# GROUP INVESTMENT POLICY

**Policy Number**: **FAA002/02**

**Classification: Internal**



This policy overrides all extant policies and board decisions as it relates to the subject matter of this policy. The policy approvals by the Board of Directors shall be appropriately communicated by the Company Secretary before it becomes operational and binding.

**Policy Family**: Finance & Accounts

**Document Owner**: Group Finance Office

**Document Information**

**Document Location**

After sign-off, this document will be filed in the Corporate Policy folder on the intranet with the following reference number – FAA002/02

**Document Review**

| **Position** | **Action** | **Status** |
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| Group Risk Management | QA/FR | Completed |
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| Group Policy Review Team | FR/QA | Completed |

**SA** = Signed Approval Required; **QA**= Quality Assurance Review; **FR** = Formal Review Required, **IR** = Informal Review, **AU** = Author of Document, **DOM** = Document Domestication

**Approval**

**The Group Investment Policy version 3.0 was approved by:**

| | |
|---|---|
| Finance & General-Purpose Committee Chairman | |
| Chairman on behalf of the Board of Directors | |

**Effective Date:**

**Document History**

| **Author** | **Date** | **Version** | **Comment** |
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## 1.0 Introduction

A fundamental objective of UBA's Board and Management is to maximize shareholders' wealth, thus every investment decision is anchored on the principle of achieving an optimum risk-adjusted return.

In addition, regulatory requirements and risk tolerance of the Bank are important considerations in investment appraisals to ensure relevant compliance with regulations and internal policies. Whilst investment decisions are taken based on the ability of the project or asset to generate alpha (i.e. expected return should be higher than the bank's hurdle rate/required rate of return), there should be consideration for synergy opportunity (which have indirect benefits to the bank), ESG principles as well as market and economic development impact.

**Scope & Definitions**

For the purpose of this policy, Investment is defined as the commitment of money or capital to purchase financial instruments or other permissible assets intended to be held for strategic and profitable reasons, with the benefit of deriving positive future value in the form of interests, dividends and capital gain.

This policy does not cover investments in mergers and acquisition, money market instruments, derivatives and any other treasury-based investment, which may or may not be for the purpose of liquidity management. Please refer to Group Mergers and Acquisition Policy and Group Treasury Management Policy for guidelines on these investments.

### 1.1 Investment Objectives

Unless otherwise provided by this policy, investments by UBA Plc and its subsidiaries shall be undertaken with a view to achieving the following objectives:

a. **Preservation of Capital** - Preserve the capital investment of its assets through prudent management and compliance with all existing Group policies, guidelines and procedures covering the use and stewardship of Group's funds.

b. **Risk-adjusted Yield** – The investment should be expected to generate positive economic value, after adjusting for the risk and opportunity cost of the investment.

c. **Strategic fit** – The investment must have strategic fit with the overall business model and vision of UBA, as it relates to business development, regulatory requirements and/or prospective synergy opportunity.

d. These characteristics limit the types of investments which may be purchased by the UBA Group. For all classes of investments, the strategic fit and preservation of capital are prioritized over the direct return on investment, as consideration is given to the total yield of the investment, putting in perspective additional value extraction that may arise from such investment.

e. In addition to the emphasis on liquidity and safety, the policy further confines investment activities within the guiding principles set forth in this policy.

## 1.2 Investment Guiding Principles

UBA Group shall adopt a holistic approach in investment appraisals, with emphasis on risk, strategic fit, return potential and ultimately value creation.

i. UBA has strong aversion to duplication of investments in competing businesses, except for strategic reasons, which should be justified by the Head, Portfolio Investments through the Group CFO, with the concurrence of the Group Managing Director/CEO.

ii. Investment decisions will be predicated on prudence anchored on sound judgment, due diligence and care, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

iii. All investment dealings shall be within the spirit and letter of all relevant laws and regulatory guidelines.

iv. Without prejudice to section 1.3(i), certain investments may be considered on the merit of expected impact on the host community, as an indirect form of corporate social responsibility, even as the potential return may be sub-optimal. However, this concession is not without due consideration to relevant risk factors and capital preservation.

v. It is a serious breach of discipline and may lead to dismissal should an individual commit the bank to a transaction without proper authority.

vi. All personnel given authority to approve investments shall consider it a responsibility and not a privilege. They shall exercise sound judgement and care to place UBA Group's interest above personal/selfish interest and disclose any potential conflict of interest, including but not limited to indirect exposures through friends, families, relations, colleagues and previous career engagements. The bank shall, as a matter of principle, promote an ethical culture within the bank's investment management practice. All investment decisions shall be guided by relevant parts of the Professional Code of Conduct & Ethics manual.

vii. Investment Officers/Managers shall avoid all conflict of interest situations as staff are enjoined to report all insider related investments in line with UBA Group's Whistle Blowing Policy. The conflict of interest includes possible conflict between the UBA Group interest and individual interest of a staff of the subsidiary . This is to be applied to the choice of the securities services provider (Broker; Custodian; Issuing House, Registrar etc.)

viii. There will be sanctions and other consequences for non-compliance with the provisions of this Investment Policy document.

## 1.3 Governance Structure

### 1.3.1 Investment Approval Authorities

The following entities shall have approving powers over designated investment decisions for UBA:

a. Board of Directors - Above N500m

b. F&GPC - Up to N500m

These

These bodies shall exercise approval powers within the limits of its authority as defined in the Empowerment Grid (section 3.3) below.

The role of EMC shall be strictly to review and recommend.

### 1.3.2 Approval Process for Investment Proposal

I. All entities within UBA shall route their investment proposals through the Group Chief Finance Officer

II. The Group Chief Finance Officer shall have the responsibility to present the investment proposal to the Group EMC Upon the receipt of an investment proposal, EMC shall be required to review, evaluate and recommend to F&GPC for consideration.

III. Upon the receipt of an investment proposal, EMC shall be required to review, evaluate and recommend to F&GPC for consideration Upon receipt of an investment proposal from EMC, F&GPC shall be required to deal as follows:

IV. Review, evaluate and consider for approval if within its approval authority limit;

V. If above its approval authority limit, F&GPC shall review, evaluate and forward for the consideration and approval of the Board;

### 1.3.3 Ethics and Conflicts of Interest

i. Authorized investment officers and employees in policy-making positions shall refrain from personal business activities that could conflict or give the appearance of a conflict with proper execution of the investment program or could impair their ability to make impartial investment decisions.

ii. Such individuals shall disclose to the Compliance Officer any material personal interests or relationships that could conflict or be seen to conflict with their roles as regards

iii. All staff with direct responsibility for investment analysis shall not introduce their personal investment proposals nor proposals from persons related to them howsoever..

iv. Approval for investment proposals originating from staff or their related third parties shall be by the next higher level of authority. In giving approval to such proposals, consideration shall be given to character, maturity and track record of the staff, in addition to the purpose and viability of the investment.

v. Proposals from directors of the Group or subsidiaries shall be appropriately disclosed and approved by the Group Board of Directors.

vi. Proposals from directors of the Bank or subsidiaries shall be appropriately disclosed and approved by the Board of Directors.

vii. Where an existing shareholder in an unlisted subsidiary decides to divest, UBA Plc shall have the first right of refusal to the shares and must therefore offer the shares before any other party.

## 2.0 Investment Types and Restrictions

### 2.1 Investments Types and Risk Levels

Investment decisions within UBA shall be strictly guided by the variations in the risk profile of the various investment types as depicted in the table below:

| S/N | Type | Tenor | Nature of investment | Risk level |
|---|---|---|---|---|
| 1 | Fixed Income Securities | MT, LT | **D**ebentures; **B**onds | Low – medium |
| 2 | Quoted Equities | MT, LT | **E**quity share;<br>**P**reference share;<br>**M**utual Funds | Medium - high |
| 3 | Real Estate | MT, LT | **M**ortgage Backed Securities;<br>**M**ortgages; Real **E**state Investment Trust | Medium - high |

| | | | | |
|---|---|---|---|---|
| 4 | Private equities, venture capital, unquoted securities | MT, LT | **S**MEIS;<br>**U**nquoted Securities;<br>**V**enture Capital | High |

**Key: MT – medium term; LT – long term (Defined as ST<1 year; MT >1<5 Yrs; LT 5 years >)**

### 2.2 Permissible Investments

The Bank seeks to achieve its investment objectives by limiting all investments to the instruments described below:

| Class of Instrument | Description |
|---|---|
| **Quoted Equity** | 1) Equity investments shall include the following:<br>• Publicly Traded Common stock<br>• Preference Shares<br>• Convertible Stocks<br>• International Stocks<br>• Limited Liability Companies and Joint Ventures<br><br>2) Equity Securities Defined:<br>• For the purpose of this policy, Equity securities shall be restricted to direct investments in stocks of publicly quoted companies in the capital market for the purpose of income or capital appreciation.<br>• Equity securities do not include investment in mergers and acquisition.<br>• Mutual fund investments may be made provided the fund is a legal investment in that substantially all its investments, deposits and procedures are legally permitted by the Group, and the fund's longest maturity does not exceed the maturity restriction set forth elsewhere in this Policy.<br><br>3) Equity investments shall be considered on the basis of |

| Class of Instrument | Description |
|---|---|
| | the following criteria<br>**a.** Company must have consistently paid dividends in the last 3 years or there is high probability of good dividend and future earnings potential;<br>**b.** Company must be of minimum investment grade as defined by Credit Risk Management per Group Investment Guide shown in table 3.2;<br>**c.** Company must meet minimum price-earnings(P/E) ratio based on UBA Group's set benchmark;<br>**d.** Company shall fall within target industrial sectors of the economy to be defined by the GCRO; |
| **Fixed Income Securities** | 1) Fixed income investments shall include the following:<br>• Debenture stocks;<br>• Government Bonds;<br><br>2) Obligations issued or guaranteed as to principal and interest by the country government (e.g. Federal Government of Nigeria, or any other Government as the case may be).<br>3) Corporate obligations which are rated equivalent of A or better by Standard & Poor's Corporation, Moody's Investors Service or Augusto & Co, at the time of investment.<br>4) Repurchase agreements properly secured.<br>5) Securities of a foreign government, that are guaranteed by the full faith and credit of that government as to principal and interest and rated BBB or higher by at least two of the standard rating services. (i.e. S&P, Moody's or/and Augusto). |

## 2.3 Prohibited Investments

UBA shall avoid investments in the following areas:

i. Products, services or markets we do not understand;

ii. Investments in prohibited/banned products, or industries;

iii. Investments in companies/industries in breach of social, ethical or environmental laws/regulations;

iv. Investments as refinancing for non-performing credit facilities;

v. Investments to take out existing shareholders except in extremely rare circumstances;

vi. Investment in highly leveraged or complex transactions/ industries.

vii. Investments in war-torn locations, high natural disasters, vulnerable/crisis prone areas shall be restricted.

viii. Prohibited investments/investment classes as specified by laws and governing regulators

## 3.0 Investment Management

### 3.1 General Portfolio Policies

i. 3.1(i) All entities within UBA shall invest their funds in a manner which shall provide the highest investment return with maximum security and in compliance with regulatory guidelines and statutes governing the Bank. The relevant unit in the Group Finance shall ensure value extraction from the investments, through "active" monitoring of the investments.

ii. 3.1(ii) Valuation: In the absence of an active market for price discovery/fair valuation for the assets, the Group Chief Finance Officer will be responsible for the valuation of the assets in line with relevant accounting standards, on a quarterly basis and such valuation will be presented to the Board Finance and General-Purpose Committee by the Group CFO, for relevant approval. The relevant unit within the Group Finance shall have responsibility to defend all valuations and respond to all enquiries on the investments, including but not limited to regulatory enquiries.

iii. UBA shall have representation on the Board of the investee company, should the Bank's equity interest be up to 10% or in the event of being one of the major investors, except when not possible. Such representative shall be nominated by the Group Managing Director/CEO and approved by Board Governance Committee. The representative shall be actively supported by the relevant unit in the Group Finance Division for effective value creation and extraction.

iv. The board representative at all investee companies including subsidiaries shall document highlights of all board and annual general meetings attended and present same to the Group Managing Director. These reports shall form part of the investment updates to the F&GPC by the GCFO.

v. All streams of income and benefit accruing from the investment; dividend, sitting allowance and fees etc paid to the Bank's representative on the Board of an investee company should be treated in line with the bank's governance policies. However, all associated cost incurred by the representative of the bank in respect of monitoring and coordination of the investment shall be reimbursed by the bank.

vi. Proxies: The procedure for treatment of proxy, where UBA's representative will be able to attend a general meeting of shareholders in an investee company/subsidiary will be as set-out in the bank's governance policy

## 3.2 Payment, Delivery and Safekeeping

Settlement (Payment and/or Delivery) and Safekeeping shall be done by GLOBAL INVESTOR SERVICES , the custody arm of UBA.

With respect to payment, delivery and the safekeeping of investments, the following policies shall be followed:

3.2(i) When physical delivery of securities is required, payment for investments will be made against delivery, and for sales of investments, delivery shall be made against payment;

3.2(ii) When an investment is purchased, evidence of the wire transfer of the funds shall be retained until the year-end audit.

3.2(iii) Copy(ies) of Agreements, Certificates and all other contractual documents shall be cleared and held for safekeeping by UBA Legal Division whilst UBA Global

Investor Services will serve as the custodian to the assets, where necessary.

3.2(iv) Other investment securities out of the scope of UBA Global Investors Services may be held in custody by a reputable securities firm as may be appointed by the Bank from time to time; Investments held in a custodial safekeeping account will be evidenced by a safekeeping receipt or other evidence of a safekeeping obligation. GIS shall provide daily reporting on assets and transactions as well as corporate actions and market information

## 3.3 Investment Managers

### 3.3.1 Internal Investment Managers

Where applicable, all investment dealings shall be conducted through the appropriate subsidiary, associate or affiliate of UBA; albeit all transactions shall strictly be at arms-length.

### 3.3.2 Fund Managers (Investment Firms)

i. Where situation warrants, investment managers may be appointed to manage assets, which fall outside the specialization of internal investment managers

ii. The appointment of external investment managers shall, where applicable, comply with UBA Framework on the appointment of third party service providers.

iii. The Group CFO shall ensure and facilitate the engagement of External Investment Managers.

iv. Such External Investment Managers shall execute and adhere to an Investment Policy Statement (section 4.4 below) in which the investment philosophy, procedures, guidelines and constraints shall be to be clearly defined and communicated.

## 3.4 Investment Policy Statement

The Group CFO shall ensure that an Investment Policy Statement (IPS) is duly executed between the UBA and Investment managers . The IPS shall, among others:

i. Adequately clarify expectations for Investment managers in terms of annualised minimum average rate of return, etc.

ii. Clearly communicate to all relevant parties the investment philosophy, procedures, guidelines and constraints to be adhered to by the bank and fund managers;

iii. Clearly define investment portfolio status reports (including executive summary) and the frequency of such reports to be presented by investment managers in periodic analysis of investment portfolio on quarterly basis. The executive summary will be detailed to enable management to ascertain whether investment activities during the reporting period have conformed to the investment policy and shall include the following:

   a. List of investments made during the reporting period;
   b. List of individual securities held at the end of the reporting period;
   c. Performance of the portfolio; highlighting dividends/interest, realized gain and unrealized gain.

iv. The investment manager shall communicate unusual positive or negative development in any of the investee companies, with recommendations on how best to extract/salvage value from such development.

v. It shall be the responsibility of Investment Managers to draft and recommend changes to the IPS to suit their individual investment strategies of UBA from time to time, with the approval of the Group CFO.

## 3.5 Evaluation and Retention of Managers

### 3.5.1 Performance Reporting.

Internal or External investment managers will be expected to closely monitor the assets, including due representation on the

Board, when applicable. The overall performance of the portfolio will be measured both quantitatively and qualitatively;

**Quantitative measure**: The portfolio return, measured by both realized (dividend, allowance etc.) and unrealized gain on the assets will be expected to beat the opportunity cost of the funds, which is set as the average yield on the Bank's interest earning assets.

**Qualitative measure**: The Bank expects to derive some indirect benefits from every investments, in line with the strategic fit objective of the investments, thus the Bank will appraise the synergy opportunities from every investee companies, including but not limited to business relationships (deposit, credit, transaction banking activities and service integration/enhancement) and social impact

### 3.5.2 Investment Style/Strategy

The managers shall retain a portfolio for the Group, characterized by their respective traditional management strategies and, if a change in such strategies is contemplated, the manager is required to make advance written notification to the Group CFO.

A change in strategy may reduce or eliminate the effect of diversification and therefore, may result in a change of manager by the Group. GALCO must pre-approve any contemplated change in strategy.

### 3.5.3 Change in Objectives or Asset Allocation

A change in objectives or asset allocation strategy may require that funds be transferred between asset classes, to new asset classes, or among investments within same asset classes. These changes may result in increases/decreases or elimination of funds under management by a specific manager. Any changes in objectives or asset allocation strategy must be communicated to the GALCO in writing and prior approval obtained before they are effected.

### 3.5.4 Change in Principals/Key Man

The historical investment performance of an investment portfolio may be attributable to a specific person or persons managing the portfolio. A change in key individuals will be taken into consideration in the evaluation of portfolio and any decision affecting the fundamentals of the investments.

### 3.5.5 Criteria for Selecting Managers

The addition of a management firm will be decided by the specific needs and objectives of the Bank through a formal Request for Proposal (RFP) process. In considering a new firm, the same evaluation criteria will apply as presented above. Firms not satisfying these criteria shall not be considered.

## 3.6 Custody and safekeeping

The custody and safekeeping of investment collateral shall be handled by the office of the Legal Services Division on behalf of both Internal and External Fund Managers. All security transactions entered into by the investment managers shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis to ensure that securities are confirmed duly delivered prior to release of funds.

Where necessary securities shall be held by UBA Global Investor Services or any Sub-Custodian designated by EMC as appropriate, and evidenced by safekeeping Receipts.

## 3.7 System of Internal Controls

The Group CFO, in his capacity as the Chief Investment Officer shall review the portfolio with the investment manager(s) on a quarterly basis to ensure relevant compliance with regulatory and internal policies. Also, the review should focus on the objectivity, independence and diligence of the investment manager in investment recommendation, monitoring and valuation.

### 3.8 Policy Monitoring/Enforcement

It shall be the responsibility of Chief Internal Auditor to closely monitor Group Investment portfolio and carry out regular compliance checks as to whether or not the policy objectives are been met as well as ascertain the extent of compliance with the investments policy statements.

The Chief Internal Auditor shall carry out both spot check and full audit of UBA Investment Portfolio in line with the provisions of Audit Charter

### 3.9 Asset Allocation

The allocation of assets within investment categories authorised in this Policy shall be reviewed by GALCO annually or as the need arises.

### 3.10 Limitation of Liability

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers are hereby referred to Section 1.3.4.

Authorized investment officers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

## 4.0 Divestment

**4.1** For any or combination of the following reasons, the Group could take a decision to divest from a subsidiary or other business:

- To focus on primary business by divesting from non-core assets or business
- Availability of other investment opportunities by divesting from a not-so-profitable business or unsatisfactory returns
- Inability to achieve synergy or strategic fit

- Social or Political reasons
- Inability to exercise effective control

**4.2** EMC shall have responsibility to review and evaluate all divestment proposals and recommend for consideration and approval of F& GPC or Board.

## 5.0 Annexure 1 - Glossary of Terms

**1.** "**Money Market**" refers to the marketplace composed of the financial institutions which handle the purchase and sale of liquid, short-term, high-grade debt instruments. The money market is not a single entity, but consists of numerous separate markets, each of which deals in a different type of short-term instrument. These include Nigerian government obligations, certificates of deposit, Groupers acceptances and commercial papers, which are generally referred to as money market instruments.

**2.** **Nigerian Government Obligations** are debt securities (including bills, certificates of indebtedness, notes and bonds) issued by the Central Bank of Nigeria or by an agency or instrumentality of the Nigerian Government.

**3.** **Certificates of Deposits** are certificates evidencing the indebtedness of a commercial Group to repay funds deposited with it for a definite period of time (usually from seven days to one year) at a fixed or variable rate of interest. Variable rate certificates of deposit provide that the interest rate will fluctuate on designated dates based on changes in a designated base rate (such as the composite rate for certificates of deposit established by the CBN).

Risk Consideration: CDs issued by large, well-established Groups are usually considered to have relatively low risk.

**4.** **Group Acceptances** are credit instruments evidencing the obligation of a Group to pay a draft which has been drawn on it by a customer. These instruments constitute an irrevocable primary obligation of the accepting Group and may also be a contingent obligation of the drawer, to pay the face amount of the instruments at maturity. With the credit strength of the Group behind it, a Group acceptance usually qualifies as a money market instrument.

Risk Considerations: Group acceptances issued by large well-established Groups are usually considered to have relatively low credit risk.

**5.** **Commercial Paper** consists of short-term (usually from 1 to 270 days) unsecured promissory notes issued by corporations in order to finance their current operations. The ratings A-1 and Prime-1 are the highest commercial paper ratings assigned by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. Because most commercial paper is unsecured, it is usually issued by top-rated entities.

Risk Considerations: Investment in commercial paper issued by lower-risk companies, contains some risk because the instruments are usually unsecured. Even with highly rated credits, default by the issuer is always a risk.

**6. Repurchase Agreements** (repos) are transactions by which the financial institution purchases a security and simultaneously commits to resell that security to the seller at an agreed upon price on an agreed upon date within a number of days (usually not more than seven) from the date of purchase. The resale price reflects the purchase price plus an agreed upon market rate of interest which is unrelated to the coupon rate or the maturity of the purchase security. A repurchase agreement involves the obligation of the seller to pay the agreed upon price which obligation is in effect secured by the value (at least equal to the amount of the agreed upon resale price when marked to market daily) of the underlying security.

The attraction of repos to lenders is the flexibility of maturities relative to other short-term investments such as commercial paper, certificates of deposits and treasury bills. The borrower, often a dealer financing its trading inventory, pays a lower rate than a collateralized Group loan.

Risk Considerations: The lender needs to evaluate the creditworthiness of the borrower, especially if the borrower does not transfer the securities to the custody of the lender.

**7. Corporate Bonds** are written promises, under seal, to pay a specified sum of money at a fixed time in the future with interest at a fixed rate, payable at specified interest dates. All bonds, whether specifically secured or not, are, in effect, long term promissory notes. Because bonds are instruments of credit rather than instruments of ownership (stock), the claims of their holders must be met before anything may be paid to stockholders.

**8. Deposit Notes** - A medium term, unsecured obligation of a Group that ranks pari passu (same as closed-end mortgages) with other senior unsecured obligations of the Group. Deposit notes rank pari passu to other Group deposits (including certificates of deposit) unless those deposits are secured or subject to depositor preference statutes.

**9. Medium-Term Note (MTN)** - A note that operates much like commercial paper but has maturities ranging from nine months to forty years. The issuer files a shelf registration with the SEC (if issued in the U.S.) for the notes to be offered at various times, with different maturities and rates, so it can tailor the notes to its specific financing needs.

MTNs give the issuer flexibility in raising cash by, in effect, arranging for long-term financing at short-term rates (because the debt is issued only as needed). In addition, the shelf registration saves financing costs, as the issuer does not need to keep filing registrations for new issues. For the investor, the rates offered are relatively attractive.

Risk Considerations: To maintain flexibility, the issuer gives up the opportunity to lock in rates over the long term. The secondary market in these securities may not be liquid, making it difficult for an investor to sell them before maturity.

**10. Zero-Coupon Bond** - A bond with no periodic interest payments (i.e., coupons). Zero-coupon bonds are sold at a deep discount from face value. The buyer of such a bond receives a return by the gradual appreciation of the security, which is redeemed at face value at maturity.

A zero-coupon bond eliminates reinvestment risk for the investor, the risk that coupon interest may have to be invested at rates lower than the bond pays. Zero-coupon bonds are particularly popular with tax-exempt institutional investors that need to match yields with anticipated obligations over the long term and for tax deferred investments such as IRAs.

Risk Considerations: Because they do not pay a current coupon, prices of zero-coupon bonds are much more sensitive to changing interest rates than coupon bonds.

**11. Collateralized Mortgage Obligation (CMO)** - A debt obligation generally issued by a special-purpose vehicle (SPV) collateralized by a pool of mortgages. The SPV purchases a group of mortgages using the proceeds of an offering of bonds collateralized by the mortgages. The SPV uses the underlying cash flows of the collateral to fund the debt service on the bonds. The bonds are priced based on their own maturity and rate of return rather than that of the underlying mortgages.

For the investor, these instruments may offer an attractive yield, considering the relative safety of the investment. (The only obligation of the SPV is to satisfy the bondholders, and the bonds are collateralized by the dedicated mortgages.) CMOs also give small investors an opportunity to participate in an investment generally dominated by large institutions.

Institutional investors concerned with event risk on corporate debt issues may feel more comfortable with these securities.

**12. Floating Rate Notes** - Debt instruments with a variable interest rate that is generally tied to prevailing short-term interest rates. These investments are relatively insensitive to changes in interest rates.

**13. Forwards** - Contracts that enable the purchase or sale of a specific quantity of a commodity, foreign currency, or other financial instrument at its current price, with delivery and settlement at a specified future date. They are not traded publicly on an exchange.

**14. Futures** - Contracts denoting an agreement to buy or sell a specific quantity of a commodity, financial instrument, or interest payment at a particular price on a stipulated future date. They are publicly traded on an exchange, and are less flexible than forwards in terms of quantity.

**15. Indexed Securities** (also known as Structured Notes) - Highly customised short-term debt instruments that allow investors to create and capitalize on short-term investment opportunities without having to liquidate or restructure sound long-term investment positions. These instruments are often called "customised bonds" because they are designed with "yield" features, and their interest rates and/or principals are indexed to an unrelated indicator.

**16. Options** - Securities transaction agreements tied to stocks, commodities, or stock indexes that involve the right to buy or sell those instruments for an agreed-on sum. Options are publicly traded on many different exchanges.

**17. Derivatives -** Derivatives are generally defined as belonging to one of the following three categories 1) futures and options (mainly interest-rate futures and stock under futures), 2) foreign currency contracts, and 3) derivatives securities (mainly indexed securities or structured notes).

**18a. Futures Contracts** - Stock index futures and interest rate futures are contracts to buy or sell securities at a future date, with the price fixed today. Together with currency forward contracts, they represent a type of investment that might be called "traditional" derivatives, because they have been around for many years and are widely held and traded.

Futures give the portfolio manager another tool to use. If a portfolio manager wants to increase the fund's exposure to interest rates, he or she might buy a future contract instead of buying longer-term bonds. If the manager wanted to reduce risk, on the other hand, he or she could sell interest rate futures instead of raising more cash.

**18b. Currency Contracts** - Their formal name is "forward foreign currency exchange contracts", but they are often called "currency forwards" or "currency contracts" for short.

Currency forwards are a lot like futures, except they are not traded on exchanges.

**18c. Derivative Securities -** These are complex investments that perform a little like normal bonds and a little like futures, options or forwards. The category would include complex mortgage-backed securities, which is the kind of instruments some funds have used unwisely.

The most likely kind of derivatives security would be structured notes. Structured notes have a smaller market than futures or forwards, because they are newer, and because they are customised.

Risk Considerations: With some bonds, investors have no recourse to the sponsor or originator if the underlying loans go into default. However, bonds not collateralised by government based securities often contain some credit enhancement. For both the originator and investor, cash flows may not materialise as scheduled. By issuing the bonds in tranches, the sponsor can reduce the prepayment risk and tailor the maturities more to investors' requirements.

**19. Credit Risk** - This is also referred to as default risk, in that invested principal may be lost if the institution in which funds have been invested should experience financial difficulty or, in a worst-case scenario, insolvency. This possibility is quite real and should be a high priority to the Group Treasurer when planning a prudent investment program. The approach to assessing and preventing unnecessary credit risk is one that uses professional credit review services to obtain a credit rating and other financial data on any institution in which funds may be placed.

**20. Market Risk - Fixed Income Securities -** The risk, often referred to as interest rate risk, refers to possible declines in the market value of fixed-income securities as interest rates rise. Although it is frequently overlooked by investment officers, market risk can lead to substantial declines in a fixed-income securities principal portfolio value if not properly contained by appropriate restrictions stated in the investment guidelines. Such restrictions specifically address the maturity date of the instrument because longer maturities have greater market risk: as interest rates rise, the longer maturities suffer the greatest decline in market value. Accordingly, restrictions on maximum maturity dates should be specified in the investment guidelines commensurate with the risk tolerance of the corporate investment policy.

**21 Market Risk - Equity Securities** - Refers to the changes in the prices (volatility) of common stocks in the equity portfolios. Market risk is managed by maintaining global diversification in the equity portfolios Also Mark-to-Market monitoring shall be carried out by GIS Division via Security Lending Unit..

**22. Liquidity Risk** - The risk refers to a corporation's ability, or inability, to quickly sell investment securities for cash, which may be required for other corporate needs. In other words, the quality of an investment portfolio that allows it to be converted immediately to cash is referred to as its liquidity factor. It can be critical to a corporation that relies upon its investment position to provide additional funds on very short notice. Liquidity is obtained by purchasing securities with a number of features that make them attractive investments.

## 6.0 Annexure 2 - Investment Guidelines and Procedures

The following guidelines are provided as a complement to the above Investment Policies to assist all stake holders in their consideration and review of investment and loan opportunities. Exceptions to these guidelines must be reported to F&GPC.

### *Procedures*

i. EMC shall have responsibility to review and evaluate all investment proposals and recommend for consideration and approval of F&GPC or Board..

ii. EMC shall have exercise oversight function on the portfolio performance of various internal/external Fund Managers.

iii. The Fund Managers shall report to Head, Finance Directorate.

iv. In the process of tabling an investment proposal to EMC for notification (Stage 1) and consideration (Stage 2); the Fund Manager shall implement the following procedures:

   a. Generate a **Deal Briefing Sheet (DBS)** – This preliminary screening document summarises the investment opportunity. Investments Relationship Managers are empowered to make clear 'proceed' or 'reject' recommendations. This should be in the form of an executive summary analysis sheet performed by an analyst.

   b. Generate a **Deal Summary Sheet (DSS)** – Positively screened DBS opportunities are assessed in greater detail. Approval at this stage is reserved for 'Fund Managers' or their delegated subordinates.

   c. Conduct a **Deal Review Session (DRS)** - Duly approved DSS prospects are subjected to critical review by supervisors, peers and subordinates. Positively sanctioned deals from DRS are passed for Stage 1 advisement of EMC members.

Positive Stage 1 acknowledgment by the EMC leads to:

   a. Conduct of **Detailed Prospect Assessment** (DPA); this stage encompasses detailed assessment of the commercial and financial viability of prospective investments. This would typically also involve site visits plus Legal and Financial due diligence investigations.

Completion of the DPA process leads to Stage 2 advisement of EMC i.e. presentation of an **Investment Proposal** to EMC:

v. In order to review and evaluate an Investment proposal, EMC shall require that:

a. A Stage 1 Review is prepared by the Fund Manager and presented for information to EMC: A Stage 1 Review will:

- Focus on the fundamental characteristics of the proposed investment opportunity, and summarize the management and governance of the institution, and the recent performance and potential of the business.
- Not result in an investment recommendation to the EMC, but will indicate whether the Fund Manager intends to pursue the opportunity.
- Not be required by the EMC if the Fund Manager has invested in the investee institution within the two prior years or is represented on the Board of Directors of such investee institution.

b. Following a positive Stage 1 Review, and where the Fund Manager further evaluates/pursues an opportunity; a Stage 2 Review must be prepared and submitted to the EMC. A Stage 2 Review will:

- Involve consideration of a detailed Investment Proposal (IP) with a recommendation by the Fund Manager for financing. The recommendation must be based on a detailed review of the potential investee institution, based on their historical and projected financial and operating results, their business plan, or any other strategic material prepared as a financing proposal as well as requisite due diligence checks.
- Consider in an IP, a summary of the terms of the proposed Investment and the proposed exit strategy.

vi. EMC will meet to make decisions as opportunities are developed and presented by the Fund Manager. Fund Managers must provide IPs to EMC members at least one week prior to the agreed meeting date for any investment opportunity that requires their attention.

vii. Clear ground rules for dealing with conflicts of interest must apply. If management or employees of Fund Management Companies or members of EMC have or might have a material interest in the outcome of an investment – they will declare that interest and refrain from voting.

viii. EMC meetings may occur either in person or by telephone conference. Following each meeting, the Committee's Secretary will prepare the corresponding minutes indicating, in writing, the Committee's position with respect to each recommended financing proposal as follows:

a. **Approved** (as recommended by the Fund Manager or as modified),

b. **Declined**, or

c. **Returned** to the Fund Manager for additional analysis and re-submission.

ix. All investment and divestment decisions will require an affirmative vote of a majority of the subsidiary Board. If a decision can't be reached because (a) the number of disqualified members of the Committee does not permit a decision, or (b) the vote is tied, the subsidiary Board will refer the decision to F&GPC. Any decision taken shall also be notified to the Custodian for its monitoring purposes.

x. Approval of Investment Proposals will include:

a. An authorization to the Fund Manager to negotiate the final terms of the investment and perfection of requisite final documentations.

b. Abeyance of disbursement of approved investment pending satisfaction of pre-disbursement conditionalities, including but not limited to:

- Agreement and documentation of performance milestones

- Opening of a specific "Project Account" at a convenient UBA Branch with operational mandates involving authorised UBA-designated signatories.
- Acceptable completion of process/ownership documentation including Shareholder Agreements
- Satisfactory conclusion of management's further directives arising from Stage 2 review
- Agreement to grant 'preferred provider status' to UBA Group entities as relevant in provision of goods and services in the usual course of the investee institution's operations

## 7.0 Annexure 3 - Criteria for reviewing investment presentations

i. Executive Summary
   a. Key issues summarized
   b. Summary of prayers for the Committee

ii. Basic company information
   a. The vision & Mission
   b. Ownership structure
   c. Products and services
   d. Core competencies and strengths
   e. SWOT Analysis

iii. Management
   a. Profile of Directors
   b. Proposed management arrangement; management quality, experience and capacity
   c. Corporate governance structure
   d. Profile of top management and key staff
   e. Proposed organizational structure

iv. Analysis of Business Strategy
  a. The business opportunity
  b. Overall business model
  c. Marketing strategies
  d. Operational dynamics
  e. Brand development and communication strategies
  f. Management accounting and Reporting system
  g. Risk management/internal controls structure

v. Environmental/industry analysis
  a. Environmental scan/Peer Analysis
  b. Industry and Competition
  c. Regulatory environment
  d. Market/customer analysis
  e. Strategic implications for proposed investment
  f. Relevance of industry within current and future macroeconomic framework

vi. Financial analysis and strategy
  a. Initial Capital expenditure
  b. Operational expenses
  c. Income forecasts
  d. Cash flow Projections
  e. Valuation of equity
  f. Forecast balance sheet
  g. Comparative financial ratios with industry peers and leaders
    - Liquidity & solvency
    - Profitability
    - Gearing
  h. Funding/financial strategies

**Others**

**i.** Investment Considerations

a. Investment analysis

b. Equity participation by venture sponsors and Group

c. Pre-operational expenses

d. Current status of the project

e. Payback period

f. Internal Rate of Returns

g. Net Present Value

h. Minimum expected returns

i. Key risks and mitigating factors

j. Key success factors

k. Critical measures of performance

l. Conditions for Group's participation

ii. Benefits to the Bank

a. Investment objective

b. Financial returns

c. Profit sharing arrangement

d. Non-financial considerations

iii. Exit strategies

a. Valuation of equity at exit point

b. Sale/Transfer of share ownership