

Pillar 3 Disclosures December 2009



**A member of the
Union Bank of Nigeria Plc
Financial Group**

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1 Overview

1.1 Background

The European Union Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules (“the Basel II Framework”) agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority (“the FSA”).¹ Among them are disclosure requirements applicable to banks, building societies and investment firms which are known as **Pillar 3**. These are designed to promote market discipline by providing market participants with key information on a firm’s risk management processes and risk exposures. Pillar 3 also aims to complement the minimum capital requirements described under **Pillar 1** of Basel II, as well as the internal capital assessment and supervisory review processes of **Pillar 2**.

1.2 Scope and Pillar 1 Methodologies

UBUK, a wholly-owned subsidiary of Union Bank of Nigeria Plc, is a UK registered bank that is regulated by the FSA and, therefore, is subject to the Basel II Framework.

UBUK has no subsidiary undertakings and, therefore, the information contained herein is in respect of the Bank alone.

Union Bank UK plc (“UBUK” or “the Bank”) adopted the Pillar 1 *Standardised* approach to credit risk, the *Basic Indicator* approach to operational risk and the standardised Position Risk Requirement (“PRR”) rules for market risk attributable to foreign exchange from 1 January 2008; it also became subject to Pillars 2 and 3 from that date.

1.3 Basis and Frequency of Disclosures

This disclosure document has been prepared by the Bank in accordance with the requirements of Pillar 3 and FSA rules and guidance. Unless otherwise stated, all figures are as at 31 December 2009, our financial year-end.

Future disclosures will be issued as at the Accounting Reference Date and will be made available as soon as practicable after the publication of the Bank’s Report and Financial Statements.

1.4 Location and Verification

These disclosures are published on the Bank’s corporate website (www.unionbankuk.com) solely for the Pillar 3 purposes of providing information about the management of risk and analysis of capital adequacy and capital requirements. The information contained herein is not subject to audit except where it is equivalent to that prepared in conformity with International Financial Reporting Standards (IFRS) for inclusion in the Bank’s Annual Report and Financial Statements.

¹ As set out in the FSA Handbook – General Prudential sourcebook (“GENPRU”), and Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

2 Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks -Risk Appetite

UBUK overall risk appetite and *tolerance* is considered by the Board of Directors (“the Board”) on at least an annual basis as part of the annual review and challenge of the Internal Capital Adequacy Assessment Process - ICAAP (see section 4.2); it may of course also be reviewed with greater frequency if circumstances dictate. Risk appetite is viewed as a function of expected losses, which should be recognised in gross profit margins; *risk tolerance* is viewed as a function of unexpected losses, which are to be contained within acceptable erosion of capital. Both risk appetite and *tolerance* are considered on an integrated and bank-wide basis, apart from any individual discussions about specific risk limits or processes. The Board agrees not only the specific ways in which risks can be mitigated (e.g. through holding capital, implementing controls or by defining management actions or behaviours) but the appetite and *tolerance* for the overall risk of the Bank. In other words, the Board of UBUK defines the amount of risk exposure, or potential adverse impact from external or internal events, that UBUK is willing to accept.

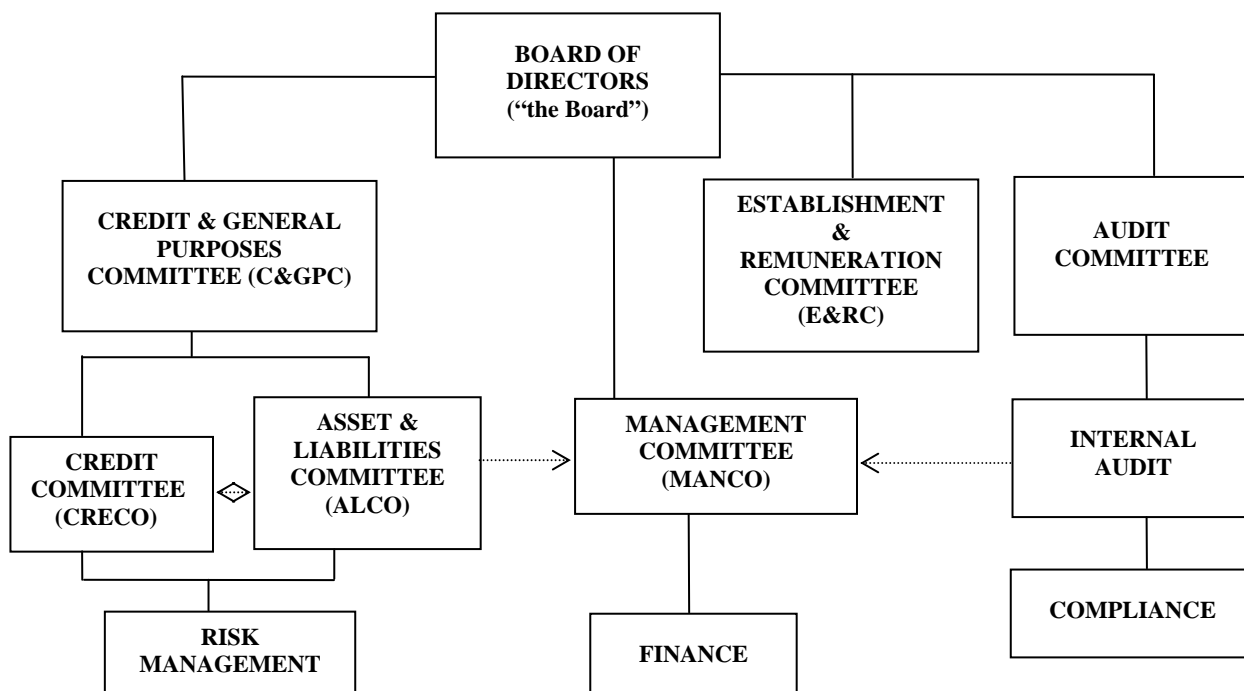
The Board considers risk *tolerance* in the light of a number of factors including the economic environment, business strategy, the availability of capital and liquidity and potential adverse scenarios. This risk *tolerance* is then allocated and its management devolved through a number of key policy statements, which provide for limitation of risk within tolerance together with its monitoring and reporting.

2.2 Governance Model

The governance model deployed by UBUK is one where:

- Risk tolerance and policies are established at Board level and limits of authority and responsibility for monitoring adherence to those limits is progressively devolved, through Board and executive management committees and ultimately to the business units incurring risk; and
- Risk is monitored and controlled through three progressive lines of defence:
 - Business units
 - Control functions (Credit, Risk Management , Finance, Compliance, etc); and
 - Internal Audit, which reports directly to the Audit Committee

Overall, the Board considers that primary responsibility for risk management lies with the business units but recognises that adherence to risk parameters must be monitored independently through the control functions. It recognises also the importance of assurance that both business units and control functions are operating within policies and procedures designed to mitigate risk (both accepted business risks and consequential risks) within its risk tolerances. This assurance is obtained by deploying an Internal Audit function, whose terms of reference are agreed by the Audit Committee. Further assurance is obtained from the independent external auditors, who report on matters relating to internal control as a result of the annual audit process.



Board

This is the primary governing body and meets at least quarterly. Ultimate responsibility for risk identification, appetite, tolerance and management rests with the Board, which approves the following key policy statements of the Bank:

- Credit Policy, including concentration risk (“CPS”)
- Impairment Policy (“IPS”)
- Liquidity Risk Management Framework & Policy (“LRMF&P”)
- Trading Book & Market Risk Policy (“TB&MRPS”)
- Operational Risk Policy (“ORPS”)

The Board has also ultimate responsibility for Internal Capital & Liquidity Adequacy Assessment, including the ICAAP and preparation for the forthcoming ILAA.

The aforementioned policy statements provide the operating models for the management of business and consequential risks, including delegated authorities, responsibilities and methodologies for the management and monitoring of risks. This delegation is made in the first instance to the C&GPC with the exception of the ORPS, which is within the remit of the Audit Committee. However, certain authorities, within defined limits, are further devolved to MANCO, ALCO, CRECO and executive management.

Credit & General Purposes Committee (“C&GPC”)

The C&GPC meets as often as required but at least six times a year. Its primary functions are to monitor compliance with the Bank’s credit and concentration risk (including large exposures), provisioning, liquidity and market risk policies, to consider credit proposals in excess of the limits of authority of the Credit Committee (CRECO, a sub-committee of the Assets & Liabilities Committee - ALCO) of the Bank, to review financial plans and actual performance against plan and to consider, and check the progress of, major IT initiatives.

Audit Committee

The Audit Committee comprises solely of non-executive directors and is chaired by a financially qualified individual. Meetings are attended by the Bank’s head of Internal Audit & Compliance, by executive directors when requested and, at least annually, by the independent external auditors. The Audit Committee meets quarterly.

Its key role in risk management is the assessment of controls that are in place to mitigate risks. Its assessment of the internal control environment is made by reviewing and approving the plans of Internal Audit and considering and questioning management on audit reports.

Establishment & Remuneration Committee (“E&RC”)

The E&RC comprises solely of non-executive directors and has responsibility for matters relating to human resources including staff welfare and 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. In so doing, it ensures that incentives are geared to the overall performance of the Bank and that reward systems do not encourage undue risk-taking.

Management Committee (MANCO)

MANCO is the senior executive committee of the Bank. Its members comprise of the Managing Director/Chief Executive (MD/CE), its chairman, the Finance Director, the Director, Business Development & Banking, Associate Directors (including those responsible for Risk, Credit and Finance) and other Heads of Department and meets on a monthly basis. The committee has responsibility for overall oversight of the business, including strategy and planning, the monitoring of performance, compliance with laws and regulations (e.g. anti money laundering (“AML”) and the fight against financial crime) and the management of operational risk. MANCO has also responsibility for implementing high level policies relating to business risk management, which it delegates to ALCO.

Assets & Liabilities Committee (ALCO)

ALCO is the main executive risk management committee of the Bank. It comprises the MD/CE (chairman), the Finance Director, the Director, Business Development & Banking and the Associate Directors responsible for the Treasury, Lending & Trade Finance, Risk Management & Structured Trade Finance and Retail Banking departments, respectively, meeting monthly and on such other occasions as may be required.

ALCO has delegated its authority to approve certain credit exposures as provided for in the CPS, subject to reporting to the C&GPC, to CRECO. It also has responsibility, *inter alia*, for:

- monitoring compliance with limits relating to aggregate, country and sectoral credit exposure (in accordance with the CPS), liquidity (as per the LRMF&P), market risk and interest rate risk in the banking book (in accordance with the TB&MRPS) and financial regulations (capital adequacy, concentration risk, large exposures and liquidity requirements);
- pricing policy in relation to credit, liquidity and market risk, deposits and other liabilities;
- reviewing and making recommendations for changes to policy statements in respect of credit, provisioning, liquidity risk, market risk (foreign exchange risk) and interest rate risk in the banking book;
- reviewing assets for impairment in accordance with the PPS and making recommendations to the C&GPC as to impairment provisions and charges; and monitoring the progress in collections of debts subject to impairment provision, restructuring or charge-off.

Credit Committee (CRECO)

CRECO operates under the delegated authority of ALCO. Membership is as for ALCO with the exception of the Finance Director and Associate Director, Retail Banking. The Committee meets as frequently as necessary but at least once a month. Its responsibilities include:

- Evaluation of risk of individual credits and ratings as the basis for approval/renewal decisions;
- Recommendation, where considered merited, to C&GPC, of proposals in excess of its delegated authorities;
- Ensuring compliance with, and recommending to ALCO amendments to the CPS (ALCO then decides whether to pass such recommendations on to C&GPC);
- Review of existing exposures with comparison to internal limits, as required by the CPS, and consequent further review of any limit breaches
- Review and monitoring of litigation and recovery; and
- Review of the classification of exposures and making recommendations to ALCO on individual impairment allowances in line with the IPS.

Internal Audit

The Internal Audit function has responsibility for assessing the control environment as required by the Audit Committee. Assessment is made in accordance with the annual Audit Plan, developed using a risk-based approach, reviewed and approved by the Audit Committee. The work of Internal Audit includes assessing the adequacy of risk mitigants and testing operational adherence to related policies/procedures.

Control Functions

Day-to-day responsibility for monitoring adherence to credit policy and procedures is the responsibility of the Credit Unit of the Trade Finance & Lending function, the head of which is the secretary of and compiles the agenda for meetings of CRECO.

Market risk and interest rate risk in the banking book is monitored and subjected to quarterly stress-testing by the Finance function, which also reports independently on a daily basis adherence to capital adequacy, liquidity, 'large exposure' and aggregation limits, including country exposures. The Finance Function also prepares financial projections for ICAAP and, in future, ILAA purposes and subjects these projections and related risk components to scenario and stress testing.

Monitoring of compliance with the ORPS is the responsibility of MANCO, which also reviews the policy at least annually, making recommendations for any necessary changes to the Audit Committee. On a day-to-day basis, adherence to the ORPS is monitored by the Internal Audit and Compliance functions, which report to MANCO based on a register of operational risk events, whether or not they result in actual loss.

The role of the Risk Management function is to support the other control functions in executing these duties as part of its overall responsibility to Executive Management and the Board for review, maintenance of, and adherence to, the Bank's Risk Framework and policies. The head of this function acts as the secretary of and compiles the agenda for meetings of ALCO.

3 Capital Resources

3.1 Total Available Capital

At 31 December 2009 and throughout the nine months, the Bank complied with the regulatory capital requirements that were in force as set out by the FSA. The following table shows the breakdown of the total available capital for UBUK as at 31 December 2009:

	At 31st December2009 (excluding 2009 retained earnings)	At 31st December2009 (including 2009 retained earnings)
	US\$'000	US\$'000
Tier I		
Ordinary shares	45,000	45,000
Deferred shares	90	90
Profit & loss account	6,069	6,101
Proposed final dividend	-	-
Intangible Assets	(1,138)	(1,138)
Total Tier 1 Capital	50,021	50,053
Tier 2		
Subordinated debt	15,000	15,000
Collective impairment provision for loans and receivables	220	220
Total Tier 2 Capital	15,220	15,220
Total capital available (Capital Resources)	65,241	65,273

3.2 Tier 1 Capital

Tier 1 capital comprises of ordinary shares, deferred shares and the profit and loss account. In accordance with FSA rules only audited profits can be added to Tier 1 capital and, therefore, as the results for 31 December 2009 were not audited at the time the Tier 1 capital was prepared, only the audited profits up to 31 March 2009, less the dividend paid during the year to 31 December 2009, can be included. However, for illustrative purposes, the position following completion of the audit of the financial statements for the year ended 31st December 2009 is shown also.

UBUK currently has no innovative Tier 1 instruments. Ordinary and deferred shares rank behind the claims of all subordinated debt holders, depositors, and creditors of UBUK.

3.3 Tier 2 Capital

Tier 2 capital comprises qualifying dated subordinated debt due 30th September 2016 and a collective impairment provision against loans and receivables.

Under FSA rules, qualifying dated subordinated debt (Lower Tier II capital) cannot exceed 50% of the total of Tier 1 capital, and total Tier 2 capital cannot exceed Tier 1 capital.

The Subordinated debt is unsecured and ranks behind the claims of all depositors and creditors. More details of the subordinated loan is included in note 26 to the 2009 Annual Report and Financial Statements.

4 Capital Adequacy

4.1 Capital Management

The Bank has adopted the *Standardised* approach to credit risk, the *Basic Indicator* approach to operational risk and the standardised PRR rules for market risk attributable to foreign exchange since 1 January 2008 in order to calculate the Basel II Pillar 1 minimum capital requirement.

UBUK manages its capital levels by balancing efficient use of capital with prudence. The Board considers that this approach is consistent with the Bank's framework for capital adequacy, the need to preserve its competitive position in relation to capital requirements and the objective of maintaining and enhancing its reputation.

Capital requirements are measured on both a regulatory and economic basis. Regulatory capital covers all Pillar 1 risks (i.e. credit risk, operational risk and foreign exchange risk) for all significant business areas. UBUK determines its minimum Capital Resource Requirement ("CRR") on a daily basis, using specialised regulatory reporting software, which is compliant with the FSA's BIPRU rules. Economic capital includes all other material risks (after recognizing relevant mitigation), which do not require the provision of regulatory capital under Pillar 1 (known as Pillar 2 risks). As the Bank does not deploy a formal economic capital model, the approach adopted has been to consider individually additional capital requirements for those risks not covered under Pillar 1 (i.e. the so-called *Pillar 1 plus* approach). Additional risks are categorised into one of the following four main elements:

- Risks covered by Pillar 1 where Pillar 1 capital charges may be inadequate
- Risks not fully covered by Pillar 1
- Risks not covered by Pillar 1
- Business / strategic risks

Individual risks and mitigants are then assessed, additional capital requirements considered and methodologies developed to compute incremental capital charges where appropriate.

Both Pillar 1 and Pillar 2 capital requirements are computed daily and circulated to senior management. Furthermore, on a quarterly basis both the C&GPC and the Board receive and review reports of capital adequacy, liquidity and other risks, which also include trend analysis.

4.2 Internal Capital Adequacy Assessment Process

The Bank undertakes an Internal Capital Adequacy Assessment Process ("ICAAP") which is an internal assessment of its capital needs. This internal assessment is made using the Pillar 1 plus approach as outlined above. The ICAAP is performed annually or more frequently should the need arise.

The ICAAP covers all material risks to determine capital requirements over a three-year horizon, given current business plans and related financial projections. The process includes the application of adverse scenarios and stress tests to the projections and material risks to satisfy the regulatory requirements. Where capital is not deemed to be an appropriate mitigant to a particular type of risk, alternative management actions are identified and described within the ICAAP. The outcome of the ICAAP is presented in an Internal Capital Adequacy Assessment document.

The ICAAP is reviewed and considered by MANCO before being presented to the C&GPC and Board with whom ultimate responsibility lies for challenge and approval. In relation to Pillar 2 risks, the FSA has issued Individual Capital Guidance ("ICG"), expressed as an "uplift ratio" to be applied to the Basel minimum of 8%, which came into effect from 1 January 2008.

4.3 Minimum Capital Requirement: Pillar 1

UBUK's overall Pillar 1 minimum Capital Resource Requirement ("CRR") is calculated by adding the Credit Risk Capital Requirement ("CRCR") as set out in 4.4 below to that required for operational risk using the *Basic Indicator* approach, the foreign exchange Position Risk Requirement ("FX PRR") element

of Market Risk and Counterparty Credit Risk (“CCR”).

The FX PRR charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the FSA BIPRU rules.

The Bank does not maintain a trading book. However it does use derivative instruments (mainly forward foreign exchange contracts) to hedge against its sterling expenses and to facilitate customers. The Bank calculates its exposure to CCR using the mark to market method. This requires marking to market those contracts with positive values, and obtaining a potential future credit exposure estimate for all open contracts by multiplying the notional principal or underlying values by the percentages in accordance with the table in BIPRU 13.4.5 R. These totals are added together in order to arrive at the exposure value which is then multiplied by 8 per cent. At 31st December 2009, there were no such derivative contracts outstanding.

The following table shows both the Group’s overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2009:

	Dec 2009	Mar 2009
	US\$’000	US\$’000
Credit Risk (<i>Standardised</i> approach)	21,859	22,455
Operational Risk (<i>Basic Indicator</i> approach)	1,905	1,819
Market Risk (FX PRR)	7	13
Counterparty Credit Risk	-	-
Minimum Capital Resources requirement	23,771	24,287
Total Capital Resources (per section 3.1)	65,241	64,133
Excess of Capital Resources over minimum capital requirement	41,470	39,846

4.4 Minimum Capital Requirement: Credit Risk

The following table shows UBUK’s overall minimum capital requirement for credit risk under the *Standardised* approach (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes) at 31 December 2009:

Year	Dec 2009	Mar 2009
Exposure classes	US\$’000	US\$’000
Regional Governments & Local Authorities	400	201
Institutions	752	922
Corporates	2,540	1,421
Retail	138	38
Secured on real estate property	504	496
Short term claims on institutions and corporates	17,420	19,269
Past due items	2	4
Other items	103	104
Credit risk minimum capital requirement	21,859	22,455

5 Credit Risk Measurement, Mitigation and Reporting

5.1 Credit Risk Overview

Introduction

Credit risk is the risk that individuals, corporates, financial institutions and other counterparties will be unable to meet their obligations to the Bank, which may result in financial losses. Credit risk arises principally from the Bank's exposures to treasury counterparties, post-shipment refinancing for issuers of letters of credit, commercial loans and also off balance sheet liabilities in the form of confirmed letters of credit and guarantees.

The Bank has established risk tolerance levels for each type of counterparty, which reflect its assessment of relative credit risk. Hence, these tolerance levels vary based on a number of factors such as geographic location, international ratings and tenor of exposure. These tolerances are then used to derive maximum exposure limits as part of the overall governance framework to measure, mitigate and manage credit risk within the Bank's risk appetite and *tolerance*.

Exposures

The Bank's gross and net credit risk exposures before and after credit risk mitigation (based on the definitions for regulatory capital purposes) at 31 December 2009 and 31 March 2009 and the average for the year (before credit risk mitigation) are summarised as follows:

	Before mitigation	After mitigation	Before Mitigation
	31 December 2009	31 December 2009	Average 2009
	US\$'000	US\$'000	US\$'000
Financial Institutions	999,348	959,670	1,096,704
Parastatals, government agencies	5,000	5,000	2,953
Corporates	37,552	33,706	29,337
Retail	10,258	1,727	4,498
Past due items (see 5.2 below)	4,535	15	4,381
	1,056,693	1,000,118	1,137,873

	<i>Before mitigation</i>	<i>After mitigation</i>	<i>Before mitigation</i>
	<i>31 March 2009</i>	<i>31 March 2009</i>	<i>Average 2008/09</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Financial Institutions</i>	1,147,597	1,119,374	936,424
<i>Parastatals, government agencies</i>	2,513	2,513	3,453
<i>Corporates</i>	28,251	23,861	34,653
<i>Retail</i>	1,629	470	1,187
<i>Past due items (see 5.2 below)</i>	4,185	37	32
	1,184,175	1,146,255	975,749

The analysis of the Bank's exposures by exposure class, broken down by counterparty, at 31 December 2009 and 31 March 2009 is as follows:

December 2009	Carrying Value	Maximum Exposure
	US\$'000	US\$'000
Loans and advances to financial institutions		
Banks	999,348	999,348
Other Financial Institutions	-	-
Past due items	-	-
Loans and advances to customers		
Parastatals, government agencies etc	5,000	5,000
Corporates	37,552	37,552
Retail	10,258	10,258
Past due items	4,535	4,535
	1,056,693	1,056,693

March 2009	Carrying Value	Maximum Exposure
	US\$'000	US\$'000
Loans and advances to financial institutions		
Banks	1,147,597	1,147,597
Other Financial Institutions	-	-
Past due items	-	-
Loans and advances to customers		
Parastatals, government agencies etc	2,513	2,513
Corporates	28,251	28,251
Retail	1,629	1,629
Past due items	4,185	4,185
	1,184,175	1,184,175

The geographic distribution is analysed into significant areas by material exposure classes at 31 December 2009 and 31 March 2009 as follows:

December 2009	United Kingdom	Nigeria	Europe	Other
	US\$'000	US\$'000	US\$'000	US\$'000
Financial Institutions	326,998	85,351	386,477	200,521
Parastatals	-	-	-	5,000
Corporates	1,470	20,478	4,465	11,140
Retail	726	5,079	-	4,452
Past due items	4,388	148	-	-
	333,582	111,056	390,942	221,113

Credit risk to counterparties in Nigeria is stated before offset of mitigation in the form of cash collateral held by the Bank, which amounted to US\$58,650,000 at 31 December 2010.

<i>March 2009</i>	<i>United Kingdom</i>	<i>Nigeria</i>	<i>Europe</i>	<i>Other</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financial Institutions	284,993	57,583	657,339	147,682
Parastatals	-	2,513	-	-
Corporates	1,282	12,903	-	14,066
Retail	455	982	-	192
Past due items	4,031	154	-	-
	290,761	74,135	657,339	161,940

The residual maturity breakdown of all the disclosures, analysed by exposure classes at 31 December 2009 and 31 March 2009 is as follows:

December 2009	On demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Financial Institutions	13,887	960,937	24,523	-	-
Parastatals	-	-	5,000	-	-
Corporates	4,247	17,791	11,011	4,504	-
Retail	403	732	1,555	7,568	-
Past due items	4,535	-	-	-	-
	23,072	979,460	42,089	12,072	-

<i>March 2009</i>	<i>On demand</i>	<i>Within 3 months</i>	<i>Between 3 months and 1 year</i>	<i>Between 1 and 5 years</i>	<i>Over 5 years</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financial Institutions	57,545	1,075,287	14,765	-	-
Parastatals	-	1,257	1,256	-	-
Corporates	11,434	2,589	3,754	10,473	-
Retail	219	56	429	926	-
Past due items	4,185	-	-	-	-
	73,383	1,079,189	20,204	11,399	-

Generally, credit risk is managed and mitigated through the operation of UBUK's Credit Policy, which provides, *inter alia*, for

- methodologies for measuring credit exposure, including the recognition of collateral security
- methodologies for determining the maximum Exposure at Default (EAD) that will be tolerated for each major category of counterparty / customer
- overall limits of authority for the approval of individual credit exposures
- the definition of acceptable collateral security and the extent to which the value thereof may be recognised for credit risk mitigation purposes
- procedures for ensuring that facility conditions (including security perfection) are adhered to prior to disbursement of funds

- processes for monitoring the status of credit exposures.

Analysis by Credit Quality Step - ECAIs & Treasury Counterparties

The Bank uses the ratings of Standard and Poor's ("S&P"), Moody's and Fitch Ratings as External Credit Assessment Institutions ("ECAIs") to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale in BIPRU 3.4. The Bank has complied with the credit quality assessment scale within BIPRU 3.4.

In the main, credit ratings are applicable to treasury counterparties and certain emerging market banks as the majority of the Company's corporate customers fall into the Small & Medium sized Entities ("SME") category and, therefore, do not carry international credit ratings.

For treasury counterparties, the long and short-term ratings of ECAIs are one of a number of considerations that form part of the Bank's credit assessment and limit assignment process within established risk tolerances (see also 5.4 (A) below).

In general the Bank prefers to refer to long term senior unsecured ratings because it does not acquire assets that are issuer specific. In particular, the Bank does **not** hold any asset-backed securities or commercial paper issued by conduits, structured investment or similar financing vehicles.

The exposure values associated with each credit quality step are as follows:

December 2009			
Credit quality step	S & P ratings	Exposure Value before mitigation	Exposure Values after mitigation
		US\$'000	US\$'000
1	AAA to AA-	191,308	191,308
2	A+ to A-	701,915	701,915
3	BBB+ to BBB-	20,524	20,524
4	BB+ to BB-	-	-
5	B+ to B-	44,870	10,725
Un-rated		93,541	75,631
Past due items		4,535	15
		1,056,693	1,000,118

March 2009			
Credit quality step	S & P ratings	Exposure Value before mitigation	Exposure Values after mitigation
		US\$'000	US\$'000
1	AAA to AA-	220,304	220,304
2	A+ to A-	859,451	859,451
3	BBB+ to BBB-	10,258	10,258
4	BB+ to BB-	-	-
5	B+ to B-	39,086	10,628
Un-rated		50,891	45,577
Past due items		4,185	37
		1,184,175	1,146,255

5.2 Impairment Provisions

The Bank assesses on a half yearly basis whether, as a result of one or more events that occurred after initial recognition, whether there is objective evidence that a financial asset, or group of financial assets, are impaired. Evidence of impairment may include indications that the borrower, or group of borrowers, are experiencing significant financial difficulty, default or delinquency in interest or principal payments or that debt is being restructured to reduce the burden on the borrower.

The Bank first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a collection of assets with similar credit risk characteristics and collectively assessed for impairment.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the profit and loss account. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized the provision is adjusted and the amount of the reversal is recognized in the profit and loss account.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the profit and loss account.

Loans subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due or impaired but are treated as new loans after the minimum required number of payments under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

The following table shows the provisions for impaired and past due exposures by counterparty:

December 2009	Impairment provision	Impaired exposures	Past due exposures
	US\$'000	US\$'000	US\$'000
Loans and advances to banks	-	-	-
Loans and advances to customers	345	393	-
	345	393	-

<i>March 2009</i>	<i>Impairment provision</i>	<i>Impaired exposures</i>	<i>Past due exposures</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Loans and advances to banks</i>	-	-	-
<i>Loans and advances to customers</i>	318	355	-
	318	355	-

For the purposes of this table, past due is defined as one day or more overdue. The amounts shown as past due represent the full amount of the loan outstanding, not just the amount that is past due.

In addition, the provision for past due and impaired exposures is analysed by geographical location of the exposure below:

December 2009	Impairment provision	Impaired exposures	Past due exposures
	US\$'000	US\$'000	US\$'000
United Kingdom	324	357	-
Nigeria	21	36	-
Europe	-	-	-
Other	-	-	-
	345	393	-

<i>March 2009</i>	<i>Impairment provision</i>	<i>Impaired exposures</i>	<i>Past due exposures</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>United Kingdom</i>	287	289	-
<i>Nigeria</i>	31	66	-
<i>Europe</i>	-	-	-
<i>Other</i>	-	-	-
	<i>318</i>	<i>355</i>	-

The following table summarises the movement during the year in impairment provisions. Further information on the charge to the profit and loss account for provisions and more detailed analysis is included in note 18 in the Annual Report and Financial Statements:

December 2009	Individual provisions	Collective provisions	Total
	US\$'000	US\$'000	US\$'000
Opening balance	318	214	532
Increases / (releases) in provisions	(1)	-	(1)
Amounts written off	-	-	-
Recoveries	-	-	-
Exchange differences	28	6	34
Closing balance	345	220	565

<i>March 2009</i>	<i>Individual provisions</i>	<i>Collective provisions</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>Opening balance</i>	428	202	630
<i>Increases / (releases) in provisions</i>	(27)	21	(6)
<i>Amounts written off</i>	-	-	-
<i>Recoveries</i>	-	-	-
<i>Exchange differences</i>	(83)	(9)	(92)
<i>Closing balance</i>	<i>318</i>	<i>214</i>	<i>532</i>

5.3 Credit Risk Concentrations

The Board recognises that concentration of exposure, especially credit exposure to certain geographic regions or industry sectors increases risk, particularly in a down-turn in the economic environment of a particular region or economic sector. Given the Bank's parentage and the rationale for its business, the Board accepts concentration of exposure to Nigeria and West Africa generally. Hence, the only other concentration that is accepted arises from the placement of short term funds in the London money market,

which is inevitably focused on financial institutions located in G7 countries and major EU economies. It does not accept other concentrations to geographic regions or economic sectors where it does not have the same level of expertise as is the case with Nigerian business.

Nevertheless, the Board considers country, sovereign and economic sector concentration risks carefully and establishes limits, which are set out in the CPS. UBUK measures geographical exposure on a daily basis which is circulated to senior management and also reported to the Board quarterly

5.4 Credit Risk Mitigation

(A) Placement of Surplus Funds with Financial Institutions (FIs) - Default Risk

The credit exposures relating to placement of surplus funds in the London money market are controlled through a limit system within the overall risk tolerance for such counterparties. This limit system is largely based on the current long and short-term credit ratings of such FIs by ECAs and the original maturity of exposures (up to 7 days, three months and one year respectively). In addition, as a further safeguard, the credit default swap (“CDS”) pricing for such treasury counterparties is monitored and, where the pricing of the CDS exceeds a threshold determined by reference to current market conditions, the current limit is referred to ALCO, which may either suspend or reduce the limit.

(B) Dealing in Foreign Exchange - Settlement Risk

Nominal limits are established for both the gross open (unsettled) spot position and the settlement day position to mitigate risk with each counterparty. In the case of forward foreign exchange, potential mark-to-market exposure is controlled also through limits weighted according to the period to maturity of the forward contract.

(C) Lending activities for Financial Institutions and customers

(a) Nigerian Banks

Given its parentage, UBUK has specialised knowledge of the Nigerian banking sector. Risk arises mainly from trade related transactions and is mitigated not only by the establishment of limits individually approved at the Board level in accordance with its overall risk tolerance framework but also by sub-limits. These require referral of larger transactions to ALCO where the nature of, and the Bank's concentration to, the goods or services underlying the transaction are considered as well the credentials of the parties to the letter of credit.

(b) Customers

The majority of UBUK corporate customers are SMEs and, therefore, do not have balance sheets that would support any material unsecured lending. Consequently, authority to incur unsecured credit exposure is very limited without referral to the C&GPC and, therefore, the majority of credit exposures are secured in accordance with the CPS where the types of security that may be accepted are detailed together with related security margins.

Pillar 2

The Board accepts that the concentration risk to the Nigerian economy is not reflected fully in the Pillar 1 capital requirements, which assume diversified credit portfolios in particular. Therefore, additional internal capital is provided for Nigerian credit exposures subject to a safeguard that this cannot be less than the Pillar 1 charge, which is implied by a double-notch downgrade in the sovereign credit rating of Nigeria.

In addition, in recognition of the dependence of the Nigerian economy on the oil & gas sector, a further additional capital charge on an incremental basis applies to exposures with a maturity of over one year in the event that the forward price of crude oil falls below a reference level. The reference level is established (and adjusted annually) having regard to that assumed for the purposes of the federal budget of Nigeria.

5.5 Credit Risks – Collateral and Other Mitigants

The Bank holds collateral against loans and advances to customers in the form of cash security, mortgages over tangible assets and guarantees. Collateral is not generally held over loans and advances to banks, except in respect of the confirmation of certain letters of credit. The Bank also offsets a proportion of its counterparty credit risk through the holding of legally enforceable netting agreements.

Collateral in the form of tangible assets is subject to margin requirements that are set out in the CPS. The margin requirement is determined by discounting the professionally appraised value of the asset concerned to an assumed “forced sale value” (“FSV”). The FSV varies depending on a number of factors including the nature of the asset, its geographic location and the volatility and depth of the market for the asset(s) concerned. In accordance with the CPS, collateral is always formally documented and perfected and, where necessary, the enforceability is subject to legal opinions in relevant jurisdictions.

Also in accordance with the CPS, collateral is subject to regular professional valuation, the frequency of which depends upon the nature of the asset. The possibility of material change in the value of collateral held is considered at each annual review of a credit and, where considered necessary, valuation is updated outside the normal review cycle and the results reported to ALCO.

Pillar 2

The Bank has not identified any risks, other than residual legal risk in relation to collateral held, which are not sufficiently mitigated by Pillar 1 capital charges. Where collateral is recognised for the purposes of calculating Pillar 1 capital charges, either by way of offset or reduced risk weighting an incremental Pillar 2 charge is applied to the extent that mitigation is recognised under Pillar 1. This additional charge is designed to reflect residual risk (primarily legal risk) that collateral may not be legally enforceable. Consequently, the charge is higher for collateral that may require enforcement action in developing countries.

6 Market Risks

6.1 Market Risk Overview

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. Any currency risk arising from the Bank's commercial banking and lending activities in the banking book is managed within the Bank's foreign exchange limits. The Bank's spot and forward foreign exchange positions arise mainly from the residual amounts resulting from customer facilitation transactions.

Market risk exposures are generally calculated and monitored independently of each other. All market risks are monitored closely and regularly reported to the Assets and Liabilities Committee (ALCO) on a monthly basis.

6.2 Interest Rate Risk

The Bank is exposed to interest rate risk in its banking book due to mismatches between the re-pricing dates of assets and liabilities. The *tolerance* for risk is related to UBUK approved limits for 'maturity' gaps. The maximum 'gap' limits being subject to an assumed adverse parallel shift in the yield curve in each major currency of 100 basis points.

Interest rate risk is mitigated by adherence to policies, including 'maturity gap' limits, set out in the TB&MRPS. The actual 'maturity gap' positions are reported to ALCO on a monthly basis and the C&GPC quarterly together with the impact of stresses of 100 and 200 basis point adverse parallel shifts in the yield curve respectively.

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 profit or loss:

US\$'000	31 December 2009				Total
	Currencies				
	US dollar	£ Sterling	Euro	Other	
Total Financial assets	736,850	238,662	26,373	711	1,002,596
Less: fixed rate assets	(303,846)	(-)	(-)	(-)	(303,846)
Total Variable rate assets	433,004	238,662	26,373	711	698,750
Total Financial liabilities	671,450	237,238	26,416	661	935,765
Less: fixed rate liabilities	(321,874)	(24,975)	(2,866)	-	(349,715)
Total Variable rate liabilities	349,576	212,263	23,550	661	586,050
Net cash flow interest Rate Risk exposure	83,428	26,399	2,823	50	112,700
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax	834	264	28	-	1,126
Tax charge-28%	(234)	(74)	(8)	-	(316)
Possible impact of increase in Libor/Euribor on profit/loss after tax	600	190	20	-	810
Possible impact of decrease in Libor/Euribor on profit/loss before tax	(834)	(264)	(28)	-	(1,126)
Tax charge-28%	234	74	8	-	316
Possible impact of decrease in Libor/Euribor on profit/loss after tax	(600)	(190)	(20)	-	(810)

31 March 2009

US\$'000	Currencies				Total
	US dollar	£ Sterling	Euro	Other	
Total Financial assets	804,369	295,672	47,602	5,523	1,153,166
Less: fixed rate assets	(331,693)	(-)	(-)	(-)	(331,693)
Total Variable rate assets	472,676	295,672	47,602	5,523	821,473
Total Financial liabilities	738,044	293,801	47,089	5,440	1,084,374
Less: fixed rate liabilities	(315,839)	(16,923)	(616)	-	(333,378)
Total Variable rate liabilities	422,205	276,878	46,473	5,440	750,996
Net cash flow interest Rate Risk exposure	50,471	18,794	1,129	83	70,477
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax	505	188	11	1	705
Tax charge-28%	(141)	(53)	(3)	-	(197)
Possible impact of increase in Libor/Euribor on profit/loss after tax	364	135	8	1	508
Possible impact of decrease in Libor/Euribor on profit/loss before tax	(505)	(188)	(11)	(1)	(705)
Tax charge-28%	141	53	3	-	197
Possible impact of decrease in Libor/Euribor on profit/loss after tax	(364)	(135)	(8)	(1)	(508)

As interest rate risk in the banking book is not captured within Pillar 1, an additional capital charge is computed under Pillar 2 based on the impact of a 100 basis point adverse parallel shift in the yield curve.

6.3 Foreign Exchange Risk

The Bank does not maintain a trading book and, therefore, currency exposures arise only in the banking book positions. Currency positions mostly arise from any overnight residue from currency transactions on behalf of customers and the movement of sterling expenses into the Bank's US dollar base currency.

Foreign exchange risk is subject to gross and net open position limits, which are established by the Board having regard to allocated risk tolerance, which is low since no speculative activity in foreign exchange is authorised. Adherence to these limits is monitored daily by means of reports circulated to senior management.

The Bank's Pillar 1 minimum capital requirement allows for foreign exchange risk through the foreign exchange Position Risk Requirement (PRR) - see section 4.3.

Foreign Currency Sensitivity

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 profit or loss 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 profit or loss if these currency movements had occurred.

31 December 2009			
US\$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net Foreign currency exposures	41	7	47
Impact of 5% increase in FC:USD rate	2	-	2
Impact of 5% decrease in FC:USD rate	(2)	-	(2)
31 March 2009			
US\$'000	Currencies (FC)		
	£ Sterling	Euro	Other
Net Foreign currency exposures	(151)	25	91
Impact of 5% increase in FC:USD rate	(8)	1	5
Impact of 5% decrease in FC:USD rate	8	(1)	(5)

6.4 Liquidity Risk

The unexpected losses that arise as a result of liquidity risk are considered minimal because UBUK is a provider of funds and long term lending is presently largely funded by capital rather than customer deposits. Nevertheless, it is the policy of UBUK to hold a store of liquidity in the form of short-dated liquid financial instruments (treasury bills, negotiable certificates of deposits etc) against unexpected customer demand for funds.

Pillar 2

There exists implicit risk *tolerance* to losses that might arise on forced sale of such instruments. Therefore, an allocation of overall risk *tolerance* is made to liquidity risk based on the assumption of forced sale of such instruments and additional capital provided accordingly.

6.5 Business Risk

Due to their nature, certain short term deposits received by the Bank show volatility. Therefore, the Board considers it appropriate to maintain a capital "buffer" to allow for short term increases in the credit risk component of the Pillar 1 capital charge, which arises from the placement of these funds in the money markets.

7 Operational Risk

Operational risk is the risk of loss to the Bank resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls. For this purpose, the Board approves the ORPS, which considers operational risk *tolerance* in terms of both probability and severity of occurrence for each of the following major operational risk categories:-

Financial crime (fraud, money laundering etc)	Information security
Employment practices	Information technology
Premises & physical assets	Legal & regulatory
Customer fulfillment	Reputational
Business Continuity	Transactional

The objective of the Bank is to reduce "treated risk" (i.e. the assessed risk after the application of controls) in each category so that it is no higher than the risk *tolerance* deemed acceptable by the Board.

To facilitate the monitoring of operational risk and to identify potential for unacceptable increase in risk above targeted levels, the Bank monitors operational risk through:

- a series of Key Risk Indicators ("KRIs"); and
- the recording and assessment of operational risk incidents.

The Bank also maintains insurance against employee fidelity and computer crime risks

The Bank uses the *Basic Indicator* approach to calculate the Operational Risk Capital Requirement. In this approach, a three-year moving average of gross income (defined as net interest income plus all other income) is regarded as a proxy for operational risk exposure and the capital charge is computed as 15% thereof - see also section 4.4.

Pillar 2

It is considered that the *Basic Indicator* approach generally reflects the Bank's operational risk profile except for trade finance where, despite sound mitigating controls, inherent risk arises from the documentary and labour intensive nature of the activity. Therefore, additional capital is provided under Pillar 2 by reference to a moving annual total of the volume of activity.

In addition, capital is provided to the extent that a deductible is accepted under the Bank's Comprehensive Crime insurance policies.