

Registered Number 4661188



UNION BANK UK PLC
ANNUAL REPORT
AND
FINANCIAL STATEMENTS
31ST DECEMBER 2016

FINANCIAL HIGHLIGHTS

Thousands of US dollar

	2016	2015	2014	2013	2012
Thousands of US dollars (unless otherwise stated)					
<i>Reporting period ended</i>	31st December	31st December	31 st December	31 st December	31 st December
Total Income	11,024	10,593	10,605	11,413	13,310
Profit/(Loss) before tax	685	958	1,483	(571)	2,924
Profit/(Loss) after tax	499	856	1,161	(455)	2,160
Dividends declared †	-	-	-	-	945
Shareholders' Funds #	75,382	73,599	74,061	72,647	73,856
Total Assets	447,820	300,691	431,568	489,215	505,115
Capital / Risk Weighted Assets	38%	49%	74%	39%	43%
Return on Equity	0.91%	1.30%	2.0%	(0.8%)	4.0%
Cost Income Ratio	87%	90%	87%	85%	73%
Dollar / sterling exchange rate					
Year end	1.2306	\$1.48	\$1.56	\$1.65	\$1.62
Average	1.3189	\$1.53	\$1.66	\$1.57	\$1.59

† **Dividends** are accounted for in the year in which they were declared by the board and subsequently approved at the AGM.

Including subordinated debt of \$15.0m which was converted to Tier 1 Capital in 2010.

Financial statements are prepared under International Financial Reporting Standards as adopted by the European Union (IFRS).

(Unless otherwise states)

Union Bank serves you better

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the audited annual reports and financial statements of Union Bank UK ("UBUK") for the year ended 31st December 2016.

The UK Economy

The UK was one of the fastest-growing advanced economies in 2016 with a GDP of 2%, better than both the US and the EU which grew by 1.9% and 1.7%. UK 2016 growth was however slower than 2.2% recorded in 2015 and 3.1% in 2014. In spite of an earlier prediction by the IMF that a vote to leave the EU could plunge the country into recession and trigger a stock market crash, stock market's post-vote resilience and increased consumer spending in the second half of the year resulted in significantly stronger growth than expected.

Since the vote the Bank of England has taken a number of steps to boost the UK economy, cutting interest rates from 0.5% to 0.25% in August - the first reduction in the cost of borrowing since 2009 and taking UK rates to a new record low.

As the process to exit the EU commences, the British pound has fallen to its lowest levels against the dollar in over 31 years as traders worry about the future of the economy; today the pound is worth about ~\$1.21 - compared with \$1.47 pre-referendum. Consequently, inflation has jumped to a two-year low, hitting 1.6% in December 2016. Although the fall in the pound helps exporters, it makes foreign holidays more expensive for British tourists and it has also increased import costs for manufacturers.

Looking ahead, growth in 2017 is expected to be muted at 1.5%, declining to 1.4% in 2018 reflecting widespread uncertainty over Britain's future outside the EU. Household incomes will be squeezed by higher inflation and businesses will hold back on investment decisions which are also likely to increase unemployment.

The Nigerian Economy

In 2016, the Nigerian economy slowed significantly due to the adverse effects of disruptions to oil production, foreign currency shortages, lower power generation, delayed signing and implementation of the 2016 budget and overall weak investor confidence. Consequently, the economy stumbled into a recession by June, with full year 2016 GDP estimated at -1.6%, comparison to 2.7% growth in 2015. The mixed nature of UBUK business means that the performance of the Nigerian economy influences our overall performance.

In the second quarter of 2016, the Central Bank of Nigeria ("CBN") introduced a flexible exchange rate and a futures and forwards market to ease the pressure of foreign currency shortages on the economy. This resulted in the official rate of the naira depreciating from N197/\$ to N282/\$, eventually closing the year at N305. The higher cost of the dollar took a toll on inflation, considering the import dependent nature of the economy. As a result, inflation accelerated from 9.6% in January, peaking at 18.6% in December 2016.

We expect that 2017 will be a challenging year for Nigeria. Despite the projected increase in oil prices and the anticipated increase in oil production, emerging from a recession is no small feat. We believe that the government will play a key role in executing economic plans and improving infrastructure to aid businesses and improve the operating environment in the country.

2016 Financial Performance

Despite the challenges of 2016, I am pleased to report that we improved our total income in 2016 over the previous year. We also reduced cost-to-income ratio, reflective of the cost conscious approach taken by Board and Management.

In 2016, we continued to execute our strategy in line with the overall Group's ambition. We have been cautious in our approach to new business and this is reflected in our low non-performing loans. Our conservative approach will continue into 2017 as we closely monitor the economic situation in Nigeria.

Board Changes

After 6 years of service to UBUK, Mr Marco Biglia resigned his position as non-Executive Director. He has been succeeded by Mr. Nigel Richards who took up the role of non-Executive Director In August. On behalf of the Board I would like to thank Marco for his contribution to UBUK and welcome Nigel to the Board.

Outlook

2017 will be another year of transition and change as the Bank continues the transformation set out in our strategic plan. The global business environment remains uncertain, economies are still fragile and geopolitical tensions are strong. In our industry, regulatory pressure is mounting, consumer needs are increasingly diverse and competition is intensifying driven by innovation. In spite of these challenges, we will reinforce our ability to adapt to the changing environment and continue to cautiously forge new client relationships, while strengthening existing connections in our core markets.

We are committed to delivering strong performance in the years ahead, increasing UBUK's value to the group and all stakeholders through sustainable profit growth.

I would like to express my heartfelt appreciation to our customers and partners for the loyalty and confidence they continue to offer our Bank. On behalf of the board I would also like to say thank you to all our staff who have served the bank so diligently.

Thank you

A handwritten signature in black ink, appearing to read 'Gavin Laws', with a long horizontal stroke extending to the right.

Gavin Laws

Chairman

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DIRECTORS AND ADVISERS

Directors:	Gavin C Laws	Chairman / Independent Non-executive & Chairman of audit committee
	Emeka Emuwa	Non-executive and Group Managing Director/Chief Executive of Union Bank of Nigeria Plc
	Maurice Phido	Managing Director/Chief Executive
	Nigel J Richards	Independent non-executive and Chairman of the Risk & General Purposes Committee
	David J Forster	Executive Director/Chief Operating Officer
	Kandolo S Kasongo	Non-executive and Executive Director of Union Bank of Nigeria Plc
	Suzanne O Iroche	Independent non-executive and Chairman of the Establishment & Remuneration Committee
Secretary:	P.R Hartley F.C.A	PO Box 27075, London, N2 0FZ
Registered Office:	1 King's Arms Yard,	London, EC2R 7AF
Solicitors:	Hogan Lovells	Atlantic House, London, EC1A 2FG
Auditors:	BDO LLP	55 Baker Street, London, W1U 7EU

PRINCIPAL OFFICERS

Management Committee:

Maurice Phido	Managing Director/Chief Executive
David J Forster	Executive Director/Chief Operating Officer (Acting CEO From 01/02/16 to 23/05/2016)
Dominiek Vangaever	Director, Risk & Compliance
Martin Uzus	Associate Director, Business Development
Farhood Hieydary	Associate Director, Treasury
Janet A Ntuk	Associate Director, Corporate Resources
Christopher C Nwabuoku	Associate Director, Internal Audit

STRATEGIC REPORT

Overview

The Bank's strategic aim is to primarily serve as an extension of Union Bank of Nigeria in the UK serving and partnering with our clients on their specialised financial needs revolving around regional and international trade. Our focus is to build our core business segments of Retail, Treasury/Corporate and Commercial both vertically, by offering a competitive range of products, and horizontally so that our customers recognise UBUK for all of their banking needs.

Our ambition is to be a leading provider of specialised financial services to clients with interests in the UK, Europe, Middle East and Africa. We will do this with the highest standards of conduct and by always putting the customer first.

Performance

The Bank's performance in 2016 continues to reflect the challenging economic situation in its target market, producing a pre-tax profit of US\$0.685m against the previous year of US\$0.958m.

Interest income at US\$9.6m was marginally up on the 2015 figure of US\$9.4m. Dealing and exchange profits at US\$0.661m were up on the previous year figure of US\$0.489m primarily due to increased volumes. Fee and commission income at US\$2.14m was up on the previous year of US\$2.020m, the increase is attributable to larger LC transactions during the year. Other comprehensive income returned a positive result against the previous year's figure. This resulted from the economic conditions in the bond market during 2016 producing an unrealised mark-to-market gain, net of tax US\$1.099m.

Costs were again maintained within budget for the year and showed a small increase from the previous year. Impairment charges, amounted to a debit of US\$0.702m, which are inclusive of specific provisions of US\$384,689 (actual). There were no write-offs during the year.

Key Performance Indicators

The key indicators of the Bank's performance monitored by the Board are those relating to profitability as measured by the pre-tax return on equity (ROE) and Capital over risk weighted assets.

In the 12 months to 31st December 2016, the Bank's returns on equity and capital over risk weighted assets were 0.91% (2015: 1.30%) and 38% (2015: 49%) respectively. The key indicator of efficiency monitored by the Board is the cost/income ratio which improved to 87% from 90% in 2015.

The Bank recognises that the movement in sterling/US\$ rates could impact on its costs and would take appropriate steps if there was a significant negative movement. The Bank's results are shown in the statement of comprehensive income on page 17, with the impact on shareholders' funds shown in the statement of changes in equity on page 19.

Future Prospects

The Bank continues to diversify its business geographically in both the lending and fixed income revenue streams which is in alignment with a strategy designed to enable UBUK to thrive without undue reliance on business secured from the parent company. Business is increasingly being sought and undertaken in other sub-Saharan African markets either in asset-backed transactions or co-financing with established international banks and multilateral development agencies.

Overall, performance remains closely linked to developments in Nigeria, including the financial strength and performance of the parent bank. The Transformation Programme, that the parent bank is undergoing, is to ensure the Bank consistently delivers the best service possible to its customers and consistently provides value for all its stakeholders

STRATEGIC REPORT

CONTINUED

Principal Risks and Uncertainties

The principal risks associated with the business of the Bank are dealt with in the Directors' report. The Bank is firmly committed to risk management and to this end has continued to invest in this area in the form of experienced staff and systems.

The Board of Directors is ultimately responsible for risk management policies, limits and risk appetite. It is supported by two of its standing Committees, Risk and General Purpose Committee and Audit Committee, who assist in formulating policy and provide strategic direction for all aspects of risk management. These Committees, in turn, charge management to develop, update and implement these policies, controls and limits with risk management ensuring that there is no event or combination of events that will materially affect the stability of the Bank.

Management operates through a number of committees, namely The Asset and Liability Committee, Credit Committee and Management Committee, each having their own terms of reference.

All credit decisions and new products require the approval of one or more committees depending on the amount required and are initially approved by Risk Department before any approval is taken. Risk will monitor the credit until drawdown to ensure all conditions precedents are met. All portfolios and limits are continuously monitored by senior management.

The economy in Nigeria has suffered from a period of low oil prices which have led to a drop in government revenues, forex scarcity and fall in the value of the Naira. Management has closely followed these events and evaluated the possible impact on our portfolios. Management has also carried out a full review of loans and sources of funding which may be affected by oil prices and the Naira and believes that the Bank is well placed to manage any subsequent events. In addition, the Bank makes an assessment with regard to the economic climate in the major markets in which the Bank participates, the financial position of the Union Bank of Nigeria, current and prospective regulatory developments and their likely impact on the Bank's capital and liquidity requirements, and the Bank's approach to the management of key risks, as well as current budgets and financial forecasts for profitability, capital and liquidity requirements. The bank is satisfied that, as a result of these assessments and its prudent approach to risk management, there would be no unexpected negative impact from these factors.

Approved by the board of directors and signed on behalf of the board



Maurice Phido
Managing Director / Chief Executive

12th May 2017

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st December 2016.

Principal Activities

Union Bank UK plc (UBUK or the Bank) was incorporated in England and Wales on 10th February 2003 as a wholly owned subsidiary of the Union Bank of Nigeria Plc (UBN).

The Bank is authorised under the Financial Services and Markets Act 2000 (FSMA 2000), to carry on regulated financial services activities, including deposit-taking and dealing in investments as principal. The business of the Bank includes the provision of retail and commercial banking, treasury and trade finance services.

The Bank has established and maintains the management structure, policies, systems and procedures necessary to enable full compliance with the rules and regulations of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Directors

The directors of the Bank at the date of this report and those who served during the year ended 31st December 2016, are as follows:

- | | |
|----------------|---|
| Mr GC Laws | - Non-executive Chairman appointed 1 st January 2016 |
| Mr AC Emuwa | - Non-executive |
| Dr KA Ali | - Managing Director/Chief Executive resigned 29 th February 2016 |
| Mr M Phido | - Managing Director/Chief Executive appointed 9 th February 2016 |
| Mr MXMG Biglia | - Non-executive resigned 3 rd June 2016 |
| Mr DJ Forster | - Executive Director/Chief Operating Officer |
| Mrs S Iroche | - Non-executive |
| Mr KS Kasongo | - Non-executive |
| Mr NJ Richards | - Non-executive appointed 1 st August 2016 |

During the year, the Bank provided qualifying third party indemnity provision on behalf of the directors.

Going Concern Basis of Preparation

The financial statements are prepared on a going concern basis.

In keeping with the guidance issued by the Financial Reporting Council in October 2009, the Board has considered formally whether it is appropriate to prepare the financial statements on a going concern basis and has concluded that the Bank has sufficient resources to continue in business for the foreseeable future. In making this assessment, the Board has considered a wide range of information relating to present and future conditions, including that set out under the headings 'Business Review', 'Financial Risk Management' and 'Developments in Financial Regulation' below.

The assessment has regard to the economic climate in the major markets in which the Bank participates, the financial position of UBN, current and prospective regulatory developments and their likely impact on the Bank's capital and liquidity requirements, and the Bank's approach to the management of key risks, as well as current budgets and financial forecasts for profitability, capital and liquidity requirements.

DIRECTORS' REPORT

CONTINUED

Financial Results

The Bank's financial statements are prepared under International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU). The functional currency of the Bank for financial reporting purposes is the US dollar (US\$), being the currency in which the majority of its assets, liabilities, capital and revenues are denominated.

The financial statements for the year ended 31st December 2016 are shown on pages 17 to 53. The profit for the year after taxation amounted to US\$498,747 (2015 –US\$856,411).

No dividend was paid in respect of the year ended 31st December 2016 (2015 - US\$nil).

The directors do not propose the payment of a final dividend for the year (2015 – US\$nil).

Financial Risk Management

The principal risks associated with the business of the Bank are credit risk, liquidity risk, market rate risk and operational risk.

The Bank has established a comprehensive enterprise risk management framework to manage these risks, guided by the Basel Committee's principles for sound risk management and compliance with Basel III and FCA and PRA prudential regulations, including those in respect of liquidity risk. The Board establishes the risk governance structure and sets the overall risk appetite for both risks to the capital and the liquidity position of the Bank, together with key risk management policies, including limits relating to credit, market and liquidity risks. The framework provides for independent oversight of business units, risk identification, assessment and measurement, as well as stress testing of key risks and various other risk mitigations and monitoring techniques.

Financial and other risks are assessed and documented as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) whereby 'treated risk' after mitigation is considered and internal capital allocated accordingly. The assessment of risks and allocation of capital recognises the Bank's commitment to the Nigerian and African markets. These include political, infrastructure and concentration risks, including dependence on industry sectors such as oil and gas. These risks are significantly mitigated by virtue of the specialised knowledge and experience of the Bank and UBN, which permits the taking of informed decisions as to risk assumption and mitigation. The Bank produced a new ICAAP as at 31st March 2016.

The Bank has a clearly defined risk appetite including policies for the identification of key risks and also has in place Credit Grading and Key Risk Indicator tools.

As required by the UK regulatory authorities, the Bank prepares an Individual Liquidity Adequacy Assessment (ILAAP) with the latest document as at 30th June 2016. The framework is designed to assess whether the Bank is able to survive liquidity stresses of varying magnitude and duration, including the provision to build up a liquidity asset buffer (LAB) of UK Government or similar quality securities to be used in liquidity stress event.

The results of this ILAAP, which has been reviewed and approved by the Board and the Bank's Internal Auditor, indicated that as at 30th June 2016, there was a positive overall net cumulative gap within the three-month stress period and that the LAB requirement was US\$20.5m. Further information concerning the Bank's policies for managing risks associated with financial assets and liabilities is set out in note 31 to the financial statements.

The Bank has completed a Recovery and Resolution plan as at 30th September 2016. The process includes identifying events and triggers thereto which would force the Bank to need to recover from an actual or imminent failure of all or part of its business and agreeing, in consultation with the twin regulatory authorities, the critical economic functions undertaken by the Bank for which a Resolution Pack will be put in place to be used by those authorities or their appointed agents.

DIRECTORS' REPORT

CONTINUED

Developments in Financial Regulation

The Bank continues to monitor developments in relation to Basel III. In addition to traditional capital requirements, banks will also be required to build up Capital Requirements Directive IV (CRDIV) buffers, Capital Conservation and Counter Cyclical Buffer, 2.5% of RWA between 1st January 2016 and 1st January 2019. However during Bank of England has decided to postpone the effective date for the Counter Cyclical Buffer. The Bank continues to maintain HQLA 10% above the regulatory minimum in order to maintain the Pillar 1 Liquidity Coverage Ratio at required levels. From 1st Jan 2018 Net Stable Funding Ratio will be added to liquidity Pillar 1 standard. The European Banking Authority (EBA), introduced Common Reporting Standards in 2014 and the Bank continues to report the data items set to its reporting portfolio to Prudential Regulation Authority UK (PRA).

In the UK, the PRA has specifically focused on firm resolution as well as progressing the implementation in the UK of changes to the regulation of financial institutions through amendments to the Capital Requirements Directive (CRD). There is some evidence that reporting is being synchronised, for example with the Contingency Funding Plan prepared by regulated firms now incorporated within Recovery and Resolution planning.

The results of the Bank's ILAAP and Recovery and Resolution planning have been discussed in the Financial Risk Management section above.

Corporate Culture & Values

The UBN Group has, at its heart, the corporate values of Initiative, Customer Focus, Accountability, Respect and Efficiency. These values are the foundation of our dealings with customers, and each other, and are regularly reviewed by the Board and staff to ensure that we have a working culture that sustains our position as a highly respected provider of quality banking services.

Information Management

The Bank seeks to ensure that expenditure on IT and Communications remains appropriate to meet all regulatory and business needs.

The Bank recognises the importance of safeguarding client data and has developed policies and physical and logical access controls which, coupled with staff awareness training, are designed to protect against data loss.

Employee Matters

The Bank recognises that its performance is dependent on the quality of its work force and the investment it makes in training and development. It is the Bank's policy that its staff should have the opportunity to develop to their full potential, promote its business in a manner consistent with the highest standards and recognise its environmental and other responsibilities as a corporate citizen. Staff competencies, training and development are planned consistently with corporate objectives, including the management of risks, and staff are appraised and rewarded accordingly.

Property and Equipment, Intangible Assets and Capital Commitments

Changes in property and equipment and intangible assets are set out in notes 22 and 23 to the financial statements.

The directors have authorised capital expenditure relating to relocation of the Bank's premises and enhancements to information technology systems of up to US\$1.9m as set out in note 33. At 31st December 2016, amounts so authorised but not yet expended amounted to US\$1.2m.

DIRECTORS' REPORT

CONTINUED


Directors' Representation

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Auditors

The Board approved BDO LLP as their auditors.

By order of the Board on 12 May 2016



Maurice Phido
Managing Director/ Chief Executive
1 King's Arms Yard
London, EC2R 7AF

DIRECTORS' RESPONSIBILITIES AND CORPORATE GOVERNANCE

Statement of Directors' Responsibilities in respect of the Strategic Report and Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Website Publication

The Directors are responsible for ensuring the Directors' Report and financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate Governance

The Board of Directors of the Bank comprises two executive directors, two non-executive directors appointed by UBN, and three independent non-executive directors one, of whom is the chairman of the board.

Currently there are three independent non-executive directors in-situ. The Board meets at least quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank, including assessment of the Bank's competitive position, approval of strategic and financial plans and review of performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation and establishes the risk framework, overall risk appetite and key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

DIRECTORS' RESPONSIBILITIES AND CORPORATE GOVERNANCE

CONTINUED

The Board has three standing committees: the Risk & General Purposes Committee, the Establishment & Remuneration Committee (E&RC) and the Audit Committee. Each of these standing committees is chaired by an independent non-executive director, has written terms of reference and, with the exception of the Audit Committee, defined limits of authority. The R&GPC meets as often as required but at least quarterly, the Audit Committee and the E&RC meets quarterly.

The primary functions of the R&GPC is to consider credit proposals in excess of the limits of authority of the executive Assets & Liabilities and Credit Committees of the Bank, to review financial plans and actual performance against plan, to consider, and check the progress of major IT initiatives and to monitor compliance with the Bank's credit, large exposure, impairment, liquidity and market risk policies and financial regulations generally.

The Audit Committee comprises solely non-executive directors and is chaired by a financially experienced individual. Meetings are attended by the Bank's Associate Directors from Internal Audit and Compliance, by executive directors when requested and by the independent external auditors. The primary functions of the Audit Committee are to assist the Board in fulfilling its oversight responsibilities by monitoring and assessing the integrity of financial statements, the qualifications, independence and performance of external auditors, compliance with legal and regulatory requirements and the adequacy of systems of internal accounting and financial controls. Its assessment of the internal control environment is made by reviewing and approving the plans of Internal Audit and considering and questioning management on operational audit reports.

The Audit Committee also approves the appointment of, and fees paid to, the external auditors for all audit and non-audit work. It is also responsible for the recruitment or removal of the heads of Internal Audit and Compliance and for appraisal of the performance of those functions.

The E&RC has responsibility for considering matters related to human resource policy, including compensation arrangements. In particular, it reviews and recommends to the Board both overall compensation pools and the remuneration of executive directors and certain other members of senior management. It has responsibility also for certain matters relating to the infrastructure of the Bank, including premises, the working environment of staff and insurance arrangements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC

Independent Auditor's Report to the Members of the Union Bank UK plc

We have audited the financial statements of Union Bank (UK) Plc for the year ended 31 December 2016 which comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statement

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:


- the information given in the strategic report and directors' report for the financial year 31 December 2016, for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Daniel Taylor (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London

Date 12 May 2017.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2016

		Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
	Note		
Interest income	5	9,569	9,367
Interest expense	6	(1,347)	(1,283)
Net interest income		8,222	8,084
Fees and commission income	7	2,141	2,020
Dealing and exchange profit	8	661	489
Total income		11,024	10,593
Administrative expenses	10	(8,805)	(8,783)
Depreciation and amortisation	22/23	(755)	(731)
Impairment charge	21	(702)	(44)
Other operating expense	9	(77)	(77)
Profit before tax		685	958
Tax charge	14	(186)	(102)
Profit for the year after tax		499	856
Other comprehensive income from continuing operations that may be recycled, net of income tax			
Unrealised, net change in fair value of financial assets available for sale		1,284	(1,318)
Gain on disposal of financial assets available for sale reclassified to profit and loss		(185)	-
		1,099	(1,318)
Total comprehensive income for the year		1,598	(462)

The result is derived entirely from continuing activities.

The notes on pages 22 to 53 form part of these financial statements


STATEMENT OF FINANCIAL POSITION

As at 31st December 2016

		2016 US\$'000	2015 US\$'000
	Note		
Assets			
Cash and cash equivalents	16	8,825	7,106
Loans and advances to banks	19	330,940	201,735
Loans and advances to customers	20	64,182	57,992
Financial assets available-for-sale	17	37,532	29,683
Financial assets held-to-maturity	18	2,085	-
Intangible assets	23	1,688	2,161
Property and equipment	22	695	355
Deferred tax assets	14	7	152
Tax Recoverable		-	50
Financial assets derivatives		34	-
Other assets	24	1,165	783
Prepayments		667	674
Total Assets		447,820	300,691
Liabilities			
Deposits by banks	25	282,022	161,643
Customer accounts	26	85,554	62,437
Financial liabilities derivatives		34	-
Other liabilities	27	1,774	1,879
Accruals and deferred income	28	2,769	1,133
Tax Payable		285	-
Total Liabilities		372,438	227,092
Equity			
Called up share capital	29	60,090	60,090
Available-for-sale reserve		(186)	(1,470)
Retained earnings		15,478	14,979
Equity		75,382	73,599
Total Liabilities and Equity		447,820	300,691

The financial statements were approved by the board of Directors and authorised for issue on 12th May 2017.

Signed on behalf of the board of directors:

A handwritten signature in black ink, appearing to read 'Maphido', written in a cursive style.

Maurice Phido
Managing Director / Chief Executive

The notes on pages 22 to 53 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Share Capital US\$'000	Available-for- Sale Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
Balance as at 1st January 2015	60,090	(152)	14,123	74,061
Total comprehensive income for the year				
Change in fair value of assets classified as available-for-sale	-	(1,522)	-	(1,522)
Current Tax recognised on fair value loss on assets classified as available-for-sale	-	204	-	204
Profit for the year	-	-	856	856
Balance attributable to equity shareholders as at 31st December 2015	60,090	(1,470)	14,979	73,599
Total comprehensive income for the year				
Change in fair value of assets classified as available-for-sale	-	1,563	-	1,563
Current Tax recognised on fair value gain on assets classified as available-for-sale	-	(279)	-	(279)
Profit for the year	-	-	499	499
Balance attributable to equity shareholders as at 31st December 2016	60,090	(186)	15,478	75,382

The notes on pages 22 to 53 form part of these financial statements

STATEMENT OF CASH FLOWS

		2,016	2,015
	Note	US\$'000	US\$'000
Profit / (Loss) before tax		685	959
<i>Adjustments for:</i>			
Depreciation and amortisation	22/23	755	731
Realised loss on disposal of financial assets available for sale		185	-
Impairment of loans and advances		702	44
Unrealised gain on financial assets available for sale		1,099	(1,318)
		<hr/> 3,426	<hr/> 416
(Increase) / decrease in loans and advances to banks		(129,445)	93,172
Increase in loans and advances to customers		(6,589)	(1,985)
(Increase) / decrease in other assets		(236)	572
Decrease / (increase) in prepayments		6	(37)
Increase / (decrease) in deposits by banks		120,378	(74,027)
Increase / (decrease) in customer accounts		23,117	(56,630)
Decrease in other liabilities		(99)	(128)
Increase in accruals and deferred income		1,817	350
		<hr/> 12,375	<hr/> (38,297)
<i>Cash generated from / (used in) operations</i>			
Acquisition of financial assets held to maturity		(2,039)	-
Acquisition of financial assets available-for-sale		(40,996)	(42,734)
Disposal of financial assets available for sale		33,105	32,089
Income tax paid		(104)	(139)
		<hr/> 2,341	<hr/> (49,081)
<i>Net cash generated from / (used in) operating activities</i>			
Acquisition of tangible and intangible assets		(622)	(857)
<i>Net cash flow used in investing activities</i>		(622)	(857)
Dividends paid		-	-
<i>Net cash flow used in financing activities</i>		-	-
		<hr/> 1,719	<hr/> -49,938
<i>Net increase / (decrease) in cash and equivalents</i>			
Cash and cash equivalents at 1st January	16	7,106	57,044
		<hr/> 8,825	<hr/> 7,106
Cash and cash equivalents at 31st December 16			

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Union Bank UK plc (the Bank) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the Company's registered office is given on page 6.

Information concerning the principal activities and operations of the Bank and its regulatory status is set out in the Directors' Report and in the notes to the financial statements.

2. Basis of presentation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Bank has also complied with its legal obligation to comply with IFRS as adopted by the European Union (EU) as they are no applicable differences between the two frameworks for the periods presented

The following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective at the date of authorisation of these financial statements:

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected loss model for calculating impairment on financial assets and a new general hedge accounting requirements. It also carries guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The directors have undertaken work to develop the Bank's approach to implementation, resources & employee training and specific briefing for the Director's and Principal officers. IFRS9 adoption will result in impairment being recognised earlier than is the case under IAS 39 because it requires expected losses to be recognised before the loss event arises. Measurement will involve increased complexity and judgement including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of exposure at default and assessing increase in credit risk. It is expected to have material financial impact and therefore the key focus of the work underway will be the impact of IFRS9 on Bank's risk appetite statement and stress testing assumptions. At present it is not practical to disclose reliable financial impact estimates until the implementation programme is further advanced.

IFRS 15 Revenue will replace IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about their nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently evaluating the effect of implementing this standard.

IFRS 16 Leases applies to accounting periods beginning on or after 1 January 2019 but has not yet been endorsed for use by those entities applying EU IFRS. It requires lessees to bring all leases within its scope on balance sheet, showing an asset for the right of use and a liability for the discounted amount of future payments. The Directors of the Company have not yet considered the impact of this standard.

Annual Improvements to IFRSs (2012-2014 Cycle)

These improvements are effective for annual periods beginning on or after January 1, 2016. They include: Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

(b) Going concern basis of preparation

The financial statements have been prepared on a going concern basis as the directors continue to be of the opinion that the Bank has sufficient resources to continue in business for the foreseeable future.

In forming this opinion, the directors have had due regard to the guidance issued by the Financial Reporting Council in October 2009 entitled 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009'. The assessment enabling the directors to form this opinion has included a wide range of information relating to present and future conditions, as well as obtaining satisfaction as to the Bank's own current and prospective capital adequacy and liquidity and the policies in place to manage and control the risks inherent in the markets in which the Bank operates.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments as required under IFRSs.

(d) Functional and presentation currency

The directors are of the opinion that the functional currency of the Bank is the US dollar (US\$), being the currency in which the majority of the assets, liabilities and revenues are denominated. Therefore, these financial statements are expressed in US\$ and all financial information is presented in US\$, rounded to the nearest thousand.

(e) Use of estimates and judgement

The Bank makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ

from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Loan loss provisioning

UBUK's loan loss impairment provisions are recognised on an incurred loss basis. On its portfolio of loans classified as loans and receivables and carried at amortised cost. In accordance with IAS 39, a loan is considered impaired when there is objective evidence that events since the loan was granted have adversely affected the amount and timing of expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows at the loan's original effective interest rate. The impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of the management's best estimate of future cash repayments and proceeds from any security held. The actual amount of the future cash flows and the date they are received may differ from these estimates and consequently, actual losses incurred may differ from those recognised in these financial statements. More information including carrying values is included in note 19.

At 31 December 2016, impairment allowances held against loans and advances to customers totalled US\$0.61m (2015: US\$0.16m). The net impairment loss (i.e. after recoveries) for loans and advances to customers recognised in 2016 was US\$0.37m (2015: US\$0.044m). In calculating impairment loss allowances, a range of outcomes was calculated, either for each individual loan or by portfolio taking account of the uncertainty relating to economic conditions. For retail lending, the range was based on different management assumptions as to loss propensity and loss ratio relative to historic experience. For corporate lending, the range reflects different realisation assumptions in respect of collateral held.

If management had used different assumptions, a larger or smaller impairment loss allowance would have resulted that could have had a material impact on the UBUK's reported profit before tax. Specifically, if management's conclusions were different, but within the range of what management deemed to be reasonably possible, the impairment loss for loans and advances could have decreased by \$667k (2015: \$42k), with a consequential increase in profit before tax, or increased by \$719k (2015: \$960k) with a consequential decrease in profit before tax?

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income on financial assets that are classified as loans and receivables, held-to-maturity or available-for-sale and interest expense on financial liabilities are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

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

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities held at amortised cost on an effective interest rate basis.

(b) Fees and commission

Fees and commission are accounted for depending on the services to which the income relates as follows:

- income earned on the execution of a significant act is recognised in 'fees and commission income' when the act is completed (for example, a fee arising from arranging a loan facility);
- income earned from the provision of services is recognised in 'fees and commission income' as the services are provided (for example, charges made for servicing customer accounts and the provision of trade finance services); and
- income which forms an integral part of the effective interest rate (for example, certain loan commitment fees) of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

(c) Foreign currency

A foreign currency transaction is recorded in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period, foreign currency monetary items are translated using the closing rate, and resulting gains and losses on translation are included in the statement of comprehensive income.

Exchange profits on foreign exchange transactions with customers are recorded as income during the period.

(d) Financial instruments

Recognition

The Bank recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Management classifies financial assets and liabilities into the following categories at the time of initial recognition:

- 'loans and receivables'
- 'financial assets held-to-maturity'
- 'financial assets available-for-sale'
- 'financial assets fair value through profit & loss'
- 'financial liabilities'

Initial measurement

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus (in the case of a financial asset or financial liability not at fair value through the statement of comprehensive income) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3. Summary of significant accounting policies (continued)

Subsequent measurement

Financial assets classified as loans and receivables or as financial assets held to maturity are subsequently measured at amortised cost. Financial assets available for sale are measured at fair value. Financial liabilities are subsequently measured at amortised cost.

Measurement bases

(i) Amortised cost measurement

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

(ii) Fair value measurement

The determination of fair values of financial assets and financial liabilities quoted in an active market is based on observed bid and offer prices for assets and liabilities respectively. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include comparison to similar instruments for which market observable prices exist, discounting future cash flows, option pricing and other valuation models and methods widely used by market participants. As the Bank does not presently use more complex financial instruments, all the inputs to these valuation models and techniques are market-observable.

Where the fair value cannot be reliably determined for an investment in an equity instrument, the instrument is measured at cost.

(e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available-for-sale or at fair value through the statement of comprehensive income.

Loans and receivables are recognised initially at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.

Loans and advances to banks and customers are classified as loans and receivables.

(f) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity and which are not classified or designated upon initial recognition as at fair value through the statement of comprehensive income.

Held-to-maturity investments are recognised initially at fair value, including directly attributable transaction costs, and subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.

(g) Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are recognised on settlement date and are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity through other comprehensive income until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised through the statement of other comprehensive income is recognised in statement of comprehensive income.

UBUK holds treasury bills and bonds for non-trading purposes which are classified as available-for-sale.

3. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through the profit and loss comprise derivatives recognised at fair value with transaction costs recognised in the statement of comprehensive income. Gains and losses arising from changes in fair value are recognised as they occur in the statement of comprehensive income.

(i) Equity and other financial liabilities

The Bank classifies financial instruments that it issues as an equity instrument or financial liability in accordance with the substance of the contractual terms of the instrument. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after deduction of liabilities. An instrument is classified as a liability if it represents a contractual obligation to deliver cash, or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms.

Other financial liabilities, not classified as fair value through profit and loss, are initially recognised at fair value, including directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Deposits and customer accounts are classified as liabilities. Customer accounts with no activity for two years are moved to dormant account status and are then held within other liabilities

Contingent liabilities and commitments are initially recognized at fair value which is also generally equal to the fees received and amortized over the life of the commitment. The carrying amount of contingent liabilities are subsequently measured at the higher of the present value of any expected payment, when a payment under the contingent liability has become probable and the unamortised fee.

Letters of credit are given as security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the Customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

(j) Impairment of financial assets

The Bank assesses whether there is objective evidence that a financial asset or a group of financial assets, not carried at fair value through the statement of comprehensive income, is impaired. Financial assets or portfolios of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on the amount and/or timing of future cash flows from the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar credit risk characteristics, taking into account asset type, industry, geographic location, collateral type, past-due status, historical loss experience and other relevant factors.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and advances or against the carrying value of held-to-maturity investments as appropriate.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

3. Summary of significant accounting policies (continued)

(k) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Subsequent costs

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

Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

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

Leasehold improvements	-	Remaining life of lease
Office equipment and furniture	-	5 years
Computer hardware	-	3 years
Motor vehicles	-	4 years

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

(l) Intangible assets - software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. All costs have been capitalised in accordance with IAS 38

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the software, which is assessed annually, from the date that it is available for use. The estimated useful life of software is three to five years.

(m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, excluding any deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Summary of significant accounting policies (continued)

(n) Leases

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

(p) Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the reporting date

(q) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are deemed to comprise cash in hand, cash at other banks repayable on demand and treasury bills maturing within three months.

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

(r) Pension costs

The Bank operates a defined contribution pension scheme and the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the statement of financial position.

4. Segmental reporting

Segmental analysis of income has not been prepared as, in the opinion of the directors, all of the Bank's income derives from one main activity, commercial and retail banking, which is carried out in the United Kingdom.

5. Interest income

	2016	2015
	US\$'000	US\$'000
Interest income on securities available-for-sale	649	573
Interest income on loans and advances	8,920	8,793
	<u>9,569</u>	<u>9,367</u>

6. Interest expense

	2016	2015
	US\$'000	US\$'000
Interest expense on deposits from banks	(642)	(659)
Interest expense on customer accounts	(705)	(624)
	<u>(1,347)</u>	<u>(1,283)</u>

7. Fees and commission income

	2016	2015
	US\$'000	US\$'000
Letters of credit	1,525	1,324
Funds transfer	328	395
Customer account charges	281	277
Others	7	24
	<u>2,141</u>	<u>2,020</u>

8. Dealing and exchange profit

Dealing and exchange profit relates to foreign exchange income derived from customer facilitation, including transactions on behalf of the UBN, the revaluation of assets and liabilities denominated in currencies other than the US Dollar and the profit / (loss) from the sale of securities.

	2016	2015
	US\$'000	US\$'000
Loss on Available-for-sale assets	(90)	-
Foreign exchange	751	489
	<u>661</u>	<u>489</u>

9. Other operating expense

	2016	2015
	US\$'000	US\$'000
Other operating charges and brokerage	(77)	(77)
	<u>(77)</u>	<u>(77)</u>

10. Administrative expenses

	2016	2015
	US\$'000	US\$'000
Wages and salaries, including directors	(4,453)	(4,623)
Social security costs	(498)	(537)
Pension costs	(393)	(400)
Other staff costs	(596)	(463)
Total staff costs	<u>(5,940)</u>	<u>(6,023)</u>
Other recurring administrative expenses	(2,865)	(2,760)
	<u>(8,805)</u>	<u>(8,783)</u>

Other administrative expenses are incurred in the ordinary course of the Bank's business and do not include any non-recurring items.

	2016	2015
	No.	No.
Average number of employees, including executive directors:		
Banking	21	21
Operations	22	21
Administration	4	4
	<u>47</u>	<u>46</u>

11. Pension costs

The Bank makes contributions to the personal pension funds of employees under Group Personal Pension arrangements. During the year to 31st December 2016, the Bank made contributions totalling US\$392,999 (2015 - US\$399,636).

Contributions accrued at the reporting date amounted to US\$0 (2015 – US\$2,536). There were no outstanding pre-paid contributions at the reporting date.

12. Directors' emoluments

	2016	2015
	US\$'000	US\$'000
Executive directors' emoluments	(463)	(477)
Non-executive directors' fees	(151)	(120)
	<u>(614)</u>	<u>(597)</u>

The emoluments of the highest paid director, excluding pension contributions, were US\$216,525 (2015 – US\$298,490). Pension contributions were made during the year amounting to US\$595 (2015 – US\$3,772). US\$45,473 of benefits in kind were paid during the year (2015 – US\$nil).

Retirement benefits are accruing to one director under Group Personal Pension arrangements (see Note 11) and another director under the Union Bank of Nigeria Plc Staff Pension Fund, a defined benefit scheme.

13. Profit / (Loss) before tax

	2016	2015
	US\$'000	US\$'000
Profit is stated after charging:		
Amounts payable to the Auditor and its associates pursuant to legislation in respect of:		
Statutory Audit of the financial statements	(179)	(119)
Other services relating to taxation	(14)	(10)
Rental of premises held under an operating lease	(356)	(234)
Other operating lease and similar rentals	<u>(92)</u>	<u>(101)</u>

14. Taxation

Tax on profit on activities in the statement of comprehensive income:

(a) Analysis of tax charge on activities

	2016	2015
	US\$'000	US\$'000
Current tax:		
United Kingdom corporation tax based on the (profit) / loss for the year	(67)	(210)
Adjustment in respect of prior year	(3)	1
Exchange differences	29	6
Total current tax	(41)	(205)
Deferred tax:		
Timing differences, origination and reversal	(137)	101
Prior year deferred tax adjustment	-	2
Change in tax rate	(8)	-
Total deferred tax	(145)	103
Tax (charge) / credit on profit	(186)	(102)

14. Taxation (continued)

(b) Reconciliation of the total tax charge

	2016	2015
	US\$'000	US\$'000
Profit / (Loss) on activities before tax	685	959
Tax at 20% (2015 – 20.25%) thereon	(137)	(91)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(78)	(17)
Exchange differences	29	6
Difference on standard tax rate	(2)	1
Adjustments in respect of prior year	(3)	(1)
Income not taxable for tax purpose	5	
Tax (charge) / credit	(186)	(102)

Current tax of \$446,000 has been recognised in the statement of other comprehensive income in the year.

The UK corporation tax rate is 20% effective from 1st April 2016.

(c) Analysis of deferred tax asset

The following is an analysis of the deferred tax assets recognised by the Bank:

	2016	2015
	US\$'000	US\$'000
Brought forward	152	49
Depreciation in excess of capital allowances	(145)	(16)
Short term timing differences	-	119
	7	152

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 21% to 20% (effective 1 April 2016). This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on the rate of 20% substantively enacted at the reporting date. The deferred tax movements have been recognised in the income statement.

15. Financial assets and liabilities

The table below sets out the Bank's classification of each class of financial asset and liability as at 31st December 2016:

US\$'000	Note	Held at fair value	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16	-		8,825	-	8,825
Financial assets - derivatives		34		-	-	34
Financial assets available-for-sale	17	37,532		-	-	37,532
Financial assets held to maturity			2,085			2,085
Loans and advances to banks	19	-		330,940	-	330,940
Loans and advances to customers	20	-		64,182	-	64,182
Deposits by banks	23	-		-	282,022	282,022
Customer accounts	24	-		-	85,554	85,554
Financial liabilities - derivatives		34		-	-	34
Other liabilities	26	-		-	1,597	1,597

US\$'000	Note	Held at fair value	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16		-	7,106	-	7,106
Financial assets - derivatives			-	-	-	-
Financial assets available-for-sale	17	29,683	-	-	-	29,683
Loans and advances to banks	18			201,735	-	201,735
Loans and advances to customers	19		-	57,992	-	57,992
Deposits by banks	23			-	161,643	161,643
Customer accounts	24			-	62,437	62,437
Financial liabilities - derivatives				-	-	-
Other liabilities	25			-	1,684	1,684

16. Cash at bank and in hand

	2016	2015
	US\$'000	US\$'000
Cash	85	154
Short term placements with other banks	8,740	6,952
	8,825	7,106

Cash is classified as a level 1 instrument.

17. Financial assets available-for-sale

	2016	2015
	US\$'000	US\$'000
Financial assets available-for-sale at fair value		
Treasury bills	30,631	22,153
Government bonds	6,901	5,522
Bank bonds	-	2,008
	37,532	29,683
Interest included in above		
Government bonds	113	113
Maturity		
- 3 months or less	14,984	3,684
- 1 year or less but over 3 months	15,647	18,469
- 5 years or less but over 1 year	-	2,008
- Over 5 years	6,901	5,522
	37,532	29,683

All amounts included above relate to interest on treasury bills and bonds.

The Bank measures fair values using the fair value hierarchy that reflects the significance of inputs used in making the measurements. The financial assets of the Bank fall within the category of Level 1 where valuation is based upon quoted prices in an active market for the same or identical instrument. Unrealised Profit of US\$1,099,102 (2015 – Unrealised loss of US\$(1,318,100) have been recognised in the Statement of Comprehensive Income. Financial assets available-for-sale purchased and sold amounted to US\$40,996,000 (2015 - US\$42,734,000) and US\$33,105,000 (2015 – US\$32,089,000) respectively

18. Financial assets held-to-maturity

	2016 US\$'000	2015 US\$'000
Financial assets held-to-maturity		
Bank bonds	2,085	-
	2,085	-
Interest included in above		
Bank bonds	44	-
Maturity		
- 3 months or less	-	-
- 1 year or less but over 3 months	-	-
- 5 years or less but over 1 year	2,085	-
- Over 5 years	-	-
	2,085	-

The Bank holds level 1 held-to-maturity bonds at amortised cost. These are tested for impairment and as at 31st December 2016 no provisions were made in respect of impairment

19. Loans and advances to banks

The following table shows total bank loans

	2016			2015		
	Gross amount	Impairment Allowance	Net amount	Gross amount	Impairment allowance	Net amount
Bank loans	331,269	(329)	330,940	201,825	(90)	201,735
	331,269	(329)	330,940	201,825	(90)	201,735

The fair value of the cash collateral held in respect of the loans and advances to banks at 31st December 2016 is US\$2,963,316 (2015 - US\$11,632,778). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US\$Nil (2015 – US\$13,868,000) relates to loans and advances to banks that are past due, but not impaired

	2016 US\$'000	2015 US\$'000
Up to 1 month	1,160	13,851
1 to 3 months	8,505	17
	9,665	13,868

19. Loans and advances to banks (Continued)

The following table shows the remaining maturity of the loans and advances to banks:

	2016 US\$'000			2015 US\$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	91		91	93	-	93
Remaining maturity:						
- 3 months or less excluding above	330,849	329	331,178	201,732	-	201,732
- 1 year or less but over 3 months	-	-	-	-	-	-
Less: Allowances for impairment (note 20)		(329)	(329)	(90)	-	(90)-
	331,940	0	330,940	201,735	-	201,735

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US\$91,000 (2015 - US\$93,000).

20. Loans and advances to customers

	2016 US\$'000			2015 US\$'000		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Commercial loans & advances	28,446	(301)	28,145	15,918	(9)	15,909
Personal loans & advances	3,587	(17)	3,570	8,301	(21)	8,280
Syndicated loans	32,759	(292)	32,467	33,931	(128)	33,803
	64,792	(610)	64,182	58,150	(158)	57,992

The fair value of the collateral held in respect of the loans and advances to customers is US\$63,454,840 as at 31st December 2016 (2015 – US\$57,610,000). This collateral can be used in the event of default by the borrower. No interest earned on impaired assets has been credited to the statement of comprehensive income during the year (2015 – US\$nil). Out of the total collateral, US\$nil is for impaired loans and advances to customers (2015 – US\$nil) and US\$nil (2015 – US\$nil) is for loans and advances to customers that are past due, but not impaired.

20. Loans and advances to customers (Continued)

The following table shows the remaining maturity of the loans and advances to customers:

	2016 US\$'000			2015 US\$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	23,841	53	23,894	6,185	-	6,185
Remaining maturity:						
- 3 months or less excluding above	66		66	4,728		4,728
- 1 year or less but over 3 months	134		134	61		61
- 5 years or less but over 1 year	27,469		27,469	33,113		33,113
- Over 5 years	13,229		13,229	14,063		14,063
Less: Allowances for impairment (note 21)	(557)	(53)	(610)	(158)	-	(158)
	64,182	-	64,182	57,992	-	57,992

Of the US\$610,000 impairment provision (2015 – US\$158,000), US\$557,000 represents the collective impairment provision (2015 – US\$158,000).

21. Net impairment loss for loans and advances to customers & banks

	2016 US\$'000	2015 US\$'000
At beginning of the year	(248)	(1,174)
Write back to statement of comprehensive income	-	-
Charge to statement of comprehensive income	(702)	(44)
Exchange differences	11	13
Amounts written off against historic provisions	0	957
At the end of the year	(939)	(248)
Loans and advances to banks	(329)	(90)
Loans and advances to customers	(610)	(158)
	(939)	(248)

During the year, the Bank has had defaults on loans and advances to customers amounting to US\$382,000 (2015 - US\$nil). These were fully provided during the year.

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US\$nil (2015 - US\$nil).

22. Property and equipment

US\$'000	2016			Total
	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	
Cost:				
At beginning of the year	1,050	1,095	99	2,244
Additions	276	183	-	459
Assets disposed off	(1,050)	(607)	(99)	(1,756)
At end of the year	276	671	-	947
Depreciation:				
At beginning of the year	(1,050)	(741)	(99)	(1,890)
Charge for the year	(10)	(108)	-	(118)
Disposals	1,050	607	99	1,756
At end of the year	(10)	(242)	-	(252)
Net book value at 31st December 2016	266	429	-	695

US\$'000	2015			Total
	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	
Cost:				
At beginning of the year	1,042	1,063	99	2,204
Additions	8	32	-	40
At end of the year	1,050	1,095	99	2,244
Depreciation:				
At beginning of the year	(960)	(641)	(99)	(1,700)
Charge for the year	(90)	(100)	-	(190)
At end of the year	(1,050)	(741)	(99)	(1,890)
Net book value at 31st December 2015	-	355	-	355

23. Intangible assets

	2016 Software US\$'000	2015 Software US\$'000
Cost:		
At beginning of the year	5,450	4,634
Additions	163	816
Asset disposed off	(2,312)	-
At end of the year	3,301	5,450
Amortisation:		
At beginning of the year	(3,288)	(2,747)
Disposals	2,312	
Charge for the year	(637)	(541)
At end of the year	(1,613)	(3,288)
Net book value at 31st December	1,688	2,161

24. Other Assets

	2016 US\$'000	2015 US\$'000
Within twelve months:		
Fees and Commissions receivable	106	154
Other receivables	585	249
More than twelve months:		
Rent and other security deposits	474	380
	1,165	783

25. Deposits by banks

	2016 US\$'000	2015 US\$'000
Repayable on demand	173,377	43,915
Remaining maturity:		
- 3 months or less excluding above	103,910	110,634
-1 year or less but over 3 months	4,735	7,094
	282,022	161,643

Deposits by banks include amounts totalling US\$21,590,000 (2015 – US\$23,676,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

26. Customer accounts

	2016 US\$'000	2015 US\$'000
Repayable on demand	70,878	37,080
Remaining maturity:		
- 3 months or less excluding above	4,242	11,807
- 1 year or less but over 3 months	9,993	13,215
- 5 years or less but over 1 year	440	336
	85,554	62,437

Customer accounts include amounts totalling US\$1,055,715 (2015 – US\$2,392,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

27. Other liabilities

	2016 US\$'000	2015 US\$'000
Within twelve months:		
Taxation and social security	177	195
Accounts payable	881	769
More than twelve months:		
Customers' unclaimed balances	716	915
	1,774	1,879

28. Accruals and deferred income

	2016 US\$'000	2015 US\$'000
Accruals	2,230	463
Deferred income	539	670
	2,769	1,133

29. Called up share capital

	2016 US\$'000	2015 US\$'000
<i>Authorised, Allotted, called up and fully paid</i>		
50,000 deferred shares of £1 each	90	90
60,000,000 ordinary shares of US\$1 each	60,000	60,000
	60,090	60,090

30. Related party transactions

During the year, the Bank undertook the following arm's length transactions with Union Bank of Nigeria Plc and its subsidiaries (the UBN Group) in the normal course of business. These include loans and deposits and foreign currency transactions and the associated interest income and expenses. Loans and advances to banks are cash secured to a maximum of US\$2.8m (2015 - US\$10m). Balances and related income and expense included in these financial statements in respect of the transactions with UBN Group are as follows:

US\$'000	2016	2015
	Closing balance	Closing balance
<i>Holding company</i>		
<i>Assets</i>		
Cash at bank and in hand	0.2	2
Loans and advances to banks	17,198	24,813
<i>Liabilities</i>		
Deposits by banks	26,705	25,317
<i>Income – interest</i>		
From holding company	822	966
<i>Expense - interest</i>		
To holding company	34	72
<i>Fellow subsidiaries</i>		
<i>Liabilities</i>		
Deposits by banks	-	-
Customer accounts	-	-
<i>Income</i>		
From fellow subsidiaries	-	-

At 31st December 2016 loans made to two (2015 – one) executive directors of the Bank during the year, on terms generally available to staff, remained outstanding to the amount of US\$44,158 (2015 – US\$27,835). This balance is included within note 20. More information regarding key management compensation is included within note 12

31. Financial risk management

(a) Risk management

The Bank holds and issues financial instruments for the purposes of:

- earning interest margins, fees and commission;
- financing its operations; and
- managing the interest rate and currency risks inherent in its operations.

The Bank does not actively trade in financial instruments and, therefore, does not have a trading book. Its operations are financed from a mixture of equity and deposits. Deposits are raised primarily in US dollars and to a lesser extent sterling and euros at both fixed and variable rates and lending is similarly distributed. Longer term lending is partly financed by capital but is otherwise generally matched to deposits both in terms of maturity and re-pricing.

The Bank's functional currency is the US dollar. It does not actively speculate in foreign currencies and the majority of its foreign exchange transactions are carried out in the spot market for customer facilitation purposes. Forward foreign exchange transactions are undertaken for the purposes of hedging the US\$ value of the Bank's estimated GBP sterling expenses.

The main risks arising from the Bank's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management has developed policies for managing each of these risks, which are reviewed and approved by the Board on an annual basis. Significant features of these policies are summarised below.

(b) Credit risk

Credit risk is the risk that a customer or counterparty is unable or unwilling to meet a commitment that it has entered into with the Bank and arises mainly from lending and trade finance activities. To mitigate this risk, the Bank has adopted policies that minimise significant unsecured credit exposures other than to financial institutions and to avoid concentrations of unsecured credit risk to counterparty groups, industry sectors and countries, which do not carry investment grade credit ratings. All credit exposures are subject to continuous assessment by the Assets & Liabilities Committee and the Risk & General Purposes Committee of the Board. It is the policy of the Bank to make adequate impairment allowances where real or probable problems in asset recovery are identified and to make adequate collective impairment allowances for those as yet unidentified credit problems that are inherent in any portfolio of banking assets. Details of impairment allowances are summarised in Notes 19 to 21.

(i) Age analysis of past due but not impaired assets

Impairment assessment takes into account known recoveries after the reporting date in respect of assets past due at that date as well as collateral held in the form of cash and property and chattel mortgages. The table below shows the age analysis of past due but not impaired assets together with collateral held.

	2016 US\$'000			2015 US\$'000		
	Gross amount	Collateral	Net	Gross amount	Collateral	Net
Within 3 months	-	-	-	13,851	13,851	-
Over 3 months	-	-	-	17	17	-
	-	-	-	13,868	13,868	-

(ii) Credit exposure by sector

	2016 US\$'000	2015 US\$'000
Banks	341,766	210,699
Government	37,532	27,675
Corporate	58,048	49,709
Individuals	6,135	8,280
	443,481	296,363

31. Financial risk management (continued)

(iii) *Credit exposure by location*

	2016	2015
	US\$'000	US\$'000
Europe	246,960	143,257
Africa	86,118	91,560
Others (mainly Canada, India, Japan and Australia)	110,403	61,546
	443,481	296,363

The above sector and geographical analyses only include cash at bank and in hand, loans and advances to banks and to customers, financial assets available-for-sale, financial assets held to maturity and financial assets - derivatives. The Bank has established procedures to manage country risk. During the year there continued to be periods of significant volatility in the emerging bond markets which are closely monitored and valued daily. The Bank also carries out country credit reviews of emerging markets and thereby assesses any potential creditworthiness issues.

31. Financial risk management (continued)

(iv) Credit exposure by Credit Quality Step

The Bank extends credit facilities to quality rated and unrated counterparties. An analysis of the credit quality of the maximum credit exposure based on ratings provided by Moody and Fitch rating agencies where applicable grouped by Credit Quality Steps (CQS) is as follows:

CQS	Assets	2016	2015
		US\$'000s	US\$'000s
	Cash and Cash Equivalent		
1	Rated AAA to AA-	38	80
2	Rated to A+ to A-	5,070	3,176
3	Rated BBB+ to BBB-	3,631	3,694
4	Rated BB+ to BB-	-	-
5	Rated B+ to B-	-	2
6	Unrated	-	-
		8,739	6,952
	Financial assets derivatives		
1	Rated AAA to AA-	-	-
	Loans and Advances to Banks		
1	Rated AAA to AA-	-	1
2	Rated A+ to A-	210,187	30,802
3	Rated BBB+ to BBB-	103,481	80,013
4	Rated BB+ to BB-	-	-
5	Rated B+ to B-	17,272	50,910
6	Unrated	-	40,013
		330,940	201,735
	Loans and Advances to Customers		
	Unrated neither past due nor impaired	64,182	57,992
	Unrated past due but not impaired	-	-
		61,182	57,992
	Financial Assets Available-for-sale		
1	Related AAA to AA-	30,632	22,153
5	Related B+ to B-	6,900	7,530
6	Unrated	-	-
		37,532	29,683
	Financial Assets Held-to-Maturity		
1	Related B+ to B-	2,085	-
		2,085	-

31. Financial risk management (continued)

As at 31st December 2016, the Bank's maximum exposure to credit is US\$464m (2015 – US\$317m), of which US\$382,000 (2015 – US\$ 0.90m) was deemed to be impaired or doubtful. These amounts include all financial assets and undrawn irrevocable loan and trade commitments. The Bank held collateral totalling US\$85m (2015 - US\$82m) against credit exposures of US\$101m (2015 - US\$83.3m) of which US\$21.8m (2015 US\$22m) was in the form of cash. Total trade related exposure included above was US\$32.7m (2015 – US\$34.5m) against which the Bank held cash collateral of US\$21.7m (2015 – US\$22m) included above.

Loans are considered forborne when terms and conditions of a loan are modified due a borrower being unable to meet current terms and conditions due to factors indicating financial difficulty. Examples may include reducing interest rates, delaying payment of principal and amending or not enforcing covenants.

Lending subject to forbearance, net of credit risk mitigation, as at 31st December 2016 is US\$12.5m (2015 – nil).

(c) Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its commitments to customers and counterparties as they fall due as a result of mismatch in cash flows arising from liabilities and assets. To mitigate this risk, the liquidity structure of assets, liabilities and commitments is managed so that resultant cash flows are appropriately balanced, within approved limits and mismatch parameters set by the PRA, to ensure that all obligations can be met when due. Generally, it is the policy of the Bank to match the currency and maturity of all liabilities and assets as far as practicable and to maintain a store of liquidity in the form of readily realisable debt securities, including government treasury bills. Also, where possible, the Bank enters into deposit netting agreements with those banks with which it makes placements in order to retain access to funds at short notice.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities. All amounts within deposits by banks and customer accounts include both principal and future interest payments:

US\$'000	2016					Total
	Time band					
	Less than 3 Months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	
Liabilities						
Deposits by banks	277,287	-	-	4,735	-	282,022
Customer accounts	75,121	5,209	4,784	440	-	85,554
Financial liabilities – derivatives	-	-	-	-	-	-
Other liabilities	4,543	-	-	-	-	4,543
Off statement of financial position – undrawn loan commitments	-	-	-	-	-	-
Total liabilities	356,951	5,209	4,784	5,175	-	372,119

31. Financial risk management (continued)

US\$'000	2015					Total
	Less than 3 Months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	
<i>Liabilities</i>						
Deposits by banks	154,549	-	-	7,094	-	161,643
Customer accounts	48,886	7,309	5,906	336	-	62,437
Financial liabilities – derivatives	-	-	-	-	-	-
Other liabilities	3,012	-	-	-	-	3,012
Off statement of financial position – undrawn loan commitments	7	-	-	-	-	7
Total liabilities	206,454	7,309	5,906	7,430	-	227,099

(d) Interest rate risk

Interest rate risk is the risk of loss arising from differences in the re-pricing dates of liabilities and assets. The Bank's policy is to limit re-pricing risk by setting re-pricing gap limits and by regularly reviewing its re-pricing risk by reference to assumed adverse movements in interest rates to ensure that the risk of loss remains within acceptable limits. Therefore, the Bank's treasury and lending functions seek to price assets at floating rates or at fixed rates for fixed periods at appropriate roll-over dates that allow for matching with customer and market liabilities.

The table below summarises the Bank's assets and liabilities by re-pricing time band and demonstrates the extent to which these are matched, save in respect of equity, which are presently invested short term.

(i) Interest rate gap analysis

Assets and liabilities are analysed in time bands according to the earlier of the period to the next interest rate re-pricing and maturity date as follows:

US\$'000	2016						Total
	Less than 3 Months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Non- interest bearing	
Total assets	378,316	4,562	11,309	29,253	20,045	4,335	447,820
Total liabilities and capital	352,441	5,209	4,784	5,176	-	80,210	(447,820)
Interest rate sensitivity gap	25,875	(647)	6,524	24,078	20,045	(75,382)	-
Cumulative gap	25,875	25,228	31,752	55,830	75,382		

US\$'000	2015						Total
	Less than 3 Months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Non- interest bearing	
Total assets	223,264	2	18,491	35,043	19,524	4,367	300,691
Total liabilities and capital	(203,435)	(7,309)	(5,906)	(7,430)	-	(76,611)	(300,691)
Interest rate sensitivity gap	19,829	(7,307)	12,585	27,613	19,524	(72,244)	-
Cumulative gap	19,829	12,522	25,107	52,720	72,244		

31. Financial risk management (continued)

(ii) *Interest rate sensitivity analysis*

Interest rate sensitivity analysis has been performed on the net cash flow interest rate risk exposures as at the reporting dates. A range of possible upward/downward movements in Libor/Euribor of 100bps has been assumed for the different currencies which the directors consider reasonable given the current market conditions and the nature of matched funding within the exposures. If all other variables are held constant, the tables below present the likely impact on the Bank's statement of comprehensive income:

US\$'000	2016				Total
	Currencies				
	US dollar	£ Sterling	Euro	Other	
Total Financial assets	415,030	24,514	3,494	442	443,479
Less: fixed rate assets	(115,598)	(1,461)	-	-	(117,059)
Total Variable rate assets	299,434	23,053	3,494	442	326,420
Total Financial liabilities	338,617	24,575	3,961	422	367,031
Less: fixed rate liabilities	(109,070)	6,696	-	-	(102,375)
Total Variable rate liabilities	229,547	31,270	3,961	422	265,200
Net cash flow interest Rate Risk exposure	69,887	(8,218)	(467)	20	61,222
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	699	(82)	(5)	-	612
Tax charge-20%	(140)	16	1	-	(122)
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	559	(66)	-4	-	490
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	(699)	82	5	-	(612)
Tax charge-21.5%	140	(16)	-1	-	123
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	(559)	66	4	-	(490)

US\$'000	2015				Total
	Currencies				
	US dollar	£ Sterling	Euro	Other	
Total Financial assets	259,184	33,302	3,671	203	296,360
Less: fixed rate assets	(114,649)	(1,756)	-	-	(116,405)
Total Variable rate assets	144,535	31,546	3,671	203	179,955
Total Financial liabilities	187,448	32,713	3,720	199	224,080
Less: fixed rate liabilities	-	(11,237)	-	-	(11,237)
Total Variable rate liabilities	187,448	21,476	3,720	199	212,843
Net cash flow interest Rate Risk exposure	(42,913)	10,070	(49)	4	32,888
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	(429)	101	-	-	(329)
Tax charge-21.25%	87	(20)	-	-	67
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	(342)	80	-	-	(262)
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	429	(101)	-	-	329
Tax charge-21.5%	(87)	20	-	-	(67)
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	342	(80)	-	-	262

(e) Currency risk

Limited foreign exchange exposure arises from the facilitation of customer orders and from profits and losses in currencies other than the functional currency. The Bank does not actively speculate in foreign currencies and does not deal in forward foreign exchange, foreign exchange options, futures or options thereon except to the limited extent necessary to hedge cash flows arising from its own and its customers' activities. Foreign exchange exposures are subject to limits as to positions in individual currencies and as to the 'overall net open position'.

Details of the Bank's assets and liabilities by currency of denomination are summarised in US dollars in table (i) below so as to demonstrate the extent to which foreign currency exposures are matched.

(i) Net currency position analysis

Assets and liabilities, expressed in US\$ but analysed according to the currency in which they were denominated, after taking into account the accounting policy for foreign currencies as set out in Note 3(c), were as follows:

US\$'000	2016				Total
	Currencies				
	US dollar	£ Sterling	Euro	Other	
Total assets	415,890	27,945	3,501	483	447,820
Total liabilities and capital	(417,310)	(26,121)	(3,967)	(422)	(447,820)
Currency position	(1,420)	1,825	(466)	61	-

US\$'000	2015				Total
	Currencies				
	US dollar	£ Sterling	Euro	Other	
Total assets	260,121	36,580	3,734	204	300,691
Total liabilities and capital	(262,406)	(34,316)	(3,722)	(196)	(300,691)
Currency position	(2,285)	2,264	12	9	-

31. Financial risk management (continued)

(ii) Foreign currency sensitivity analysis

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in the Bank's financial assets and financial liabilities at the reporting dates. The sensitivity analysis provides an indication of the impact on the Bank's statement of comprehensive income of reasonably possible changes in the currency exposures embedded within the functional currency environment in which the Bank operates. Reasonably possible changes are based on an analysis of historical currency volatility, together with any relevant assumptions regarding near-term future volatility.

The Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Bank's functional currency, given the control exercised over the Bank's currency positions. If all other variables are held constant, the tables below present the impacts on the Bank's statement of comprehensive income if these currency movements had occurred.

2016			
US\$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	1,825	(466)	61
Impact on profit and equity of 5% increase in FC:USD rate	91	(23)	3
Impact on profit and equity of 5% decrease in FC:USD rate	(91)	23	(3)
2015			
US\$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	2,264	13	8
Impact on profit and equity of 5% increase in FC:USD rate	113	1	-
Impact on profit and equity of 5% decrease in FC:USD rate	(113)	(1)	-

31. Financial risk management (continued)

(f) Capital adequacy

The Bank is subject to minimum capital requirements imposed by the PRA, following guidelines developed by the Basel Committee on Banking Supervision and implemented in the UK via European Union Directives. The revised framework, known as CRDIV, includes a more risk-sensitive methodology for the calculation of capital requirements for Credit Risk as well as a capital requirement for Operational Risk.

Minimum capital requirements under the PRA's rules are calculated by summing the capital requirements for Credit Risk, Operational Risk, Market Risk and Counterparty Credit Risk. For the purposes of computing these requirements the Bank has elected to adopt the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk. Market Risk is determined using the standard Position Risk Requirement (PRR) rules and Counterparty Credit Risk (CCR) is calculated using the CCR mark to market method. The Market Risk and Counterparty Credit Risk components of the capital requirement are small because the Bank has no trading book.

The minimum capital requirement for Credit Risk under Pillar 1 of CRDIV is calculated by multiplying risk weighted assets by 8%, the internationally agreed minimum ratio. Risk weighted assets are determined by applying risk weights, which vary according to the credit rating of the obligor, to the Bank's assets, including off statement of financial position engagements that are subject also to given credit risk conversion factors. Under Pillar 2 the Bank undertakes an assessment (the ICAAP process) of the amount of capital that is required to support its activities using the Pillar 1 plus approach. This assessment has identified a number of risks that either do not attract capital under Pillar 1 or where the Pillar 1 requirement does not fully capture the risks faced by the Bank. Additional capital is set aside under Pillar 2 for these risks, which include exposure concentrations and interest rate risk in the non-trading book. The Bank's total capital requirement is then the sum of the amounts calculated under Pillar 1 and Pillar 2. Furthermore, the Bank is subject to Individual Capital Guidance (ICG) provided by the PRA whereby the Pillar 2 requirement is computed by applying a formula to the Pillar 1 requirement. This results in a Pillar 2 requirement that is somewhat higher than that determined through the ICAAP process.

The Bank calculates its capital adequacy on a daily basis by comparing the total capital requirement in accordance with the ICG to capital available to meet this requirement (Regulatory Capital). A capital buffer is also incorporated, which is based on a level of tolerance to unexpected losses that is considered and agreed by the Board as part of the ICAAP process. At 31st December 2016 and throughout the year, the Bank maintained Regulatory Capital in excess of the total capital requirement calculated in accordance with the ICG.

The following table is an analysis of those items which comprise the Regulatory Capital base for the purposes of reporting to the PRA.

	2016 US\$'000	2015 US\$'000
Statement of financial position:		
Share Capital	60,090	60,090
Profit & Loss Reserve	15,478	14,979
Less Intangibles	(1,688)	(2,161)
Available-for-sale Reserves	(186)	(1,470)
	<u>73,694</u>	<u>71,437</u>
Total Tier 1 Capital		
Tier 2 Capital - Collective impairment allowance	557	248
	-	-
Total Tier 2 Capital	<u>557</u>	<u>248</u>
Total Regulatory Capital	<u>74,252</u>	<u>71,685</u>

The Regulatory Capital shown above differs from that reported to the PRA because retained profits cannot be included until such time as the Financial Statements for the relevant period have been audited and approved.

The directors regard share capital and reserves as its capital for the capital management purposes where the objective to ensure it is sufficient to participate in lines of business and to meet Prudential Regulatory Authority's capital requirements. In order to maintain or adjust the capital structure, the Bank may issue new shares or sell assets.

31. Financial risk management (continued)

<i>(g) Lending commitments</i>	2016	2015
	US\$'000	US\$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount		7
Credit equivalent amount		5
Risk weighted amount	<u> </u>	<u> </u> 5

Under the Basel agreement, credit equivalent amounts, obtained by applying credit conversion factors, are risk weighted according to counterparty.

32. Fair values of financial instruments

Fair value measurements

The information set out below provides information about how the Bank determines fair values of various financial assets and financial liabilities. The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – fair value measurements derived from unobservable inputs to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

US\$'000

	2016			Total
	Level 1	Level 2	Level 3	
Financial assets available-for-sale	37,532	-	-	37,532
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	37,532	-	-	37,532

US\$'000

	2015			Total
	Level 1	Level 2	Level 3	
Financial assets available-for-sale	29,683	-	-	29,683
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	29,683	-	-	29,683

The Bank holds held-to-maturity bonds at amortised cost. These are level 1 assets and the fair value of held-to-maturity at 31st December 2016 is US\$2,056,426 (2015 - Nil).

32. Fair values of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value and compares them to carrying value.

	2016		2015	
	Carrying Value US\$'000	Fair Value US\$'000	Carrying Value US\$'000	Fair Value US\$'000
Assets				
Cash at bank and in hand	8,740	8,740	7,106	7,106
Loans and advances to banks	330,939	330,939	201,735	201,735
Loans and advances to customers	64,182	64,347	57,992	57,992
Liabilities				
Deposits by banks	282,022	284,497	161,643	161,643
Customer accounts	85,554	85,900	62,437	62,437
Other liabilities	4,543	4,543	3,012	3,012

The fair value of financial instruments is the estimated price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. Where quoted market prices are not available, fair value is determined using pricing models which use a mathematical methodology based on accepted financial theories, depending on the product type and its components.

Cash at bank and in hand consist of demand deposits with the Central Bank of Nigeria together with cash in tills. Accordingly, the carrying amount of these balances is deemed an appropriate approximation of the fair value.

Both loans and advances to banks and customers noted above are level 3 financial assets. Loans and advances to banks comprise secured loans, short-term placements with banks including collateral and unsettled financial transactions. The secured loans have been valued as above and using the valuation technique described below. The carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are very short-term in duration. This includes intercompany balances.

The fair valuation of loans and advances to customers is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour. These comprise secured loans, unsecured loans and corporate loans.

The fair values of mortgage portfolios have been estimated by comparing existing contractual interest rates over the weighted average lives with an estimation of new business interest rates based on competitor market information. Adjustments have also been made to reduce:

- the weighted average lives to reflect the uncertainty inherent in the value that could be achieved, given that the borrower could re-finance at any time;
- discount the value of performing loans with a higher loan-to-value ratio to reflect the higher risk of this part of the portfolio and the fact that this is outside the Company's normal underwriting standards; and
- discount the collateral value of non-performing loans with a higher loan-to-value ratio to reflect the significantly higher possibility of re-possession and the lower value that is achieved on repossession and to take cognisance of rates available in the market for loans in arrears but with a lower loan-to-value ratio.

Unsecured loans are overdrafts and personal loans. The weighted average lives of these portfolios are short, and the business was written relatively recently. As a result, contractual interest rates approximate new business interest rates, and therefore no mark-to-market surplus or deficit has been recorded with respect to the performing book and discounts applied to the non-performing book.

32. Fair values of financial instruments (continued)

The fair values of corporate loans have been estimated by comparing existing margins with an estimation of new business rates for similar loans in terms of the borrower's segment, maturity and structure. Provisions are considered appropriate for the book that is not impaired. A discount has been applied to impaired loans as although exits have generally been achieved at carrying value, this does not reflect the discount a purchaser would require.

All financial liabilities are level 3 liabilities. The majority of deposit by banks, customer accounts and other liabilities are payable on demand and therefore can be deemed short-term in nature with the fair value equal to the carrying value. Certain of the customer accounts are at a fixed rate until maturity. The deficit/surplus of fair value over carrying value of these liabilities has been estimated by reference to the market rates available at the reporting date for similar customer accounts of similar maturities. The fair value of such customer accounts has been estimated using the valuation technique described below.

In the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rates curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

33. Contingent liabilities and commitments

(a) Contingent liabilities

	2016	2015
	US\$'000	US\$'000
Letters of credit	19,731	9,733
Guarantees given to third parties	-	1,020
Undrawn facilities	-	7
	<u>19,731</u>	<u>10,760</u>

(b) Operating leases

The Company had annual commitments in respect of operating leases for land and buildings and equipment used in the business as follows.

	2016	2015
	US\$'000	US\$'000
Leases which expire:		
Within one year	62	64
Within two to five years	31	37
	<u>93</u>	<u>101</u>

(c) Capital commitments

The Board have authorised capital expenditure relating to refurbishment of the Bank's premises and enhancements to information technology systems of up to US\$1.9m(2015- \$3.3m). At 31st December 2016, amounts contracted for in respect of intangible assets, but not yet expended amounted to US\$1.2m (2015- \$0.14m).

34. Dividends

No dividend payment was made during the year ended 31st December 2016 in respect of the year ended 31st December 2015 (made during the year ended 31st December 2015 in respect of the year ended 31st December 2014 – US\$nil).

The directors do not propose a final dividend in respect of year ended 31st December 2016 (2015 – US\$ nil).

35. Ultimate parent company and controlling party

The Bank is a directly wholly-owned subsidiary of its parent and ultimate holding undertaking, Union Bank of Nigeria Plc, a company incorporated in Nigeria and listed on the Nigerian Stock Exchange. The smallest and largest group in which the Bank is consolidated is Union Bank of Nigeria Plc. The directors do not consider there to be an ultimate controlling party.

Copies of the Group financial statements of Union Bank of Nigeria Plc can be obtained from:

Corporate Affairs Department

Union Bank of Nigeria Plc

Stallion Plaza

36, Marina, Lagos

Nigeria

36. Subsequent events

There are no material adjusting or non-adjusting events after the reporting date.