unionbank

UNION BANK UK plc

Annual Report & Financial Statements 31st December 2015

A member of the
Union Bank of Nigeria Plc
Financial Group






Our Mission Statement

To create partnerships for wealth creation through professional, innovative and personal customer care

Financial Highlights

A member of the
Union Bank of Nigeria Plc
Financial Group

Thousands of US dollars
(unless otherwise stated)

	2015	2014	2013	2012	2011
Reporting period ended	31st December	31st December	31st December	31st December	31st December
Total Income	10,593	10,605	11,413	13,310	14,923
Profit / (Loss) before tax	958	1,483	(571)	2,924	5,374
Profit / (Loss) after tax	856	1,161	(455)	2,160	3,943
Dividends declared †	-	-	-	945	-
Shareholders' Funds #	73,599	74,061	72,647	73,856	72,131
Total Assets	300,691	431,568	489,215	505,115	932,836
Capital / Risk Weighted Assets	49%	74%	39%	43%	21%
Return on Equity	1.3%	2.0%	(0.8%)	4.0%	7.7%
Cost Income Ratio	90%	87%	85%	73%	64%
Dollar / sterling exchange rate					
Year end	$1.48	$1.56	$1.65	$1.62	$1.55
Average	$1.53	$1.66	$1.57	$1.59	$1.61

† 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).

Union Bank serves you better

Chairman's Statement

I am pleased to present the 2015 financials for Union Bank UK (UBUK) and prospects for 2016.

2015 ended on a high note with the successful launch of a new brand identity for the Union Bank Group. The launch of the new identity ushers the Group into a new phase of its transformation as it signals to the market that we are ready and well positioned to compete with our peers in the industry. We made significant progress in executing our strategy, further building on achievements in the previous year. Specifically, we successfully migrated to a new core banking platform and upgraded our data centre which are now best in class, significantly improving service levels across all our customer touch points. With these achievements, we remain confident in our ambition of becoming a highly respected provider of quality banking services and living up to our proposition of a *simpler, smarter bank.*

2015 Economic Review - Nigeria and UK

In 2015, UK economic growth rate declined to 2.2% from 2.6% in 2014 due to lagging manufacturing and construction sectors – the country's dominant services sector nonetheless supported growth. Fears concerning the source of growth persisted as consumers continued to accumulate household debt, exposing themselves to any increases in interest rates. Inflation hovered around 0.1% for most of the year, below the Bank of England's 2% benchmark, to the benefit of consumers who saw an increase in purchasing power. Finally, the year ended with the Bank of England retaining interest rates at 0.5% due to dwindling oil prices and the strengthening of the British pound.

In Nigeria, following heightened tension over general elections, there was a peaceful transition of power and President Muhammadu Buhari took over the reins in what proved to be a tough year. The optimism that followed the successful elections and confidence in the President's anti-corruption stance was however dampened by a volatile macroeconomic environment with global oil prices crashing from about $60 at the start of 2015 to $36 per barrel at the end of the year. This greatly affected federal government revenues and put pressure on the value of the Nigerian currency. Furthermore, Nigeria's GDP growth rate slipped to 3% in 2015 from 6.3% in 2014.

On the banking front, the Central Bank of Nigeria (CBN) continued to defend the Naira and manage the demand for foreign currency by prioritizing allocation to critical imports for real sector development. This development had some ripple effects which hampered trade growth for businesses in the country, including banks operating in Nigeria and UK. The Government also implemented the Treasury Single Account (TSA) to ensure effective management of government accounts and minimize revenue leakages. In a bid to increase liquidity and drive real sector growth, the CBN also reduced the monetary policy rate and cash reserve requirement to 11% and 20%, from 13% and 25% respectively..

UBUK – 2015 Performance

In 2015, we continued to execute our strategy in line with the overall Group's ambition. Our efforts to harness synergies with our parent company have begun yielding results, especially in the area of trade finance as we saw increased volumes and value of trade transactions. We also strengthened our talent base to support our growth aspirations, while diversifying our lending and fixed income offerings. We maintained profitability in 2015 albeit lower than the prior year due to challenging operating environment and consequently reduced business activity for our clients. Despite current operating landscape, we are committed to delivering improved value to our shareholders and customers in 2016 considering operational enhancements planned during the year and our strategic growth plan.

Chairman’s Statement
Continued

Board Changes

Effective January 1 2016, Gavin Laws who has served as an independent Non-Executive Director of UBUK since 2013, takes over as Chairman. With Adekola Ali’s tenure ending in the first quarter of 2016, Maurice Phido has been appointed Managing Director / Chief Executive Officer of UBUK. On behalf of the Board, I would like to thank Kola for his contributions during his tenure. We welcome Maurice who has worked with our parent company for over seven years and brings with him extensive corporate banking experience, which will further strengthen UBUK and enhance integration with UBN Group.

2016 Outlook

In 2016, concerns around the effect of slower growth in China (the biggest commodity importer in the world), dwindling commodity prices, strong dollar and monetary policy normalization in the United States are expected to have a knock-on effect on global economic growth, especially in emerging markets. Overall, global economic growth is projected at 3.4% from 3.1% in 2015. Advanced economies are projected to grow at 2.2% in 2016, up from 2.0% in 2015, driven by stronger economic growth in the U.S., Euro Area and Japan. On the other hand, growth in emerging market and developing economies is projected at 4.3%, up from 4%. In Sub-Saharan Africa, growth is projected at 3.8%, slightly up from 3.6% in 2015 amid low oil prices and weaker trade prospects, especially for commodity exporters. Nigeria’s economic growth is also expected to pick up slightly to 3.5% from 3% in 2015.

Despite slow down, UK remains among the fastest-growing major advanced economies. We expect the UK economy to grow steadily in 2016 as low oil prices continue to support growth by boosting consumer spending and the services industry. However, the possibility of an exit of Britain (“Brexit”) from the European Union continues to generate speculations of the ripple effects across the region.

We are cautiously optimistic about Nigeria’s economic performance in 2016. We expect that the plans of the government to diversify the economy would begin to spur the non-oil sector. The allocation of 30% of the budget to capital expenditure in the long run is expected to create an environment that is more conducive for doing business. However, the dwindling oil prices and the volatility of Nigerian Naira on the parallel market remain a challenge as banks continue to experience difficulty in accessing foreign exchange.

UBUK will continue to navigate uncertainties with unwavering commitment to executing our strategic growth plan. We will continue to capitalise on the relationship with our parent, deepening our core focus on Corporate and Commercial banking, driving synergies in trade, transaction banking and treasury, while also selectively expanding our Retail banking portfolio. We will also continue to seek opportunities in other Sub-Saharan African markets through asset-backed transactions or co-financing with established international banks and multilateral development agencies.

Our targets for 2016 are ambitious and we are confident about delivering results. With strong enablers in place across people, process and technology for the Group, we will ensure delivery of improved returns for the bank.

I look forward to 2016 with optimism and continue to count on your support and commitment to UBUK, our customers and stakeholders.

Thank you.

Emeka Emuwa
Chairman

Union Bank UK plc

Contents

Disclosures of information recommended under Basel II, Pillar 3 may be found on our website, www.unionbankuk.com

Please Note

The financial statements information contained herein conforms to IFRS for the display of financial data.

Directors & Advisers

Directors and Secretary

Emeka Emuwa

Non-executive Chairman and Group Managing Director/ Chief Executive of Union Bank of Nigeria plc

Kaonen A Ali

Managing Director/ Chief Executive

Marc X M G Biglia

Independent non-executive and Chairman of the Credit & General Purposes Committee

David J Forster

Executive Director / Chief Operating Office

Kandolo S Kasongo

Non-executive and Executive Director of Union Bank of Nigeria plc

Gavin C Laws

Independent non-executive and Chairman of the Audit Committee

David Keene

Company Secretary
P R Hartley FCA

Suzanne O Iroche

Independent non-executive and Chairman of the Establishment & Remuneration Committee

Registered Office: 14-18 Copthall Avenue, London EC2R 7BN

Directors, Advisers and Principal Officers
Continued

Advisors

Solicitors:	Hogan Lovells	Atlantic House, London EC1A 2FG
Auditors:	BDO LLP	55 Baker Street, London W1U 7EU

Principal Officers

Management Committee:	Kaonen A Ali	Managing Director/Chief Executive
	David J Forster	Executive Director/Chief Operating Officer (Acting CEO w.e.f 01/02/16)
	Roli Kushimo	Director, Institutional & Commercial Banking
	Dominiek Vangaever	Director, Risk and Compliance
	Farhood Hieydary	Associate Director, Treasury
	Janet A Ntuk	Associate Director, Corporate Resources
	Christopher C Nwabuoku	Associate Director, Internal Audit
	Martin Uzus	Associate Director, Structured Trade Finance

Strategic Report

Overview

The Bank continues to serve a retail client base sourced from the large number of Nigerian nationals resident in both the UK and Nigeria. UBUK strategy focuses on offering a one-stop trade finance service with a suite of vanilla (Letter of Credit advising, confirming, refinancing, bills discounting, invoice financing) and structured (pre-export, imports, asset-backed, collateral managed finance, contract finance and invoice discounting etc.) solutions, corporate banking and retail including current accounts, term deposits, payments, internet banking and buy to let mortgages.

Performance

The Bank's performance in 2015 reflected the challenging economic situation in its target market, producing a pre-tax profit of US$0.958m against the previous year of US$1.483m.

Interest income at US$9.4m was up on the 2014 figure of US$8.6m due primarily to higher interest rates being charged on extended facilities. Dealing and exchange profits at US$0.489m were down on the previous year figure of US$0.671m. Fee and commission income at US$2.020m was down on the previous year of US$2.425 with activity in both trade finance commissions and banking fees reflecting lower volumes in business activity. Other comprehensive income returned a negative result against the previous year's figure. This resulted from the economic conditions in the bond market during 2015 producing an unrealised mark-to-market loss of US$1.3m.

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$0.044m. Debts of US$0.957m were written off during the year against existing provisions.

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 return on risk weighted assets (RRWA). The return on assets is also monitored, but is believed to be a less relevant performance measure.

In the 12 months to 31st December 2015, the Bank's returns on equity and risk weighted assets were 1.3% (2014: 2.0%) and 49% (2014: 74%) respectively. The key indicator of efficiency monitored by the Board is the cost/income ratio which rose from 87% to 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 dramatic drop in oil prices has continued during 2015 coupled with restrictions on foreign exchange in Nigeria created uncertainty in the markets. 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 on 20 April 2016

David Forster

Acting Managing Director / Chief Executive

20th April 2016

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st December 2015. The review of the business, operations, principal risks and outlook are included in the Strategic Report on pages 9 and 10.

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 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, with the assistance of UBN, has established and maintains the management structure, policies, systems and procedures necessary to enable full compliance with the relevant 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 2015, are as follows:

Mr AC Emuwa	-	Non Executive Chairman and Group Managing Director/Chief Executive of Union Bank of Nigeria Plc
Kaonen A Ali	-	Managing Director/Chief Executive
Mr MXMG Biglia	-	Non-executive
Mr DJ Forster	-	Executive Director/Chief Operating Officer
Mr KS Kasongo	-	Non-executive
Mr GC Laws	-	Non-executive
Mrs S Iroche	-	Non-executive - appointed 23rd October 2015

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 2015 are shown on pages 18 to 52. The profit for the year after taxation amounted to US$856,000 (2014 – US$1,161,000).
No dividend was paid in respect of the year ended 31st December 2015 (2014 - US$nil). The directors do not propose the payment of a final dividend for the year (2014 – 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 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 mitigation 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 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 (ILAA) with the latest document as at 31st March 2015. 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 ILAA, which has been reviewed and approved by the Board and the Bank's Internal Auditor, indicated that as at 31st March 2015, there was a positive overall net cumulative gap within the three-month stress period. 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 2015. 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 a Capital Conservation Buffer & Countercyclical.

Capital Buffer of 2.5% of RWA between 1st January 2016 and 1st January 2019, of RWA. Also under the current Basel rules, the Bank is already required to meet a new liquidity ratio being the Liquidity Coverage Ratio (LCR) and will be required to meet another new liquidity ratio, called Net Stable Funding Ratio (NSFR) as a minimum standard from 1st January 2018.

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

Information Management

The Bank seeks to ensure that expenditure on IT and Communications remains appropriate to meet all regulatory and business needs. During the year the Bank upgraded its core FLEXCUBE banking system.

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 21 and 22 to the financial statements.

The directors have authorised capital expenditure relating to refurbishment of the Bank's premises and enhancements to information technology systems of up to US$3.3m as set out in note 31. At 31st December 2015, amounts so authorised but not yet expended amounted to US$0.14m.

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

By order of the Board on 20 april 2016

Daivd Forster
Acting Managing Director/ Chief Executive

14 - 18 Copthall Avenue
London EC2R 7BN

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, one of whom is the chairman of the Board, and three independent non-executive directors.

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.

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

Directors’ Responsibilities and Corporate Governance

Continued

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

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

We have audited the financial statements of Union Bank (UK) Plc for the year ended 31 December 2015 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 statements

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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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
20 April 2016

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 2015

	Note	Year Ended 31 December 2015 US$'000	Year Ended 31 December 2014 US$'000
Interest income	5	9,367	8,601
Interest expense	6	(1,283)	(1,092)
Net interest income		**8,084**	7,509
Fees and commission income	7	2,020	2,425
Dealing and exchange profit	8	489	671
Total income		**10,593**	10,605
Administrative expenses	10	(8,783)	(8,802)
Depreciation and amortisation	21/22	(731)	(415)
Net increase/(decrease) in provisions for impairment	20	(44)	185
Other operating expense	9	(77)	(90)
Profit / (Loss) before tax		**958**	1,483
Tax (charge) / credit	14	(102)	(322)
Profit / (Loss) for the year after tax		**856**	1,161
Other comprehensive (Expense) / income from continuing operations that maybe recycled, net of income tax		(1,318)	253
Total comprehensive income / (expense) for the year		**(462)**	1,414

The result for the year is derived entirely from continuing activities.

The notes on pages 21 to 52 form part of these financial statements

Statement of Financial Position

As at 31st December 2015

	Note	2015 US$'000	2014 US$'000
Assets			
Cash and cash equivalents	16	7,106	57,044
Loans and advances to banks	18	201,735	294,907
Loans and advances to customers	19	57,992	56,051
Financial assets available-for-sale	17	29,683	19,049
Intangible assets	22	2,161	1,887
Property and equipment	21	355	504
Deferred tax assets	14	152	49
Tax Recoverable		50	-
Financial assets - derivatives		-	36
Other assets		783	1,405
Prepayments		674	636
Total Assets		**300,691**	**431,568**
Liabilities			
Deposits by banks	23	161,643	235,670
Customer accounts	24	62,437	119,067
Financial liabilities - derivatives		-	36
Tax payable		-	84
Other liabilities	25	1,879	1,951
Accruals and deferred income	26	1,133	699
Total Liabilities		**227,092**	**357,507**
Equity			
Called up share capital	27	60,090	60,090
Available-for-sale reserves		(1,470)	(152)
Retained earnings		14,979	14,123
Equity		73,599	74.061
Total Liabilities and Equity		**300,691**	**431,568**

These financial statements were approved by the Board of Directors and authorised for issue on 20th April 2016.

Signed on behalf of the Board of Directors:

David Forster
Acting Managing Director / Chief Executive

The notes on pages 21 to 52 form part of these financial statements

Company Registration Number 4661188

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 2014	60,090	(405)	12,962	72,647
Total Comprehensive income for the year				
Change in fair value of assets classified as available-for-sale	-	318	-	318
Current tax recognised on fair value loss on assets classified as available-for-sale	-	(65)	-	(65)
Profit for the year	-	-	1,161	1,161
Balance attributable to equity shareholders as at 31st December 2014	**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)
Tax recognised on fair value gain 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**

The notes on pages 21 to 52 form part of these financial statements

Statement of Cash Flows

	Note	2015 US$'000	2014 US$'000
Profit / (Loss) before tax		958	1,483
Adjustments for:			
Depreciation and amortisation		731	415
Impairment of loans and advances		44	(185)
		1,733	1,713
Net decrease in loans and advances to banks		93,172	115,516
Net increase in loans and advances to customers		(1,985)	(12,569)
Acquisition of financial assets available-for-sale		(42,734)	(14,994)
Disposal of financial assets available-for-sale		32,090	20,885
Unrealised (loss) / gain on financial assets available-for-sale		(1,318)	253
Net decrease in other assets		572	46
Net increase in prepayments		(37)	(37)
Net decrease in deposits by banks		(74,027)	(20,541)
Net decrease in customer accounts		(56,630)	(38,136)
Net (decrease)/ increase in other liabilities		(128)	(570)
Net decrease in accruals and deferred income		350	81
Income tax paid		(139)	(272)
Net cash flow (used in) / generated from operating activities		**(50,814)**	**49,663**
Acquisition of property, plant and equipment and intangible assets		(856)	(1,639)
Net cash flow used in investing activities		**(856)**	**(1,639)**
Dividends paid		-	-
Net cash flow used in financing activities		**-**	**-**
Net increase / (decrease) in cash and equivalents		**(49,938)**	**49,737**
Cash and cash equivalents at 1st January		57,044	7,307
Cash and cash equivalents at 31st December	**16**	**7,106**	**57,044**

The notes on pages 21 to 52 form part of these financial statements

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 7.

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 there 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 Bank is currently evaluating the effect of implementing this standard.

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.

Neither IFRS 9 nor IFRS 15 are as yet endorsed by the EU.

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.

The quantum of these provisions as at 31st December 2015 is US$248,000 (2014 US$1,174,000)

Notes to the Financial Statements
Continued

(f) Comparative information

These financial statements include twelve months of comparative information for the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and related notes on the financial statements.

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'
- 'other 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.

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 through the statement of 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.

(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.

(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	-	3-5 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.

Notes to the Financial Statements

Continued

(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.

(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.

(o) Provisions (excluding loan loss provisions)

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

(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

	2015 US$'000	2014 US$'000
Interest income on securities available-for-sale	573	679
Interest income on loans and advances	8,793	7,922
	9,367	8,601

6. Interest expense

	2015 US$'000	2014 US$'000
Interest expense on deposits from banks	(659)	(594)
Interest expense on customer accounts	(624)	(498)
	(1,283)	(1,092)

7. Fees and commission income

	2015 US$'000	2014 US$'000
Letters of credit	1,324	1,685
Funds transfer	395	438
Customer account charges	277	294
Others	24	8
	2,020	2,425

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.

	2015 US$'000	2014 US$'000
Available-for-sale assets	-	160
Foriegn Exchange	489	511
	489	671

9. Other operating expense

	2015 US$'000	2014 US$'000
Other operating charges and brokerage	(77)	(90)
	(77)	(90)

Notes to the Financial Statements

Continued

10. Administrative expenses

	2015 US$'000	2014 US$'000
Wages and salaries, including directors	(4,623)	(4,668)
Social security costs	(537)	(497)
Pension costs	(400)	(396)
Other staff costs	(463)	(340)
Total staff costs	**(6,023)**	(5,901)
Other recurring administrative expenses	(2,760)	(2,901)
	(8,783)	(8,802)

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

Average number of employees, including executive directors:	2015 No.	2014 No.
Banking	21	21
Operations	21	21
Administration	4	4
	46	46

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 2015, the Bank made contributions totalling US$399,636 (2014 - US$396,000).

Contributions accrued at the reporting date amounted to US$2,536 (2014 – US$1,000). There were no outstanding pre-paid contributions at the reporting date.

12. Directors' emoluments

	2015 US$'000	2014 US$'000
Executive directors' emoluments	(477)	(495)
Non-executive directors' fees	(120)	(115)
	(597)	(610)

The emoluments of the highest paid director, excluding pension contributions, were US$298,490 (2014 – US$307,149). Pension contributions were made during the year amounting to US$3,772 (2014 – US$4,106). No benefits in kind were paid during the year (2014 – US$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.

Notes to the Financial Statements

Continued

13. Profit / (Loss) before tax

	2015 US$'000	2014 US$'000
Profit is stated after charging:		
Amounts payable to the Auditor and its associates pursuants to legislation in respect of:		
Statutory Audit of the financial statements	(119)	(141)
Other services relating to taxation	(10)	(24)
Rental of premises held under an operating lease	(234)	(247)
Other operating lease and similar rentals	(101)	(141)

14. Taxation

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

(a) Analysis of tax charge on activities

	2015 US$'000	2014 US$'000
Current tax:		
United Kingdom corporation tax based on the (profit) / loss for the year	(210)	(272)
Adjustment in respect of prior year	1	(19)
Exchange differences	6	15
Total current tax	**(205)**	**(276)**
Deferred tax:		
Timing differences, origination and reversal	101	(46)
Prior year deferred tax adjustment	2	-
Change in tax rate	-	-
Total deferred tax	**103**	**(46)**
Tax (charge) / credit on profit	**(102)**	**(322)**

(b) Reconciliation of the total tax charge

	2015 US$'000	2014 US$'000
Profit / (loss) on activities before tax	959	1,483
Tax at 20.25% (2014 - 21.5%) thereon	(91)	(319)
Effects of:		
Expenses not deductible for tax purposes	(17)	(16)
Exchange differences	6	15
Difference on standard tax rate	1	17
Adjustments in respect of prior year	(1)	(19)
Tax (charge) / credit	**(102)**	**(322)**

Current tax of $210,000 has been recognised in the statement of other comprehensive income in the year.

14. Taxation (continued)

The UK corporation tax rate reduced from 21% to 20% effective from 1st April 2015.

(c) Analysis of deferred tax asset

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

	2015 US$'000	2014 US$'000
Brought forward	49	-
Depreciation in excess of capital allowances	(16)	16
Short term timing differences	119	33
	152	49

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 21% to 20% (effective 1 April 2015). This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on the rate of 20% substantively enacted at the statement of financial position 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 2015:

2015

US$'000	Note	Held at fair value	Loans and receivables	Financial assets and 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	-	-	1,879	1,879

2014

US$'000	Note	Held at fair value	Loans and receivables	Financial assets and liabilities at amortised cost	Total
Cash at bank and in hand	16	-	57,044	-	57,044
Financial assets - derivatives		36	-	-	36
Financial assets available-for-sale	17	19,049	-	-	19,049
Loans and advances to banks	18	-	294,907	-	294,907
Loans and advances to customers	19	-	56,051	-	56,051
Deposits by banks	23	-	-	235,670	235,670
Customer accounts	24	-	-	119,067	119,067
Financial liabilities - derivatives		36	-	-	36
Other liabilities	25	-	-	1,951	1,951

Notes to the Financial Statements
Continued

16. Cash at Bank and in hand

	2015 US$'000	2014 US$'000
Cash	154	171
Short term placements with other banks	6,952	56,873
	7,106	57,044

17. Financial assets available-for-sale

	2015 US$'000	2014 US$'000
Financial assets available-for-sale at fair value		
Treasury bills	22,153	9,996
Government bonds	5,522	7,060
Bank bonds	2,008	1,993
	29,683	19,049
Interest included in above		
Government bonds	113	113
Bank bonds	63	63
Maturity		
- 3 months or less	3,684	2,500
- 1 year or less but over 3 months	18,469	7,496
- 5 years or less but over 1 year	2,008	1,993
- Over 5 years	5,522	7,060
	29,683	19,049

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 Loss of US$(1,318,100) (2014 – Unrealised profit of US$253,000) have been recognised in the Statement of Comprehensive Income. Financial assets available-for-sale purchased and sold amounted to US$42,734,000 (2014 - US$14,994,000) and US$32,089,000 (2014 – US$20,885,000) respectively.

18. Loans and advances to banks

The following table shows total bank loans less the impairment on correspondent banking loans

	2015 US$'000			2014 US$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Bank loans	201,825	(90)	201,735	294,907	-	294.907
	201,825	(90)	201,735	294,907	-	294.907

The fair value of the cash collateral held in respect of the loans and advances to banks at 31st December 2015 is US$23,676,000 (2014 - US$36,838,000). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US$13,868,000 (2014 – US$752,000) relates to loans and advances to banks that are past due, but not impaired.

	2015 US$'000	2014 US$'000
Up to 1 month	13,851	752
1 to 3 months	17	-
	13,868	752

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

	2015 US$'000			2014 US$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	93	-	93	93	-	93
Remaining maturity:						
- 3 months or less excl. above	201,732	-	201,732	294,028	-	294,028
- 1 year or less but over 3 months	-	-	-	786	-	786
Less: Allowances for impairment (note 20)	(90)	-	(90)	-	-	-
	201,735	-	**201,735**	294,907	-	294,907

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US$93,000 (2014 - US$93,000).

19. Loans and advances to customers

	2015 US$'000			2014 US$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Commercial loans & advances	15,918	(9)	15,909	17,075	(1,140)	15,935
Personal loans & advances	8,301	(21)	8,280	3,834	(34)	3,800
Syndicated loans	33,931	(128)	33,803	36,316	-	36,316
	58,150	**(158)**	**57,992**	**57,225**	**(1,174)**	**56,051**

The fair value of the collateral held in respect of the loans and advances to customers is US$57,610,000 as at 31st December 2015 (2014 – US$34,628,000). This collateral can be used in the event of default by the borrower. No interest earned on impaired assets has been credited to the income statement during the year (2014 – US$nil). Out of the total collateral, US$nil is for impaired loans and advances to customers (2013 – US$nil) and US$nil (2014 – US$nil) is for loans and advances to customers that are past due, but not impaired.

19. Loans and advances to customers (continued)

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

	2015 US$'000			2014 US$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	6,185	-	6,185	3,135	957	4,092
Remaining maturity:						
- 3 months or less excl. above	4,728	-	4,728	30,358	-	30,358
- 1 year or less but over 3 months	61	-	61	3,984	-	3,984
- 5 years or less but over 1 year	33,113	-	33,113	18,319	-	18.319
- Over 5 years	14,063	-	14,063	472	-	472
Less: Allowances for impairment (note 20)	(158)	-	(158)	(217)	(957)	(1,174)
	57,992	-	57,992	56,051	-	56,051

Of the US$158,000 impairment provision (2014 – US$1,174,000), US$158,000 represents the collective impairment provision (2014 – US$217,000).

20. Net impairment loss for loans and advances to customers

	2015 US$'000	2014 US$'000
At beginning of the year	(1,174)	(3,476)
Write back to statement of comprehensive income	-	444
Charge to statement of comprehensive income	(44)	(259)
Exchange differences	13	57
Amount written off against historic provisions	957	2,060
At the end of the year	**(248)**	**(1,174)**
Loans and advances to banks	(90)	-
Loans and advances to customers	(158)	(1,174)
	(248)	**(1,174)**

During the year, the Bank has had defaults on loans and advances to customers amounting to US$10,000 (2013 - US$22,000). These were all written off during the year.

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US$nil (2014 - US$nil).

Notes to the Financial Statements

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21. Property and equipment

2015

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
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**

2014

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
Cost:				
At beginning of the year	994	812	99	1,905
Additions	48	251	-	299
At end of the year	1,042	1,063	99	2,204
Depreciation:				
At beginning of the year	(821)	(581)	(99)	(1,501)
Charge for the year	(139)	(60)	-	(199)
At end of the year	(960)	(641)	(99)	(1,700)
Net book value at 31st December 2014	82	422	-	504

Notes to the Financial Statements
Continued

22. Intangible assets

	2015 Software US$'000	2014 Software US$'000
Cost:		
At beginning of the year	4,634	3,294
Additions	816	1,340
Asset written off	-	-
At end of the year	5,450	4,634
Amortisation:		
At beginning of the year	(2,747)	(2,531)
Charge for the year	(541)	(216)
At end of the year	3,288	2,747
Net book value at 31st December	2,161	1,887

23. Deposits by banks

	2015 US$'000	2014 US$'000
Repayable on demand	43,915	42,644
Remaining maturity:	110,634	193,026
- 3 months or less excluding above	7,094	-
	161,643	235,670

Deposits by banks include amounts totalling US$23,676,000 (2014 – US$36,838,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

24. Customer accounts

	2015 US$'000	2014 US$'000
Repayable on demand	37,080	72,962
Remaining maturity:		
- 3 months or less excluding above	11,807	23,968
- 1 year or less but over 3 months	13,215	21,802
- 5 years or less but over 1 year	336	335
	62,437	119,067

Customer accounts include amounts totalling US$2,392,000 (2014 – US$1,332,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

25. Other liabilities

	2015 US$'000	2014 US$'000
Taxation and social security	195	202
Accounts payable	769	914
Customers' unclaimed balances	915	835
	1,879	1,951

Notes to the Financial Statements

Continued

26. Accruals and deferred income

	2015 US$'000	2014 US$'000
Accruals	463	358
Deferred income	670	341
	1,133	699

27. Called up share capital

Authorised, Allotted, called up and fully paid	2015 US$'000	2014 US$'000
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

28. 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$10m (2014 - US$28m). Balances and related income and expense included in these financial statements in respect of the transactions with UBN Group are as follows:

	2015	2014
US$'000	Closing balance	Closing balance
Holding company		
Assets		
Cash at bank and in hand	2	8
Loans and advances to banks	24,813	10,510
Liabilities		
Deposits by banks	25,317	51,003
Income - interest		
From holding company	966	691
Expense - interest		
To holding company	72	68
Fellow subsidiaries		
Liabilities		
Deposits by banks	-	-
Customer accounts	-	66
Income		
From fellow subsidiaries	-	-

At 31st December 2015 loans made to one (2014 – one) executive director of the Bank during the year, on terms generally available to staff, remained outstanding to the amount of US$27,835 (2014 – US$20,593). This balance is included within note 19. More information regarding key management compensation is included within note 12

Notes to the Financial Statements

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29. 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 Credit & 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 18 to 20.

(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.

Notes to the Financial Statements
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	2015 US$'000			2014 US$'000		
	Gross amount	Collateral	Net	Gross amount	Collateral	Net
Within 3 months	13,851	13,851	-	752	752	-
Over 3 months	17	17	-	-	-	-
	13,868	13,868	-	752	752	-

(ii) Credit exposure by sector

	2015 US$'000	2014 US$'000
Banks	210,699	353,811
Government	27,675	17,056
Corporate	49,709	52,273
Individuals	8,280	3,777
	296,363	426,917

(iii) Credit exposure by location

	2015 US$'000	2014 US$'000
Europe	143,257	136,680
Africa	91,560	165,210
Others (mainly Canada, India, Japan and Australia)	61,546	125,027
	296,363	426,917

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 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.

(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:

Notes to the Financial Statements
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CQS	Assets	2015	2014
	Cash and Cash Equivalent	US$'000s	US$'000s
1	Rated AAA to AA-	80	92
2	Rated A+ to A-	3,176	56,774
3	Rated BBB+ to BBB-	3,694	-
4	Rated BB+ to BB-	-	-
5	Rated B+ to B-	2	-
6	Unrated	-	8
		6,952	56,874
	Financial assets derivatives		
1	Rated AAA to AA-	-	36
	Loans and Advances to Banks		
1	Rated AAA to AA-	1	35,002
2	Rated A+ to A-	30,802	93
3	Rated BBB+ to BBB-	80,013	130,031
4	Rated BB+ to BB-	-	24,172
5	Rated B+ to B-	50,910	9,709
6	Unrated	40,013	95,900
		201,739	294,907
	Loans and Advances to Customers		
	Unrated neither past due nor impaired	57,989	56,051
	Unrated past due but not impaired	-	-
		57,989	56,051
	Financial Assets Available-for-sale		
1	Rated AAA to AA-	22,153	9,996
2	Rated B+ to B-	7,530	9,053
3	Unrated	-	-
		29,683	19,049

Notes to the Financial Statements

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29. Financial risk management (continued)

As at 31st December 2015, the Bank's maximum exposure to credit is US$317m (2014 – US$496m), of which US$nil (2014 – US$957,000) 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$82m (2014 - US$67.4m) against credit exposures of US$83.3m (2014 - US$73.7m) of which US$22m (2014 US$32.7m) was in the form of cash. Total trade related exposure included above was US$34.5m (2014 – US$32.3m) against which the Bank held cash collateral of US$22m (2014 – US$12.8m) 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 2015 is US$nil (2014 – US$9,972,000).

(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:

Notes to the Financial Statements
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2015

US$'000	Time Band					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Liabilities						
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**

2014

US$'000	Time Band					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Liabilities						
Deposits by banks	235,670	-	-	-	-	235,670
Customer accounts	96,930	15,602	6,204	344	-	119,080
Financial liabilities - derivatives	36	-	-	-	-	36
Other liabilities	2,309	-	-	-	-	2,309
Off statement of financial position – undrawn loan commitments	113	-	-	-	-	113
Total liabilities	335,058	15,602	6,204	344	-	357,208

(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:

2015

US$'000	Time Band						
	Less than 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non-interest bearing	Total
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**		

2014

US$'000	Time Band						
	Less than 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non-interest bearing	Total
Total assets	388,673	6,426	5,137	18,684	7,587	5,061	**431,568**
Total liabilities and capital	(331,950)	(15,467)	(6,184)	(331)	-	(77,636)	(431,568)
Interest rate sensitivity gap	56,723	(9,041)	(1,047)	18,353	7,587	(72,575)	-
Cumulative gap	56,723	47,682	46,635	64,988	72,575		

Notes to the Financial Statements

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(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:

2015

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	Total
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	(429)	101	-	-	(329)
Tax charge-21.25%	87	(20)	-	-	67
Possible impact of increase in Libor/Euribor on profit/loss after tax	(342)	80	-	-	(262)
Possible impact of decrease in Libor/Euribor on profit/loss before tax	429	(101)	-	-	329
Tax charge-21.25%	(87)	20	-	-	(67)
Possible impact of decrease in Libor/Euribor on profit/loss after tax	342	(80)	-	-	262

2014

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	Total
Total Financial assets	363,743	54,846	8,026	472	427,087
Less: fixed rate assets	(236,008)	(676)	(764)	-	(237,448)
Total Variable rate assets	127,735	54,170	7,262	472	189,639
Total Financial liabilities	291,128	55,114	8,069	462	354,773
Less: fixed rate liabilities	(183,766)	(30,442)	(1,236)	-	(215,444)
Total Variable rate liabilities	107,362	24,672	6,833	462	139,329
Net cash flow interest Rate Risk exposure	**20,373**	**29,498**	**429**	**10**	**50,310**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	204	295	4	-	503
Tax charge-24.5%	(44)	(63)	(1)	-	(108)
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	160	232	3	-	395
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	(204)	(295)	(4)	-	(503)
Tax charge-24.5%	44	63	1	-	108
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	(160)	(232)	(3)	-	(395)

(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:

2015

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	**Total**
Total assets	260,121	36,580	3,734	204	300,640
Total liabilities and capital	(262,406)	(34,316)	(3,722)	(196)	(300,640)
Currency position	(2,285)	2,264	12	9	-

2014

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	**Total**
Total assets	367,317	55,686	8,080	485	431,568
Total liabilities and capital	(367,231)	(55,803)	(8,072)	(462)	(431,568)
Currency position	86	(117)	8	23	-

(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.

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2015

US$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	2,264	13	8
Impact on profit & equity 5% increase in FC:USD rate	113	1	-
Impact on profit & equity 5% decrease in FC:USD rate	(113)	(1)	-

2014

US$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	(117)	8	23
Impact of on profit & equity 5% increase in FC:USD rate	6	-	(1)
Impact on profit & equity 5% decrease in FC:USD rate	(6)	-	1

(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 2015 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.

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Continued

	2015 US$'000	2014 US$'000
Statement of financial position:		
Share Capital	60,090	60,090
Profit & Loss Reserve	979	14,123
Less intangibles	(2,161)	-
Available-for-Sale Reserve	(1,470)	(152)
Total Tier 1 Capital	**71,437**	**74,061**
Tier 2 Capital - Collective impairment allowance	248	217
Total Tier 2 Capital	**248**	**217**
Total Regulatory Capital	**71,685**	74,278

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.

(g) Lending commitments

	2015 US$'000	2014 US$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount	7	113
Credit equivalent amount	5	57
Risk weighted amount	5	57

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

30. 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:

2015

US$'000	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	29,683	-	-	29,683
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	29,683	-	-	29,683

2014

US$'000	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	19,049	-	-	19,049
Financial assets - derivatives	36	-	-	36
Financial liabilities - derivatives	(36)	-	-	(36)
Total	19,049	-	-	19,049

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

	2015 US$'000		2014 US$'000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash at bank and in hand	7,106	7,106	57,044	57,044
Loans and advances to banks	201,735	201,735	294,907	294,907
Loans and advances to customers	57,992	57,992	56,051	56,704
Liabilities				
Deposits by banks	161,643	161,643	235,670	235,670
Customer accounts	62,437	62,437	119,067	127,067
Other liabilities	3,012	3,012	1,951	1,951

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. The fair value of loans & advances to banks is equal to carrying value as the loans are all fixed rate and are less than three months. The fair value of the deposits by banks approximates its fair value due to the interest rate charged and the timing of the deposits being placed.

30. Fair values of financial instruments (continued)

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.

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.

Notes to the Financial Statements
Continued

31. Contingent liabilities and commitments

(a) Contingent liabilities

	2015 US$'000	2014 US$'000
Letters of credit	9,733	30,401
Guarantees given to third parties	1,020	1,826
Undrawn facilities	7	113
	10,760	32,340

(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.

Leases which expire:	2015 US$'000	2014 US$'000
Within one year	64	62
Within two to five years	37	326
	101	388

(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$3.3m. At 31st December 2015, amounts contracted for in respect of intangible assets, but not yet expended amounted to US$0.14m.

32. Dividends

No dividend payment was made during the year ended 31st December 2015 in respect of the year ended 31st December 2014 (made during the year ended 31st December 2014 in respect of the year ended 31st December 2013 – US$nil).

The directors do not propose a final dividend in respect of year ended 31st December 2014 (2013 – US$nil).

33. 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

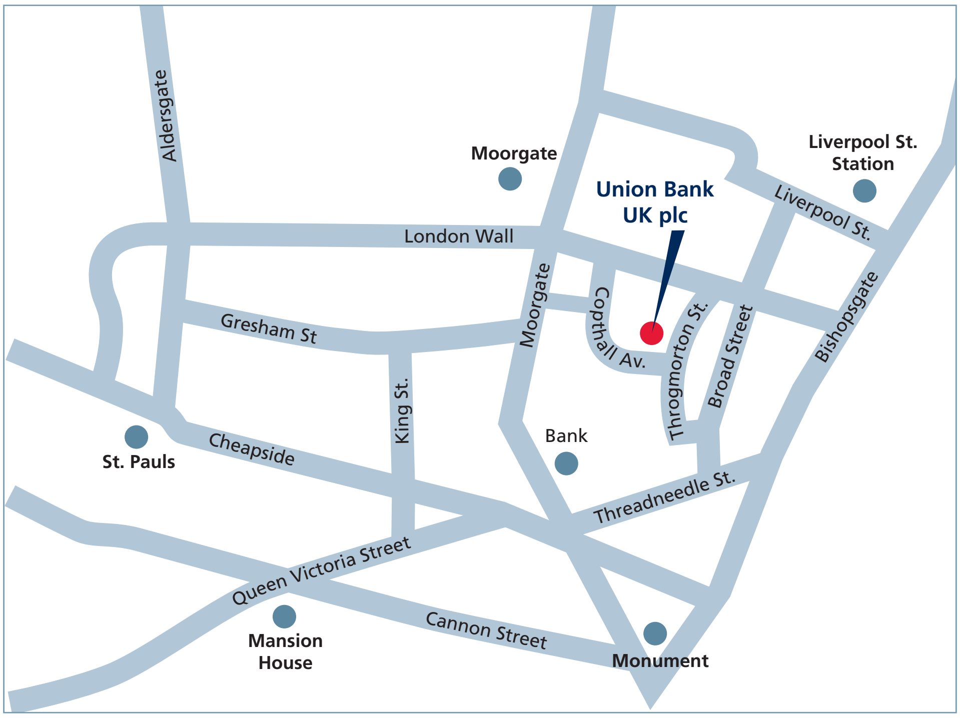
34. Subsequent events

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

Group Contact Information

Companies	Business	Contact
Union Bank of Nigeria Plc	Retail, commercial and investment banking	Stallion Plaza, 36 Marina, Lagos, Nigeria Tel: +234 (0) 1 266 0361/263 1430 (+234 (0) 1 266 3594 – International Banking)
UBN Property Company Ltd	Property development and management	Stallion Plaza, (3rd Floor), 36 Marina Lagos, Nigeria Tel: +234 (0) 1 903 2180/1
Unique Venture Capital Management	Venture capital	40 Marina, (5th Floor), Lagos, Nigeria Tel: +234 (0) 1 891 2071
Union Bank of Nigeria Plc South African Representative Office	Representation	8th Floor, 13 Fredman Drive, Sandton Johannesburg 2199, Republic of South Africa Tel: +27 11 883 3313

Contact Details



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A member of the
Union Bank of Nigeria Plc Financial Group

Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Company Registration No. 4661188