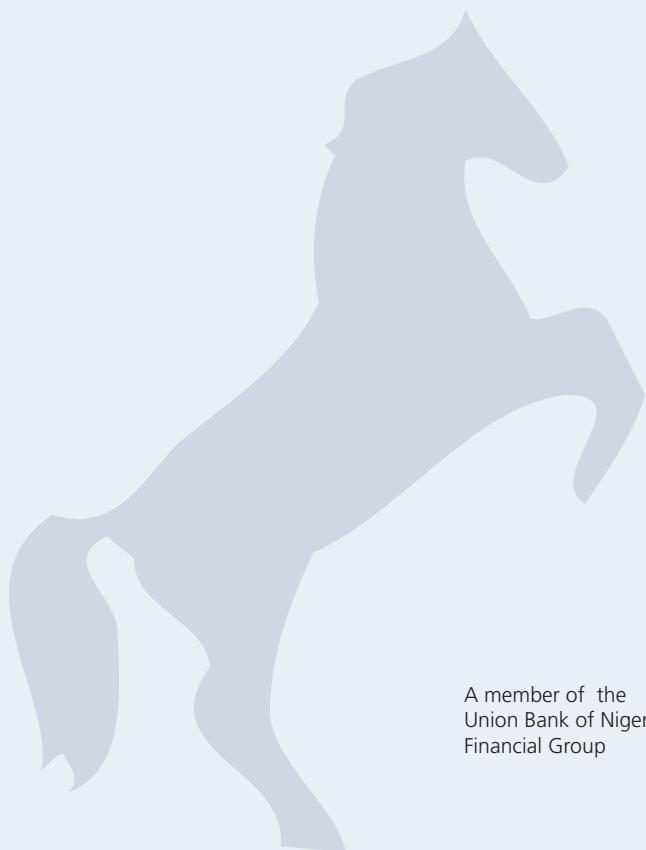
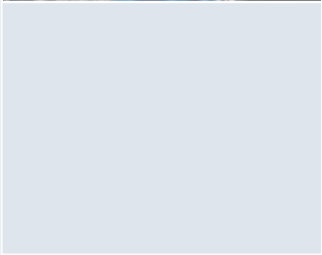
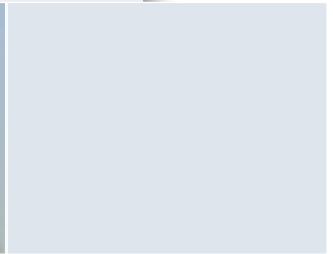


# UNION BANK UK plc

Annual Report & Financial Statements 31st December 2009



A member of the  
Union Bank of Nigeria Plc  
Financial Group



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Disclosures of information recommended under Basel II, Pillar 3 are being posted on our website, [www.unionbankuk.com](http://www.unionbankuk.com)

### Please Note

The accounts information contained herein conforms to IFRS standards for the display of financial data

# Directors, Advisers and Principal Officers

## Directors and Advisers

<b>Directors:</b>	Olufunke I Osibodu	Non-executive Chairman and Group Managing Director/Chief Executive of Union Bank of Nigeria Plc
	Kaonen A Ali	Managing Director/Chief Executive
	Michael J Conway	Finance Director
	Neil R Forsyth	Independent non-executive and Chairman of the Audit Committee
	Philip C Ikeazor	Non-executive and Executive Director of Union Bank of Nigeria Plc
<b>Secretary:</b>	Michael J Conway	
<b>Registered Office:</b>	14-18 Copthall Avenue, London EC2R 7BN	
<b>Solicitors:</b>	Lovells	Atlantic House, London EC1A 2FG
<b>Auditors:</b>	KPMG Audit Plc	8 Salisbury Square, London EC4Y 8BB

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## Principal Officers

<b>Management Committee:</b>	Kaonen A Ali	Managing Director/Chief Executive
	Michael J Conway	Finance Director
	Tijjani Baba	Director, Business Development & Banking
	Simon R E Coe	Associate Director, Risk Management
	Timothy E Green	Associate Director, Trade Finance and Lending
	David W Keene	Associate Director, Finance and IT
	Janet A Ntuk	Associate Director, Corporate Resources
	John R Robin	Associate Director, Internal Audit & Compliance
	Kelvin F Royer	Associate Director, Treasury
	Martin Uzus	Associate Director, Structured Trade Finance

# Report of the Directors

The directors have pleasure in presenting their report together with the audited financial statements for the nine month accounting period ended 31st December 2009.

## Principal Activities

Union Bank UK plc (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).

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 is authorised by the UK Financial Services Authority (FSA), pursuant to Part IV of the Financial Services and Markets Act 2000 (FSMA 2000), to carry on regulated financial services activities, including deposit-taking and

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 FSA.

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## Directors

The directors of the Bank at the date of this report and those who served during the accounting period ended 31st December 2009, are as follows:

Mrs OI Osibodu	-	Chairman – appointed non-executive director 13th October 2009
Dr GAT Oboh	-	Former Chairman – resigned 29th January 2010
Dr KA Ali	-	Managing Director/Chief Executive
Mr MJ Conway	-	Finance Director
Dr BB Ebong	-	Non-executive – ceased 14th August 2009
Mr JC Efeyini	-	Non-executive – resigned 28th February 2010
Mr NR Forsyth	-	Non-executive
Mr PC Ikeazor	-	Non-executive – appointed 23rd March 2010
Mr WDR Swanney	-	Non-executive – resigned 11th July 2009

Mrs OI Osibodu was appointed to the Board by UBN in replacement of Dr BB Ebong following her appointment as Group Managing Director / Chief Executive of UBN with effect from 14th August 2009. Dr GAT Oboh resigned from his position as non-executive director and Chairman on 29th January 2010 and Mrs OI Osibodu has been appointed to the Chair of the Board in his stead. The Board wishes to express its grateful appreciation to Dr Oboh for his stewardship of the Board and invaluable contribution to the development of the Bank over a period of almost seven years.

Committee and the Establishment & Remuneration Committee respectively, subject to successful application to the FSA for their admission to the register of 'approved persons'. These individuals will replace Mr JC Efeyini and Mr WDR Swanney both of whom had served as independent non-executive directors since the authorisation of the Bank in October 2004. The Board wishes to express its sincere gratitude to Mr Efeyini and Mr Swanney for their contribution to the Bank and effective chairmanship of Board committees.

The Board has identified two individuals to act as independent non-executive directors and chairman of the Credit & General Purposes

During the accounting period the Bank provided qualifying third party indemnity provision on behalf of the directors.

# Report of the Directors

## Continued

### Accounting Reference Date

During the period the Accounting Reference Date of the Bank was changed to 31st December to conform to a similar change made by the Bank's parent and ultimate holding company, UBN, as a result of the introduction of a common year end for banks in Nigeria. Consequently, the results presented are for the nine month period commencing 1st April 2009.

### Going Concern Basis of Accounting

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.

### Financial Results

The Bank's financial statements are prepared under the International Financial Reporting Standards as endorsed by the European Union (EU) (IFRS). 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 nine month accounting period ended 31st December 2009 are shown on pages 15 to 46. The profit for the period after taxation amounted to US\$32,000 (year ended 31st March 2009 – US\$2,218,000).

A final dividend, in respect of the year ended 31st March 2009, of US\$1,107,000 was paid during the accounting period (2008/9 in respect of the year ended 31st March 2008 - US\$1,278,000), leaving a retained loss for the period of US\$1,075,000 (year ended 31st March 2009 - US\$940,000 profit).

The directors do not propose the payment of a final dividend for the accounting period (year ended 31st March 2009 - US\$0.0246 per share amounting to US\$1,107,000).

### Business Review

The performance of the Bank reflects the economic and business environment in Nigeria and West Africa as well as in the major developed economies. In addition, the Bank's expenses, which are incurred mainly in £sterling, are impacted significantly by movements in the £sterling/US\$ exchange rate while income from capital resources is influenced by the prevailing level of US\$ interest rates.

The period under review was dominated by the problems that originated in the US 'sub-prime' mortgage markets, their impact on banking sector liquidity and capital resources and the associated 'credit crunch'. International efforts to counter the possibility of economic depression, to stimulate world trade and to address the causes of the financial crisis culminated in the G20 meeting in London in April 2009 where a package of agreed measures was announced. Governments, their central banks and regulators continued to counter the threat of worldwide depression by maintaining capital and liquidity support to financial institutions, historically low interest rates and various forms of Keynesian and monetary macro-economic stimuli. Overall, these measures appear to have been effective with recent

# Report of the Directors

## Continued

signs that contraction in major economies has ended albeit that return to growth remains fragile and exposed to any further 'shock' or mistimed withdrawal of economic stimuli. The improved outlook as compared with expectations resulted in a recovery in major western stock markets of some 27% over the calendar year and, indeed, far greater appreciation in the larger emerging economies of Brazil, Russia, India and China (BRIC). Nevertheless, short-term interest rates must remain low for some considerable time to counteract the impact of the fiscal tightening necessary to deal with burgeoning deficits, which have recently been the primary focus of market concern, especially in the less robust EU states. The situation poses a challenge not only for government fiscal policy but also for financial regulation where desire to bolster liquidity and capital resources must be balanced against the need for credit expansion if economic recovery is to be sustained.

As it became apparent that the coordinated efforts of the G20 were likely to be successful in avoiding economic depression, commodity prices rebounded, with the crude oil price per barrel rising from lows of less than US\$40 in January 2009 to settle in the range US\$70-US\$80. However, amid volatility associated with the rise in oil prices, the perceived weakness of the UK economy continued to be reflected in the exchange rate against both the Euro and US\$ with the average exchange rate for the US\$ against £sterling for the period appreciating by some 6% as compared to the year ended 31st March 2009.

While the rise in crude oil prices coupled with measures to reduce tensions in the oil producing Niger Delta region assisted the fiscal position of the Nigerian Government and reduced pressure on the Naira, permitting reintroduction of the Wholesale Dutch Auction System (WDAS), it became apparent that the earlier rapid fall in oil prices and sharp decline in Nigerian stock prices had impacted the private sector and the banking industry in particular. In response, the Central Bank of Nigeria (CBN) conducted a special examination

of all banks in Nigeria, focusing first on those banks that appeared to have made frequent use of its Extended Discount Window (EDW). These examinations revealed a rapid growth in non-performing assets, associated with the bursting of the stock market 'bubble' and the fall in oil prices, and a range of corporate governance, capital adequacy and liquidity issues in 10 out of 24 Nigerian banks, including UBN. As a result, the CBN deemed it necessary to provide capital and liquidity support to nine banks totalling ₦620 billion (approximately, US\$4.2 billion) and to replace executive management in 8 of the banks concerned.

As part of this process, UBN received from the CBN an injection of lower Tier II capital amounting to ₦120 billion (US\$800 million) and accepted changes in executive management. The new management teams at the impacted banks have received assistance in collecting non-performing debts, which will be enhanced by the establishment of an Asset Management Company (AMC), created to acquire from the banks and manage non-performing loans. They are charged also with taking steps to redress deficiencies in risk management and to facilitate recapitalisation. Meanwhile, the CBN has guaranteed the domestic inter-bank and foreign obligations of the impacted banks until 31st December 2010 or such earlier date as satisfactory recapitalisation is achieved. This support from the CBN has enabled the Bank to continue to provide short-term trade related credit facilities to Nigerian banks, albeit cautiously.

As a result of its cautious approach to credit, including collateral ratios and careful management of treasury operations, the Bank did not suffer any impairment charges arising from the difficulties in Nigeria, the turmoil in the financial markets that commenced in 2008, or deteriorating conditions in the mortgage and commercial property markets. However, the low level of short-term interest rates coupled with the Bank's cautious approach to liquidity management resulted in significant interest margin compression in relation to placement of short term funds

# Report of the Directors

## Continued

while the actions of the CBN resulted in a substantial contraction of the availability of credit in Nigeria with consequent temporary impact on trade volumes and related refinancing opportunities and foreign exchange business, all of which adversely affected the Bank's performance as compared to plan and prior year, particularly in the latter half of the accounting period.

The key indicators of the Bank's performance monitored by the Board are those relating to profitability as measured by return on equity, return on assets (including return on risk-weighted assets), net interest margin, net non interest income and the cost to income ratio, after allowing for currency fluctuations. As the results are for a period of nine months only the Bank has compared its performance by reference to the pro rata figures for the year ended 31st March 2009. On this basis, net interest income fell 41.1% to US\$3.6 million and while commission income remained flat at US\$2.7 million, foreign exchange earnings decreased by 14.2% to US\$0.7 million. As a result, operating income fell by 27.1% to US\$6.9 million. Administrative expenses, incurred mainly in £sterling and which in 2008/9 included restructuring costs of US\$159,000, were well contained, increasing by just 0.7% at constant exchange rates and falling by 5.2% to US\$6.3 million after taking account of the depreciation of £sterling while depreciation and amortisation charges remained at the same level reflecting the Bank's investment in technology in previous years. Consequently, mainly as a result of the fall in net interest income, overall, the cost to income ratio rose from 75.5% to 98.6%. Impairment assessment resulted in a credit of US\$1,000 (2008/9 – US\$6,000) so that, overall, profit before taxation fell by 95.9% to US\$0.1 million (2008/9 - US\$3.2 million, or US\$2.4 million on a pro rata basis), representing an annualised pre-tax return on average capital employed of some 0.2% (2008/9 – 6.3%).

The Bank's performance is reflected in the financial position shown in the Statement of Financial Position on page 16 with

shareholders' funds decreasing to US\$51.2 million (year ended 31st March 2009 - US\$52.3 million), reflecting mainly the payment of the final dividend of US\$1.1 million in respect of the year ended 31st March 2009. An increase in short term customer deposits was more than offset by a fall in deposits by banks reflecting fluctuations in oil revenue flows so that the Bank's asset level at 31st December 2009 decreased by US\$151 million to US\$1,005 million. The majority of the Bank's assets continue to be represented by short term placements with and certificates of deposit purchased from prime banks.

### 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 FSA 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

# Report of the Directors

## Continued

the Bank and UBN, which permits the taking of informed decisions as to risk assumption and mitigation.

Further information concerning the Bank's policies for managing risks associated with financial assets and liabilities is set out in note 30 to the financial statements.

### Developments in Financial Regulation

During the period under review, regulators at the Basel Committee and the EU Commission with the support of the Committee of European Banking Supervisors (CEBS) addressed issues arising from the turmoil in the financial markets with focus on the quality of capital, liquidity and the capital required to support securitisation and trading activity. These issues were also recognised in the 'Turner Review' published by the FSA in March 2009 ahead of the G20 meeting in London.

In the UK, the FSA has specifically focused on liquidity 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), including restrictions on exposures to other financial institutions to 25% of capital resources subject to certain reliefs for smaller banks. The new liquidity regime of the FSA is being progressively introduced commencing 1st December 2009 while the majority of the amendments to the CRD are expected to come into effect from 1st January 2011.

The FSA's new approach to bank liquidity regulation is set out in its Policy Statement 09/16, 'Strengthening Liquidity Standards', and includes the principle of self sufficiency, an enhanced systems and controls framework, new quantitative requirements in the form of a liquid assets buffer as well as new and more demanding reporting requirements. As a separately capitalised entity operating in the UK, the Bank does not expect the self sufficiency requirement to have any material impact. In terms of the systems and controls framework, the Bank reviewed existing arrangements, which included stress testing of

the Bank's liquidity position and a contingency funding plan, against the new requirements, identified areas where enhancement was required and, with the engagement of executive management and the Board, developed a plan to achieve full compliance. This included development of a new Liquidity Risk Management Framework & Policy, addressing the requirements, which has been considered and approved by the Board. The new quantitative requirements are to be introduced on a phased basis from 1st October 2010 and are expected to have some impact on the structure of the Bank's statement of financial position and profitability mainly as a result of the highly restricted nature of the assets (deposits with the central bank and certain government and multilateral development bank securities) which may form part of the liquid assets buffer. The size of the buffer is informed by the nature of the deposit base, the extent of liquidity risk tolerance in terms of maturity transformation and the application of stress tests over 'survival periods' of up to three months. To comply with the enhanced reporting regime, the Bank will acquire new software developed by its current supplier of regulatory reporting tools, the costs of which have been taken into account in establishing financial budgets.

With regard to the amendments to the CRD, implementation consultation is being monitored closely by the Board, which is cognisant of the focus on 'core capital' and the implications of the restrictions on exposures to banks, these matters being taken into account in capital planning and policy development respectively.

### Future Prospects

The world economy and the financial sector remain fragile and it is likely that the present low interest rate environment will persist for some considerable time with consequent continued adverse impact on wholesale and retail deposit margins. While, in common with other developing economies, growth in Nigeria and Africa generally may be somewhat lower than previously forecast over the next

# Report of the Directors

## Continued

few years, the directors consider the economic outlook to be positive as compared with that for developed economies. Most economic forecasts anticipate that the Nigerian economy will grow at 5-6% over the next few years and strong growth is expected also in other sub-Saharan countries where recent oil discoveries are expected to result in rapid growth fuelled by public and private sector infrastructure spending.

While the Board recognises that uncertainties remain in Nigeria due to the ill health of President Yar'Adua and the assumption of responsibility by Vice President Jonathan against a background of the 2011 election year as well as recent renewed restiveness in the Niger Delta, there are clear signs that the financial sector and the stock market have been stabilised. Conditions, including the flow of credit, may be expected to improve further once the AMC is operational and the pending issue of recapitalisation of the banks subject to CBN support, including UBN, is resolved. Therefore, the directors consider that, with additional focus on liquidity generation in the retail deposit markets, the steps already taken to capitalise on the potential to expand and diversify business in Nigeria and sub-Saharan Africa, continue to represent a sound strategic direction for the Bank. During the latter half of the period to 31st December 2009 the Bank necessarily focused on the potential consequences of the impact of the economic down-turn on Nigeria and the problems arising in the banking sector in particular and adopted a cautious approach to the assumption of risk. Executive management was preoccupied also with compliance with new regulations, including implementation in the UK of the EU Payment Services Directive and the associated Payment Services Regulations and the new FSA Banking Conduct Of Business Sourcebook (BCOBS). Now, with improved marketing and sound infrastructure, the directors consider that the Bank's ability to identify, generate and deliver new business is well founded, enabling development of a profitable and diversified risk asset portfolio together with continued growth in non interest income. Nevertheless, the Board does not underestimate the

challenges to be faced in 2010 as a result of regulatory developments, the continuation of a low interest rate environment and uncertainties in Nigeria. While expecting an improved outturn for 2010, the need to balance prudent risk management with reward will constrain the Bank's profitability as it will for the banking industry as a whole.

### 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.

### Share and Loan Capital

There were no changes in the share capital of the Bank in the accounting period. However, the maturity date of existing subordinated debt of US\$15million (31st March 2009 – US\$15million) was extended to 30th September 2016.

While this subordinated debt is presented as a non current liability under IFRS, it represents lower tier 2 capital for the purposes of the regulatory capital base.

### Property and Equipment, Intangible Assets and Capital Commitments

Changes in property and equipment and intangible assets are set out in notes 20 and 21 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\$0.58 million. At 31st December 2009, amounts so authorised but not yet expended amounted US\$0.19 million.

# Report of the Directors

## Continued

### Political and Charitable Contributions

The Bank made no political contributions. Charitable donations during the accounting period amounted to US\$16,911 (year to 31st March 2009 - US\$24,421).

### Payments to Creditors

It is the Bank's policy to settle all of its trade creditors in accordance with the relevant contractual terms. At 31st December 2009, the amount owed to trade creditors, expressed as a proportion of the amount invoiced by suppliers during the accounting period then ended, was 24 days (31st March 2009 - 25 days).

### 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 auditors are 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 auditors are aware of that information.

### Auditors

KPMG Audit Plc has indicated its willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board



MJ Conway  
Company Secretary

14 - 18 Cophall Avenue  
London EC2R 7BN  
26th March 2010

# Directors' Responsibilities and Corporate Governance

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

The directors are responsible for preparing 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 judgments 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' Responsibilities and Corporate Governance

## Continued

### Corporate Governance

The Board of directors of the Bank comprises two executive directors, non-executive directors appointed by UBN, one of whom is the chairman of the Board, and 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 quarterly and the E&RC normally semi-annually.

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.

The Audit Committee comprises solely non-executive directors and is chaired by a financially qualified individual. Meetings are attended by the Bank's Associate Director, Internal Audit & Compliance, by executive directors when requested and, at least annually, 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 head of Internal Audit & Compliance and for appraisal of the performance of that function.

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.

# Report of the Independent Auditors

## Independent Auditors' Report to the Members of Union Bank UK plc

We have audited the financial statements of Union Bank UK plc for the 9 month period ended 31st December 2009 set out on pages 15 to 46. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 12, 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 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 (APB'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 APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### 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 31st December 2009 and of its profit for the 9 months 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.

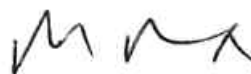
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period 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  
8 Salisbury Square  
London EC4Y 8BB

26th March 2010

# Statement of Comprehensive Income

For the nine months ended 31st December 2009

	Note	Nine months ended 31 December 2009 US\$'000	Year ended 31 March 2009 US\$'000
Interest receivable	6	6,625	24,044
Interest payable	7	(3,065)	(15,983)
<b>Net interest income</b>		<b>3,560</b>	<b>8,061</b>
Fees and commissions income	8	2,661	3,533
Dealing and exchange profit	9	673	1,046
Other operating expense	10	(28)	(75)
<b>Operating income</b>		<b>6,866</b>	<b>12,565</b>
Administrative expenses	11	(6,278)	(8,830)
Depreciation and amortisation	20/21	(495)	(654)
Net impairment recovery on financial instruments	18	1	6
<b>Profit on ordinary activities before tax</b>		<b>94</b>	<b>3,087</b>
Tax on profit on ordinary activities	15	(62)	(869)
<b>Profit on ordinary activities after tax</b>		<b>32</b>	<b>2,218</b>

The result for the period is derived entirely from continuing activities.  
There were no recognised gains and losses other than those set out above.

The notes on pages 19 to 46 form part of these financial statements

# Statement of Financial Position

As at 31st December 2009

	Note	31 December 2009 US\$'000	31 March 2009 US\$'000
<b>Assets</b>			
Cash at bank and in hand		3,331	6,937
Loans and advances to banks	16	740,303	1,009,976
Loans and advances to customers	17	35,854	27,067
Debt securities	19	223,108	109,186
Property and equipment	20	488	576
Intangible assets	21	1,138	1,129
Other assets		328	368
Deferred tax assets	15	76	64
Prepayments		414	387
<b>Total Assets</b>		<b>1,005,040</b>	<b>1,155,690</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Deposits by banks	22	706,742	981,853
Customer accounts	23	229,023	102,521
Other liabilities	24	1,454	2,558
Accruals and deferred income	25	1,630	1,492
		<b>938,849</b>	<b>1,088,424</b>
<b>Non current liabilities:</b>			
Subordinated liabilities	26	15,000	15,000
<b>Total liabilities</b>		<b>953,849</b>	<b>1,103,424</b>
<b>Equity</b>			
Called up share capital	27	45,090	45,090
Retained earnings		6,101	7,176
Equity shareholders' funds		51,191	52,266
<b>Total Liabilities and Equity</b>		<b>1,005,040</b>	<b>1,155,690</b>

These financial statements were approved by the Board of Directors and authorised for issue on 26th March 2010.

Signed on behalf of the Board of Directors:



Dr KA Ali  
Managing Director / Chief Executive

The notes on pages 19 to 46 form part of these financial statements

# Statement of Changes in Equity

	Share Capital US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
Balance as at 1 April 2008	45,090	6,236	51,326
Profit for the period	-	2,218	2,218
Dividends paid	-	(1,278)	(1,278)
<b>Balance attributable to equity shareholders as at 31st March 2009</b>	<b>45,090</b>	<b>7,176</b>	<b>52,266</b>
Profit for the period	-	32	32
Dividends paid	-	(1,107)	(1,107)
<b>Balance attributable to equity shareholders as at 31st December 2009</b>	<b>45,090</b>	<b>6,101</b>	<b>51,191</b>

# Statement of Cash Flows

	31 December 2009 US\$'000	31 March 2009 US\$'000
Profit before tax	94	3,087
<b>Adjustments for:</b>		
Depreciation and amortisation	495	654
Impairment of financial and non financial items	(1)	(6)
Other non-cash items included in profit before tax	-	(75)
	<b>588</b>	<b>3,660</b>
<b>Net decrease/(increase) in assets relating to operating activities:</b>		
Loans and advances to banks	269,673	(338,335)
Loans and advances to customers	(8,787)	8,487
Debt Securities	(113,922)	322,412
Other assets	13	258
	<b>146,977</b>	<b>(7,178)</b>
<b>Net (decrease)/increase in liabilities relating to operating activities:</b>		
Due to banks	(275,111)	(34,073)
Due to customers	126,502	28,411
Other liabilities	(627)	(108)
	<b>(149,236)</b>	<b>(5,770)</b>
Income tax paid	(412)	(1,074)
<b>Net cash flow from operating activities</b>	<b>(2,083)</b>	<b>(10,362)</b>
Acquisition of fixed and intangible assets	(416)	(282)
Dividends paid	(1,107)	(1,278)
<b>Net cash flow from investment and financing activities</b>	<b>(1,523)</b>	<b>(1,560)</b>
Net decrease in cash and equivalents	(3,606)	(11,922)
Cash and cash equivalents at 1st April 2009	6,937	18,859
<b>Cash and cash equivalents at 31st December 2009</b>	<b>3,331</b>	<b>6,937</b>

# 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 4.

Information concerning the principal activities and operations of the Bank and its regulatory status is set out in the Report of the Directors 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 as endorsed by the European Union (EU) (IFRS).

During the period, International Accounting Standard No 1 (IAS 1) 'Presentation of Financial Statements' was revised. Adoption of this revision had no significant effect on the reported results, financial position or disclosures in these financial statements.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

### (b) Going Concern Basis of Accounting

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, including the uncertainties surrounding

the financial position of the Bank's parent, UBN and the support afforded to it by the Central Bank of Nigeria (CBN) 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 where required under IFRS.

### (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 one year 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.

# Notes to the Financial Statements

## Continued

### (g) Future Accounting Developments

At the date of authorisation of these financial statements, there were no Standards and Interpretations in issue, but not yet effective, that were relevant to the business of the Bank.

### 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### (a) Interest income and expense

Interest income on financial assets that are classified as loans and receivables or held to maturity 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 payments and receipts 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 and points paid or received, 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 commissions

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

- income earned on the execution of a significant act is recognised in 'fees and commissions 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 commissions 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'
- 'other financial liabilities'

# Notes to the Financial Statements

## Continued

### 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 profit or loss) 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.

### 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 profit or loss.

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 profit or loss.

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.

Debt securities held by the bank in its non-trading book are generally classified as held to maturity.

### (g) 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.

# Notes to the Financial Statements

## Continued

The Bank's subordinated debt, which represents lower Tier II capital under the Basel Accord bears non-discretionary interest payments and is redeemable by the holder, and, therefore, is recognised as a non-current financial liability.

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.

### (h) 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.

### (i) 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 profit or loss, 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.

Losses expected from future events, no matter how likely, are not recognised.

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.

### (j) 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 profit or loss as incurred.

# Notes to the Financial Statements

## Continued

### Depreciation

Depreciation is recognised in profit or loss 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.

### (k) Intangible Assets - Software

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

Amortisation is recognised in profit or loss 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.

### (l) 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 profit or loss.

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.

### (m) 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 profit or loss 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.

# Notes to the Financial Statements

## Continued

### 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.

### (n) 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.

### (o) 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 period, 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.

### (p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are deemed to comprise cash in hand, and cash at other banks repayable on demand.

### (q) 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 period. Differences between contributions payable in the period and contributions actually paid are shown as accruals or prepayments in the statement of financial position.

### (r) 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 assets and liabilities:

#### 31 December 2009

US\$'000	Note	Designated at fair value	Held to maturity	Loans and receivables	Other liabilities	Total
Cash at bank and in hand		-	-	3,331	-	3,331
Loans and advances to banks	16	-	-	740,303	-	740,303
Loans and advances to customers	17	-	-	35,854	-	35,854
Debt securities	19	-	223,108	-	-	223,108
Deposits by banks	22	-	-	-	706,742	706,742
Customer accounts	23	-	-	-	229,023	229,023
Other liabilities	24	-	-	-	1,454	1,454
Subordinated liabilities	26	-	-	-	15,000	15,000

#### 31 March 2009

US\$'000	Note	Designated at fair value	Held to maturity	Loans and receivables	Other liabilities	Total
Cash at bank and in hand		-	-	6,937	-	6,937
Loans and advances to banks	16	-	-	1,009,976	-	1,009,976
Loans and advances to customers	17	-	-	27,067	-	27,067
Debt securities	19	-	109,186	-	-	109,186
Deposits by banks	22	-	-	-	981,853	981,853
Customer accounts	23	-	-	-	102,521	102,521
Other liabilities	24	-	-	-	2,558	2,558
Subordinated liabilities	26	-	-	-	15,000	15,000

### 6. Interest receivable

	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Interest receivable on debt securities (classified as held to maturity)	1,015	8,088
Other interest receivable on loans and advances (classified as loans and receivables)	5,610	15,956
	<b>6,625</b>	<b>24,044</b>

# Notes to the Financial Statements

## Continued

<b>7. Interest payable</b>	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Interest payable to banks	(2,160)	(14,399)
Interest payable on subordinated loan due 2016	(201)	(586)
Other interest payable on customer accounts	(704)	(998)
	<b>(3,065)</b>	<b>(15,983)</b>

<b>8. Fees and commissions income</b>	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Letters of credit	1,636	2,434
Funds transfer	343	472
Others	682	627
	<b>2,661</b>	<b>3,533</b>

### **9. Dealing and exchange profits**

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

<b>10. Other operating expense</b>	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Guarantee fee payable	-	(11)
Other operating charges and brokerage	(28)	(64)
	<b>(28)</b>	<b>(75)</b>

<b>11. Administrative expenses</b>	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Wages and salaries, including directors	(2,988)	(4,349)
Social security costs	(323)	(474)
Other pension costs	(236)	(298)
Other staff costs	(401)	(573)
<b>Total staff costs</b>	<b>(3,948)</b>	<b>(5,694)</b>
Other recurring administrative expenses	(2,330)	(3,136)
	<b>(6,278)</b>	<b>(8,830)</b>

Other staff costs include non-recurring items amounting to US\$nil (year to 31st March 2009 US\$159,000 relating to restructuring).

# Notes to the Financial Statements

## Continued

	9 months to 31 December 2009	12 months to 31 March 2009
Average number of employees, including executive directors:	No.	No.
Banking	21	20
Operations	19	15
Administration	5	6
	45	41

### 12. Pension costs

The Bank makes contributions to the personal pension funds of employees under Group Personal Pension arrangements. During the period to 31 December 2009, the Bank made contributions totalling US\$236,000 (year to 31st March 2009 - US\$298,000).

There were no outstanding accrued or pre-paid contributions at the reporting date.

### 13. Directors emoluments

	9 months to 31 December 2009	12 months to 31 March 2009
	US\$'000	US\$'000
Directors' fees	(86)	(169)
Other emoluments	(418)	(571)
	(504)	(740)

The emoluments of the highest paid director, excluding pension contributions, were US\$252,821 (year to 31st March 2009 - US\$333,633). Pension contributions were made during the period amounting to US\$3,791 (year to 31st March 2009 - US\$5,985).

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

	9 months to 31 December 2009	12 months to 31 March 2009
	US\$'000	US\$'000
<b>Operating profit is stated after charging:</b>		
Amounts receivable by the Auditor and its associates in respect of:		
Audit of the financial statements	(121)	(172)
Other services relating to taxation	(77)	(37)
All other services	(6)	(168)
Rental of premises held under an operating lease	(180)	(257)
Other operating lease and similar rentals	(95)	(80)

# Notes to the Financial Statements

## Continued

### 15. Taxation

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

#### (a) Analysis of tax charge on ordinary activities

	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
<b>Current tax:</b>		
United Kingdom corporation tax based on the profit for the period	(91)	(913)
Prior year current tax adjustment	17	-
<b>Total current tax</b>	<b>(74)</b>	<b>(913)</b>
<b>Deferred tax:</b>		
Timing differences, origination and reversal	44	44
Prior year deferred tax adjustment	(32)	-
<b>Total deferred tax</b>	<b>12</b>	<b>44</b>
<b>Tax expense on profit on ordinary activities</b>	<b>(62)</b>	<b>(869)</b>

#### (b) Reconciliation of the total tax charge

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK. The differences are explained below:

	9 months to 31 December 2009 US\$'000	12 months to 31 March 2009 US\$'000
Profit on ordinary activities before tax	94	3,087
Tax at 28% (2008/9 - 28%) thereon	(26)	(864)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	(21)	(26)
Exchange differences	-	21
Adjustments in respect of prior year	(15)	-
<b>Tax expense</b>	<b>(62)</b>	<b>(869)</b>

#### (c) Analysis of deferred tax asset

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

	31 December 2009 US\$'000	31 March 2009 US\$'000
Depreciation in excess of capital allowances	21	1
Short term timing differences	55	63
	<b>76</b>	<b>64</b>

#### (d) Factors that may affect future tax charges

The directors are not aware of any factors, which may have a material effect upon future tax charges.

# Notes to the Financial Statements

## Continued

### 16. Loans and advances to banks

	31 December 2009 US\$'000			31 March 2009 US\$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Bank overdrafts	-	-	-	-	-	-
Bank loans	740,303	-	740,303	1,009,976	-	1,009,976
	<b>740,303</b>	<b>-</b>	<b>740,303</b>	<b>1,009,976</b>	<b>-</b>	<b>1,009,976</b>

Loans and advances to banks are categorised as 'loans and receivables' in accordance with IAS 39.

The fair value of the cash collateral held in respect of the loans and advances to banks at 31st December 2009 is US\$16,831,000 (31st March 2009 - US\$8,976,000). This collateral can be used in the event of default by the borrower.

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

	31 December 2009 US\$'000			31 March 2009 US\$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	7,819	-	7,819	44,408	-	44,408
Remaining maturity:						
- 3 months or less excl. above	721,755	-	721,755	955,354	-	955,354
- 1 year or less but over 3 months	10,729	-	10,729	10,214	-	10,214
Less: allowances for impairment (note 18)	-	-	-	-	-	-
	<b>740,303</b>	<b>-</b>	<b>740,303</b>	<b>1,009,976</b>	<b>-</b>	<b>1,009,976</b>

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US\$733,000 (31st March 2009 - US\$39,338,000).

# Notes to the Financial Statements

## Continued

### 17. Loans and advances to customers

	31 December 2009 US\$'000			31 March 2009 US\$'000		
	Gross amount	Impairment allowance	Total	Gross amount	Impairment allowance	Total
Commercial loans & advances	9,513	(529)	8,984	13,549	(431)	13,118
Personal loans & advances	9,366	(36)	9,330	1,575	(26)	1,549
Syndicated loans	17,540	-	17,540	12,475	(75)	12,400
	<b>36,419</b>	<b>(565)</b>	<b>35,854</b>	<b>27,599</b>	<b>(532)</b>	<b>27,067</b>

Loans and advances to customers are categorised as 'loans and receivables' in accordance with IAS 39.

The fair value of the collateral held in respect of the loans and advances to customers is US\$24,726,000 as at 31st December 2009 (31st March 2009 - US\$24,123,000). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US\$103,000 is for impaired loans and advances to customers (31st March 2009 - US\$116,000) and US\$2,503,000 (31st March 2009 - US\$2,838,000) is for loans and advances to customers past due not impaired.

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

	31 December 2009 US\$'000			31 March 2009 US\$'000		
	Performing	Impaired	Total	Performing	Impaired	Total
Repayable on demand or at short notice	7,744	393	8,137	11,515	355	11,870
Remaining maturity:						
- 3 months or less excl. above	4,358	-	4,358	3,269	-	3,269
- 1 year or less but over 3 months	12,809	-	12,809	1,534	-	1,534
- 5 years or less but over 1 year	11,115	-	11,115	10,926	-	10,926
Less: Allowances for impairment (note 18)	(220)	(345)	(565)	(214)	(318)	(532)
	<b>35,806</b>	<b>48</b>	<b>35,854</b>	<b>27,030</b>	<b>37</b>	<b>27,067</b>

# Notes to the Financial Statements

## Continued

### 18. Net impairment loss for financial instruments

	31 December 2009 US\$'000	31 March 2009 US\$'000
At beginning of the year	(532)	(630)
Credit to statement of comprehensive income	1	6
Amounts written off	-	-
Recoveries	-	-
Exchange differences	(34)	92
<b>At the end of the period</b>	<b>(565)</b>	<b>(532)</b>
Loans and advances to banks	-	-
Loans and advances to customers	(565)	(532)
	<b>(565)</b>	<b>(532)</b>

During the period, the Bank has had the following defaults on loans and advances to customers:

	31 December 2009 US\$'000	31 March 2009 US\$'000
Principal	-	11
Interests	-	-
Others	-	-
	<b>-</b>	<b>11</b>

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US\$nil (31st March 2009 – US\$nil).

### 19. Debt securities

Debt securities represent unlisted certificates of deposit issued by banks all of which mature within one year of the reporting date.

Debt securities are categorised as 'held to maturity' in accordance with IAS 39.

# Notes to the Financial Statements

## Continued

### 20. Property and equipment

31 December 2009

US\$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
<b>Cost:</b>				
At beginning of the period	584	466	108	1,158
Additions	47	51	-	98
<b>At end of the period</b>	<b>631</b>	<b>517</b>	<b>108</b>	<b>1,256</b>
<b>Depreciation:</b>				
At beginning of the period	(282)	(261)	(39)	(582)
Charge for the period	(98)	(67)	(21)	(186)
<b>At end of the period</b>	<b>(380)</b>	<b>(328)</b>	<b>(60)</b>	<b>(768)</b>
<b>Net book value at 31st December 2009</b>	<b>251</b>	<b>189</b>	<b>48</b>	<b>488</b>

31 March 2009

US\$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
<b>Cost:</b>				
At beginning of the year	434	441	108	983
Additions	150	25	-	175
<b>At end of the year</b>	<b>584</b>	<b>466</b>	<b>108</b>	<b>1,158</b>
<b>Depreciation:</b>				
At beginning of the year	(167)	(180)	(11)	(358)
Charge for the year	(115)	(81)	(28)	(224)
<b>At end of the year</b>	<b>(282)</b>	<b>(261)</b>	<b>(39)</b>	<b>(582)</b>
<b>Net book value at 31st March 2009</b>	<b>302</b>	<b>205</b>	<b>69</b>	<b>576</b>

# Notes to the Financial Statements

## Continued

<b>21. Intangible assets</b>	31 December 2009	31 March 2009
	US\$'000	US\$'000
<b>Cost:</b>		
At beginning of the period / year	2,378	2,271
Additions	318	107
<b>At end of the period / year</b>	<b>2,696</b>	<b>2,378</b>
<b>Amortisation:</b>		
At beginning of the period / year	(1,249)	(819)
Charge for the period / year	(309)	(430)
<b>At end of the period / year</b>	<b>(1,558)</b>	<b>(1,249)</b>
<b>Net book value at 31st December 2009 / 31st March 2009</b>	<b>1,138</b>	<b>1,129</b>

<b>22. Deposits by Banks</b>	31 December 2009	31 March 2009
	US\$'000	US\$'000
Repayable on demand	397,290	648,940
Remaining maturity:		
- 3 months or less excluding above	309,229	331,780
- 1 year or less but over 3 months	223	1,133
	<b>706,742</b>	<b>981,853</b>

Deposits by banks include amounts totalling US\$63,368,000 (31st March 2009 – US\$88,607,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

<b>23. Customer accounts</b>	31 December 2009	31 March 2009
	US\$'000	US\$'000
Repayable on demand	197,299	78,014
Remaining maturity:		
- 3 months or less excluding above	19,309	16,424
- 1 year or less but over 3 months	12,415	8,083
	<b>229,023</b>	<b>102,521</b>

Customer accounts include amounts totalling US\$2,850,000 (31st March 2009 – US\$1,269,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

# Notes to the Financial Statements

## Continued

<b>24. Other liabilities</b>	<b>31 December 2009</b>	<b>31 March 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Taxation and social security	325	606
Accounts payable	764	1,593
Customers' unclaimed balances	365	359
	<b>1,454</b>	<b>2,558</b>

<b>25. Accruals and deferred income</b>	<b>31 December 2009</b>	<b>31 March 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Other accruals	1,353	1,408
Deferred income	277	84
	<b>1,630</b>	<b>1,492</b>

### **26. Subordinated liabilities**

Subordinated liabilities represent a multi-tranche subordinated loan of US\$15,000,000 granted by the parent company, UBN, on 27th September 2004 and repayable on 30th September 2016, having been extended by two years. The interest rates payable on the tranches of the subordinated loan are at margins over three and six month US\$ Libor.

### **27. Called up Share Capital**

	<b>31 December 2009</b>	<b>31 March 2009</b>
<b>Authorised</b>	<b>000's</b>	<b>000's</b>
50,000 deferred shares of £1 each	£50	£50
60,000,000 ordinary shares of US\$1 each	US\$60,000	US\$60,000
<b>Allotted, called up and fully paid</b>	<b>US\$'000</b>	<b>US\$'000</b>
50,000 deferred shares of £1 each	90	90
45,000,000 ordinary shares of US\$1 each	45,000	45,000
	<b>45,090</b>	<b>45,090</b>

The deferred shares carry no voting rights or entitlement to dividend and limited rights in a winding up.

### **28. Related party transactions**

During the period, 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. 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

US\$'000	31 December 2009		31 March 2009	
	Highest balance during period	Closing balance	Highest balance during year	Closing balance
<b>Holding company</b>				
<i>Assets</i>				
Cash at bank and in hand	115	29	223	59
Loans and advances to banks	22,105	13,294	30,160	8,755
<i>Liabilities</i>				
Deposits by banks	780,654	361,115	681,001	650,023
Accruals and deferred income	86	-	296	2
Subordinated liabilities (note 26)	15,000	15,000	15,000	15,000
<i>Income</i>				
From holding company		596		1,611
<i>Expense</i>				
To holding company		799		4,411
<b>Fellow subsidiaries</b>				
<i>Liabilities</i>				
Deposits by banks	14,040	11,800	1,890	1,693
Customer accounts	272	266	353	263
<i>Income</i>				
From fellow subsidiaries		-		16
<i>Expense</i>				
To fellow subsidiaries		2		21

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

Mortgage advances to two (31st March 2009 – two) former directors of the parent bank totalling US\$434,479 (31st March 2009 – US\$365,156) were outstanding at the end of the period. These individuals ceased to be directors of the parent bank during the period.

In addition, at 31st December 2009 a loan made to one executive director of the Bank, on terms generally available to staff, remained outstanding in the amount of US\$4,636 (31st March 2009 - US\$22,356).

There were no other related party transactions or balances requiring disclosure.

29. Contingent liabilities and commitments	31 December 2009	31 March 2009
	US\$'000	US\$'000
Letters of credit	74,808	39,754
Guarantees given to third parties	1,771	1,968

# Notes to the Financial Statements

## Continued

### 30. Financial risk management

#### (a) Risk Management

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

- earning interest margins, fees and commissions;
- 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, subordinated liabilities 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 subordinated liabilities and 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.

Presently, it is not the Bank's policy to deal in derivative financial instruments such as interest rate and currency swaps and over-the-counter options.

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 16 to 18.

#### (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

## Continued

	31 December 2009 US\$'000			31 March 2009 US\$'000		
	Gross amount	Collateral	Net	Gross amount	Collateral	Net
Within 3 months	308	24	284	3,427	645	2,782
6 months or less but over 3 months	2,479	2,479	-	3,504	2,838	666
	<b>2,787</b>	<b>2,503</b>	<b>284</b>	<b>6,931</b>	<b>3,483</b>	<b>3,448</b>

### (ii) Credit exposure by sector

	31 December 2009 US\$'000	31 March 2009 US\$'000
Banks	966,742	1,126,099
Corporate	26,695	25,541
Individuals	9,159	1,526
	<b>1,002,596</b>	<b>1,153,166</b>

### (iii) Credit exposure by location

	31 December 2009 US\$'000	31 March 2009 US\$'000
Europe	723,037	947,273
Africa	73,651	56,694
Others (mainly Canada, Japan and Australia)	205,908	149,199
	<b>1,002,596</b>	<b>1,153,166</b>

The above sector and geographical analyses only include cash at bank and in hand, loans and advances to banks and to customers and debt securities.

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 (90%) (31st March 2009 – 95%) of the Bank's total financial assets represent treasury assets with high quality financial institutions, the majority of which had ratings of A to AAA.

As at 31st December 2009, the bank's maximum exposure to credit was US\$1,092millions (31st March 2009 –

US\$1,195millions), of which US\$393,000 (31st March 2009 – US\$355,000) 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\$76.6millions (31st March 2009 – US\$41.8millions) against which the bank held cash collateral of US\$42.3millions (31st March 2009 – US\$36.4millions). In addition, the bank had collateral of US\$19.7millions (31st March 2009 – US\$24.1millions) in respect of other credit exposures.

# Notes to the Financial Statements

## Continued

### (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 Financial Services Authority (FSA), 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:

### 31 December 2009

US\$'000	Time Band				Total
	Less than 3 Months	3 – 6 Months	6-12 Months	Over 5 Years	
<b>Liabilities</b>					
Deposits by banks	706,519	223	-	-	706,742
Customer accounts	216,608	4,122	8,293	-	229,023
Other liabilities	1,454	-	-	-	1,454
Subordinated liabilities	-	-	-	15,000	15,000
Off balance sheet – undrawn loan commitments	12,718	-	-	-	12,718
<b>Total liabilities</b>	<b>937,299</b>	<b>4,345</b>	<b>8,293</b>	<b>15,000</b>	<b>964,937</b>

### 31st March 2009

US\$'000	Time Band				Total
	Less than 3 Months	3 – 6 Months	6-12 Months	Over 5 Years	
<b>Liabilities</b>					
Deposits by banks	980,720	1,133	-	-	981,853
Customer accounts	94,438	7,261	822	-	102,521
Other liabilities	2,558	-	-	-	2,558
Subordinated liabilities	-	-	-	15,000	15,000
Off balance sheet – undrawn loan commitments	5,495	-	-	-	5,495
<b>Total liabilities</b>	<b>1,083,211</b>	<b>8,394</b>	<b>822</b>	<b>15,000</b>	<b>1,107,427</b>

# Notes to the Financial Statements

## Continued

### (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 revaluing 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:

### 31 December 2009

US\$'000	Time Band						Non-interest bearing	Total
	Less than 3 Months	3 – 6 Months	6-12 Months	1-5 Years	Over 5 Years			
Total assets	1,002,068	369	64	95	-	2,444	1,005,040	
Total liabilities and capital	(938,127)	(4,345)	(8,293)	(-)	(-)	(54,275)	(1,005,040)	
Interest rate sensitivity gap	63,941	(3,976)	(8,229)	95	-	(51,831)	-	
Cumulative gap	63,941	59,965	51,736	51,831	51,831			

### 31 March 2009

US\$'000	Time Band						Non-interest bearing	Total
	Less than 3 Months	3 – 6 Months	6-12 Months	1-5 Years	Over 5 Years			
Total assets	1,142,065	10,247	60	103	-	3,215	1,155,690	
Total liabilities and capital	(1,075,159)	(23,393)	(822)	(-)	(-)	(56,316)	(1,155,690)	
Interest rate sensitivity gap	66,906	(13,146)	(762)	103	-	(53,101)	-	
Cumulative gap	66,906	53,760	52,998	53,101	53,101			

# 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 profit or loss:

### 31 December 2009

US\$'000	Currencies				Total
	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
<b>Net cash flow interest Rate Risk exposure</b>	<b>83,428</b>	<b>26,399</b>	<b>2,823</b>	<b>50</b>	<b>112,700</b>
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)

# Notes to the Financial Statements

## Continued

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
<b>Net cash flow interest Rate Risk exposure</b>	<b>50,471</b>	<b>18,794</b>	<b>1,129</b>	<b>83</b>	<b>70,477</b>
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)

### (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.

# Notes to the Financial Statements

## Continued

### (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.

#### 31 December 2009

US\$'000	Currencies				Total
	US dollar	£ Sterling	Euro	Other	
Total assets	738,817	239,102	26,410	711	1,005,040
Total liabilities and capital	(738,814)	(239,143)	(26,422)	(661)	(1,005,040)
Unsettled spot foreign exchange	(98)	82	19	(3)	-
<b>Currency position</b>	<b>(95)</b>	<b>41</b>	<b>7</b>	<b>47</b>	<b>-</b>

#### 31 March 2009

US\$'000	Currencies				Total
	US dollar	£ Sterling	Euro	Other	
Total assets	806,301	296,159	47,669	5,561	1,155,690
Total liabilities and capital	(806,276)	(296,877)	(47,097)	(5,440)	(1,155,690)
Unsettled spot foreign exchange	10	567	(547)	(30)	-
<b>Currency position</b>	<b>35</b>	<b>(151)</b>	<b>25</b>	<b>91</b>	<b>-</b>

### (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 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.

# Notes to the Financial Statements

## Continued

### 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)

# Notes to the Financial Statements

## Continued

### (f) Capital Adequacy

The Bank is subject to minimum capital requirements imposed by the FSA, 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 FSA'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 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 2009 and throughout the period, 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 FSA.

# Notes to the Financial Statements

## Continued

	31 December 2009 US\$'000	31 March 2009 US\$'000
<b>Balance Sheet</b>		
Share Capital	45,090	45,090
Profit & Loss Reserve	6,101	7,176
<b>Total Tier 1 Capital</b>	<b>51,191</b>	<b>52,266</b>
Total Upper Tier 2 Capital - Collective impairment allowance	220	214
Lower Tier 2 Capital – Dated subordinated debt	15,000	15,000
<b>Total Tier 2 Capital</b>	<b>15,220</b>	<b>15,214</b>
<b>Total Regulatory Capital</b>	<b>66,411</b>	<b>67,480</b>

The Regulatory Capital shown above differs from that reported to FSA 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	31 December 2009 US\$'000	31 March 2009 US\$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount	12,718	5,495
Credit equivalent amount	6,359	2,747
Risk weighted amount	6,359	2,747

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

### 31. 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\$0.58 million. At 31st December 2009, amounts so authorised but not yet expended amounted to US\$0.19 million.

### 32. Dividends

A dividend payment of US\$1,107,000 was made during the nine month period ended 31st December 2009 in respect of the year ended 31st March 2009 (made during the year ended 31st March 2009 in respect of year ended 31st March 2008 - US\$1,278,000).

The directors do not propose a final dividend in respect of nine month period ended 31st December 2009 (in respect of year ended 31st March 2009 – US\$0.0246 per share, amounting to US\$1,107,000).

# Notes to the Financial Statements

## Continued

### 33. Fair values of financial instruments

Set out below is a period-end comparison of fair and book values of all the Bank's financial instruments by type. Market values are used to determine fair values. In the absence of readily ascertainable market values, directors' estimation is used to determine fair values.

	31 December 2009		31 March 2009	
	Book Value US\$'000	Fair Value US\$'000	Book Value US\$'000	Fair Value US\$'000
<b>Assets</b>				
Cash at bank and in hand	3,331	3,331	6,937	6,937
Loans and advances to banks	740,303	740,303	1,009,976	1,009,976
Loans and advances to customers	35,854	35,854	27,067	27,067
Debt securities	223,108	223,116	109,186	109,249
<b>Liabilities</b>				
Deposits by banks	706,742	706,742	981,853	981,853
Customer accounts	229,023	229,023	102,521	102,521
Other liabilities	1,454	1,454	2,558	2,558
Subordinated liabilities	15,000	15,000	15,000	15,000

### 34. 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.

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

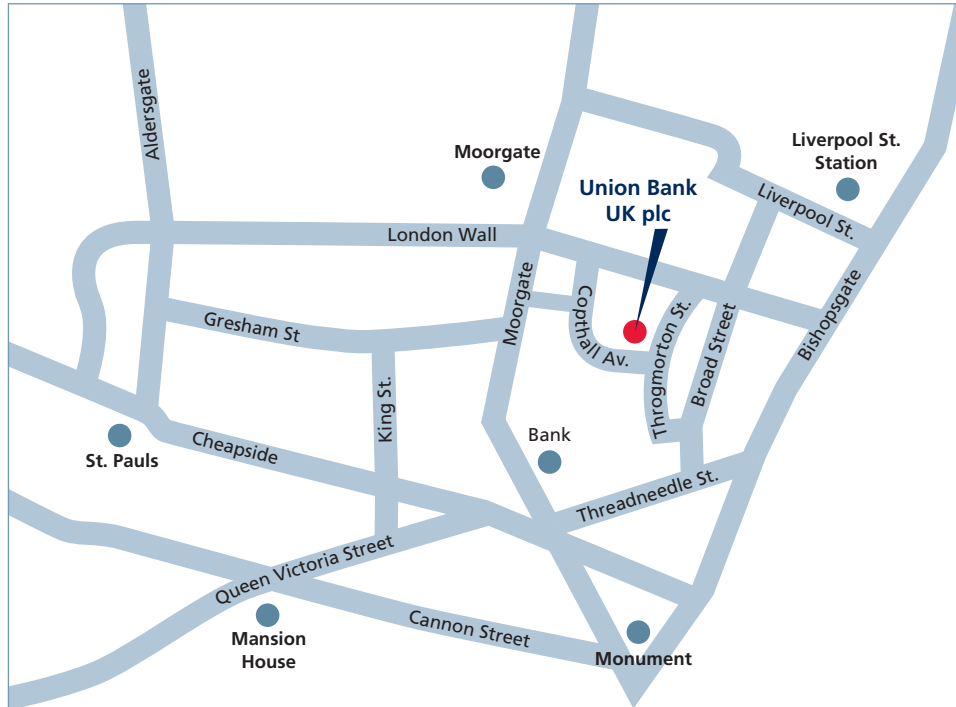
#### Corporate Affairs Department

Union Bank of Nigeria Plc  
Stallion Plaza  
36 Marina  
Lagos  
Nigeria

# Group Contact Information

Companies	Business	Contact
Union Bank of Nigeria	Retail, commercial and investment banking	Stallion Plaza, 36 Marina, Lagos, Nigeria Tel: +234 (0) 1 263 0361/263 1430 (+234 (0) 1 266 3594 – International Banking)
Union Homes Savings & Loans Limited	Mortgage lending	153 Ikorodu Road, Onipanu, Lagos, Nigeria Tel: +234 (0) 1 582 0799
Union Capital Markets Limited	Investment and financial advisory services	Kingsway Building, 4 Davies Street, Lagos, Nigeria Tel: +234 (0) 1 266 7313
Union Assurance Company Limited	Life and general insurance	Stallion Plaza, 36 Marina (13th Floor) Lagos, Nigeria Tel: +234 (0) 1 264 0277
Union Registrars Limited	Share registration	2 Burma Road, Apapa, Lagos, Nigeria Tel: +234 (0) 1 545 2858
Union Trustees Limited	Trust and custody services	160/162 Broad Street, PZ Building Lagos, Nigeria Tel: +234 (0) 1 264 0271
UBN Property Company Ltd	Property development and management	3rd Floor, Stallion Plaza, 36 Marina Lagos, Nigeria Tel: +234 (0) 1 266 4031
HFC Bank (Ghana) Limited	Retail and commercial banking and mortgage lending	Ebankese, 35 Sixth Avenue, North Ridge PO Box CT4603, Cantonments Accra, Ghana Tel: +233 21 242 090-4
Banque Internationale du Benin	Retail and commercial banking	BP 03-2098, Carrefour Des 3 Banques Avenue Giran, Cotonou, Benin Tel: +212 (0) 2 222 4142
Consolidated Discount Ltd	Bill and acceptances	Bull Plaza, 38/39 Marina, Lagos, Nigeria. Tel: +234 (0) 1 264 4281
Unique Venture Capital Management	Venture capital	5th Floor, 40 Marina, Lagos, Nigeria Tel: +234 (0) 1 264 4150/4155
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A member of the  
Union Bank of Nigeria Plc Financial Group

Authorised and Regulated by the  
Financial Services Authority

Company Registration No. 4661188