

PORTFOLIO SELECTION AND RISK MANAGEMENT:  
A CASE STUDY OF UNITED BANK FOR AFRICA  
LIMITED, UNION BANK OF NIGERIA LIMITED,  
AND UNITED NIGERIA TEXTILES LIMITED

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DEDICATION

I dedicate this work to my father Alhaji Ibrahim Dikko, my mother Maryam, my wife Saratu, my children Muzzammil and Shukriyya and those who may be born in future, and to all who wish me well.

DECLARATION

I SAMAILA DIKKO hereby declare that this project has been composed and written by myself. It has not been previously presented in any application for a higher degree. Sources of information are duely acknowledged.

SAMAILA DIKKO

November, 1988

CERTIFICATION

This project entitled "PORTFOLIO SELECTION AND RISK MANAGEMENT":  
 A case study of UNITED BANK FOR AFRICA LIMITED, UNION BANK OF  
 NIGERIA LIMITED AND UNITED NIGERIA TEXTILES LIMITED by  
 SAMAILA DIKKO meets the regulations governing the degree of  
 Master of Business Administration of Ahmadu Bello University, Zaria,  
 and is approved for its contribution to knowledge in business.

ABDULLAH TAFIDA

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 Name and Signature of Supervisor

22/11/88  
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Date

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ABSTRACT

The Nigerian economy is today in dire need of funds from both internal and external sources for investment. These funds are not forthcoming.

The problem is compounded by the fact that expertise in management especially investment management is virtually lacking. Perhaps because of the mathematics involved, few people have ventured into the field.

The study is undertaken in order to show that an investor could collect data of almost any security and analyse it, using simple statistical techniques and see how such a security fares.

He could then form suitable portfolios based on simple guidelines. He could then decide whether to diversify within or across industries.

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I N T R O D U C T I O N

(1)

1.1 Introduction

With the global decline in fortunes for both nations and individual businesses, financial management, and especially investment management, is increasingly assuming a pivotal position.

Few people are aware that starting a new business is not an end in itself, and only few people would want to venture into what others have started and are doing. Few also would concede to others part of what they own so that ownership is not spread among a wide range of people.

Financial resources available for investment are scarce, yet people long for where they could put the little they have so that they could get some reasonable return on such investment.

Many people assume that merely having the funds is the end of the investment process, and all they need do is go for the stock that is making the rounds on the stock exchange and buy such. However, events now and again have shown that investment is not so simple, but has a scientific approach to it.

The limitation of the investible funds available and the urge to have maximum return on the little available, makes portfolio analysis and management assume a significant place in investment appraisal.

Meanwhile, the expertise available for this is scarce so many people do pose as if they were experts, using subjective, non analytical criteria in advising their clients. However, portfolio analysis and management has principally, an analytical and scientific approach to it.

## 1.2 Purpose of the Study

The study is intended to introduce the analytical and scientific basis for portfolio selection. It is intended to show that merely having the funds and the availability of securities with high returns is not enough. The investor has to possess a basis not only of knowing what security is profitable, but the combination of securities that would maximise his returns while reducing risk. It would therefore highlight this scientific basis for portfolio appraisal.

## 1.3 Limitation of the Study

The study is limited to a look at three securities: two in the financial industry, and one in the textile industry. Those in the financial industry are United Bank for Africa, UBA, and Union Bank of Nigeria, UBN. The firm in the textile industry is the United Nigeria Textiles Limited, UNTL.

The two firms in the finance industry would be appraised individually and then a portfolio is formed of the two. The performance of this portfolio would be looked at. Each of these firms is then combined into a portfolio with that in the textile industry and their performances are equally looked at.

Portfolio of only two assets are formed in order not to engage in any cumbersome mathematical analysis, since this work is only introductory.

The analysis would not go beyond the Markowitz diversification stage as this stage is adequate/for this study, in looking at portfolios and the risk associated with them which would be looked at in the study.

Data between 1978 and 1987 would be looked at, a reasonable period for such analysis.

#### 1.4 Research Methodology

Scientific portfolio analysis cannot be based on what people feel or think, but what analysis has to show in terms of return and risk. This involves the analysis of historical data of a company. Most of such data are normally contained in the annual financial report about the performance of these firms. The rate of return could then be calculated from such data.

Analysing only a firm's rate of return looks simplistic but, it does not contradict more fundamental security analysis techniques like ratio analysis etc. All the security analyst need do is to convert his estimates into several possible rates of return and attach probabilities to them. This is the approach of this study.

#### 1.5 Definition of Terms

Portfolio analysis, though could be simplified, involves the use of certain peculiar language, the meaning of which would be distorted if given ordinary literal interpretations. Therefore, defining some of these terms is necessary in order to make their meanings unambiguous and clear.

##### 1.5.1 Expected Return

This is the rate of return an investor expects to realise from an investment. It is normally expressed as the mean value of the probability distribution of possible returns, and is denoted by  $E(r)$ .

### 1.5.2 Risk

This is the probability of default, or the variability or uncertainty of realised return around expected return. It shows how much our observation differs from the expected return. It is denoted by variance  $\sigma^2$  or more appropriately by the standard deviation  $\sigma$ .

### 1.5.3 Diversification

'Not putting all your eggs in one basket" or "spreading your risks", i.e. investing in more than one security by forming a basket of securities called a portfolio.

## 1.6 Order of Presentation

The study consist of four chapters. Chapter One is introductory. It throws light on the scope of the study, and definition of terms.

Chapter Two reviews existing literature relevant to this study.

Chapter Three analyses data by calculating the expected return and variance of the individual securities; and the correlations and covariances of portfolios.

Chapter Four concludes the work by bringing out our observations and pointing out appropriate recommendations.

## CHAPTER TWO

### 2.1 Literature Review

Before the advent of more analytical and scientific approach to investment appraisal, especially in portfolio management, investment counsellors hitherto gave only "commonsense guidelines" to their clients, pretending it was valuable expert advice. Today, the atmosphere for investment and financial management is relatively packed with more than adequate techniques for appraising the suitability of investment projects.

However, few people have got the financial wherewithal to start new businesses, yet they long for where they could make profitable use of their money. The dilemma arises as to where they could employ money that would be able to achieve satisfactory return, while reducing risk to an appreciable level. Thus portfolio management assumes a critical position especially in these days of dwindling finances. Portfolio selection and risk management can be broken into three broad stages, viz:-

1. Security Analysis
2. Portfolio Analysis and
3. Portfolio Selection

Often times, many investors are found holding non-efficient portfolios. This is due partly from advice normally given by investment counsellors, often referred to as FINANCIAL INTERIOR DECORATORS, who give their clients advice based not on expert or scientific analysis of the performance

of an investment, but on their client's personality. This is even though certain investments that are by themselves very risky and which certain class of people are advised to keep clear of, could be combined into efficient sets of investment opportunities.

Investment behaviour prefer more return to less and seek to avoid risk. However, the options open to an investor are not merely to pick between assets, but also to consider combination of these assets.<sup>1</sup>

The risks associated with combining assets is very different from simple average of individual assets. "Most dramatically, the variance of a combination of two or more assets could be less than the variance of the assets themselves."<sup>2</sup>

## 2.2 Security Analysis

Security Analysis is the preamble of portfolio analysis and selection. Security Analysis involves estimating probability distribution of returns for each security, using historical data in many cases, the financial statements of the companies in question.<sup>3</sup>

The firms rate of return is normally calculated and used from these data. Analysing the rate of return looks simplistic, yet it does not contradict more fundamental security analysis techniques - analysing financial ratios, industry forecasts, or a look at the state of the economy. All the analyst need do, is convert his estimates into several possible rates of return and attach suitable probabilities. The other problems mentioned are then duly taken care of by these returns and their probabilities. This is

because variability of returns is a measure of risk grounded in fundamental analysis of the firm, its industry and the general economic outlook.

### 2.3 Expected Return

The expected return is perhaps the most important single factor in analysing the performance of a security. Hence risk of a security focuses on the dispersion of the security's return about its expected return.

Every reasonable investor wants more return to less and avoids risk. So he is on the look out for securities with the highest return in a particular risk class. The rate of return on an investment, is the relevant outcome of an investment. The expected value of the probability distribution of these returns. In other words,

$$E(r) = \sum_{t=1}^n P_t r_t$$

Where  $P$  is the probability of  $t^{\text{th}}$  rate of return and  $r$  the  $t^{\text{th}}$  rate of return.

Rates of return below the expected values, represent disappointing outcomes to an investor, representing the injury, damage or loss he runs away from.

### 2.4 Risk Associated with a Security

Risk associated with a security must be analysed and understood in order to manage it. "If two projects have the same expected return, it does not imply that they also have the same desirability,

as desirability depends on both the expected return and risk."<sup>4</sup>

If risk analysis is to be meaningful, a quantitative risk surrogate is required. And for this surrogate to be useful, it must be able to measure either directly or indirectly "the chance of injury or damage" so that it must be used synonymously with risk.<sup>5</sup>

The variance of returns is normally used as this risk surrogate. Normally the standard deviation replaces the variance because it is stated in terms<sup>of</sup> rates of return while variance talks of rates of return squared.

The standard deviation of a portfolio's return can be determined from (among other things) the standard of the returns of its component securities, no matter what the distribution.<sup>6</sup>

Variance,  $\sigma^2 = E (r_i - E(r_i) )^2$  Where  $i$  is the security.

The standard deviation could be got from the square root of the variance.

## 2.5 Portfolio Analysis

Merely analysing a security's performance and seeing it record a high expected return compared to risk does not advise for "putting all your eggs in one basket." It is better for you to "spread your risks."<sup>7</sup> This means that investment has to be spread among basket of securities, not one, in order to reduce risk.

Portfolio Analysis is concerned with finding the most desirable group of securities to hold, given the properties of each of the securities.<sup>8</sup> Portfolio Analysis rest on the following assumptions:



- (a) All investors maximise one period expected utility and exhibit diminishing marginal utility of wealth.
- (b) Investors risk estimates are proportional to the variability of the expected return.
- (c) Investors are willing to base their decision solely in terms of expected return and risk. That is utility,  $U$ , is a function of variability of return,  $r$ , and expected return,  $E(r)$ .

Symbollically,

$$U = f(E(r), r)$$

- (d) For any given level of risk, investors prefer higher returns to lower returns. And for any level of expected return, they prefer lower risk to a higher one.

In summary, portfolio analysis is based on the premise that the most desirable assets are those which have:

- (i) The minimum risk at any given expected rate of return or conversely,
- (ii) the maximum expected rate of return at any given level of risk.

Portfolios so formed are referred to as efficient portfolios.

## 2.6 Diversification

That a security has high expected return and low risk does not demand that all investible funds available be put into such a security. Such a behaviour though appealing, does not treat the risk involved, adequately. Several studies have shown that risk could only be spread by forming a basket of securities referred

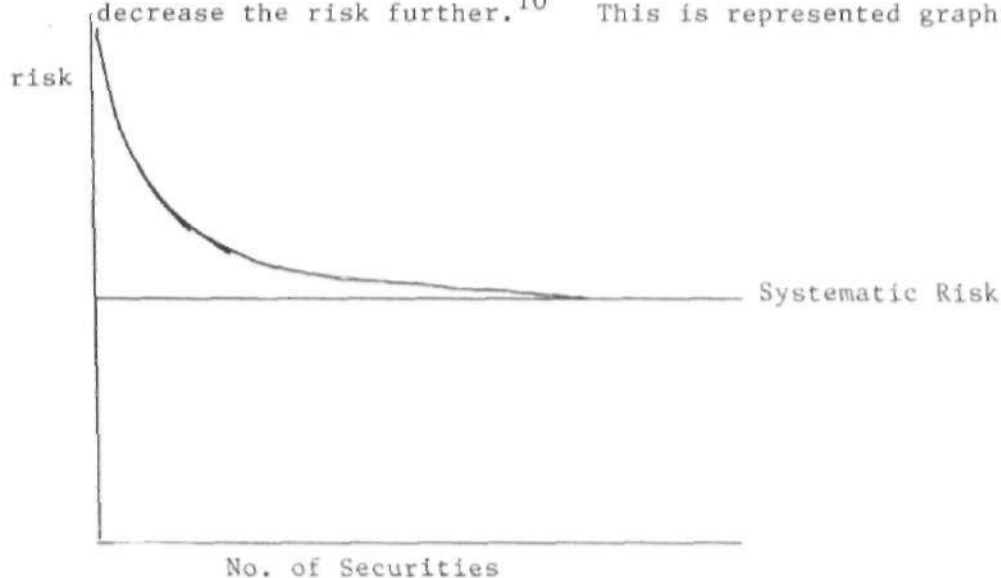
to as a portfolio.

This behaviour of taking more than one security for investment is what is referred to as diversification. We would look at two types of diversification:- Naive or simple diversification and the Markowitz diversification.

### 2.7 Naive Diversification

Naive or simple diversification is a type of diversification that merely urge the spread of risk by asking that the number of securities held in a portfolio be increased. It discourages putting investible funds in only one security, but to spread it among several securities.

Naive diversification implies that a portfolio of 25 securities is 5 times better or more diversified than a portfolio of 5 different securities. But studies have shown that that could be true only to an extent. The studies show that as securities increase from one to ten and to fifteen, risk does decrease towards the systematic level of risk in the market. Adding more securities to the portfolio would not decrease the risk further.<sup>10</sup> This is represented graphically below:-



## 2.8 Markowitz Diversification

Harry Markowitz, in his path breaking article published in 1952 has shown that there is a scientific approach to diversification. He showed that it is not enough to merely diversify, but that diversification has an analytical approach to it. And as stated already, simple diversification has its limits. Markowitz himself states it thus:-<sup>12</sup>

"Not only does the E-V hypothesis imply diversification, it implies the "right kind" of diversification for the "right season." The adequacy of diversification is not thought by investors to depend solely on the number of different securities held. A portfolio with 60 different railway securities, for example, would not be as well diversified as the same size portfolio with some railroad, some public utility, mining, various sort of manufacturing, etc. The reason is that it is generally more likely for firms within the same industry to do poorly at the same time than for firms in dissimilar industries.

Similarly in trying to make variance small it is not enough to invest in many securities. It is necessary to avoid investing in securities with high covariances among themselves. We should diversify across industries because firms in different industries with different economic characteristics, have lower covariances than firms within an industry."

Markowitz diversification involves combining securities with less than perfectly positive correlation in order to reduce risk in

a portfolio. Therefore, the lower the correlation between assets in a portfolio, the less risky the portfolio would be and Markowitz has shown that this does not affect the return of the portfolio.

## 2.9 Correlation of returns

Efficient diversification can be defined as "combining securities with less than perfectly, positively correlated returns." Correlation coefficients  $\rho$  (rho), vary between positive one and negative one,  $-1 < \rho < 1$

If the correlation coefficient is positive, then the securities returns are perfectly, positive correlated i.e. they move in the same direction. This means that any adverse effect like a crash or loss due to any major indicator affecting one security, would also affect the other. If the correlation coefficient is negative, then they are perfectly, negatively correlated, meaning that they move in opposite directions. If the coefficient is zero, then it means that there is no correlation between the securities.

## 2.10 Data Required for Portfolio Analysis

Data required for portfolio analysis include:-

1. Expected return,
2. The variance of the returns and
3. The covariance or correlation between the securities.

Their formulae follow respectively:

$$E(r_p) = \sum_{i=1}^n x_i E(r_i)$$

$$\text{Var}(r_p) = \sum_{i=1}^n x_i^2 \sigma_{ii} + \sum_{i=1}^n \sum_{j=1}^n x_i x_j \sigma_{ij}$$

Where  $x_i$  and  $x_j$  are the proportions of  
i and j respectively

$$\rho_{ij} = \frac{\sigma_{ij}}{\sigma_i \sigma_j}$$

1 Portfolio Risk

This is expressed thus:

$$\sigma_{r_p}^2 = E[r_p - E(r_p)]^2$$

This is better expressed if we define the covariance between securities.

The Covariance of  $R_i$  and  $R_j$  is

$$\begin{aligned} \sigma_{ij} &= E[(R_i - E(R_i))(R_j - E(R_j))] \\ &= \sigma_i \sigma_j \rho_{ij} \end{aligned}$$

FOOTNOTES

- (1) E. J. Elton and M. J. Gruber (1981) Modern Portfolio Theory and Investment Analysis, John Wilen & Sons PP21
- (2) ibid. PP22
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CHAPTER THREE

DATA ANALYSIS

We would analyse historical data of the three securities extracted from their annual reports from 1978 to 1987, the securities return would be calculated from the return on asset (ROA), which is a ratio of earnings before interest and taxes (EBIT) to total asset.

Each security and the risk associated with it would be calculated since from Markowitz diversification recommendation, it would be better for an investor to spread his risks, we would form a portfolio of the securities in the financial industry and see how the expect return would be and the covariance between the securities. Each of the securities would then be combined into a portfolio with the security of the Textile industry. The expected return of each portfolio and the covariance would be found.

In this chapter, we would analyse the securities we want to look at:

Union Bank of Nigeria, United Bank for Africa and the United Textiles Limited.

Recently, the banking industry has been turning in huge profits. The prices of the securities have been <sup>rising</sup> but textiles has been <sup>facing</sup> problem in obtaining raw materials and the threat from smugglers.

Union Bank and United Bank for Africa are among the three foremost banks. We would look at their individual and group performance. For United Nigeria Textile despite the problems in the industry, it has been doing fine. We would look at how far it has fared in terms of return and risk. They would be represented by X,Y and Z respectively.

Table 1

## UNITED BANK FOR AFRICA LIMITED (HISTORICAL DATA)

YEAR	(1) EAT	(2) TAXES	(3) EBT	(4) INTEREST	(5) EBIT	(6) ASSET	(7) ROA = EBIT/ASSET
1978	17806	17168	34974	66083	101057	1093736	0.0924
1979	17754	17612	35366	80954	116320	1285168	0.0905
1980	20036	21331	41367	89567	130934	1715883	0.0763
1981	22715	20150	42865	63541	106406	2518970	0.0422
1982	26602	25808	52410	85881	138291	2826935	0.0489
1983	29279	26690	55969	114,731	170700	3409704	0.0501
1984	31482	24784	56266	101,502	157768	3567345	0.0442
1985	34193	29528	63721	162,173	225,894	4802882	0.0470
1986	42,081	39823	81904	182,896	264800	4617644	.0574
1987	73,653	32,238	105891	236924	342,815	5656712	0.0606

NOTE

(Figures are in thousands)

Where:

EAT = Earnings after taxes

EBT = Earnings before taxes

EBIT = Earnings before interest and taxes

ROA = Return on asset



$$E(r_{UBA}) = r_{UBA} P_{UBA} = 0.04799$$

$$E(r^2_{UBA}) = 0.0019051$$

$$\text{Var} ( r_{UBA} ) = E( r^2_{UBA} ) - ( E ( r_{UBA} ) )^2$$

$$= .0019051 - (.04799)^2$$

$$\sigma^2 = 0.0019051 - 0.0023030401$$

$$= \underline{\underline{0.00039794}}$$

$$\sigma = \underline{\underline{0.01995}}$$

Table 2

UNITED BANK FOR AFRICA LIMITED (DATA FOR EXPECTED RETURN)

$r_{UBA}$	$P_{UBA}$	$r_{UBA} P_{UBA}$	$r^2_{UBA} P_{UBA}$
.0419	.1	.00419	.0001756
.0470	.1	.00470	.0000221
.0446	.1	.00446	.0001989
.0422	.1	.00422	.0001781
.0489	.1	.00489	.0002391
.0501	.1	.00501	.0000251
.0442	.1	.00442	.0001954
.0470	.1	.0047	.0002209
.0574	.1	.00574	.0003295
.0566	.1	.00566	.0003204
		.04799	.0019051

TABLE 3

UNITED NIGERIA TEXTILES LIMITED (HISTORICAL DATA)

YEAR	EAT	TAXES	EBT	INTEREST	EBIT	ASSET	ROA = EBIT/ ASSET
1978	5168	1290	6458	1046	7504	31095	0.2413
1979	5934	4158	10092	1472	11564	35352	0.3271
1980	2680	1641	4321	2026	6347	48305	0.1314
1981	2441	2299	4740	3003	7743	57578	0.1345
1982	1006	3127	4133	5534	9667	66407	0.1456
1983	175	2203	2378	3452	5830	47991	0.1215
1984	6627	4941	11568	2594	14162	46905	0.3019
1985	10792	7375	18167	2090	20257	54664	0.3706
1986	19279	11018	30297	2137	32434	66240	0.4896
1987	21325	14109	35434	18814	54248	82042	0.6612

NOTE

Figures are in thousands

Table 4

UNITED NIGERIA TEXTILES LTD. (DATA FOR EXPECTED RETURN)

UNTL	UNTL	(rP)UNTL	(r <sup>2</sup> p) UNTL
0.2413	0.1	0.02413	.0058226
0.3271	0.1	0.03271	.0106994
0.1314	0.1	0.01314	.0017266
0.1345	0.1	0.01345	.001809
0.1456	0.1	0.01456	.0021199
0.1215	0.1	0.01215	.0014762
0.3019	0.1	0.03019	.0091144
0.3706	0.1	0.03706	.0137344
0.4896	0.1	0.04896	.0239708
0.6612	0.1	0.06612	.0437185

$$E(r_{UNTL}) = (r^P)_{UNTL} = .29247$$

$$E(r^2_{UNTL}) = (r^2p)_{UNTL} = .1141918$$

$$\text{Var}(r_{UNTL}) = E(r^2_{UNTL}) - [E(r_{UNTL})]^2$$

$$\sigma^2 = .1141918 - (.29247)^2$$

$$= .1141918 - .0855387$$

$$= .0286531$$

$$\sigma = 0.1693$$

Table 5

UNION BANK OF NIGERIA LIMITED (7) =  $\frac{(5)}{(6)}$  (HISTORICAL DATA)

YEAR	(1) EAT	(2) TAXES	(3)=(1)+(2) EBT	(4) INTEREST	(5)=(3)+(4) EBIT	(6) ASSET	ROA = EBIT/ASSET
1978	8621	27820	36441	15193	51634	1184962	.04357
1979	13547	9367	22914	25178	48092	1445206	.03328
1980	20788	14333	35121	33200	68321	1825362	.03743
1981	29801	30396	60197	45618	105815	2567166	.04122
1982	32623	32347	64970	71999	136969	3182226	.04304
1983	30611	30630	61241	99857	161098	3767011	.04277
1984	28751	28327	57078	124061	181139	4106182	.04411
1985	41550	39603	81153	124764	205917	4370053	.04712
1986	53849	49928	103777	134585	238362	5298550	.04499
1987	56158	27355	83513	238122	321635	5747581	.05596

NOTE

Figures are in thousands.

$$E(r_{UBN}) = .043349$$

$$E(r_{UBN}^2) = .0019109$$

$$\text{Var}(r_{UBN}) = E(r_{UBN}^2) - [E(r_{UBN})]^2$$

$$\begin{aligned} \sigma^2 &= .0019109 - [.043349]^2 \\ &= .0019109 - .0018791 = .0000318 \end{aligned}$$

$$\sigma = .005639$$

Table 6

UNION BANK OF NIGERIA LIMITED (DATA FOR EXPECTED RETURN)

UBN	UBN	$r_{UBN} p_{UBN}$	$r^2_{UBN} p_{UBN}$
.04357	.1	.004357	.0001898
.03328	.1	.003328	.0001108
.03743	.1	.003743	.0001401
.04122	.1	.004122	.0001699
.04304	.1	.004304	.0001852
.04277	.1	.004277	.0001829
.04411	.1	.004411	.0001946
.04712	.1	.004712	.0002220
.04499	.1	.004499	.0002024
.05596	.1	.005596	.0003132
		0.043349	.0019109

NOTE

$r_{UBN}$  = Return on Union Bank of Nigeria

$p_{UBN}$  = Probability of the return

(It is assumed that the returns have the same probability of occurring)

Table 7

DATA TO CALCULATE CORRELATION BETWEEN UNION BANK (X)  
AND UNITED BANK FOR AFRICA (Y)

$X'$	$Y'$	$(X') (Y')$	$(X')^2$	$(Y')^2$
-0.0389920	-0.04380	$1.7078496 \times 10^{-3}$	$1.520376 \times 10^{-3}$	$1.91844 \times 10^{-3}$
-0.0400210	-0.04329	$1.732509 \times 10^{-3}$	$1.6016804 \times 10^{-3}$	$1.8740241 \times 10^{-3}$
-0.0396147	-0.04353	$1.7244278 \times 10^{-3}$	$1.5693244 \times 10^{-3}$	$1.8948609 \times 10^{-3}$
-0.0392270	-0.04377	$1.7169657 \times 10^{-3}$	$1.5387575 \times 10^{-3}$	$1.9158129 \times 10^{-3}$
-0.0390450	-0.04310	$1.6828395 \times 10^{-3}$	$1.524512 \times 10^{-3}$	$1.85761 \times 10^{-3}$
-0.0390720	-0.04298	$1.6793145 \times 10^{-3}$	$1.5266211 \times 10^{-3}$	$1.8472804 \times 10^{-3}$
-0.0389380	-0.04357	$1.6965286 \times 10^{-3}$	$1.5161678 \times 10^{-3}$	$1.8983449 \times 10^{-3}$
-0.0386370	-0.04329	$1.6725957 \times 10^{-3}$	$1.4928177 \times 10^{-3}$	$1.8740241 \times 10^{-3}$
-0.0388500	-0.04225	$1.6414125 \times 10^{-3}$	$1.5093225 \times 10^{-3}$	$1.7850625 \times 10^{-3}$
-0.0377530	-0.04233	$1.5980844 \times 10^{-3}$	$1.425289 \times 10^{-3}$	$1.7918289 \times 10^{-3}$
		0.016852527	0.015224868	0.018657288

Where

$$X' = X - \bar{X} \quad \text{and} \quad Y' = Y - \bar{Y}$$

and

$\bar{X}$ ,  $\bar{Y}$  are the expected values of

X and Y respectively

Correlation between Union Bank and United Bank for Africa  
(X and Y) and their Covariance

---

$\rho$  = Correlation Coefficient

$$= \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

$$= \frac{0.016852527}{0.015224868 \times 0.018657288}$$

$$= \frac{0.016852527}{0.00028405474}$$

$$= \frac{0.016852527}{0.016853923}$$

$$= \underline{\underline{.99991717}}$$

$$\text{Cov}(X, Y) = \sigma_x \sigma_y \rho(x, y)$$

$$= .04371 \times .01995 \times .99991717$$

$$= 0.0008719$$

The variance of the portfolio of securities X and Y

$$\begin{aligned}\text{Var}(r_p) &= X^2\sigma_x^2 + Y^2\sigma_y^2 + 2\sigma_x\sigma_y\text{cov}(X,Y) \\ &= (.5)^2 (.0000318) + (.5)^2 (.00039794) + 2(.01995) (.005639) \\ &\quad + 2(.005639)(.01995)(.0008719) \\ &= 7.95 \times 10^{-6} + 9.9485 \times 10^{-5} + 1.9617409 \times 10^{-7} \\ &= 0.0001076\end{aligned}$$

In calculating the expected value of the portfolio, we assume that equal proportions of the securities are taken:

$$\begin{aligned}E(r_p) &= XE(r_x) + YE(r_y) \\ &= (0.5)(.043349) + (.5)(.04799) \\ &= .0216745 + .023995 \\ &= 0.0456695 \\ &= 4.567\%\end{aligned}$$



Table 8

DATA TO CALCULATE CORRELATION BETWEEN UNION BANK (X)  
AND UNITED NIGERIA TEXTILES (Z)

$X'$	$Z'$	$(X')(Z')$	$(X')^2$	$(Z')^2$
-0.038992	-0.26834	$1.046313 \times 10^{-2}$	$1.520376 \times 10^{-3}$	$7.2006355 \times 10^{-2}$
-0.040021	-0.25976	$1.0395854 \times 10^{-2}$	$1.6016804 \times 10^{-3}$	$6.7475257 \times 10^{-2}$
-0.0396147	-0.27933	$1.1065574 \times 10^{-2}$	$1.5693244 \times 10^{-3}$	$7.8025248 \times 10^{-2}$
-0.039227	-0.27902	$1.0945117 \times 10^{-2}$	$1.5387575 \times 10^{-3}$	$7.785216 \times 10^{-2}$
-0.039045	-0.27791	$1.0850995 \times 10^{-2}$	$1.524512 \times 10^{-3}$	$7.7233968 \times 10^{-2}$
-0.039072	-0.28032	$1.0952663 \times 10^{-2}$	$1.5266211 \times 10^{-3}$	$7.8579302 \times 10^{-2}$
-0.038938	-0.26228	$1.0212658 \times 10^{-2}$	$1.5161678 \times 10^{-3}$	$6.8790798 \times 10^{-2}$
-0.038637	-0.25541	$9.8682761 \times 10^{-3}$	$1.4928177 \times 10^{-3}$	$6.5234268 \times 10^{-2}$
-0.03885	-0.24351	$9.4603635 \times 10^{-3}$	$1.5093225 \times 10^{-3}$	$5.929712 \times 10^{-2}$
-0.037753	-0.22635	$8.5453915 \times 10^{-3}$	$1.425289 \times 10^{-3}$	$5.1234322 \times 10^{-2}$
		0.10276	0.015224858	0.69572879

Where  $X' = X - \bar{X}, Z' = Z - \bar{Z}$ 

and

 $\bar{X}, \bar{Z}$  are the expected values of X and Z respectively

Correlation between Union Bank and United Nigeria  
Textiles Limited (X and Z) and their covariance

$$r = \frac{\sum x z}{\sqrt{\sum x^2 \sum z^2}}$$

$$= \frac{0.10276}{0.015224858 \times 0.69572879}$$

$$= \frac{0.10276}{0.010592372}$$

$$= \frac{0.10276}{0.10291925}$$

$$= \underline{\underline{.99845266}}$$

$$\text{Cov}(x, z) = \sigma_x \sigma_z \rho_{x,z}$$

$$= 0.04371 \times 0.1693 \times .99845266$$

$$= 0.00738865$$

In finding the variance of the portfolio it is assumed that equal amounts of the securities are employed.

$$\text{Var}(r_p) = x^2 \sigma_x^2 + z^2 \sigma_z^2 + 2xz \text{Cov}(x, z)$$

$$= (.5)^2 (.0000318) + (.5)^2 (.0286531) +$$

$$2(.005639)(.1639)(.00738865)$$

$$= .0071853076$$

The expected value of the portfolio using equal proportions of the securities:  $E(r_p) = XE(r_x) + ZE(r_z)$

$$= (.5)(.043349) + (.5)(.29247) = .1679095$$

$$= 16.791\%$$

Table 9

DATA TO CALCULATE CORRELATION BETWEEN UNITED BANK FOR AFRICA (Y)  
AND UNITED NIGERIA TEXTILES (Z)

Y'	Z'	(Y')(Z')	(Y') <sup>2</sup>	(Z') <sup>2</sup>
-0.04380	-0.26834	1.1753292 x 10 <sup>-2</sup>	1.91844 x 10 <sup>-3</sup>	7.2006355 x 10 <sup>-2</sup>
-0.04329	-0.25976	1.124501 x 10 <sup>-2</sup>	1.8740241 x 10 <sup>-3</sup>	6.7475257 x 10 <sup>-2</sup>
-0.04353	-0.27933	1.2159234 x 10 <sup>-2</sup>	1.8948609 x 10 <sup>-3</sup>	7.8025248 x 10 <sup>-2</sup>
-0.04377	-0.27902	1.2212705 x 10 <sup>-2</sup>	1.9158129 x 10 <sup>-3</sup>	7.785216 x 10 <sup>-2</sup>
-0.04310	-0.27791	1.1977921 x 10 <sup>-2</sup>	1.85761 x 10 <sup>-3</sup>	7.7233968 x 10 <sup>-2</sup>
-0.04298	-0.28032	1.2048153 x 10 <sup>-2</sup>	1.8983449 x 10 <sup>-3</sup>	7.8579302 x 10 <sup>-2</sup>
-0.04357	-0.26228	1.1427539 x 10 <sup>-2</sup>	1.8740241 x 10 <sup>-3</sup>	6.8790798 x 10 <sup>-2</sup>
-0.04329	-0.25541	1.1056698 x 10 <sup>-2</sup>	1.8740241 x 10 <sup>-3</sup>	6.5234268 x 10 <sup>-2</sup>
-0.04225	-0.24351	1.0288297 x 10 <sup>-2</sup>	1.7850625 x 10 <sup>-3</sup>	5.929712 x 10 <sup>-2</sup>
-0.04233	-0.22635	9.5813955 x 10 <sup>-3</sup>	1.7918289 x 10 <sup>-3</sup>	5.1234322 x 10 <sup>-2</sup>
		0.11375024	0.018657288	0.69572879

Where

$$Y' = Y - \bar{Y}, Z' = Z - \bar{Z}$$

and

$\bar{Y}, \bar{Z}$  are the expected returns of Y and Z respectively

Correlation between United Bank for Africa and  
United Nigeria Textiles Limited (Y an Z) and  
their Covariance

---

$$\begin{aligned} &= \frac{\sum YZ}{\sqrt{\sum Y^2 \sum Z^2}} \\ &= \frac{0.11375024}{1.8657288 \times 10^{-2} \times 0.69572879} \\ &= \frac{011375024}{.11393161} \\ &= 0.99840808 \end{aligned}$$

$$\begin{aligned} \text{Cov (Y,Z)} &= \sigma_y \sigma_z \rho_{(Y,Z)} \\ &= .01995 \times 0.1693 \times 0.99840808 \\ &= 0.0033721582 \end{aligned}$$

The variance of the portfolio securities Y and Z assuming equal proportions

$$\begin{aligned}\text{Var}(r_p) &= Y^2 \sigma_y^2 + Z^2 \sigma_z^2 + 2\sigma_y \sigma_z \text{Cov}(Y,Z) \\ &= (.5)^2 (.00039794) + (.5)^2 (.0286531) \\ &\quad + 2(0.01995)(0.1693)(0.0015677) \\ &= 9.9485 \times 10^{-5} + 7.163275 \times 10^{-3} + 1.0589923 \times 10^{-5} \\ &= 0.0072733499\end{aligned}$$

The expected Value

$$\begin{aligned}E(r_p) &= YE(r_y) + ZE(r_z) \\ &= (.5) (.04799) + (.5) (.29247) \\ &= .023995 + .146235 \\ &= .17023 \\ &= 17.023\%\end{aligned}$$

## CHAPTER FOUR

### OBSERVATIONS RECOMMENDATION AND CONCLUSION

This chapter would bring out our observations from the analysis. We would then be in a position to bring out suitable recommendations. It would bring us to the end by concluding the study.

#### 4.1 Observations

In this chapter, we would bring out our observations by bringing out the items required to look at the performance of a portfolio. These include, the correlation between the assets, their covariances, the variance of the portfolio and the expected return of the portfolio. We would then be in a position to recommend which portfolio would be better as an investment opportunity.

However, a look at the individual securities is necessary as a beginning, to see how each fares in relation to the others.

##### 4.1.1 The Individual Securities

Among the securities in the financial industry, Union Bank has an expected return of 4.34% while United Bank for Africa has an expected return of 4.8%. However, the risk associated with United Bank for Africa is 0.01995 compared to Union Bank's risk of 0.005639. This means that though with a slight difference in expected return, United Bank for Africa is almost 3.5 times more risky than Union Bank. United Nigeria Textiles on the other hand has an expected return of about 29.25% with a risk of .1693 associated with it.

#### 4.1.2 The Portfolios

The covariance between Union Bank and United Bank for Africa is .0008719. And the covariance between Union Bank and United Nigeria Textiles is 0.00738865 and that between United Bank for Africa and United Nigeria Textiles is 0.0033721582.

The expected returns, (assuming we use equal proportions of each security in their respective portfolios) are 4.57%, 16.79% and 17.02% respectively.

The expected return for the portfolio of United Nigeria Textiles and United Bank for Africa is 17.02% compared to 16.79%, for that of the portfolio of Union Bank and United Nigeria Textiles. And the covariance in the latter case is higher than in the former.

The portfolio of Union Bank and United Bank for Africa on the other hand has a lower expected return and a much higher covariance.

#### 4.1.3 The Correlation between Assets

The correlation between the assets do not reveal much. They seem to exhibit the same range of correlation.

Union Bank and United Bank for Africa have between them a correlation of 0.99991717 (almost); Union Bank and United Nigeria Textiles - 0.99845266; and that between United Bank for Africa and United Nigeria Textiles is 0.99840808. The latter covariance is though the smallest compared to the other two, even though it is equally closer to one.

#### 4.2 Recommendations

In our recommendations, we would point out the security(ies) which is/are a better investment opportunity, based on their return and risk associated with those returns.

#### 4.2.1 Securities to take

Among the securities, we would divide them into two, those in the financial industry on one hand and that in the textiles industry on the other.

In the financial industry, Union Bank is a much better security to invest in compared to United Bank for Africa because the return is not greatly below that of United Bank for Africa while the risk is  $3\frac{1}{2}$  times less.

United Nigeria Textiles on the other hand has a high expected return of 29.25% with a risk of .1693. It has a high risk, but this high risk is compensated for by the high expected return.

Therefore, the risk lover should go for United Nigeria Textiles while the risk averse should go for Union Bank of Nigeria. However, we have indicated that portfolios are better investment opportunities than single securities, so we now recommend the portfolio that is suitable.

#### 4.2.2 The Portfolio to choose

All the portfolios under consideration have nearly the same correlation, but the covariances do differ.

So in choosing the most diversified and most profitable portfolio, we choose the one with the least covariance. The portfolio of United Bank for Africa and United Nigeria has the least covariance (.0033721582) followed by the portfolio of Union Bank and United Nigeria Textiles. Then comes that of Union Bank and United Bank for Africa.

The expected returns on the other hand are 17.02% for the United Bank for Africa/United Nigeria Textiles; and only 4.57% for the Union Bank/United Bank for Africa portfolio.



This shows that the portfolio of United Bank for Africa is the better investment opportunity and therefore should be chosen. That of United Bank for Africa/Union should be shunned.

#### 4.3 Conclusion

The main thrust of this study is to print out how investment portfolios are formed. It is not a question of how one feels about a security, no, analysis must be conducted to bring out the expected return and risk involved.

But it is not even enough to merely invest in any particular security. Forming a basket of securities is a far better alternative. This route, even reduces the risk, than if they were considered individually.

The study considered only portfolios of two securities, but with the availability of computer programming, any number of securities could be put into a portfolio and analysed.

Expertise is in short supply, but it should not be an alibi for using hunches for appraising portfolios.

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## APPENDIX

## UNITED NIGERIAN TEXTILES LIMITED

AND ITS SUBSIDIARY COMPANIES

## FIVE-YEAR FINANCIAL STATEMENT

	1982	1981	1980	1979	1978
	N'000	N'000	N'000	N'000	N'000
<b>ASSETS EMPLOYED:</b>					
Fixed Assets	65,782	47,741	36,402	30,794	32,858
Investments in Subsidiary Companies	—	3,000	—	4,335	—
Net Current Assets/(Liabilities)	( 471)	5,377	11,143	( 246)	( 2,465)
Deferred Revenue Expenditure	—	—	234 ✓	469	702
Preliminary Expenses	144	82	82 ✓	—	—
Pre-Production Expenses	952	1,378	444 ✓	—	—
	<u>N66,407</u>	<u>N57,578</u>	<u>N48,305</u>	<u>N35,352</u>	<u>N31,095</u>
<b>FINANCED BY:</b>					
Ordinary Share Capital	17,000	17,000	17,000	17,000	17,000
Capital Reserve	650	650	650	650	650
Revenue Reserve	9,211	9,041	8,027	7,093	5,226
Loans and Advances	24,028	16,622	10,275	4,092	3,584
Minority Interest	7,788	8,293	7,735	4,208	3,744
Staff Gratuities	7,790	5,972	4,618	2,309	891
	<u>N66,467</u>	<u>N57,578</u>	<u>N48,305</u>	<u>N35,352</u>	<u>N31,095</u>
<b>RESULTS</b>					
Sales to third parties	152,861	139,501	136,053	107,909	67,723
Profit before Taxation	4,133	4,740	4,321	10,092	6,458
Taxation	3,127	2,299	1,641	4,158	1,290
Profit after Taxation	1,006	2,441	2,680	5,934	5,168
Profit Attributable to UNTL	1,360	2,204	2,379	5,192	4,459
Dividends	1,190	1,190	1,445	3,400	1,700
Profit for the year Retained	<u>170</u>	<u>1,014</u>	<u>934</u>	<u>1,792</u>	<u>2,759</u>
Dividends per Share	3.5k	3.5k	4.25k	10.0k	5.0k
Earnings per Share	4.0k	6.48k	7.00k	15.27k	13.11k
Net Assets per Share	192.09k	165.05k	139.84k	102.60k	89.39k

**NOTE:**

Dividends, Earnings and Net Assets per Share are calculated on the issued and paid-up capital of 34,000,000 ordinary shares of 50k each.



## Group Financial Summary

	1987	1986	1985	1984	1983
	N'000	N'000	N'000	N'000	N'000
<b>CAPITAL EMPLOYED</b>					
Share capital	25,500	25,500	17,000	17,000	17,000
Capital reserve	1,505	1,505	650	650	650
Revenue reserve	28,301	19,499	18,293	12,439	9,110
Shareholders' interest	55,306	46,504	35,943	30,089	26,760
Loans	15,165	9,708	9,607	9,245	14,431
Minority interest	11,571	10,028	9,114	7,571	6,800
	<u>82,042</u>	<u>66,240</u>	<u>54,664</u>	<u>46,905</u>	<u>47,991</u>
<b>REPRESENTED BY</b>					
Fixed assets	58,305	57,946	59,217	56,625	64,547
Investments	1,350	1,350	1,350	1,350	1,350
Net current assets/(liabilities)	<u>47,603</u>	<u>29,103</u>	<u>13,328</u>	<u>4,761</u>	<u>( 5,626)</u>
	<u>107,258</u>	<u>88,399</u>	<u>73,895</u>	<u>62,736</u>	<u>60,271</u>
Preliminary and preproduction expenses	-	216	432	726	1,018
Deferred liabilities	<u>( 25,216)</u>	<u>(22,375)</u>	<u>(19,663)</u>	<u>(16,557)</u>	<u>( 13,298)</u>
	<u>82,042</u>	<u>66,240</u>	<u>54,664</u>	<u>46,905</u>	<u>47,991</u>
<b>TURNOVER, PROFITS, TAXATION AND DIVIDENDS</b>					
Turnover	<u>312,116</u>	<u>211,317</u>	<u>174,093</u>	<u>141,356</u>	<u>136,809</u>
Profit before taxation	35,434	30,297	18,167	11,568	2,378
Taxation	<u>14,109</u>	<u>11,018</u>	<u>7,375</u>	<u>4,941</u>	<u>2,203</u>
Profit after taxation	21,325	19,279	10,792	6,627	175
Profit attributable to UNTL	17,676	17,356	8,928	5,454	798
Dividend	<u>10,200</u>	<u>7,650</u>	<u>2,975</u>	<u>2,125</u>	<u>850</u>
Dividend per share	20.00k	15.00k	8.75k	6.25k	2.50k
Earnings per share	37.25k	34.03k	26.26k	16.04k	2.35k
Net assets per share	108.44k	91.18k	105.71k	88.50k	78.71k

**Note:** The comparative figures per share have been prepared on the basis of the shares (51,000,000) at 31st December, 1987.

**UNITED NIGERIAN TEXTILES LIMITED**  
AND ITS SUBSIDIARY COMPANY

**VALUE ADDED STATEMENT FOR THE YEAR ENDED**  
**31ST DECEMBER, 1979**

"Value added" represents the additional wealth which the Group has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth between employees, shareholders, government and that retained for the future creation of more wealth.

	1 9 7 9		1 9 7 8	
	₦'000	₦'000	₦'000	₦'000
External sales		107,909		67,723
Other external income		<u>178</u>		<u>508</u>
		108,087		68,231
<i>Less:</i> Cost of production and payment for other services		<u>69,383</u>		<u>41,898</u>
Value added by the Group		<u><u>38,704</u></u>		<u><u>26,333</u></u>
<b>Applied as follows —</b>				
In payment of employees (salaries, wages, bonus, gratuities and other benefits)		23,267		16,142
In payment for the provision of funds:				
Interest on borrowings	1,472		1,046	
Dividends to external shareholders	<u>3,765</u>		<u>1,980</u>	
		5,237		3,026
In payment of Income Tax		4,158		1,290
Retained for future maintenance and development:		3,818		3,042
Added to reserves:				
Parent company	1,552		2,245	
Subsidiary company	<u>672</u>		<u>588</u>	
		<u>6,042</u>		<u>5,875</u>
Value added by the Group		<u><u>38,704</u></u>		<u><u>26,333</u></u>

# UNITED NIGERIAN TEXTILES LIMITED

AND ITS SUBSIDIARY COMPANIES

## VALUE ADDED STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 1981

"Value Added" represents the additional wealth which the Group has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth between employees, shareholders, government and that retained for the future creation of more wealth.

	1981		1980	
	N'000	N'000	N'000	N'000
External Sales		139,501		136,053
Other External Income		<u>312</u>		<u>169</u>
		139,813		136,222
<u>Less:</u> Cost of Production and Payment for other Services		<u>101,391</u>		<u>92,359</u>
Value Added by the Group		<u><u>N38,422</u></u>		<u><u>N43,863</u></u>
Applied as follows:				
In Payment of Employees (Salaries, Wages, Bonus, Gratuities and other Benefits)		27,788		33,996
In Payment for the Provision of Funds:				
Interest on Borrowings	3,003		2,026	
Dividends to External Shareholders	<u>1,401</u>		<u>1,698</u>	
		4,404		3,724
In Payment of Income Tax		2,299		1,641
Retained for future Maintenance and Development		2,866		3,416
Added to Reserves:				
Parent Company	1,014		992	
Subsidiary Company	<u>51</u>		<u>36</u>	
		<u>1,065</u>		<u>1,037</u>
Value Added by the Group		<u><u>N38,422</u></u>		<u><u>N43,863</u></u>



# UNITED NIGERIAN TEXTILES LIMITED

AND ITS SUBSIDIARY COMPANIES

## STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31ST DECEMBER, 1983

"Value Added" is the wealth which the Company has been able to create by its own and its employees efforts, and explains how that wealth has been allocated between Employees, Government, Shareholders and that retained for the future creation of more wealth.

### OUR EARNINGS CAME FROM:

	1983 N'000	1982 N'000
Sales	136,809	152,861
Other Income received	1,773	882
Sales and Other Income together amounted to	138,582	153,743
Less: Cost of Materials and Services employed to generate those earnings	85,094	102,275
<b>SURPLUS EARNED</b>	<b>53,488</b>	<b>51,468</b>
	*****	*****

Which was Applied as Follows:

TO PAY EMPLOYEES WAGES, SALARIES AND OTHER BENEFITS	39,775	39,428
TO PAY PROVIDERS OF CAPITAL:		
Interest on Loans	3,452	2,116
Dividends to Shareholders	850	1,190
TO PAY GOVERNMENT TAX	2,203	3,127
TO PROVIDE FOR MAINTENANCE OF ASSETS AND EXPANSION :		
Depreciation	7,260	5,437
Retained Profit/(Loss)	( 52)	170
	<b>53,488</b>	<b>51,468</b>
	*****	*****



# UNITED NIGERIAN TEXTILES LIMITED

AND ITS SUBSIDIARY COMPANIES

## STATEMENT OF VALUE ADDED

Value added represents the additional wealth which the Company and its subsidiary companies have been able to create by their own and their employees' efforts. This statement shows the allocation of that wealth between employees, shareholders and government and that retained for the future creation of more wealth.

	1985		1984	
	N'000	N'000	N'000	N'000
Group sales of products		174,093		141,356
Other income received		1,100		1,556
		<u>175,193</u>		<u>142,912</u>
Less: purchases and services		107,977		81,333
Value added		<u>67,216</u>		<u>61,579</u>
Applied as follows:				
To pay employees:				
Salaries, wages, pensions and social benefits		40,464		40,276
To pay providers of funds:				
Dividends to shareholders	2,975		2,125	
Interest on loans	2,090		2,594	
		<u>5,065</u>		<u>4,719</u>
To pay Government:				
Income tax payable		7,375		3,441
To provide for maintenance and development:				
Depreciation	8,470		8,314	
Deferred taxation	110		1,500	
Retained profit	5,732		3,329	
		<u>14,312</u>		<u>13,143</u>
		<u>67,216</u>		<u>61,579</u>





## Statement of Value Added

Value added represents the additional wealth which the Company and its subsidiary companies have been able to create by their own and their employees' efforts. This statement shows the allocation of that wealth between employees, shareholders and government and that retained for the future creation of more wealth.

	1 9 8 7		1 9 8 6	
	N'000	%	N'000	%
Group sales of products	312,116	100.0	211,317	100.0
Other income received	2,145	0.7	3,894	1.8
	<u>314,261</u>	<u>100.7</u>	<u>215,211</u>	<u>101.8</u>
Less: Purchases and services	212,949	68.2	137,856	65.2
Value added	<u>101,312</u>	<u>32.5</u>	<u>77,355</u>	<u>36.6</u>
<b>Applied as follows:</b>				
To pay employees				
Salaries, wages, pensions and social benefits	40,208	12.9	37,968	18.0
To pay providers of funds				
Dividends to shareholders	10,200	3.3	7,650	3.6
Interest on loans	18,814	6.0	2,137	1.0
To pay government				
Income tax	13,937	4.5	10,448	4.9
To provide for maintenance of assets and expansion				
Depreciation	9,179	2.9	8,876	4.2
Deferred taxation	172	0.1	570	0.3
Retained profit	8,802	2.8	9,706	4.6
	<u>101,312</u>	<u>32.5</u>	<u>77,355</u>	<u>36.6</u>

# Profit & Loss Account

FOR THE YEAR ENDED 30th SEPTEMBER, 1979

	Notes	N'000	1979 N'000	N'000	1978 N'000
Gross earnings	14	102,372		96,691	
Interest paid	15	<u>25,178</u>		<u>15,193</u> ✓	
Net earnings			77,194		81,498
Overhead expenses	16	42,404		35,340	
Provision for bad and doubtful accounts		8,486		7,130	
Depreciation		<u>3,390</u>		<u>2,587</u>	
			<u>54,280</u>		<u>45,057</u>
Profit before taxation			22,914		36,441
Taxation	17		<u>9,367</u>		<u>27,820</u>
Profit after taxation			13,547		8,621
Appropriation:					
Transfer to statutory reserve		3,400		2,500	
Dividends	18	<u>4,536</u>		<u>3,456</u>	
			<u>7,936</u>		<u>5,956</u>
Profit for the year retained			<u>5,611</u>		<u>2,665</u>
Earnings per N1 share (adjusted)			<u>37k</u>		<u>24k</u>

The notes on pages 19 to 25 form part of these accounts.

	Notes	1980		1979	
		N'000	N'000	N'000	N'000
Gross earnings	13	138,942		102,372	
Interest paid ✓	14	<u>33,200</u>		<u>25,178</u> ✓	
Net earnings			105,742		77,194
Overhead expenses	15	57,766		42,404	
Provision for bad and doubtful accounts		8,303		8,486	
Depreciation		<u>4,552</u>		<u>3,390</u>	
			<u>70,621</u>		<u>54,280</u>
Profit before taxation			35,121		22,914
Taxation	16		<u>14,333</u>		<u>9,367</u>
Profit after taxation			20,788		13,547
Appropriation:-					
Transfer to statutory reserve		5,197		3,400	
Dividends	17	<u>6,532</u>		<u>4,535</u>	
			<u>11,729</u>		<u>7,936</u>
Profit for the year retained			<u>9,059</u>		<u>5,611</u>
Earnings per N1 share (adjusted)			<u>57k</u>		<u>37k</u>

The notes on pages 17 to 23 form part of these accounts.

## UNION BANK OF NIGERIA LIMITED

## BALANCE SHEET

as at

30th September	1985	1984	1983	1982	N '000 1981
<b>USE OF FUNDS</b>					
Cash and short-term funds	2,285,996	2,120,206	1,900,201	1,235,039	771,697
Investments	5,469	3,214	2,964	1,618	1,393
Loans and Advances	1,492,980	1,534,564	1,536,949	1,654,710	1,395,593
Other Assets	522,546	370,125	274,390	245,285	367,922
Fixed Assets	63,062	56,225	52,507	45,574	30,561
<b>Total Assets</b>	<b>4,370,053</b>	<b>4,084,334</b>	<b>3,767,011</b>	<b>3,182,226</b>	<b>2,567,166</b>
<b>SOURCE OF FUNDS</b>					
Share Capital	54,432	54,432	54,432	54,432	36,288
Statutory Reserve	66,137	60,943	53,755	46,102	37,947
Loan Stock Redemption Fund	8,890	4,445	-	-	-
General Reserve	77,000	53,500	43,000	28,500	10,000
Profit and Loss Account	423	177	635	342	20,683
Shareholders' Fund	206,882	173,497	151,822	129,376	104,918
11% Loan Stock 1988/1992	40,000	40,000	40,000	31,831	-
Deposits	3,380,453	3,381,794	3,275,801	2,853,545	2,318,280
Taxation, dividends, & Other Liabilities	742,718	489,043	299,388	167,474	143,968
	<b>4,370,053</b>	<b>4,084,334</b>	<b>3,767,011</b>	<b>3,182,226</b>	<b>2,567,166</b>
Contingent Liability	456,099	531,373	460,165	579,764	755,790

## PROFIT &amp; LOSS ACCOUNT

for the year ended

30th September	1985	1984	1983	1982	N '000 1981
<b>EARNINGS</b>					
Gross Earnings	415,737	378,988	323,178	284,838	201,817
Less: Interest Paid	124,764	124,061	99,857	71,999	45,618
<b>Net Earnings</b>	<b>290,973</b>	<b>254,927</b>	<b>223,321</b>	<b>212,839</b>	<b>156,199</b>
<b>EXPENSES</b>					
Overhead Expenses	139,640	131,405	115,638	109,471	76,234
Bad and Doubtful Debts (Prov.)	56,027	53,129	34,739	28,955	13,930
Depreciations	14,153	13,315	11,703	9,443	5,838
	<b>209,820</b>	<b>197,849</b>	<b>162,080</b>	<b>147,869</b>	<b>96,002</b>
Profit Before Taxation	81,153	57,078	61,241	64,970	60,197
Taxation	39,603	28,327	30,630	32,347	30,396
Profit After Taxation	41,550	28,751	30,611	32,623	29,801
Unappropriated Profit b/f	177	635	342	20,683	14,864
	<b>41,727</b>	<b>29,386</b>	<b>30,953</b>	<b>53,306</b>	<b>44,665</b>
<b>APPROPRIATIONS</b>					
Statutory Reserve	5,194	7,188	7,653	8,155	7,450
Loans Stock Redemption Fund	4,445	4,445	-	-	-
General Reserve	23,500	10,500	14,500	18,500	10,000
Bonus Issue	-	-	-	18,144	-
Proposed Dividend	8,165	7,076	8,165	8,165	6,531
	<b>41,304</b>	<b>29,209</b>	<b>30,318</b>	<b>52,964</b>	<b>23,981</b>
Unappropriated Profit c/f	423	177	635	342	20,683

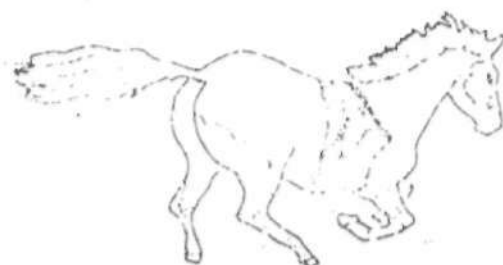
# Profit and Loss Account for the year ended 30th September, 1987

	Note	1987		1986	
		N'000	N'000	N'000	N'000
Gross earnings	16	611,276		476,762	
Interest paid ✓	17	238,122		134,535 ✓	
			373,154		342,177
Overhead expenses	18	212,405		169,022	
Provision for bad and doubtful account	19	60,467		55,041	
Depreciation	7	16,769		14,337	
			289,641		238,400
Profit before taxation			83,513		103,777
Taxation ✓	20		27,355		49,928
Profit after taxation			56,158		53,849
Appropriations:					
Transfer to statutory reserve	9	7,020		6,731	
Transfer to loan stock redemption fund	10	4,445		4,445	
Dividends	22	10,160		8,709	
National Economic Recovery Fund levy		—		4,582	
			21,625		24,467
Retained profit for the year transferred to reserve (note 12)			34,533		29,382
Earnings per ₦1 share (adjusted)			.88k		85k

The notes on pages 22 to 23 form part of these accounts.

# Five Year Financial Summary for the year ended 30th September ✓

	1982 N'000	1981 N'000	1980 N'000	1979 N'000	1978 N'000
Cash and short term funds	494,278	254,950	201,926	245,698	250,012
Bills discounted	740,761	516,747	468,946	361,791	99,572
Quoted investments	1,518	1,393	893	16	16
Unquoted investments	100	—	—	—	—
Loans and advances	1,654,710	1,395,593	931,654	633,933	658,367
Other assets	245,285	367,922	199,047	183,907	159,947
Fixed assets	45,574	30,561	22,896	19,861	17,048
<b>Total assets</b>	<b>3,182,226</b>	<b>2,567,166</b>	<b>1,825,362</b>	<b>1,445,206</b>	<b>1,184,962</b>
Less: Other liabilities	167,474	143,968	119,127	92,637	254,596
	<u>3,014,752</u>	<u>2,423,198</u>	<u>1,706,235</u>	<u>1,352,569</u>	<u>930,366</u>
<b>Represented by:-</b>					
Share capital	54,432	36,288	36,288	36,288	30,240
Statutory reserve	46,102	37,947	30,497	25,300	21,900
General reserve	28,500	10,000	—	—	—
Profit and loss account	342	20,683	14,864	5,805	6,242
Shareholders' funds ✓	129,376	104,918	81,649	67,393	58,382 ✓
Deposits for 11½ loan stock 1988/1992	31,831	—	—	—	—
Capital funds	161,207	104,918	81,649	67,393	58,382
Customers' deposits	2,853,545	2,318,280	1,624,586	1,282,176	822,784
Negotiable certificates of deposit	—	—	—	3,000	49,200
Capital employed ✓	<u>3,014,752</u>	<u>2,423,198</u>	<u>1,706,235</u>	<u>1,352,569</u>	<u>930,366</u> ✓
Acceptances, etc.	579,764	755,790	487,246	230,211	206,404
Gross earnings <i>EBIT</i>	284,838	201,817	138,942	102,372	96,091 ✓
Profit before taxation ✓	64,970	60,197	35,121	22,914	36,441 ✓
Profit after taxation ✓	32,623	29,801	20,788	13,547	8,621 ✓
Dividends ✓	8,165	6,532	6,532	4,536	3,156 ✓
Earnings per share (adjusted)	60k	55k	38k	25k	16k
Dividends per share (adjusted)	15k	12k	12k	8k	6k
Dividend cover	4 times	4.6 times	3.1 times	3.0 times	2.5 times
Total assets per share (adjusted)	N58.46	N47.16	N33.53	N26.55	N21.77



# Five Year Financial Summary

## FIVE YEAR FINANCIAL SUMMARY FOR THE YEAR ENDED 30TH SEPTEMBER,

USE OF FUNDS	1987 N'000	1986 N'000	1985 N'000	1984 N'000	1983 N'000
Cash and short-term funds	2,119,228	1,683,010	372,981	402,352	362,600
Bills discounted	1,191,873	1,410,189	1,913,015	1,717,854	1,537,601
Quoted investments	2,619	2,619	2,364	2,364	2,364
Unquoted investments	3,850	2,850	3,105	850	600
Loans and advances	1,872,215	1,845,956	1,492,920	1,556,112	1,536,949
Other assets	456,880	274,535	522,546	370,125	274,390
Fixed assets	100,916	73,391	63,062	55,225	52,507
<b>Total assets</b>	<b>5,747,581</b>	<b>5,208,550</b>	<b>4,370,053</b>	<b>4,100,182</b>	<b>3,767,011</b>
<i>Less:</i> Other liabilities	1,285,299	958,586	742,718	510,891	299,388
	<b>4,462,282</b>	<b>4,330,964</b>	<b>3,627,335</b>	<b>3,595,291</b>	<b>3,467,623</b>
Represented by:					
Share capital	63,504	54,432	54,432	54,432	54,432
Statutory reserve	81,274	74,254	66,137	60,943	53,755
Loan stock redemption fund	17,780	13,335	8,890	4,445	—
Exchange difference reserve	44,069	41,191	—	—	—
Revenue reserve	141,964	116,503	77,423	53,677	43,635
Shareholders' funds	348,591	299,715	206,882	173,497	151,822
11½% Loan Stock 1988/1992	40,000	40,000	40,000	40,000	40,000
Capital funds	388,591	339,715	246,882	213,497	191,822
Customers' deposits	4,073,691	4,000,249	3,380,453	3,331,794	3,275,801
<b>FUNDS EMPLOYED</b>	<b>4,462,282</b>	<b>4,330,964</b>	<b>3,627,335</b>	<b>3,595,291</b>	<b>3,467,623</b>
Acceptances, etc.	511,946	425,192	456,009	531,373	460,165
Gross earnings <i>E 217</i>	611,276	476,762	415,737	378,988	323,178
Profit before taxation	83,513	103,777	81,153	57,078	61,241
Profit after taxation	56,158	53,849	41,550	28,751	30,611
Dividends	10,160	8,709	8,165	7,076	8,165
Earnings per N1 share (adjusted)	88k	85k	65k	45k	48k
Dividends per N1 share (adjusted)	16k	14k	13k	11k	13k
Dividend cover	5.5 times	6.2 times	5.1 times	4.1 times	3.8 times
Total assets per N1 share (adjusted)	N90.51	N83.44	N68.81	N64.66	N59.32
Net assets per N1 share (adjusted)	540k	472k	326k	273k	239k

NOTES: (1) Earnings per share are based on profit after tax and are calculated on the number of issued ordinary shares at 30th September, 1987.

(2) Dividends per share are calculated on the number of issued ordinary shares at 30th September, 1987.

# Profit and Loss Account

for the year ended 31st March, 1979

		1979		1978	
	Note	N'000	N'000	N'000	N'000
<b>Earnings from:-</b>					
Interest		73,278		48,506	
Commission and transfer charges		26,604		22,104	
Foreign exchange		4,450		4,178	
Other income	10	1,693	106,025	2,102	76,890
<b>Interest paid:-</b>					
Other banks in Nigeria		574		1	
Other		24,497	25,071	10,806	10,807
<b>Net earnings</b>					
			80,954		66,083
Overhead expenses	11	33,948		23,553	
Provision for bad and doubtful debts		8,272		5,500	
Depreciation of fixed assets		3,368	45,588	2,056	31,109
<b>Profit before taxation</b>					
			35,366		34,974
Taxation	12		17,612		17,168
<b>Profit after taxation</b>					
			17,754		17,806
Unappropriated profit brought forward			546		530
			18,300		18,336
<b>Appropriations:-</b>					
Statutory reserve	8	4,438		4,452	
General reserve	8	8,500		11,338	
Dividends	13	5,000	17,938	2,000	17,790
<b>Unappropriated profit carried forward</b>					
			362		546

The notes on pages 18 — 21 form part of these accounts.

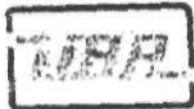


## Profit and Loss Account

for the year ended 31st March.

	Note	1981		1980	
		N'000	N'000	N'000	N'000
<b>Earnings from:—</b>					
Interest		125,889		89,743	
Commission and transfer charges		40,058		28,798	
Foreign exchange		6,311		3,639	
Other income	10	4,577	176,835	2,519	124,699
<b>Interest paid:—</b>					
Other banks in Nigeria		9		104	
Other		63,532	63,541	35,028	35,132
<b>Net earnings</b>					
Overhead expenses	11	58,424	113,294	41,203	89,567
Provision for bad and doubtful debts		6,073		2,335	
Depreciation of fixed assets		5,932	70,429	4,662	48,200
<b>Profit before taxation</b>					
Taxation	12		42,865		41,367
			20,150		21,331
<b>Profit after taxation</b>					
Unappropriated profit brought forward			22,715		20,036
			389		362
			23,104		20,398
<b>Appropriations:—</b>					
Statutory reserve	8	5,776		5,009	
General reserve	8	11,000		9,000	
Dividends	13	6,000	22,776	6,000	20,009
<b>Unappropriated profit carried forward</b>					
			328		389

The notes on pages 18 to 22 form part of these accounts.



## Statement of Value Added

Year to 31st March,	1987			1986		
	₦'000	₦'000	%	₦'000	₦'000	%
Gross earnings		569,172	100.0		441,965	100.0
Interest paid		(236,924)	(41.6)		(182,896)	(41.4)
		<u>332,248</u>	<u>58.4</u>		<u>260,069</u>	<u>58.6</u>
Bought in materials and services	(63,984)		(11.2)	(49,034)		(11.1)
Bad and doubtful debts	(57,793)	121,777	(10.2)	(38,633)	(57,667)	(6.7)
<b>VALUE ADDED</b>		<u>210,471</u>	<u>37.0</u>		<u>171,402</u>	<u>38.8</u>

Applied in the following way:

### TO PAY EMPLOYEES

Salaries, wages and fringe benefits	91,930	16.2	79,463	18.0
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### TO PAY PROVIDERS OF CAPITAL

Dividends to shareholders	16,339	2.3	9,700	2.2
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### TO PAY GOVERNMENT

Direct taxation	32,256	5.7	33,676	8.0
Contribution to national economic recovery levy			2,136	0.5

### TO PROVIDE FOR MAINTENANCE OF ASSETS AND EXPANSION OF BUSINESS

Depreciation	12,850	2.2	10,015	2.3
Retained profits	57,314	10.1	29,746	6.7
<b>VALUE ADDED</b>	<u>210,471</u>	<u>37.0</u>	<u>171,402</u>	<u>38.8</u>

Value added is the wealth the bank has been able to create by its own and its employee's efforts.

# UNITED BANK FOR AFRICA

*Total Assets -*

## FIVE-YEAR FINANCIAL INFORMATION (1985/86)

### BALANCE SHEET

<u>USE OF FUNDS</u>	81 N'000	82 N'000	83 N'000	84 N'000	85 N'000
Cash and Short Term Funds	293,475	358,197	313,161	416,080	555,319
Cash Reserve Deposits	32,006	34,835	35,277	37,123	38,917
Bills Discounted	824,891	686,791	1,102,057	1,216,744	2,393,310
Investments	82,314	79,210	83,399	68,366	72,744
Loans and Advances	1,161,294	1,519,426	1,619,691	1,553,263	1,409,137
Other Assets	92,656	110,214	210,448	219,574	271,696
Fixed Assets ✓	32,334	38,262	45,671	56,195	61,759
Total Assets ✓	2,518,970	2,826,935	3,409,704	3,567,345	4,802,882

### SOURCES OF FUNDS

Share Capital	30,000	65,000	70,000	75,000	75,000
Reserves	64,312	78,239	92,818	109,600	134,093
Shareholder's Fund	94,312	143,239	162,818	184,600	209,093
Current Deposits	836,978	969,327	904,056	979,620	1,094,173
Savings Deposits	170,064	212,908	255,895	321,132	382,301
Time Deposits	1,400,176	1,365,905	1,779,960	1,813,794	2,843,126

### PROFIT AND LOSS ACCOUNT

	81 N'000	82 N'000	83 N'000	84 N'000	85 N'000
Gross Earning:	176,835	232,195	281,387	285,566	376,270
Interest Earned:	125,889	178,787	236,804	247,813	339,906
Interest Paid	63,541	85,881	114,731	101,502	162,173
Overhead Expenses	58,424	73,032	85,313	98,071	112,075
Profit before taxation	42,865	52,410	55,969	65,266	63,721
Transfer to Reserves	16,776	19,150	29,279	31,482	34,193
Profit after tax	22,715	26,602	29,279	31,482	34,193
Dividends:	6,000	7,675	9,700	9,700	9,700
Preference:	-	675	2,700	2,700	2,700
Ordinary	6,000	7,000	7,000	7,000	7,000
Number of Ordinary Shares outstanding	20,000,000	35,000,000	30,000,000	25,000,000	25,000,000
Earnings per Share	57K	65 Kobo	66 Kobo	64 Kobo	70 Kobo
Dividends per Share:	15K	17.5K	17.5K	15.5K	15.5Kobo

## Five Year Financial Summary

year ended 31st March	1980 N'000	1979 N'000	1978 N'000	1977 N'000	1976 N'000
<b>BALANCE SHEET</b>					
<b>USE OF FUNDS</b>					
Cash and short term funds	732,748	447,638	400,423	374,443	424,876
Cash reserve deposits	30,243	49,531	47,824	75,758	-
Stabilisation securities	-	38,919	29,019	8,340	-
Investments	39,883	1,042	1,042	26,723	22,503
Loans and advances	864,836	703,004	582,298	445,072	331,677
Other assets	21,420	22,080	18,033	12,053	7,907
Fixed assets	<u>26,753</u>	<u>22,954</u>	<u>(15,097)</u>	<u>10,912</u>	<u>8,377</u>
<b>Total assets</b>	<b>1,715,883</b>	<b>1,285,168</b>	<b>1,093,736</b>	<b>953,301</b>	<b>795,340</b>
<b>Deduct:</b>					
Accounts payable including items in transit, taxation and dividends	62,061	86,106	48,681	26,082	47,024
	<u>1,653,822</u>	<u>1,199,062</u>	<u>1,045,055</u>	<u>927,219</u>	<u>748,316</u>
<b>SOURCE OF FUNDS</b>					
Share capital	30,000	30,000	20,000	15,000	10,000
Reserves	<u>47,597</u>	<u>35,590</u>	<u>32,836</u>	<u>22,030</u>	<u>15,042</u>
Shareholders' funds	77,597	65,590	52,836	37,030	25,042
Current, deposit and other accounts	<u>1,576,225</u>	<u>1,133,472</u>	<u>992,219</u>	<u>890,189</u>	<u>723,274</u>
	<u>1,653,822</u>	<u>1,199,062</u>	<u>1,045,055</u>	<u>927,219</u>	<u>748,316</u>
<b>PROFIT AND LOSS ACCOUNT</b>					
Gross earnings	<u>124,699</u>	<u>106,025</u>	<u>76,890</u>	<u>59,716</u>	<u>47,530</u>
Profit before taxation	41,367	35,366	34,974	24,515	18,123
Taxation	<u>(21,331)</u>	<u>(17,612)</u>	<u>(17,168)</u>	<u>(11,227)</u>	<u>(8,189)</u>
Profit after taxation	20,036	17,754	17,806	13,288	9,934
Prior year items	-	-	-	-	707
Transfers to reserves	<u>(14,009)</u>	<u>(12,938)</u>	<u>(15,790)</u>	<u>(11,800)</u>	<u>(8,600)</u>
Dividends paid	<u>(6,000)</u>	<u>(5,000)</u>	<u>(2,000)</u>	<u>(1,650)</u>	<u>(1,650)</u>
Brought forward	362	546	530	692	301
Carried forward	<u>389</u>	<u>362</u>	<u>546</u>	<u>530</u>	<u>692</u>
<b>BONUS ISSUES</b>					
	-	10,000	5,000	5,000	2,000
<b>EARNINGS PER SHARE (*Note)</b>	67k	59k	59k	44k	33k
<b>DIVIDENDS PER SHARE (*Note)</b>	20k	17k	7k	6k	6k

- NOTES
1. The earnings per share are computed on profits after taxation.
  2. The earnings per share and dividends per share prior to 1979 have been adjusted for the bonus issue on 2nd August, 1978.
  3. The profit retained for 1976 is after adjusting for the N350,000 dividend proposed but not paid due to Government restriction on dividends.

**UNITED BANK FOR AFRICA LTD.**

