligations due and / or days past due		
Classification	% repayment on outstanding obligations due and / or days past due	Days past due for aggregate instalments	% provision on total outstanding balance
Watch list	Between 60% and 75%	>180days	0%
Substandard	<60%	180days to 1 year	25%
Doubtful	<60%	1 to 2 years	50%
Very Doubtful	<60%	2 to 3 years	75%
Lost	<60	more than 3 years	100%



Project financing

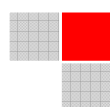
	% repayment on outstanding obligations due and / or days past due		
Classification	% repayment on outstanding obligations due and / or days past due	Days past due for aggregate installments	% provision on total outstanding balance
Watch list	Between 60% and 75%	>180days	0%
Substandard	<60%	180days to 2 years	25%
Doubtful	<60%	2 to 3 years	50%
Very Doubtful	<60%	3 to 4 years	75%
Lost	<60	more than 4 years	100%

Mortgage loans

Classification	Days past due for mark-up/interest for short term facilities	% provision on outstanding balance
Watch list	>90 days	0%
Substandard	>180 days	10%
Doubtful	>1 year	The un-provided balance of mortgage loans classified as substandard does not exceed 50% of the estimated net realisable value of the related securities.
Lost	>2 years	100%

Agricultural financing - short term loans

Classification	Days past due for mark-up/interest or principal	% provision on total outstanding balance
Watch list	90 days	0%
Substandard	90 days to 1 year	25%
Doubtful	1 to 1.5 years	50%
Very Doubtful	1.5 to 2 years	75%
Lost	>2 years	100%



Agricultural financing - long term loans

Classification	Days past due for mark-up/interest or principal	% provision on total outstanding balance
Watch list	90 days	0%
Substandard	90 days to 1 year	25%
Doubtful	1 to 2 years	50%
Very Doubtful	2 to 3 years	75%
Lost	> 3 years	100%

SME financing - short term loans

Classification	Days past due for mark-up/interest or principal	% provision on total outstanding balance
Watch list	90 days	0%
Substandard	90 days to 1 year	25%
Doubtful	1 to 1.5 years	50%
Very Doubtful	1.5 to 2 years	75%
Lost	>2 years	100%

SME financing - long term loans

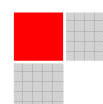
Classification	Days past due for mark-up/interest or principal	% provision on total outstanding balance
Watch list	90 days	0%
Substandard	90 days to 1 year	25%
Doubtful	1 to 2 years	50%
Very Doubtful	2 to 3 years	75%
Lost	> 3 years	100%

Margin financing:

Margin facilities are assessed for impairment by marking the underlying securities to market. Provision is made for the excess of the carrying value of the margin facilities over the value of the underlying securities.

Hair cut adjustments:

The Bank makes hair cut adjustments to the value of qualifying collaterals for all facilities classified as lost. The hair cut adjustments are in line with the prudential guidelines and are shown below:



Description of collateral	Haircut adjustments weightings
Cash collateral	0%
Treasury bills and government securities eg bonds	0%
Quoted equities and other traded securities	20%
Bank guarantees and receivables of blue chip companies	20%
Residential legal mortgage	50%
Commercial legal mortgage	50%

When a loan is deemed not collectible, it is written off against the related provision for impairments and subsequent recoveries are credited to the profit and loss account.

Risk assets in respect of which a previous provision was not made are written directly to the profit and loss account when they are deemed to be not collectible.

6. INCOME RECOGNITION

Credits to profit and loss account are recognized as follows:

a) Interest income

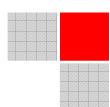
Interest income is recognized on an accrual basis, except for interest overdue by more than 90 days which is suspended and recognized only to the extent of cash received.

b) Non-credit related fees

These are recognized when the successful outcome of the assignment can be determined and the assignment is considered substantially completed.

c) Credit related fees

These are spread systematically over the tenor of the credit facilities where they constitute at least 10% of the projected average annual yield of the facility; otherwise they are credited to the profit and loss account at the time of occurrence.



d) Commission and fee charge to customers for services rendered

Fees and commissions, where material, are amortized over the life of the related service. Otherwise fees, commissions and other income are recognized as earned upon completion of the related service.

e) Investment income

Investment income is recognized on an accrual basis.

f) Dividend income

Dividend income is recognized when the right to receive income is established.

7. OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

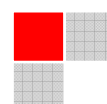
8. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are carried in the company's balance sheet at cost less provisions for impairment losses. Where, in the opinion of the Directors, there has been impairment in the value of an investment, the loss is recognized as an expense in the period in which the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

9. INVESTMENT PROPERTIES

An Investment Property is an investment in land or buildings held primarily for generating income or capital appreciation and not occupied substantially for use in the operations of the enterprise. A piece of property is treated as an investment property if it is not occupied substantially for use in the operations of the Group, an occupation of more than 15% of the property lettable space is considered substantial.

Investment properties are carried in the balance sheet at their market value and revalued periodically on a systematic basis at least once in every three years. Investment properties are not subject to periodic charge for depreciation.



When there has been a decline in value of an investment property, the carrying amount of the property is written down to recognize the loss. Such a reduction is charged to the profit and loss account. Reductions in carrying amount are reversed when there is an increase, following a revaluation of the investment property, or if the reasons for the reduction no longer exist.

An increase in carrying amount arising from the revaluation of investment property is credited to owners' equity as revaluation surplus. To the extent that a decrease in carrying amount offsets a previous increase, for the same property that has been credited to revaluation surplus and not subsequently reversed or utilized, it is charged against that revaluation surplus rather than the profit and loss account.

An increase on revaluation which is directly related to a previous decrease in carrying amount for the same property that was charged to the profit and loss account is credited to profit and loss account to the extent that it offsets the previously recorded decrease.

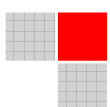
Investment properties are disclosed separate from the property and equipment used for the purposes of the business.

10. PROPERTY AND EQUIPMENT

All property and equipment are initially recorded at cost. They are subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Construction cost in respect of offices is carried at cost as work in progress. On completion of construction, the related amounts are transferred to the appropriate category of property and equipment. Payments in advance for items of property and equipment are included as Prepayments in Other Assets and upon delivery are reclassified as additions in the appropriate category of property and equipment. No depreciation is charged until the assets are put into use.



11. DEPRECIATION

Depreciation of property and equipment is calculated to write off the cost or valuation over the estimated useful lives of the assets on a straight line basis.

Property and equipment are depreciated from the month the asset is brought into use. The annual rates adopted for the various asset categories are as follows:

- i. Leasehold land and improvements – Over the term of the leases
- ii. Leasehold buildings – 2.5%
- iii. Motor vehicles – 20%
- iv. Computers – 20%
- v. Furniture and fittings – 20%
- vi. Equipment – 20%
- vii. Other transportation equipment – 10%

Where items of property and equipment are subsequently carried at revalued amounts, an entire class of property and equipment is revalued or the selection of the items for revaluation is done on a systematic and consistent basis. Any accumulated depreciation at the date of the revaluation is not credited to profit and loss account or retained profit.

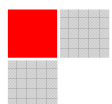
On revaluation of property and equipment, an increase in the net book value is credited to a revaluation surplus reserve. A decrease in the net book value is used to reduce the amount of any existing revaluation surplus on the same item before it is charged to profit and loss account.

Upon sale or disposal of an item of property and equipment, the difference between the proceeds and the net book value should be transferred to profit and loss account. Any balance in the revaluation surplus reserve in respect of such item is transferred to profit and loss account (or retained profit reserve).

Subsequent depreciation on revalued items of property, plant and equipment should be calculated on the new value and charged to income.

12. INVESTMENT SECURITIES

The Group categorizes its investment securities into the following categories: short term investments and long term investments. Investment securities are initially recognized at cost and management determines the classification at initial investment.



Short term investments

Debt and equity securities held for a period not exceeding one year or with an outstanding tenor to maturity not exceeding one year, and such instruments held for trading are classified as short term investments. They are valued at the lower of cost and market value on an item-by-item basis. The amount by which cost exceeds market value (where applicable) is charged to the profit and loss account.

Bonds and treasury bills issued by the Federal Government of Nigeria that are held for trading are classified as short term investments and carried at net realizable value. Gains or losses resulting from market valuation are recognized in the profit and loss account.

Treasury bills not held for trading are presented net of unearned discount. Unearned discount is deferred and amortized as earned. Interest earned while holding short term securities is reported as interest income.

Long term investments

Long-term investments are investments held by management over a long period of time to earn income. Long-term investments may include debt and equity securities.

Long-term investments are carried at cost less impairment. An investment is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the market value.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared. A change in market value of investment securities is not taken into account unless it is considered to be permanent.

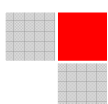
13. TAXATION

a. Income tax

Current income tax is payable on the taxable income for the period, based on statutory tax rates at the balance sheet date.

b. Deferred tax

Deferred tax, which arises from timing differences in the recognition of items for accounting and tax purposes, is calculated using the liability



method. Deferred tax is provided fully on timing difference, which is expected to reverse at the rate of tax likely to be in force at the time of reversal.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the associated unutilized tax losses and deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

14. RETIREMENT BENEFITS

The Group has both defined benefit and defined contribution scheme.

The defined contribution scheme is funded by contributions from the Group and employees. Funding under the scheme is 7.5% each by staff and the Group based on annual basic salary, housing and transport allowances in line with the Pension Reform Act 2004.

Liabilities in respect of the defined contribution scheme are charged against the profit of the period in which they become payable. Payments are made to Pension Fund Administration companies, who are appointed by respective staff of the Group.

The Group operates a defined benefit (gratuity) scheme where qualifying employees receive a lump sum payment based on the number of years served after an initial qualifying period of 10 years and gross salary on date of retirement.

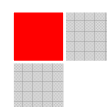
15. OFF-BALANCE SHEET TRANSACTIONS

Contingent liabilities arising from guaranteed commercial papers, letters of credit, performance bonds and guarantees issued on behalf of customers in the ordinary course of business are reported off-balance sheet in recognition of the risk inherent in those transactions. Incomes on these transactions are recognized as earned on issuance of the bond or guarantee.

16. SALE OF LOANS OR SECURITIES

A sale of loans or securities without recourse to the seller is accounted for as a disposal and the assets excluded from the balance sheet. Profits or losses on sale of loans or securities without recourse to the seller are recognized by the seller when the transaction is completed.

The Group regards a sale of loans or securities as without recourse, if it satisfies all the following conditions. Any sale not satisfying these conditions will be regarded as with recourse.



- control over the economic benefits of the asset must be passed on to the buyer;
- the seller can reasonably estimate any outstanding cost; and
- there must not be any repurchase obligations

A sale or transfer of loans or securities with recourse is when there is an obligation to, or an assumption of, repurchase is not treated as a sale, and the asset remains in the Group's balance sheet, with any related cash received recognized as a liability.

Profit arising from sale or transfer of loan or securities with recourse to the seller is amortized over the remaining life. However, losses are recognized as soon as they can reasonably be estimated. Where there is no obligation

or assumption of repurchase, the sale should be treated as disposal and the asset excluded from the balance sheet, and any contingent liability disclosed.

17. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are liabilities that are uncertain in timing or amount.

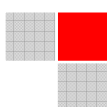
Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are normally made for restructuring costs and legal claims.

In addition, general provisions are made on performing risk assets balances in accordance with the Prudential Guidelines for Licensed Banks. Risk assets comprise of loans and advances advances under finance leases, etc.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or the Group has a present obligation as a result of past events but is not recognized because it is not likely that an outflow of resources will be required to settle the obligation; or the amount cannot be reliably estimated.

Contingent liabilities normally comprise of legal claims under arbitration or court process in respect of which a liability is not likely to eventuate. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of



one or more uncertain future events not wholly within the control of the Group.

A contingent asset is never recognized rather they are disclosed in the financial statements when they arise.

18. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits denominated in Naira and to foreign currencies. Cash equivalents are short-term, highly liquid instruments which are:

- (a) readily convertible into cash, whether in local or foreign currency; and
- (b) so near to their maturity dates as to present insignificant risk of changes in value as a result of changes in interest rates.

19. ORDINARY SHARE CAPITAL

Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

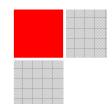
Dividends on ordinary shares are appropriated from revenue reserve in the period they are approved by the Bank's shareholders.

Dividends for the period that are approved by the shareholders after the balance sheet date are disclosed in the notes.

Dividends proposed by the Directors' but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Company and Allied Matters Act, CAP 20 LFN 2004.

20. EARNINGS PER SHARE

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



21. GOODWILL

Goodwill arises on the acquisition of subsidiary. Goodwill represents the excess of the purchase consideration over the fair value of the Group's interest in the net identifiable assets of the acquired subsidiary.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Losses arising from impairment are charged to profit and loss account in the period in which they arise.

22. BORROWED FUNDS

Borrowed funds are recognized initially at their issue proceeds and subsequently stated at cost less any repayments.

Transaction costs where immaterial, are recognized immediately in the profit and loss account. Where transaction costs are material, they are capitalized and amortized over the life of the loan. Interest paid on borrowings is recognized in the profit and loss account for the period.

23. FIDUCIARY ACTIVITIES

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

