UNION BANK UK plc

Annual Report & Financial Statements 31st December 2013

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

Thousands of US dollars
(unless otherwise stated)

	2013	2012	2011	2010	2009
Reporting period (months)	12	12	12	12	9
Reporting period ended	31st December	31st December	31st December	31st December	31st December
Operating Income	11,316	13,223	14,858	11,577	6,866
(Loss) / Profit before tax	(571)	2,924	5,374	3,030	94
(Loss) / Profit after tax	(455)	2,160	3,943	2,158	32
Dividends declared †	-	945	-	-	1,107
Shareholders' Funds #	72,647	73,856	72,131	68,349	66,191
Total Assets	489,215	505,115	932,836	714,018	1,005,040
Capital / Risk Weighted Assets	39%	43%	21%	27%	24%
Return on Equity	(0.8%)	4.0%	7.7%	5.0%	0.2%
Cost Income Ratio	85%	73%	64%	74%	99%
Dollar / sterling exchange rate					
Year end	$1.65	$1.62	$1.55	$1.55	$1.62
Average	$1.57	$1.59	$1.61	$1.54	$1.61

† Dividends are accounted for in the year in which they were declared.

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

Following my first full year as Chairman of Union Bank UK plc (UBUK), I am pleased to present this report on the Bank's activities in 2013, and our outlook for the future.

2013 was a busy year for the Group as we embarked on a transformation programme aimed at re-establishing Union Bank of Nigeria Plc (UBN) firmly as a significant player in the Nigerian financial services sector. UBN's ambition is to become a highly respected provider of quality banking services, positioning itself as an efficient, customer-focused and reliable top-tier financial institution. This transformation began with the establishment of a strong leadership team and sound corporate governance model, from which UBUK is benefitting and continues to build upon.

Operating Economic Environment – UK and Nigeria

The UK economy grew at the rate of 1.9 per cent in 2013, the strongest in six years, and optimism in the UK financial services industry continues to rise. Nigeria's economy continues to thrive and was recently declared the largest in Africa, after a GDP rebasing exercise which valued the economy at (USD) $510 billion. UBUK is well placed to benefit from the opportunities which both markets present, for our retail and corporate customer base, through our service offering. Traditionally, UBUK has focused on a retail client base primarily sourced from Nigerians, residents in UK and Nigeria as well as corporate clients to whom it offers a one-stop trade finance, structured finance and other corporate banking solutions. In 2013 however, the Bank began to diversify its business geographically in both lending and fixed income offerings. Business is increasingly being sought and undertaken in other sub-Saharan African markets through asset-backed transactions or co-financing with established international banks and multilateral development agencies.

Performance

Our 2013 results point to the underlying strength of our core business. We improved cost efficiency with a reduction in our overheads; however, our performance was affected by provisions taken to clean up our balance sheet, and mark to market valuation of our bond portfolio. As we expand our business focus and execute on a clearly defined strategy for growth, I am convinced that we are on the right trajectory to deliver on our financial goals for the future.

Regulatory Environment

Last year, I highlighted that a strong risk management, compliance and controls culture would be at the core of UBUK's operating philosophy for us to succeed as a bank. We remain committed to this ideology, especially now, given increased oversight from regulatory bodies globally.
In April 2013, a new regulatory framework was introduced to supervise the activities of financial institutions in the UK. This new regime introduced a two pronged approach

Chairman's Statement
Continued

to regulation, with the supervision of financial institutions by both the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The aim of this new supervisory strategy is to ensure a higher standard and frequency of reporting by financial institutions. We began to see the impact of this new regime, with closer monitoring by the PRA and the FCA, and more regular bilateral meetings aimed at understanding our strategic objectives; and the application of the liquidity and capital constraints documented in our ILAA and ICAAP. We also continue to implement Common Reporting (COREP) - the standardised reporting framework issued by the European Banking Authority (EBA) for the Capital Requirements Directive reporting – while also monitoring developments in relation to Basel III.

Board Changes

During the year we bid farewell to Non-Executive Directors Neil Forsyth and Philip Ikeazor, and to Rollo Greenfield, one of our Executive Directors. On behalf of the Board, I thank them for their invaluable contributions to the progress of UBUK. We also welcomed David Forster, Executive Director, and Kandolo Kasongo and Gavin Laws as Non-Executive Directors. David, Kandolo and Gavin bring a wealth of experience to UBUK and we are pleased to be working with them to advance the goals of UBUK going forward.

Looking Ahead

We have set ambitious targets for the bank in 2014, but I am confident that tenacity and a clarity of purpose will drive our success in achieving these targets.
We have defined a strategy that aligns and builds on the UBN strategy to grow our retail, commercial and corporate banking businesses with focus on deposits, lending and trade. There is significant opportunity to leverage UBN's growing customer base - retail and corporate alike - while doubling our efforts on the home front with Nigerians in the diaspora. This implies enhancing our product offerings and banking platform to accommodate the needs of our target customers.
I look forward to 2014 with great optimism and I continue to count on your support and commitment to UBUK, our customers and stakeholders.

Thank you.

Emeka Emuwa
Chairman

Union Bank UK plc

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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

Asuerinme A Ighodalo

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

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 J Forster

Executive Director / Chief Operating Office

David W Keene

Secretary

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:	KPMG Audit Plc	15 Canada Square, London E14 5GL

Principal Officers

Management Committee:	Kaonen A Ali	Managing Director/Chief Executive
	David J Forster	Executive Director/Chief Operating Officer
	Tijjani Baba	Director, Institutional & Commercial Banking
	John H Denison	Associate Director, Correspondent Banking and Corporate Lending
	Farhood Hieydary	Associate Director, Treasury
	David W Keene	Associate Director, Finance
	Janet A Ntuk	Associate Director, Corporate Resources
	Christopher C Nwabuoku	Associate Director, Internal Audit
	Douglas Shand	Associate Director, Risk Management - appointed 1st April 2014
	Martin Uzus	Associate Director, Structured Trade Finance

Strategic Report

Performance

The Bank's performance in 2013 was disappointing, resulting in a pre-tax loss of US$0.571m. The major contributing factor was the provision for a doubtful debt of US$2.250m which, after careful assessment, the Bank considered necessary. In addition to this the Bank decided to write off a software development cost of US$0.394m which was considered not viable in the current market conditions. Adjusting for these two elements the profit from ordinary activity would have been US$2.073m against a comparable figure of US$3.594m in 2012 and this downturn being mostly attributable to the reduced opportunities in the bond and foreign exchange markets.

Fee and commission income was US$2.614m compared with US$2.441m in the previous year. Trade finance commissions were 20% higher, but banking fees were lower reflecting mixed performances. Despite the continuing low market interest rates and higher margins being maintained on Nigerian loans, net interest income held up well at US$8.33m (2012: US$8.87m) and was only held back by delays in the drawdowns of approved facilities. Other comprehensive income suffered at the hands of the continued decline in the bond market throughout 2013 resulting in unrealised mark-to-market losses of US$0.754m net of tax (2012: US$0.510m gain net of tax).

Costs were again maintained within budget for the year and with impairment charges amounting to US$2.269m the Bank's pre-tax results were 120% lower year on year.

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 yardstick as the Bank is regularly the beneficiary of large wholesale deposits relating to the Nigerian oil sector. These deposits are recycled into the short-term interbank placings on terms that are broadly profit- and liquidity-neutral for the Bank. The ebb and flow of these deposits can give rise to significant swings in the Bank's footings and were the principal reason for the fall in total assets from US$505m to US$489m in the year under review.

In the 12 months to 31st December 2013, the Bank's returns on equity and risk weighted assets were negative 0.8% (2012: positive 4.0%) and negative 0.34% (2012: positive 2.20%) respectively. The key indicator of efficiency monitored by the Board is the cost/income ratio which rose from 72.8% to 85% in 2013. The directors expect this ratio to substantially improve in 2014 and to move closer to 60% by 2016. The Bank's results are shown in the statement of financial position on page 19, with the impact on shareholders' funds shown in the statement of changes in equity on page 20.

Future Prospects

The Bank continues to diversify its business geographically in both lending and fixed income business 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 which is now emerging from the transformation it has successfully been undergoing. The Transformation Programme 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

In the UK, 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 (LC advising, confirming, refinancing, bills discounting, invoice financing etc.) 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, pre-paid debit cards and buy to let mortgages.

DW Keene
Company Secretary
14-18 Copthall Avenue
London EC2R 7BN

23rd April 2014

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st December 2013.

Principal Activities

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

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

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

Directors

The directors of the Bank at the date of this report and those who served during the year ended 31st December 2013, are as follows:

Mr AC Emuwa	-	Chairman – appointed 25th January 2013
Mrs OI Osibodu	-	Chairman – resigned 9th January 2013
Dr KA Ali	-	Managing Director/Chief Executive
Mr MXMG Biglia	-	Non-executive
Mr DJ Forster	-	Executive Director/Chief Operating Officer - appointed 18th October 2013
Mr NR Forsyth	-	Non-executive – resigned 29th January 2013
Mr DR Greenfield	-	Executive Director/Chief Operating Officer – resigned 31st March 2013
Mr AA Ighodalo	-	Non-executive
Mr PC Ikeazor	-	Non-executive – resigned 28th February 2013
Mr KS Kasongo	-	Non-executive – appointed 27th September 2013
Mr GC Laws	-	Non-executive – appointed 30th January 2014

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 2013 are shown on pages 18 to 52. The loss for the year after taxation amounted to US$455,000 (2012 – profit US$2,160,000).

No dividend was paid in respect of the year ended 31st December 2013 (2012 - US$nil). The directors do not propose the payment of a final dividend for the year (2012 – US$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 risk management framework to manage these risks, guided by the Basel Committee's principles for sound risk management and compliance with Basel II and FCA and PRA prudential regulations, including those in respect of liquidity risk. The Board establishes the risk governance structure and sets the overall risk appetite and tolerance 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 latest ICAAP as at 31st December 2012 reveals a sizeable capital buffer in keeping with the lower level of footings of the Bank at that date. The Bank will produce a new ICAAP as at 31st December 2013.

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 30th June 2012. A new ILAA will be produced as at 31st December 2013. 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 a liquidity stress event.

The results of this first ILAA, which has been reviewed and approved by the Board and the Bank's Internal Auditor, indicated that as at 30th June 2012, there was a positive overall net cumulative gap within the three-month stress period and that the LAB requirement was US$20m. The Bank currently meets the backstop requirements communicated to all banks that had yet to undergo regulatory review of their ILAA.

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.

Directors' Report
Continued

The Bank has completed modules 1 to 4 under the Recovery and Resolution planning framework introduced in the UK in anticipation of wider EU legislation in this area. The process (often referred to as preparing a "living will"), 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 peaks 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.

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 of 2.5% of RWA between 1st January 2016 and 1st January 2019 and a Countercyclical Capital Buffer of 2.5% of RWA, although a degree of uncertainty remains over the specific implementation measures and types of capital instrument (other than common equity) which may count towards these requirements. Also under the current Basel proposals, the Bank will be required to meet two new liquidity ratios being the Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR). LCR is due to be implemented with effect from 1st January 2015 and NSFR as a minimum standard from 1st January 2018. In response to Basel III and CRD IV, the European Banking Authority (EBA), has introduced standardised European reporting requirements to establish a central repository for European banking data. The implementation date for reporting is 31st March 2014 and having invested in new software to facilitate data production, the Bank is well placed to comply with the requirements.

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

The results of the Bank's initial ILAA and ongoing work on 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. In the year under review work was undertaken to virtualise servers and further improve both the resilience of UBUK's network infrastructure. During the coming year the Bank will commence the upgrade of its core FLEXCUBE banking system and complete virtualisation of both servers and desktops. In addition, new applications will be installed to support the Bank's extension of retail banking services to include debit cards, subject to material outsourcing notification requirements as appropriate.

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.

Directors' Report
Continued

Property and Equipment, Intangible Assets and Capital Commitments

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

The directors have authorised capital expenditure relating to refurbishment of the Bank's premises and enhancements to information technology systems of up to US$3.7m as set out in note 33. At 31st December 2013, amounts so authorised but not yet expended amounted to US$3.1m.

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

As KPMG Audit Plc has instigated an orderly wind down of business, in accordance with the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting

By order of the Board

D. D. Keene

DW Keene
Company Secretary

14 - 18 Copthall Avenue
London EC2R 7BN

23rd April 2014

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.

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

The primary functions of the C&GPC are 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.

Directors' Responsibilities and Corporate Governance

Continued

Corporate Governance (continued)

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 2013 set out on pages 18 to 52. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, 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 Auditing Practices Board'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 Financial Reporting Council'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 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the 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.

Paul Furneaux
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

23rd April 2014

Statement of Comprehensive Income

For the year ended 31st December 2013

	Note	Year Ended 31 December 2013 US$'000	Year Ended 31 December 2012 US$'000
Interest income	6	9,722	10,584
Interest expense	7	(1,389)	(1,714)
Net interest income		**8,333**	**8,870**
Fees and commission income	8	2,614	2,441
Dealing and exchange profit	9	466	1,999
Other operating expense	10	(97)	(87)
Operating income		**11,316**	**13,223**
Administrative expenses	11	(8,921)	(9,342)
Depreciation and amortisation	22/23	(697)	(287)
Net impairment loss on financial assets	19	(2,269)	(670)
(Loss) / Profit on ordinary activities before tax		**(571)**	**2,924**
Tax on loss / profit on ordinary activities	15	116	(764)
(Loss) / Profit on ordinary activities after tax		**(455)**	**2,160**
Other comprehensive income, net of income tax		(754)	510
Total comprehensive (expense) / income for the year		**(1,209)**	**2,670**

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

The notes on pages 22 to 52 form part of these financial statements

Statement of Financial Position

As at 31st December 2013

	Note	2013 US$'000	2012 US$'000
Assets			
Cash at bank and in hand	16	7,307	13,538
Financial assets - derivatives		-	500
Loans and advances to banks	17	410,423	423,725
Loans and advances to customers	18	43,207	32,919
Financial assets held-to-maturity	20	-	-
Financial assets available-for-sale	21	24,966	31,901
Property and equipment	22	404	419
Intangible assets	23	763	716
Other assets		1,451	652
Prepayments		599	587
Deferred tax assets	15	95	158
Total Assets		**489,215**	**505,115**
Liabilities			
Deposits by banks	24	256,211	262,074
Customer accounts	25	157,203	165,713
Financial liabilities - derivatives		-	500
Other liabilities	26	2,338	2,459
Accruals and deferred income	27	816	513
Total Liabilities		**416,568**	**431,259**
Equity			
Called up share capital	28	60,090	60,090
Available-for-sale reserves		(405)	349
Retained earnings		12,962	13,417
Equity shareholders' funds		72,647	73,856
Total Liabilities and Equity		**489,215**	**505,115**

These financial statements were approved by the Board of Directors and authorised for issue on 23rd April 2014.

Signed on behalf of the Board of Directors:

Dr KA Ali
Managing Director / Chief Executive

The notes on pages 22 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 2012	60,090	(161)	12,202	72,131
Change in fair value of assets classified as available-for-sale	-	675	-	675
Tax recognised on fair value gain on assets classified as available-for-sale	-	(165)	-	(165)
Profit for the year	-	-	2,160	2,160
Dividend paid	-	-	(945)	(945)
Balance attributable to equity shareholders as at 31st December 2012	**60,090**	**349**	**13,417**	**73,856**
Change in fair value of assets classified as available-for-sale	-	(1,108)	-	(1,108)
Tax recognised on fair value loss on assets classified as available-for-sale	-	354	-	354
Loss for the year	-	-	(455)	(455)
Balance attributable to equity shareholders as at 31st December 2013	**60,090**	**(405)**	**12,962**	**72,647**

Statement of Cash Flows

	Note	2013 US$'000	2012 US$'000
(Loss) / Profit before tax		(571)	2,924
Adjustments for:			
Depreciation and amortisation		305	288
Asset written off		394	-
Impairment of financial assets		2,269	670
		2,397	3,882
Change in loans and advances to banks		13,302	372,783
Change in loans and advances to customers		(12,557)	25,010
Change in financial assets held-to-maturity		-	53,043
Change in financial assets available-for-sale		5,917	(13,663)
Change in other assets		(355)	(274)
Change in prepayments		(12)	(150)
Change in deposits by banks		(5,863)	(52,988)
Change in customer accounts		(8,510)	(375,948)
Change in other liabilities		322	(339)
Change in accruals and deferred income		303	(38)
Income tax paid		(444)	(1,504)
Net cash flow (used in)/generated from operating activities		**(7,897)**	**5,932**
Acquisition of tangible and intangible assets		(731)	(470)
Net cash flow used in investing activities		**(731)**	**(470)**
Dividends paid		-	(945)
Net cash flow used in financing activities		-	**(945)**
Net (decrease)/increase in cash and equivalents		**(6,231)**	**8,399**
Cash and cash equivalents at 1st January		13,538	5,139
Cash and cash equivalents at 31st December	**16**	**7,307**	**13,538**

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). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU.

Standards effective and applicable in 2013:

In May 2011, the IASB issued IFRS 13 'Fair Value Measurement' (IFRS 13). This standard is effective for annual periods beginning on or after 1 January 2013. The standard clarifies the definition of fair value as an exit price, which is defined as a 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, and enhances disclosures about fair value measurement. The Bank has implemented this standard during the year. There is no significant impact of this standard for the Bank.

In December 2011 the IASB issued Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). This standard requires disclosure of the effect or potential effects of netting arrangements on an entity's financial position. The amendment requires disclosure of recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard is effective for annual periods beginning on or after 1 January 2013. There is no significant impact of this standard for the Bank.

New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of:

IFRS 9 Financial Instruments, which will be effective for annual periods beginning on or after 1st January 2018. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value.

(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 preparation of financial information in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies.

In this regard, management believes that the critical accounting policies where judgement is necessarily applied are those which relate to loan impairment.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in these notes to the financial statements.

(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:

Notes to the Financial Statements
Continued

- 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.

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 generally recognised directly in equity until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss.

(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 designated as such by management recognised initially at fair value with transaction costs recognised in the statement of income. Gains and losses arising from changes in fair value are recognised as they occur in the statement of income.

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

(i) Capital instruments 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, customer accounts and subordinated liabilities are classified as other liabilities.

(j) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(k) 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.

(l) 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	-	5 years or remaining life of lease, whichever is the shorter
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.

(m) Intangible assets - software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

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

(n) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, including 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.

(o) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease payments made (operating and finance 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.

Finance lease - lessor

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

(p) 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.

(q) 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 in equity, in which case it is recognised in equity.

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. Deferred tax assets and liabilities are offset when a legal right to offset exists in the entity.

(r) 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.

(s) 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.

(t) Sale and repurchase agreements

When the Bank sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Notes to the Financial Statements

Continued

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 banking, which is carried out in the United Kingdom.

5. Financial assets and liabilities

The table below sets out the Bank's classification of each class of financial asset and liability:

2013

US$'000	Note	Designated at fair value	Held-to-maturity	Loans and receivables	Financial assets and liabilities at amortised cost	Total
Cash at bank and in hand	16	-	-	7,307	-	7,307
Financial assets - derivatives		-	-	-	-	-
Loans and advances to banks	17	-	-	410,423	-	410,423
Loans and advances to customers	18	-	-	43,207	-	43,207
Financial assets held-to-maturity	20	-	-	-	-	-
Financial assets available-for-sale	21	24,966	-	-	-	24,966
Deposits by banks	24	-	-	-	256,211	256,211
Customer accounts	25	-	-	-	157,203	157,203
Financial liabilities - derivatives		-	-	-	-	-
Other liabilities	26	-	-	-	2,338	2,338

2012

US$'000	Note	Designated at fair value	Held-to-maturity	Loans and receivables	Financial assets and liabilities at amortised cost	Total
Cash at bank and in hand	16	-	-	13,538	-	13,538
Financial assets - derivatives		500	-	-	-	500
Loans and advances to banks	17	-	-	423,725	-	423,725
Loans and advances to customers	18	-	-	32,919	-	32,919
Financial assets held-to-maturity	20	-	-	-	-	-
Financial assets available-for-sale	21	31,901	-	-	-	31,901
Deposits by banks	24	-	-	-	262,074	262,074
Customer accounts	25	-	-	-	165,713	165,713
Financial liabilities - derivatives		500	-	-	-	500
Other liabilities	26	-	-	-	2,459	2,459

6. Interest income

	2013 US$'000	2012 US$'000
Interest income on securities held-to-maturity	-	961
Interest income on securities available-for-sale	1,565	821
Interest income on loans and advances ('classified as loans and receivables')	8,157	8,802
	9,722	10,584

Notes to the Financial Statements

Continued

7. Interest expense

	2013 US$'000	2012 US$'000
Interest expense to banks	(805)	(1,002)
Interest expense on customer accounts	(584)	(712)
	(1,389)	**(1,714)**

8. Fees and commission income

	2013 US$'000	2012 US$'000
Letters of credit	1,816	1,503
Funds transfer	470	544
Others	328	394
	2,614	**2,441**

9. 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 from the sale of securities.

10. Other operating expense

	2013 US$'000	2012 US$'000
Other operating charges and brokerage	(97)	(87)
	(97)	**(87)**

11. Administrative expenses

	2013 US$'000	2012 US$'000
Wages and salaries, including directors	(4,869)	(5,016)
Social security costs	(520)	(553)
Pension costs	(378)	(385)
Other staff costs	(562)	(436)
Total staff costs	**(6,329)**	**(6,390)**
Other recurring administrative expenses	(2,592)	(2,952)
	(8,921)	**(9,342)**

Average number of employees, including executive directors:	2013 No.	2012 No.
Banking	24	25
Operations	17	20
Administration	5	5
	46	**50**

Notes to the Financial Statements

Continued

12. Pension costs

The Bank makes contributions to the personal pension funds of employees under Group Personal Pension arrangements. During the year to 31st December 2013, the Bank made contributions totalling US$378,000 (2012 - US$385,000).

Contributions accrued at the reporting date amounted to US$nil (2012 - US$2,000). There were no outstanding pre-paid contributions at the reporting date.

13. Directors' emoluments

	2013 US$'000	2012 US$'000
Executive directors' emoluments	(518)	(638)
Non-executive directors' fees	(223)	(214)
	(741)	(852)

The emoluments of the highest paid director, excluding pension contributions, were US$439,910 (2012 - US$337,071). Pension contributions were made during the year amounting to US$4,711 (2012 - US$4,842). No benefits in kind were paid during the year (2012 - US$nil).

Retirement benefits are accruing to one director under Group Personal Pension arrangements (see Note 12) and another director under the Union Bank of Nigeria Plc Staff Pension Fund, a defined benefit scheme.

14. Profit on ordinary activities before taxation

	2013 US$'000	2012 US$'000
Operating profit is stated after charging:		
Amounts receivable by the Auditor and its associates in respect of:		
Audit of the financial statements	(171)	(168)
Other services pursuant to legislation	-	(12)
Other services relating to taxation	(45)	(41)
All other services	(2)	(104)
Rental of premises held under an operating lease	(234)	(238)
Other operating lease and similar rentals	(131)	(132)

15. Taxation

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

(a) Analysis of tax charge on ordinary activities	2013 US$'000	2012 US$'000
Current tax:		
United Kingdom corporation tax based on the loss / (profit) for the year	166	(606)
Adjustment in respect of prior year	3	(76)
Exchange differences	10	(24)
Total current tax	**179**	**(706)**
Deferred tax:		
Timing differences, origination and reversal	(31)	(110)
Prior year deferred tax adjustment	(11)	78
Change in tax rate	(21)	(26)
Total deferred tax	**(63)**	**(58)**
Tax credit / (expense) on profit on ordinary activities	**116**	**(764)**

(b) Reconciliation of the total tax charge

	2013 US$'000	2012 US$'000
(Loss) / profit on ordinary activities before tax	(571)	2,923
Tax at 23.25% (2012 - 24.5%) thereon	133	(716)
Effects of:		
Expenses not deductible for tax purposes	(2)	(7)
Exchange differences	10	(24)
Difference on standard tax rate	4	7
Adjustments in respect of prior year	(29)	(24)
Tax credit / (expense)	**116**	**(764)**

The UK corporation tax rate reduced from 24% to 23% effective from 1st April 2013 and further changes to 21% effective from 1st April 2014 and to 20% from 1st April 2015 were substantively enacted during the period.

Notes to the Financial Statements
Continued

15. Taxation (continued)

(c) Analysis of deferred tax asset

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

	2013 US$'000	2012 US$'000
Depreciation in excess of capital allowances	70	126
Short term timing differences	25	32
	95	158

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantially enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

16. Cash at bank and in hand

	2013 US$'000	2012 US$'000
Cash	233	213
Short term placements with other banks	7,074	13,325
	7,307	13,538

17. Loans and advances to banks

	2013 US$'000			2012 US$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Bank overdrafts	-	-	-	-	-	-
Bank loans	410,423	-	410,423	423,725	-	423,725
	410,423	-	410,423	423,725	-	423,725

Loans and advances to banks are categorised as 'loans and receivables' in accordance with IAS 39. See note 3(e) for definition.

The fair value of the cash collateral held in respect of the loans and advances to banks at 31st December 2013 is US$21,010,000 (2012 - US$28,101,000). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US$383,000 (2012 – US$945,000) is for loans and advances to banks that are past due, but not impaired.

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

	2013 US$'000			2012 US$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	4,437	-	4,437	1,089	-	1,089
Remaining maturity:						
- 3 months or less excl. above	402,193	-	402,193	403,451	-	403,451
- 1 year or less but over 3 months	3,793	-	3,793	19,185	-	19,185
Less: Allowances for impairment (note 19)	-	-	-	-	-	-
	410,423	-	410,423	423,725	-	423,725

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US$1,101,000 (2012 - US$1,089,000).

18. Loans and advances to customers

	2013 US$'000			2012 US$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Commercial loans & advances	8,339	(1,196)	7,143	8,143	(1,179)	6,964
Personal loans & advances	4,181	(30)	4,151	4,879	(24)	4,855
Syndicated loans	34,163	(2,250)	31,913	21,100	-	21,100
	46,683	(3,476)	43,207	34,122	(1,203)	32,919

Loans and advances to customers are categorised as 'loans and receivables' in accordance with IAS 39. See note 3(e) for definition.

The fair value of the collateral held in respect of the loans and advances to customers is US$29,659,000 as at 31st December 2013 (2012 - US$19,574,000). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US$2,750,000 is for impaired loans and advances to customers (2012 - US$nil) and US$42,000 (2012 – US$870,000) is for loans and advances to customers that are past due, but not impaired.

18. Loans and advances to customers (continued)

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

	2013 US$'000			2012 US$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	4,772	1,015	5,787	7,393	1,011	8,404
Remaining maturity:						
- 3 months or less excl. above	32,472	-	32,472	18,572	-	18,572
- 1 year or less but over 3 months	1,084	-	1,084	1,350	-	1,350
- 5 years or less but over 1 year	1,894	5,000	6,894	5,796	-	5,796
- Over 5 years	446	-	446	-	-	-
Less: Allowances for impairment (note 19)	(221)	(3,255)	(3,476)	(219)	(984)	(1,203)
	40,447	**2,760**	**43,207**	32,892	27	32,919

Of the US$3,476,000 impairment provision (2012 – US$1,203,000), US$221,000 represents the collective impairment provision (2012 – US$219,000).

19. Net impairment loss for financial assets

	2013 US$'000	2012 US$'000
At beginning of the year	(1,203)	(560)
Charge to statement of comprehensive income	(2,269)	(670)
Exchange differences	(22)	(8)
Amount written off	18	35
At the end of the year	**(3,476)**	**(1,203)**
Loans and advances to banks	-	-
Loans and advances to customers	(3,476)	(1,203)
	(3,476)	**(1,203)**

During the year, the Bank has had defaults on loans and advances to customers amounting to US$5,000,000 (2012 - US$685,000).

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US$2,750,000 (2012 - US$15,000).

Notes to the Financial Statements
Continued

20. Financial assets held-to-maturity

	2013 US$'000	2012 US$'000
At beginning of the year	-	53,043
Securities purchased during the year	-	23,455
Sales and maturities during the year	-	(55,106)
Reclassification to available-for-sale	-	(21,392)
	-	-

The Bank reclassified its financial assets from the held-to-maturity to available-for-sale in 2012. The Bank's intention at initial recognition was to hold these financial assets to maturity. However, as a result of the Bank's decision to sell some of the assets prior to maturity the remainder of the portfolio became tainted in accordance with IAS 39.51 and IAS 39.55 (b). Consequently the financial assets were reclassified to the available-for-sale portfolio at their fair value at the date of reclassification being 20th December 2012.

21. Financial assets available-for-sale at fair value

	2013 US$'000	2012 US$'000
Financial assets available-for-sale at fair value		
Treasury Bills	9,995	9,994
Government bonds	8,800	7,632
Bank bonds	6,171	14,275
	24,966	31,901
Maturity		
- 3 months or less	-	5,000
- 1 year or less but over 3 months	9,995	4,994
- 5 years or less but over 1 year	6,171	14,275
- Over 5 years	8,800	7,632

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.

Notes to the Financial Statements
Continued

22. Property and equipment

2013

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
Cost:				
At beginning of the year	938	693	99	1,730
Additions	56	119	-	175
Disposals	-	-	-	-
At end of the year	994	812	99	1,905
Depreciation:				
At beginning of the year	(691)	(527)	(93)	(1,311)
Charge for the year	(130)	(54)	(6)	(190)
Disposals	-	-	-	-
At end of the year	(821)	(581)	(99)	(1,501)
Net book value at 31st December 2013	173	231	-	404

2012

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
Cost:				
At beginning of the year	639	684	99	1,422
Additions	240	68	-	308
Re-classification of asset	59	(59)	-	-
At end of the year	938	693	99	1,730
Depreciation:				
At beginning of the year	(603)	(473)	(88)	(1,164)
Charge for the year	(88)	(54)	(5)	(147)
At end of the year	(691)	(527)	(93)	(1,311)
Net book value at 31st December 2012	247	166	6	419

Notes to the Financial Statements
Continued

23. Intangible assets

	2013 Software US$'000	2012 Software US$'000
Cost:		
At beginning of the year	3,132	2,970
Additions	556	162
Asset written off	(394)	-
At end of the year	**3,294**	3,132
Amortisation:		
At beginning of the year	(2,416)	(2,276)
Charge for the year	(115)	(140)
At end of the year	**(2,531)**	(2,416)
Net book value at 31st December 2013 / 31st December 2012	**763**	716

24. Deposits by banks

	2013 US$'000	2012 US$'000
Repayable on demand	53,555	60,168
Remaining maturity:		
- 3 months or less excluding above	202,656	201,906
	256,211	262,074

Deposits by banks include amounts totalling US$43,802,000 (2012 – US$34,648,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

25. Customer accounts

	2013 US$'000	2012 US$'000
Repayable on demand	119,275	128,540
Remaining maturity:		
- 3 months or less excluding above	23,969	6,687
- 1 year or less but over 3 months	13,708	30,486
- 5 years or less but over 1 year	251	-
	157,203	165,713

Customer accounts include amounts totalling US$42,000 (2012 – US$358,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

Notes to the Financial Statements

Continued

26. Other liabilities

	2013 US$'000	2012 US$'000
Taxation and social security	195	563
Accounts payable	1,365	1,258
Customers' unclaimed balances	778	638
	2,338	2,459

27. Accruals and deferred income

	2013 US$'000	2012 US$'000
Other accruals	436	412
Deferred income	380	101
	816	513

28. Called up share capital

Allotted, called up and fully paid	2013 US$'000	2012 US$'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

29. Related party transactions

During the year, the Bank undertook commercial arm's length transactions with UBN and its subsidiaries (the UBN Group) in the normal course of business. These include loans and deposits and foreign currency transactions. Loans and advances to banks are cash secured to a maximum of US$28m (2012 - US$28m). Balances and related income and expense included in these financial statements in respect of the UBN Group are as follows:

Notes to the Financial Statements

Continued

29. Related party transactions (continued)

US$'000	2013 Highest balance during year	2013 Closing balance	2012 Highest balance during year	2012 Closing balance
Holding company				
Assets				
Cash at bank and in hand	30	23	30	18
Loans and advances to banks	35,732	17,431	29,364	28,901
Liabilities				
Deposits by banks	250,870	53,881	310,808	69,397
Income				
From holding company	-	1,195	-	1,234
Expense				
To holding company	-	101	-	212
Fellow subsidiaries				
Liabilities				
Deposits by banks	102	102	61	50
Customer accounts	147	65	280	61
Income				
From fellow subsidiaries	-	-	-	-

The disclosure of the year-end balance and highest balance during the year is considered the most meaningful information to represent transactions during the year.

At 31st December 2013 loans made to one (2012 – one) executive director of the Bank during the year, on terms generally available to staff, remained outstanding in the amount of US$2,943 (2012 – US$88,281).

30. Contingent liabilities and commitments

	2013 US$'000	2012 US$'000
Letters of credit	33,674	19,402
Guarantees given to third parties	2,356	2,479

Notes to the Financial Statements

Continued

31. Financial risk management

(a) Risk management

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

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

The Bank does not actively trade in financial instruments and, therefore, does not have a trading book. Its operations are financed from a mixture of shareholders' funds 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 shareholders' funds 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 £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 17 to 19.

(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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	2013 US$'000			2012 US$'000		
	Gross amount	Collateral	Net	Gross amount	Collateral	Net
Within 3 months	425	425	-	1,815	1,815	-
	425	425	-	1,815	1,815	-

(ii) Credit exposure by sector

	2013 US$'000	2012 US$'000
Banks	423,900	451,848
Government	18,795	-
Corporate	39,124	45,870
Individuals	4,084	4,865
	485,903	502,583

(iii) Credit exposure by location

	2013 US$'000	2012 US$'000
Europe	200,403	263,731
Africa	112,618	105,630
Others (mainly Canada, Japan and Australia)	172,882	133,222
	485,903	502,583

The above sector and geographical analyses only include cash at bank and in hand, loans and advances to banks and to customers, financial assets held-to-maturity, financial assets available-for-sale and financial assets - derivatives.

The Bank had no direct exposure to the countries impacted by crises in the European zone and in particular there was no exposure to Cyprus, Ireland, Greece, Portugal or Spain, nor were any of the Bank's exposures subject to credit events arising from the consequence of the Eurozone crisis.

The Bank extends credit facilities to quality rated and unrated counterparties. All rated counterparties must have a Fitch (or equivalent) rating of no less than B. A large percentage (72%) (2012 – 71%) of the Bank's total financial assets represent treasury assets with high quality financial institutions, the majority of which had ratings of B+ to AAA.

As at 31st December 2013, the Bank's maximum exposure to credit was US$525.0m (2012 – US$526.4m), of which US$6,015,000 (2012 – US$1,011,000) was deemed to be impaired or doubtful. These amounts include all financial assets and undrawn irrevocable loan and trade commitments.

Total trade related exposure was US$36.1m (2012 – US$21.9m) against which the Bank held cash collateral of US$11.5m (2012 – US$2.0m). In addition, the Bank had collateral of US$23.5m (2012 – US$28.5m) in respect of other credit exposures.

Notes to the Financial Statements

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(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 prime bank certificates of deposit. 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.

An analysis of the Bank's liabilities and commitments by maturity is as follows:

2013

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	256,211	-	-	-	-	**256,211**
Customer accounts	143,244	5,072	8,636	251	-	**157,203**
Financial liabilities - derivatives	-	-	-	-	-	-
Other liabilities	3,154	-	-	-	-	**3,154**
Off balance sheet – undrawn loan commitments	3,039	-	-	-	-	**3,039**
Total liabilities	**405,648**	**5,072**	**8,636**	**251**	-	**419,607**

2012

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	262,074	-	-	-	-	262,074
Customer accounts	135,227	13,625	16,861	-	-	165,713
Financial liabilities - derivatives	500	-	-	-	-	500
Other liabilities	2,972	-	-	-	-	2,972
Off balance sheet – undrawn loan commitments	1,974	-	-	-	-	1,974
Total liabilities	402,747	13,625	16,861	-	-	433,233

(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 shareholders' funds, 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:

2013

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	455,606	7,686	6,164	6.517	10,313	2,929	**489,215**
Total liabilities and capital	(397,314)	(6,777)	(8,704)	(437)	-	(75,983)	**(489,215)**
Interest rate sensitivity gap	**58,292**	**909**	**(2,540)**	**6,080**	**10,313**	**(73,054)**	-
Cumulative gap	**58,292**	**59,201**	**56,661**	**62,741**	**73,054**		

2012

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	455,461	18,780	5,040	14,310	7,519	4,005	**505,115**
Total liabilities and capital	(392,361)	(15,274)	(16,773)	(3,159)	-	(77,548)	**(505,115)**
Interest rate sensitivity gap	63,100	3,506	(11,733)	11,151	7,519	(73,543)	-
Cumulative gap	63,100	66,606	54,873	66,024	73,543		

Notes to the Financial Statements
Continued

(ii) Interest rate sensitivity analysis

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

2013

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	Total
Total Financial assets	418,772	48,040	18,079	1,012	485,903
Less: fixed rate assets	(240,002)	(2,310)	(1,301)	(305)	**(243,918)**
Total Variable rate assets	178,770	45,730	16,778	707	**241,985**
Total Financial liabilities	347,311	46,991	18,140	972	**413,414**
Less: fixed rate liabilities	(184,879)	(17,773)	(1,400)	-	**(204,052)**
Total Variable rate liabilities	162,432	29,218	16,740	972	**209,362**
Net cash flow interest Rate Risk exposure	**16,338**	**16,512**	**38**	**(265)**	**32,623**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax	163	165	-	(3)	**325**
Tax charge-24.5%	(38)	(38)	-	1	**(75)**
Possible impact of increase in Libor/Euribor on profit/loss after tax	125	127	-	(2)	**250**
Possible impact of decrease in Libor/Euribor on profit/loss before tax	(163)	(165)	-	3	**(325)**
Tax charge-24.5%	38	38	-	(1)	**75**
Possible impact of decrease in Libor/Euribor on profit/loss after tax	(125)	(127)	-	2	**(250)**

2012

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	Total
Total Financial assets	440,794	53,155	7,555	1,079	**502,583**
Less: fixed rate assets	(227,965)	(993)	(360)	-	**(229,318)**
Total Variable rate assets	212,829	52,162	7,195	1,079	273,265
Total Financial liabilities	367,566	52,090	7,564	1,067	**428,287**
Less: fixed rate liabilities	(182,269)	(24,457)	(1,600)	-	**(208,326)**
Total Variable rate liabilities	185,297	27,633	5,964	1,067	219,961
Net cash flow interest Rate Risk exposure	**27,532**	**24,529**	**1,231**	**12**	**53,304**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax	275	245	12	-	**532**
Tax charge-28%	(67)	(60)	(3)	-	**(130)**
Possible impact of increase in Libor/Euribor on profit/loss after tax	208	185	9	-	**402**
Possible impact of decrease in Libor/Euribor on profit/loss before tax	(275)	(245)	(12)	-	**(532)**
Tax charge-28%	67	60	3	-	**130**
Possible impact of decrease in Libor/Euribor on profit/loss after tax	(208)	(185)	(9)	-	**(402)**

(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:

2013

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	**Total**
Total assets	421,129	48,911	18,159	1,016	**489,215**
Total liabilities and capital	(421,389)	(48,694)	(18,159)	(973)	**(489,215)**
Unsettled spot foreign exchange	-	-	-	-	-
Currency position	(260)	217	-	43	-

2012

US$'000	Currencies				
	US dollar	£ Sterling	Euro	Other	**Total**
Total assets	442,710	53,771	7,555	1,079	**505,115**
Total liabilities and capital	(442,146)	(54,323)	(7,579)	(1,067)	**(505,115)**
Unsettled spot foreign exchange	(500)	500	-	-	-
Currency position	64	(52)	(24)	12	-

(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. 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.

Notes to the Financial Statements

Continued

2013

US$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	217	-	43
Impact of 5% increase in FC:USD rate	(11)	-	(2)
Impact of 5% decrease in FC:USD rate	11	_	2

2012

US$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net foreign currency exposures	(52)	(24)	12
Impact of 5% increase in FC:USD rate	3	1	(1)
Impact of 5% decrease in FC:USD rate	(3)	(1)	1

Notes to the Financial Statements
Continued

(f) Capital adequacy

The Bank is subject to minimum capital requirements imposed by the PRA, following guidelines developed by the Basel Committee on Banking Supervision and implemented in the UK via European Union Directives. The revised framework, known as Basel II, became effective on 1st January 2008 and 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 Basel II 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 balance sheet engagements that are subject also to given credit risk conversion factors. Under Pillar 2 of Basel II, 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 FSA 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 2013 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.

Notes to the Financial Statements
Continued

	2013 US$'000	2012 US$'000
Statement of financial position:		
Share Capital	60,090	60,090
Profit & Loss Reserve	12,962	13,417
Total Tier 1 Capital	**73,052**	73,507
Upper Tier 2 Capital - Collective impairment allowance	221	219
Available-for-Sale Reserve	(405)	349
Total Tier 2 Capital	**(184)**	568
Total Regulatory Capital	**72,868**	74,075

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

	2013 US$'000	2012 US$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount	3,039	1,974
Credit equivalent amount	1,518	987
Risk weighted amount	1,518	987

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

32. Fair values of financial instruments

Fair value measurements

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

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

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

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

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

2013

US$'000	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	24,966	-	-	**24,966**
Total	**24,966**	-	-	**24,966**

2012

US$'000	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	31,901	-	-	31,901
Total	31,901	-	-	31,901

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised

2013

US$'000	Level 1	Level 2	Level 3	Carrying Value	Fair Value
Assets					
Cash at bank and in hand	-	7,307	-	7,307	7,307
Financial assets – derivatives	-	-	-	-	-
Loans and advances to banks	-	410,423	-	410,423	410,423
Loans and advances to customers	-	43,145	-	43,207	43,145
Financial assets held-to-maturity	-	-	-	-	-
Liabilities					
Deposits by banks	-	256,211	-	256,211	256,211
Customer accounts	-	157,203	-	157,203	157,203
Financial liabilities - derivatives	-	-	-	-	-
Other liabilities	-	2,338	-	2,338	2,338

Notes to the Financial Statements

Continued

2012

US$'000	Level 1	Level 2	Level 3	Carrying Value	Fair Value
Assets					
Cash at bank and in hand	-	13,538	-	13,538	13,538
Financial assets – derivatives	-	500	-	500	500
Loans and advances to banks	-	423,725	-	423,725	423,725
Loans and advances to customers	-	32,043	-	32,919	32,043
Financial assets held-to-maturity	-	-	-	-	-
Liabilities					
Deposits by banks	-	262,074	-	262,074	262,074
Customer accounts	-	165,713	-	165,713	165,713
Financial liabilities - derivatives	-	500	-	500	500
Other liabilities	-	2,459	-	2,459	2,459

33. Capital commitments

The directors have authorised capital expenditure relating to refurbishment of the Bank's premises and enhancements to information technology systems of up to US$3.7m. At 31st December 2013, amounts so authorised but not yet expended amounted to US$3.1m.

34. Dividends

No dividend payment was made during the year ended 31st December 2013 in respect of the year ended 31st December 2012 (made during the year ended 31st December 2012 in respect of the year ended 31st December 2011 – US$945,000).

The directors do not propose a final dividend in respect of year ended 31st December 2013 (2012 – US$nil).

35. Ultimate parent company and controlling party

The Bank is a directly wholly-owned subsidiary of its parent and ultimate holding undertaking, Union Bank of Nigeria Plc, a company incorporated in Nigeria and listed on the Nigerian Stock Exchange. The smallest and largest group in which the Bank is consolidated is Union Bank of Nigeria Plc.

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

Corporate Affairs Department
Union Bank of Nigeria Plc
Stallion Plaza
36 Marina
Lagos
Nigeria

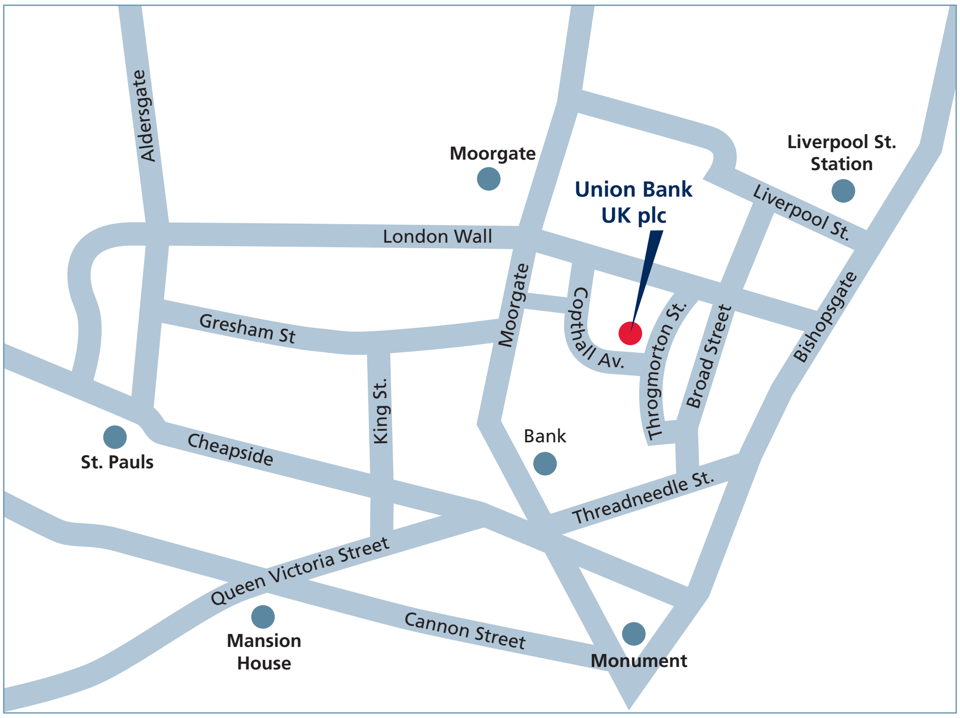
36. Subsequent events

There are no material adjusting or non-adjusting events after the accounting 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)
Union Homes Savings & Loans Limited	Mortgage lending	153 Ikorodu Road, Onipanu, PMB 041 Shomolu, Lagos, Nigeria Tel: +234 (0) 1 740 0840
Union Capital Markets Limited	Investment and financial advisory services	Plot 97, Ahmadu Bello Way Victoria Island, Lagos, Nigeria Tel: +234 (0) 1 280 6860/1
Union Assurance Company Limited	Life and general insurance	95 Broad Street PMB 2027, Marina, Lagos, Nigeria Tel: +234 (0) 1 264 0277
Union Registrars Limited	Share registration	2 Burma Road, Apapa, Lagos, Nigeria Tel: +234 (0) 1 279 3161
Union Trustees Limited	Trust and custody services	2 Davies Street, PZ Building PMB 2027 Marina, Lagos, Nigeria Tel: +234 (0) 1 270 5307
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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Union Bank serves you better

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A member of the
Union Bank of Nigeria Plc Financial Group