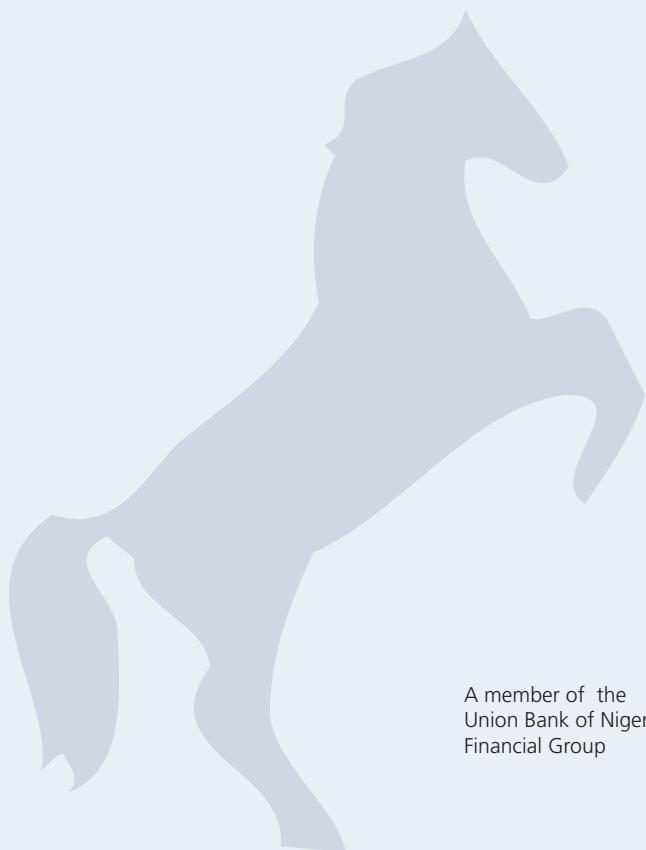
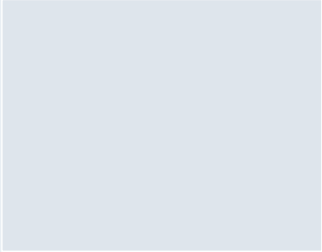
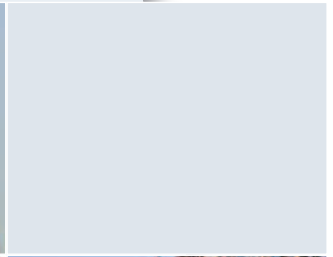


# UNION BANK UK plc

Annual Report & Financial Statements 31st March 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>         | Godwin AT Oboh<br>Kaonen A Ali<br>Michael J Conway<br>Bartholomew B Ebong | Chairman<br>Managing Director/Chief Executive<br>Finance Director<br>Non-executive and Group Managing<br>Director/Chief Executive of Union Bank<br>of Nigeria Plc |
|                           | Jeffrey C Efeyini   | Independent non-executive and<br>Chairman of the Establishment &<br>Remuneration Committee  |
|                           | Neil R Forsyth  | Independent non-executive and<br>Chairman of the Credit & General<br>Purposes Committee   |
|                           | W David R Swanney   | Independent non-executive and<br>Chairman of the Audit Committee  |
| <b>Secretary:</b>         | Michael J Conway  |   |
| <b>Registered Office:</b> | 14-18 Cophthall 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<br/>Committee:</b> | Kaonen A Ali<br>Michael J Conway<br>Tijjani Baba | Managing Director/Chief Executive<br>Finance Director<br>Director, Business Development<br>& Banking                                |
|                                  | Simon R E Coe<br>Timothy E Green                 | Associate Director, Risk Management<br>Associate Director, Trade Finance<br>and Lending   |
|                                  | David W Keene<br>Janet A Ntuk<br>John R Robin    | Associate Director, Finance and IT<br>Associate Director, Corporate Resources<br>Associate Director, Internal Audit<br>& Compliance |
|                                  | Kelvin F Royer<br>Martin Uzus                    | Associate Director, Treasury<br>Associate Director, Structured<br>Trade Finance   |

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# Report of the Directors

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

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

dealing in investments as principal. The business of the Bank includes the provision of retail and commercial banking, treasury and trade finance services.

The Bank, with the assistance of UBN, has established and maintains the management structure, policies, systems and procedures necessary to enable full compliance with the rules and regulations of FSA.

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## Directors

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

|                |   |  |
|----------------|---|--|
| Dr GAT Oboh    | - | Chairman   |
| Dr KA Ali      | - | Managing Director/Chief Executive                        |
| Mr MJ Conway   | - | Finance Director   |
| Dr BB Ebong    | - | Non-Executive  |
| Mr JC Efeyini  | - | Non-Executive  |
| Mr NR Forsyth  | - | Non-Executive  |
| Mr WDR Swanney | - | Non-Executive – Resigned with effect from 11th July 2009 |

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

## Financial Results

The Bank has adopted International Financial Reporting Standards as endorsed by the European Union (IFRS) in preparing the accompanying financial statements and, accordingly, comparative financial information has been restated and represented to give effect to the required accounting and disclosure changes. The functional currency of the Bank for financial reporting purposes is the US dollar (US\$), being the currency in which the majority of its assets, liabilities, capital and revenues are denominated.

The financial statements for the year ended 31st March 2009 are shown on pages 12 to 44. The profit for the year after taxation

amounted to US\$2,218,000 (31st March 2008– US\$2,513,000).

A final dividend, in respect of the year ended 31st March 2008, of US\$1,278,000 was paid during the year (2007/8 in respect of the year ended 31st March 2007 - US\$1,012,500), leaving retained profit for the year of US\$940,000 (31st March 2008 - US\$1,500,000). The directors now propose the payment of a final dividend for the year of US\$0.0246 per ordinary share amounting to US\$1,107,000 (31st March 2008 - US\$0.0284 per share amounting to US\$1,278,000).

# Report of the Directors

## Continued

### Business Review

The performance of the Bank is impacted by 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 latter half of the year 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'. Central banks and regulators responded to the difficulties in the financial sector and the implications for the 'real' economy not only by providing injections of capital and liquidity to financial institutions but also by aggressively reducing interest rates to historic lows and applying various forms of Keynesian macro-economic stimulus. Indeed, 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. These included assistance for emerging economies and a very substantial review of the regulation of financial markets and institutions, largely based on the Turner Review published by the FSA in March 2009. Undoubtedly, going forward, regulation will demand higher capital ratios and liquidity reserves, which will inevitably impact the level of profitability in the banking sector.

The very rapid worldwide slow down in effective demand resulted in significant falls in commodity prices, including energy with the crude oil price per barrel falling from highs above US\$140 in July 2008 to lows of less than US\$40 in January 2009, ending the financial year at about US\$50. The fall in crude oil price, repatriation of investments and perceived weakness of the UK economy

resulted in comparative strengthening of the US currency, the average exchange rate for the US\$ against £sterling appreciating by some 15% as compared to the previous year ended 31st March 2008.

The turmoil in developed economies rapidly impacted emerging markets as foreign investors repatriated funds and international banks reduced credit facilities. In Nigeria, the fall in energy prices also impacted forecast federal government revenues and planned spending. While, the Nigerian Government, through the Central Bank of Nigeria (CBN), took necessary measures to stabilise the local currency, the naira, including suspension of the Wholesale Dutch Auction System (WDAS), stock market sentiment followed that in developed economies with the Nigerian Stock Exchange (NSE) main index closing the year down 68% at 19,852. Since the year end, there has been some improvement in sentiment as the steps taken by the G20 begin to have effect. Energy prices have increased, easing pressure on the Nigerian federal budget, the NSE has risen by some 50%, the naira stabilised and trade volumes recovered appreciably.

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 turmoil in the financial markets or the deteriorating conditions in the mortgage and commercial property markets. Indeed, at 31st March 2009, the Bank had no direct or indirect exposure to the 'sub-prime' mortgage markets. However, the low level of short-term interest rates resulted in interest margin compression while lower energy prices impacted oil-related deposits and pressure on the naira led to a temporary reduction in trade volumes, all of which adversely affected the Bank's performance as compared to plan, particularly in the latter half of the year.

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

# Report of the Directors

## Continued

risk-weighted assets), net interest margin, net non interest income and the cost to income ratio, after allowing for currency fluctuations. Net interest income fell 19.5% to US\$8.1 millions but commission income rose by 30.5% to US\$3.5 millions and foreign exchange earnings increased by 212% to over US\$1.0 million. As a result, operating income, which in 2007/8 included loan recoveries of US\$200,000, fell by 4.5% to US\$12.6 millions. Administrative expenses, incurred mainly in £sterling, were well contained despite exceptional charges of US\$159,000 relating to restructuring (2007/8 – US\$nil) and benefited also from the impact of the stronger US\$, falling by 2.6% to US\$8.8 millions. However, as expected, depreciation and amortisation charges rose to US\$654,000 (2007/8 - US\$567,000) reflecting the Bank's investment in technology. As a result, overall, the cost to income ratio increased from 73.2% to 75.5%. Impairment assessment resulted in a credit of US\$6,000 (2007/8 – US\$105,000) so that, overall, profit before taxation and exceptional charges fell by 10.8% to US\$3.2 millions (2007/8 - US\$3.6 millions), representing a pre-tax return on average capital employed of some 6.3% (2007/8 - 7.2%).

The Bank's continued profitability is reflected in the improved financial position shown in the balance sheet on page 13 with shareholders' funds increasing to US\$52.3 millions (31st March 2008 - US\$51.3 millions). However, due to the environmental factors, including the impact on oil revenue related deposits, the Bank's asset level at 31st March 2009 remained almost constant at US\$1,156 millions.

### 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

few years, the directors consider the economic outlook to be positive as compared with that for developed economies.

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 business in Nigeria and Africa, continue to represent a sound strategic direction for the Bank. During much of 2008/9 the Bank necessarily focused on the potential consequences of the turmoil in the financial markets and economic down-turn and adopted a cautious approach to the assumption of risk. 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 further development of a profitable and diversified risk asset portfolio as conditions improve together with continued growth in non interest income.

### 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 Basel Committee principles for sound risk management and compliance with Basel II. The Board establishes the risk governance structure and sets the overall risk appetite and tolerance together with key risk management policies. 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

# Report of the Directors

## Continued

and concentration risks including dependence on industry sectors such as oil and gas. These risks are significantly mitigated by virtue of the specialised knowledge and experience of the Bank and UBN, which permits the taking of informed decisions as to risk assumption and mitigation.

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.

### 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 or loan capital of the Bank in the year. While subordinated debt at 31st March 2009 of US\$15millions (31st March 2008 – US\$15millions) 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\$0.83 million. At 31st March 2009, amounts so authorised but not yet expended amounted to US\$0.45 million.

### Political and Charitable Contributions

The Bank made no political contributions. Charitable donations during the year amounted to US\$24,421 (2007/8- US\$26,843).

### 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 March 2009, the amount owed to trade creditors, expressed as a proportion of the amount invoiced by suppliers during the year then ended, was 25 days (31st March 2008 - 28 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 Copthall Avenue  
London EC2R 7BN  
24th June 2009

# 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 International Financial Reporting Standards as adopted by the European Union (IFRS) and applicable law.

The financial statements are required by law to present fairly the financial position and the performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 IFRS; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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, two non-executive directors appointed by UBN, one of whom is the chairman of the Board, and three independent non-executive directors. The Board meets at least quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank, including assessment of the Bank's competitive position, approval of strategic and financial plans and review of performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation and establishes the risk framework, overall risk appetite and key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

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

We have audited the financial statements of Union Bank UK plc for the year ended 31st March 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

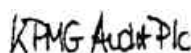
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31st March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG Audit Plc  
Chartered Accountants, London  
Registered Auditor 24th June 2009

# Income Statement

For the year ended 31st March 2009

|  | Note  | 2008/9<br>US\$'000 | 2007/8<br>US\$'000 |
|--|-------|--------------------|--------------------|
| Interest receivable                              | 6     | 24,044             | 51,022             |
| Interest payable                                 | 7     | (15,983)           | (41,009)           |
| <b>Net interest income</b>                       |       | <b>8,061</b>       | <b>10,013</b>      |
| Fees and commissions income                      | 8     | 3,533              | 2,708              |
| Dealing and exchange profit                      | 9     | 1,046              | 335                |
| Other operating (expense) / income               | 10    | (75)               | 107                |
| <b>Operating income</b>                          |       | <b>12,565</b>      | <b>13,163</b>      |
| Administrative expenses                          | 11    | (8,830)            | (9,064)            |
| Depreciation and amortisation                    | 20/21 | (654)              | (567)              |
| Net impairment recovery on financial instruments | 18    | 6                  | 105                |
| <b>Profit on ordinary activities before tax</b>  |       | <b>3,087</b>       | <b>3,637</b>       |
| Tax on profit on ordinary activities             | 15    | (869)              | (1,124)            |
| <b>Profit on ordinary activities after tax</b>   |       | <b>2,218</b>       | <b>2,513</b>       |

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

# Balance Sheet

As at 31st March 2009

|                                     | Note | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-------------------------------------|------|------------------|------------------|
| <b>Assets</b>                       |      |                  |                  |
| Cash at bank and in hand            |      | 6,937            | 18,859           |
| Loans and advances to banks         | 16   | 1,009,976        | 671,641          |
| Loans and advances to customers     | 17   | 27,067           | 35,548           |
| Debt securities                     | 19   | 109,186          | 431,598          |
| Property and equipment              | 20   | 576              | 625              |
| Intangible assets                   | 21   | 1,129            | 1,452            |
| Other assets                        |      | 368              | 150              |
| Deferred tax assets                 | 15   | 64               | 19               |
| Prepayments                         |      | 387              | 863              |
| <b>Total Assets</b>                 |      | <b>1,155,690</b> | <b>1,160,755</b> |
| <b>Liabilities</b>                  |      |                  |                  |
| <b>Current liabilities:</b>         |      |                  |                  |
| Deposits by banks                   | 22   | 981,853          | 1,015,926        |
| Customer accounts                   | 23   | 102,521          | 74,110           |
| Other liabilities                   | 24   | 2,558            | 1,861            |
| Accruals and deferred income        | 25   | 1,492            | 2,532            |
|                                     |      | <b>1,088,424</b> | <b>1,094,429</b> |
| <b>Non current liabilities:</b>     |      |                  |                  |
| Subordinated liabilities            | 26   | 15,000           | 15,000           |
| <b>Total liabilities</b>            |      | <b>1,103,424</b> | <b>1,109,429</b> |
| <b>Equity</b>                       |      |                  |                  |
| Called up share capital             | 27   | 45,090           | 45,090           |
| Retained earnings                   |      | 7,176            | 6,236            |
| Equity shareholders' funds          |      | 52,266           | 51,326           |
| <b>Total Liabilities and Equity</b> |      | <b>1,155,690</b> | <b>1,160,755</b> |

These financial statements were approved by the Board of Directors and authorised for issue on 24th June 2009.

Signed on behalf of the Board of Directors:



Dr KA Ali  
Managing Director / Chief Executive

# Statements of Changes in Equity

|  | Share<br>Capital<br>US\$'000 | Retained<br>Earnings<br>US\$'000 | Total<br>Equity<br>US\$'000 |
|--|------------------------------|----------------------------------|-----------------------------|
| Balance as at 1 April 2007   | 45,090                       | 4,736                            | 49,826                      |
| Profit for the year  | -                            | 2,513                            | 2,513                       |
| Dividends paid   | -                            | (1,013)                          | (1,013)                     |
| <b>Balance attributable to equity shareholders<br/>as at 31st March 2008</b> | <b>45,090</b>                | <b>6,236</b>                     | <b>51,326</b>               |
| Profit for the year  | -                            | 2,218                            | 2,218                       |
| Dividends paid   | -                            | (1,278)                          | (1,278)                     |
| <b>Balance attributable to equity shareholders<br/>as at 31st March 2009</b> | <b>45,090</b>                | <b>7,176</b>                     | <b>52,266</b>               |

# Cash Flow Statement

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Profit before tax   | 3,087            | 3,637            |
| <b>Adjustments for:</b>   |                  |                  |
| Depreciation and amortisation   | 654              | 567              |
| Impairment of financial and non financial items                                 | (6)              | (105)            |
| Other non-cash items included in profit before tax                              | (75)             | -                |
|   | <b>3,660</b>     | <b>4,099</b>     |
| <b>Net (increase)/decrease in assets relating to operating activities:</b>      |                  |                  |
| Loans and advances to banks   | (338,335)        | (48,646)         |
| Loans and advances to customers   | 8,487            | (19,728)         |
| Debt Securities   | 322,412          | (321,195)        |
| Other assets  | 258              | (221)            |
|   | <b>(7,178)</b>   | <b>(389,790)</b> |
| <b>Net increase/(decrease) in liabilities relating to operating activities:</b> |                  |                  |
| Due to banks  | (34,073)         | 447,392          |
| Due to customers  | 28,411           | (56,589)         |
| Other liabilities   | (108)            | 601              |
|   | <b>(5,770)</b>   | <b>391,404</b>   |
| Income tax paid   | (1,074)          | (980)            |
| <b>Net cash flow from operating activities</b>                                  | <b>(10,362)</b>  | <b>4,733</b>     |
| Acquisition of fixed and intangible assets                                      | (282)            | (681)            |
| Dividends paid  | (1,278)          | (1,013)          |
| <b>Net cash flow from investment and financing activities</b>                   | <b>(1,560)</b>   | <b>(1,694)</b>   |
| Net increase/(decrease) in cash and equivalents                                 | (11,922)         | 3,039            |
| Cash and cash equivalents at 1st April 2008                                     | 18,859           | 15,820           |
| <b>Cash and cash equivalents at 31st March 2009</b>                             | <b>6,937</b>     | <b>18,859</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 1985. 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 year, amendments were made to International Accounting Standard No 39 (IAS 39) 'Financial Instruments: Recognition and Measurement' and to IFRS 7 'Financial Instruments: Disclosures' concerning reclassification of certain financial assets. Adoption of these amendments to standards had no effect on the reported results, financial position or disclosures in these financial statements as the Bank did not hold any of the financial assets to which these reclassification amendments relate.

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) 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.

### (c) 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.

### (d) 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.

### (e) Comparative information

These financial statements include one year of comparative information for the profit and loss account, balance sheet, statements of changes in equity, cash flow statement and related notes on the financial statements.

IFRS has been adopted for the first time in these financial statements. Previously, the Bank prepared its financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

Consequently, certain comparative amounts have been restated and/or reclassified to conform with the current year's presentation.

Further information concerning the effect of first time adoption of IFRS is given in note 3 (s) below.

### (f) Future Accounting Developments

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the business of the Bank, which have not been applied in these financial statements were in issue but not yet effective:

# Notes to the Financial Statements

## Continued

- IFRS 8 'Operating Segments' – endorsed by the EU and applicable for accounting periods beginning on or after 1st January 2009;
- IAS 1 (revised) – endorsed by the EU and applicable for accounting periods beginning on or after 1st January 2009;
- IAS 39 (amended) 'Eligible Hedged Items' – not endorsed by the EU and applicable for accounting periods beginning on or after 1st July 2009;
- IFRIC 17 'Distributions of Non-cash Assets to Owners' – not endorsed by the EU and applicable for accounting periods beginning on or after 1st July 2009; and
- The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank other than presentational changes and additional disclosures that may arise as a result of implementation of IAS 1 (revised) and IFRS 8.

### 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 income statement using the effective interest 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 income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

#### (b) Fees and commissions

Fees and commissions 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 profit and loss account.

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

# Notes to the Financial Statements

## Continued

### (d) Financial instruments

#### Recognition

The Bank recognises financial assets and financial liabilities in its balance sheet 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'

#### 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 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

# Notes to the Financial Statements

## Continued

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.

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 balance sheet 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 income statement 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 income statement.

### (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         | - 4 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.

# Notes to the Financial Statements

## Continued

### 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.

### 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 income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet 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 balance sheet 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 balance sheet 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 cash flow statement, 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 income statement in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheets.

### (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.

### (s) Effects of first time adoption of IFRS on 1st April 2008

The Bank adopted IFRS on 1st April 2008, with a date of transition to IFRS of 1st April 2007. The last financial statements under UK Generally Accepted Accounting Practice (UK GAAP) were for the year ended 31st March 2008.

The impact of adopting IFRS is shown in the reconciliation below.

# Notes to the Financial Statements

## Continued

### (i) Balance Sheet - As at 1st April 2007

|                                     | UK GAAP<br>1st April 2007<br>US\$'000 | Reclassifications<br>US\$'000 | Adjustments<br>US\$'000 | IFRS<br>1st April 2007<br>US\$'000 |
|-------------------------------------|---------------------------------------|-------------------------------|-------------------------|------------------------------------|
| <b>Assets</b>                       |                                       |                               |                         |                                    |
| Cash at bank and in hand            | 15,820                                | -                             | -                       | 15,820                             |
| Loans and advances to banks         | 621,600                               | 1,395 <i>a</i>                | -                       | 622,995                            |
| Loans and advances to customers     | 15,646                                | 173 <i>a</i>                  | -                       | 15,819                             |
| Debt securities                     | 110,000                               | 403 <i>a</i>                  | -                       | 110,403                            |
| Property and equipment              | 1,963                                 | (1,525) <i>b</i>              | -                       | 438                                |
| Intangible assets                   |                                       | 1,525 <i>b</i>                | -                       | 1,525                              |
| Other assets                        | 159                                   | -                             | -                       | 159                                |
| Deferred tax assets                 | -                                     | -                             | -                       | -                                  |
| Prepayments                         | 2,677                                 | (1,971) <i>a</i>              | (71) <i>d</i>           | 635                                |
| <b>Total Assets</b>                 | <b>767,865</b>                        | <b>-</b>                      | <b>(71)</b>             | <b>767,794</b>                     |
| <b>Liabilities</b>                  |                                       |                               |                         |                                    |
| <b>Current liabilities</b>          |                                       |                               |                         |                                    |
| Deposits by banks                   | 567,690                               | 844 <i>a</i>                  | -                       | 568,534                            |
| Customer accounts                   | 130,575                               | 124 <i>a</i>                  | -                       | 130,699                            |
| Other liabilities                   | 1,363                                 | -                             | (22) <i>e</i>           | 1,341                              |
| Accruals and deferred income        | 3,316                                 | (968) <i>a</i>                | 3 <i>f</i>              | 2,351                              |
| Deferred tax liabilities            | 43                                    | -                             | -                       | 43                                 |
|                                     | <b>702,987</b>                        | <b>-</b>                      | <b>(19)</b>             | <b>702,968</b>                     |
| <b>Non-current liabilities</b>      |                                       |                               |                         |                                    |
| Subordinated liabilities            | -                                     | 15,000 <i>c</i>               | -                       | 15,000                             |
| <b>Total liabilities</b>            | <b>702,987</b>                        | <b>15,000</b>                 | <b>(19)</b>             | <b>717,968</b>                     |
| Subordinated liabilities            | 15,000                                | (15,000) <i>c</i>             | -                       | -                                  |
| Called up share capital             | 45,090                                | -                             | -                       | 45,090                             |
| Retained earnings                   | 4,788                                 | -                             | (52)                    | 4,736                              |
| <b>Equity shareholders' funds</b>   | <b>49,878</b>                         | <b>-</b>                      | <b>(52)</b>             | <b>49,826</b>                      |
| <b>Total Liabilities and Equity</b> | <b>767,865</b>                        | <b>-</b>                      | <b>(71)</b>             | <b>767,794</b>                     |

- a* Reclassification of accrued interest from prepayments/deferred income to underlying assets and liabilities
- b* Reclassification of intangible assets from fixed assets
- c* Recognition of subordinated liabilities as non-current liabilities
- d* Commissions which are deferred and amortised under IFRS, but were recognised in profit and loss upfront under UK GAAP
- e* Tax effect of adjustments *d* and *f*
- f* Facility fees included in the effective interest rate under IFRS, which were previously recognised in profit and loss upfront under UK GAAP

# Notes to the Financial Statements

## Continued

### (ii) Balance Sheet - As at 31st March 2008

|                                     | UK GAAP<br>31st March 2008<br>US\$'000 | Reclassifications<br>US\$'000 | Adjustments<br>US\$'000 | IFRS<br>31st March 2008<br>US\$'000 |
|-------------------------------------|--|-------------------------------|-------------------------|-------------------------------------|
| <b>Assets</b>                       |  |                               |                         |                                     |
| Cash at bank and in hand            | 18,859                                 | -                             | -                       | 18,859                              |
| Loans and advances to banks         | 671,141                                | 500 <i>a</i>                  | -                       | 671,641                             |
| Loans and advances to customers     | 35,321                                 | 227 <i>a</i>                  | -                       | 35,548                              |
| Debt securities                     | 430,000                                | 1,598 <i>a</i>                | -                       | 431,598                             |
| Property and equipment              | 2,077                                  | (1,452) <i>b</i>              | -                       | 625                                 |
| Intangible assets                   | -                                      | 1,452 <i>b</i>                | -                       | 1,452                               |
| Other assets                        | 150                                    | -                             | -                       | 150                                 |
| Deferred tax assets                 | -                                      | -                             | 19 <i>e</i>             | 19                                  |
| Prepayments                         | 3,265                                  | (2,325) <i>a</i>              | (77) <i>d</i>           | 863                                 |
| <b>Total Assets</b>                 | <b>1,160,813</b>                       | <b>-</b>                      | <b>(58)</b>             | <b>1,160,755</b>                    |
| <b>Liabilities</b>                  |  |                               |                         |                                     |
| <b>Current liabilities</b>          |  |                               |                         |                                     |
| Deposits by banks                   | 1,014,150                              | 1,776 <i>a</i>                | -                       | 1,015,926                           |
| Customer accounts                   | 73,986                                 | 124 <i>a</i>                  | -                       | 74,110                              |
| Other liabilities                   | 1,861                                  | -                             | -                       | 1,861                               |
| Accruals and deferred income        | 4,376                                  | (1,900) <i>a</i>              | 56 <i>f</i>             | 2,532                               |
| Deferred tax liabilities            | 21                                     | -                             | (21) <i>e</i>           | -                                   |
|                                     | <b>1,094,394</b>                       | <b>-</b>                      | <b>35</b>               | <b>1,094,429</b>                    |
| <b>Non-current liabilities</b>      |  |                               |                         |                                     |
| Subordinated liabilities            | -                                      | 15,000 <i>c</i>               | -                       | 15,000                              |
| <b>Total Liabilities</b>            | <b>1,094,394</b>                       | <b>15,000</b>                 | <b>35</b>               | <b>1,109,429</b>                    |
| Subordinated liabilities            | 15,000                                 | (15,000) <i>c</i>             | -                       |                                     |
| Called up share capital             | 45,090                                 | -                             | -                       | 45,090                              |
| Retained earnings                   | 6,329                                  | -                             | (93)                    | 6,236                               |
| Equity shareholders' funds          | 51,419                                 | -                             | (93)                    | 51,326                              |
| <b>Total Liabilities and Equity</b> | <b>1,160,813</b>                       | <b>-</b>                      | <b>(58)</b>             | <b>1,160,755</b>                    |

- a* Reclassification of accrued interest from prepayments/deferred income to underlying assets and liabilities
- b* Reclassification of intangible assets from fixed assets
- c* Recognition of subordinated liabilities as non-current liabilities
- d* Commissions which are deferred and amortised under IFRS, but were recognised in profit and loss upfront under UK GAAP
- e* Tax effect of adjustments *d* and *f*
- f* Facility fees included in the effective interest rate under IFRS, which were previously recognised in profit and loss upfront under UK GAAP

# Notes to the Financial Statements

## Continued

### (iii) Profit and Loss Account - For the year ended 31st March 2008

|   | UK GAAP<br>2007/8<br>US\$'000 | Reclassifications<br>US\$'000 |          | Adjustments<br>US\$'000 |          | IFRS<br>2007/8<br>US\$'000 |
|---|-------------------------------|-------------------------------|----------|-------------------------|----------|----------------------------|
| Interest receivable                             | 50,887                        | 192                           | <i>a</i> | (57)                    | <i>a</i> | 51,022                     |
| Interest payable                                | (41,009)                      | -                             |          | -                       |          | (41,009)                   |
| <b>Net interest income</b>                      | <b>9,878</b>                  | <b>192</b>                    |          | <b>(57)</b>             |          | <b>10,013</b>              |
| Fees and commissions income                     | 2,902                         | (192)                         | <i>a</i> | (2)                     | <i>b</i> | 2,708                      |
| Dealing and exchange profit                     | 335                           | -                             |          | -                       |          | 335                        |
| Other operating expense / income                | 107                           | -                             |          | -                       |          | 107                        |
| <b>Operating income</b>                         | <b>13,222</b>                 | <b>-</b>                      |          | <b>(59)</b>             |          | <b>13,163</b>              |
| Administrative expenses                         | (9,064)                       | -                             |          | -                       |          | (9,064)                    |
| Depreciation and amortisation                   | (567)                         | -                             |          | -                       |          | (567)                      |
| Net impairment loss for financial instruments   | 105                           | -                             |          | -                       |          | 105                        |
| <b>Profit on ordinary activities before tax</b> | <b>3,696</b>                  | <b>-</b>                      |          | <b>(59)</b>             |          | <b>3,637</b>               |
| Tax on profit on ordinary activities            | (1,142)                       | -                             |          | 18                      | <i>c</i> | (1,124)                    |
| <b>Profit on ordinary activities after tax</b>  | <b>2,554</b>                  | <b>-</b>                      |          | <b>(41)</b>             |          | <b>2,513</b>               |

- a* Facility fees included in the effective interest rate under IFRS, which were previously recognised in profit and loss upfront under UK GAAP
- b* Commissions deferred and amortised under IFRS, but were previously recognised in profit and loss upfront under UK GAAP
- c* Tax effect of adjustments *a* and *b*

# 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:

#### 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   | -                        | -                | -                     | 2,633             | 2,633     |
| Subordinated liabilities        | 26   | -                        | -                | -                     | 15,000            | 15,000    |

#### 2008

| US\$'000                        | Note | Designated at fair value | Held to maturity | Loans and receivables | Other liabilities | Total     |
|---------------------------------|------|--------------------------|------------------|-----------------------|-------------------|-----------|
| Cash at bank and in hand        |      | -                        | -                | 18,859                | -                 | 18,859    |
| Loans and advances to banks     | 16   | -                        | -                | 671,641               | -                 | 671,641   |
| Loans and advances to customers | 17   | -                        | -                | 35,548                | -                 | 35,548    |
| Debt securities                 | 19   | -                        | 431,598          | -                     | -                 | 431,598   |
| Deposits by banks               | 22   | -                        | -                | -                     | 1,015,926         | 1,015,926 |
| Customer accounts               | 23   | -                        | -                | -                     | 74,110            | 74,110    |
| Other liabilities               | 24   | -                        | -                | -                     | 1,861             | 1,861     |
| Subordinated liabilities        | 26   | -                        | -                | -                     | 15,000            | 15,000    |

### 6. Interest receivable

|  | 2008/9<br>US\$'000 | 2007/8<br>US\$'000 |
|--|--------------------|--------------------|
| Interest receivable on debt securities<br>(classified as held to maturity)               | 8,088              | 14,735             |
| Other interest receivable on loans and advances<br>(classified as loans and receivables) | 15,956             | 36,287             |
|  | <b>24,044</b>      | <b>51,022</b>      |

# Notes to the Financial Statements

## Continued

| <b>7. Interest payable</b>                     | <b>2008/9</b>   | <b>2007/8</b>   |
|--|-----------------|-----------------|
|  | <b>US\$'000</b> | <b>US\$'000</b> |
| Interest payable to banks                      | (14,399)        | (36,548)        |
| Interest payable on subordinated loan due 2014 | (586)           | (874)           |
| Other interest payable on customer accounts    | (998)           | (3,587)         |
|  | <b>(15,983)</b> | <b>(41,009)</b> |

| <b>8. Fees and commissions income</b> | <b>2008/9</b>   | <b>2007/8</b>   |
|---------------------------------------|-----------------|-----------------|
|                                       | <b>US\$'000</b> | <b>US\$'000</b> |
| Letters of credit                     | 2,434           | 1,610           |
| Funds transfer                        | 472             | 421             |
| Others                                | 627             | 677             |
|                                       | <b>3,533</b>    | <b>2,708</b>    |

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

Dealing and exchange profits relate 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) / income</b> | <b>2008/9</b>   | <b>2007/8</b>   |
|---|-----------------|-----------------|
|   | <b>US\$'000</b> | <b>US\$'000</b> |
| Recoveries of debts previously written off    | -               | 200             |
| Guarantee fee payable                         | (11)            | (11)            |
| Other operating charges and brokerage         | (64)            | (82)            |
|   | <b>(75)</b>     | <b>107</b>      |

| <b>11. Administrative expenses</b>      | <b>2008/9</b>   | <b>2007/8</b>   |
|---|-----------------|-----------------|
|   | <b>US\$'000</b> | <b>US\$'000</b> |
| Wages and salaries, including directors | (4,349)         | (4,586)         |
| Social security costs                   | (474)           | (494)           |
| Other pension costs                     | (298)           | (305)           |
| Other staff costs                       | (573)           | (666)           |
| Total staff costs                       | (5,694)         | (6,051)         |
| Other recurring administrative expenses | (3,136)         | (3,013)         |
|   | <b>(8,830)</b>  | <b>(9,064)</b>  |

Other staff costs include non-recurring items amounting to US\$159,000 (2007/8 US\$ nil) relating to restructuring.

# Notes to the Financial Statements

## Continued

|   | 2008/9    | 2007/8    |
|---|-----------|-----------|
| Average number of employees, including executive directors: | No.       | No.       |
| Banking   | 20        | 19        |
| Operations  | 15        | 16        |
| Administration  | 6         | 6         |
|   | <b>41</b> | <b>41</b> |

### 12. Pension costs

The Bank makes contributions to the personal pension funds of employees under Group Personal Pension arrangements. During the year to 31 March 2009, the Bank made contributions totalling US\$298,000 (2007/8 - US\$305,000).

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

### 13. Directors emoluments

|                  | 2008/9       | 2007/8       |
|------------------|--------------|--------------|
|                  | US\$'000     | US\$'000     |
| Directors' fees  | (169)        | (199)        |
| Other emoluments | (571)        | (583)        |
|                  | <b>(740)</b> | <b>(782)</b> |

The emoluments of the highest paid director, excluding pension contributions, were US\$333,633 (2007/8 - US\$326,085). Pension contributions were made during the year amounting to US\$5,985 (2007/8 - US\$6,126).

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

|   | 2008/9   | 2007/8   |
|---|----------|----------|
|   | 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                                   | (172)    | (139)    |
| Other services relating to taxation                                 | (37)     | (100)    |
| Services relating to information technology                         | -        | (25)     |
| All other services  | (168)    | (82)     |
| Rental of premises held under an operating lease                    | (257)    | (301)    |
| Other operating lease and similar rentals                           | (80)     | (52)     |

# Notes to the Financial Statements

## Continued

### 15. Taxation

Tax on profit on ordinary activities in the income statement

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

|   | 2008/9<br>US\$'000 | 2007/8<br>US\$'000 |
|---|--------------------|--------------------|
| <b>Current tax:</b>   |                    |                    |
| United Kingdom corporation tax based on the profit for the year | (913)              | (1,164)            |
| Prior year current tax adjustment                               | -                  | -                  |
| <b>Total current tax</b>  | <b>(913)</b>       | <b>(1,164)</b>     |
| <b>Deferred tax:</b>  |                    |                    |
| Timing differences, origination and reversal                    | 44                 | 40                 |
| Effect of tax rate change                                       | -                  | -                  |
| Prior year deferred tax adjustment                              | -                  | -                  |
| <b>Total deferred tax</b>                                       | <b>44</b>          | <b>40</b>          |
| <b>Tax expense on profit on ordinary activities</b>             | <b>(869)</b>       | <b>(1,124)</b>     |

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

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

|  | 2008/9<br>US\$'000 | 2007/8<br>US\$'000 |
|--|--------------------|--------------------|
| Profit on ordinary activities before tax | 3,087              | 3,637              |
| Tax at 28% (2007/8 - 30%) thereon        | (864)              | (1,091)            |
| <b>Effects of:</b>                       |                    |                    |
| Expenses not deductible for tax purposes | (26)               | (22)               |
| Exchange differences                     | 21                 | -                  |
| Adjustments in respect of prior year     | -                  | (11)               |
| <b>Tax expense</b>                       | <b>(869)</b>       | <b>(1,124)</b>     |

#### (c) Analysis of Deferred Tax Asset

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

|  | 2008/9<br>US\$'000 | 2007/8<br>US\$'000 |
|--|--------------------|--------------------|
| Capital allowances in excess of depreciation | 1                  | (74)               |
| Short term timing differences                | 63                 | 93                 |
|  | <b>64</b>          | <b>19</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

|                 | 2009<br>US\$'000 |                      |                  | 2008<br>US\$'000 |                      |                |
|-----------------|------------------|----------------------|------------------|------------------|----------------------|----------------|
|                 | Gross amount     | Impairment allowance | Total            | Gross amount     | Impairment allowance | Total          |
| Bank overdrafts | -                | -                    | -                | -                | -                    | -              |
| Bank loans      | 1,009,976        | -                    | 1,009,976        | 671,641          | -                    | 671,641        |
|                 | <b>1,009,976</b> | <b>-</b>             | <b>1,009,976</b> | <b>671,641</b>   | <b>-</b>             | <b>671,641</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 March 2009 is US\$8,976,000 (31st March 2008 - US\$10,592,000). 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:

|   | 2009<br>US\$'000 |          |                  | 2008<br>US\$'000 |          |                |
|---|------------------|----------|------------------|------------------|----------|----------------|
|   | Performing       | Impaired | Total            | Performing       | Impaired | Total          |
| Repayable on demand or at short notice    | 44,408           | -        | 44,408           | 42,702           | -        | 42,702         |
| Remaining maturity:                       |                  |          |                  |                  |          |                |
| - 3 months or less excl. above            | 955,354          | -        | 955,354          | 628,939          | -        | 628,939        |
| - 1 year or less but over 3 months        | 10,214           | -        | 10,214           | -                | -        | -              |
| - 5 years or less but over 1 year         | -                | -        | -                | -                | -        | -              |
| - Over 5 years                            | -                | -        | -                | -                | -        | -              |
| Less: allowances for impairment (note 18) | -                | -        | -                | -                | -        | -              |
|   | <b>1,009,976</b> | <b>-</b> | <b>1,009,976</b> | <b>671,641</b>   | <b>-</b> | <b>671,641</b> |

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US\$39,338,000 (31st March 2008 - US\$6,424,000).

# Notes to the Financial Statements

## Continued

### 17. Loans and advances to customers

|                             | 2009<br>US\$'000 |                      |               | 2008<br>US\$'000 |                      |               |
|-----------------------------|------------------|----------------------|---------------|------------------|----------------------|---------------|
|                             | Gross amount     | Impairment allowance | Total         | Gross amount     | Impairment allowance | Total         |
| Commercial loans & advances | 13,549           | (431)                | 13,118        | 20,795           | (563)                | 20,232        |
| Personal loans & advances   | 1,575            | (26)                 | 1,549         | 584              | (17)                 | 567           |
| Syndicated loans            | 12,475           | (75)                 | 12,400        | 14,799           | (50)                 | 14,749        |
|                             | <b>27,599</b>    | <b>(532)</b>         | <b>27,067</b> | <b>36,178</b>    | <b>(630)</b>         | <b>35,548</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\$24,123,000 as at 31st March 2009 (31st March 2008 - US\$13,189,000). This collateral can be used in the event of default by the borrower.

Out of the total collateral, US\$116,000 is for impaired loans and advances to customers (31st March 2008 - US\$158,000) and US\$2,838,000 (31st March 2008 - US\$nil) 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:

|   | 2009<br>US\$'000 |           |               | 2008<br>US\$'000 |            |               |
|---|------------------|-----------|---------------|------------------|------------|---------------|
|   | Performing       | Impaired  | Total         | Performing       | Impaired   | Total         |
| Repayable on demand or at short notice    | 11,515           | 355       | 11,870        | 18,806           | 534        | 19,340        |
| Remaining maturity:                       |                  |           |               |                  |            |               |
| - 3 months or less excl. above            | 3,269            | -         | 3,269         | 1,420            | -          | 1,420         |
| - 1 year or less but over 3 months        | 1,534            | -         | 1,534         | 2,135            | -          | 2,135         |
| - 5 years or less but over 1 year         | 10,926           | -         | 10,926        | 13,283           | -          | 13,283        |
| - Over 5 years                            | -                | -         | -             | -                | -          | -             |
| Less: Allowances for impairment (note 18) | (214)            | (318)     | (532)         | (202)            | (428)      | (630)         |
|   | <b>27,030</b>    | <b>37</b> | <b>27,067</b> | <b>35,442</b>    | <b>106</b> | <b>35,548</b> |

# Notes to the Financial Statements

## Continued

### 18. Net impairment loss for financial instruments

|                                   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-----------------------------------|------------------|------------------|
| At beginning of the year          | (630)            | (702)            |
| Credit to profit and loss account | 6                | 105              |
| Amounts written off               | -                | -                |
| Recoveries                        | -                | -                |
| Exchange differences              | 92               | (33)             |
| <b>At the end of the year</b>     | <b>(532)</b>     | <b>(630)</b>     |
| Loans and advances to banks       | -                | -                |
| Loans and advances to customers   | (532)            | (630)            |
|                                   | <b>(532)</b>     | <b>(630)</b>     |

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

|           | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-----------|------------------|------------------|
| Principal | 11               | -                |
| Interests | -                | -                |
| Others    | -                | -                |
|           | <b>11</b>        | <b>-</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 2008 – US\$nil).

### 19. Debt securities

Debt securities represent listed certificates of deposit issued by banks all of which mature within one year of the balance sheet date.

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

# Notes to the Financial Statements

## Continued

### 20. Property and equipment

2009

| US\$'000                                 | Leasehold<br>Improvements | Office<br>Equipment<br>and Furniture<br>& Computer<br>Hardware | Motor<br>Vehicles | Total        |
|--|---------------------------|--|-------------------|--------------|
| <b>Cost:</b>                             |                           |  |                   |              |
| At beginning of the year                 | 434                       | 441  | 108               | 983          |
| Additions                                | 150                       | 25   | -                 | 175          |
| Disposals                                | -                         | -  | -                 | -            |
| <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)        |
| Disposals                                | -                         | -  | -                 | -            |
| <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>   |

2008

| US\$'000                                 | Leasehold<br>Improvements | Office<br>Equipment<br>and Furniture<br>& Computer<br>Hardware | Motor<br>Vehicles | Total        |
|--|---------------------------|--|-------------------|--------------|
| <b>Cost:</b>                             |                           |  |                   |              |
| At beginning of the year                 | 320                       | 315  | -                 | 635          |
| Additions                                | 114                       | 126  | 108               | 348          |
| Disposals                                | -                         | -  | -                 | -            |
| <b>At end of the year</b>                | <b>434</b>                | <b>441</b>   | <b>108</b>        | <b>983</b>   |
| <b>Depreciation:</b>                     |                           |  |                   |              |
| At beginning of the year                 | (94)                      | (103)  | -                 | (197)        |
| Charge for the year                      | (73)                      | (77)   | (11)              | (161)        |
| Disposals                                | -                         | -  | -                 | -            |
| <b>At end of the year</b>                | <b>(167)</b>              | <b>(180)</b>   | <b>(11)</b>       | <b>(358)</b> |
| <b>Net book value at 31st March 2008</b> | <b>267</b>                | <b>261</b>   | <b>97</b>         | <b>625</b>   |

# Notes to the Financial Statements

## Continued

| <b>21. Intangible assets</b>                               | 2009           | 2008         |
|--|----------------|--------------|
|  | Software       | Software     |
|  | US\$'000       | US\$'000     |
| <b>Cost:</b>   |                |              |
| At beginning of the year                                   | 2,271          | 1938         |
| Additions  | 107            | 333          |
| Disposals  | -              | -            |
| <b>At end of the year</b>                                  | <b>2,378</b>   | <b>2,271</b> |
| <b>Depreciation:</b>                                       |                |              |
| At beginning of the year                                   | (819)          | (413)        |
| Charge for the year  | (430)          | (406)        |
| Disposals  | -              | -            |
| <b>At end of the year</b>                                  | <b>(1,249)</b> | <b>(819)</b> |
| <b>Net book value at 31st March 2009 / 31st March 2008</b> | <b>1,129</b>   | <b>1,452</b> |

| <b>22. Deposits by Banks</b>       | 2009           | 2008             |
|------------------------------------|----------------|------------------|
|                                    | US\$'000       | US\$'000         |
| Repayable on demand                | 648,940        | 452,697          |
| Remaining maturity:                |                |                  |
| - 3 months or less excluding above | 331,780        | 563,229          |
| - 1 year or less but over 3 months | 1,133          | -                |
| - 5 years or less but over 1 year  | -              | -                |
| - Over 5 years                     | -              | -                |
|                                    | <b>981,853</b> | <b>1,015,926</b> |

Deposits by banks include amounts totalling US\$86,607,000 (31st March 2008 – US\$85,612,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

Deposits by banks are categorised as other liabilities in accordance with IAS39.

| <b>23. Customer accounts</b>       | 2009           | 2008          |
|------------------------------------|----------------|---------------|
|                                    | US\$'000       | US\$'000      |
| Repayable on demand                | 78,014         | 55,972        |
| Remaining maturity:                |                |               |
| - 3 months or less excluding above | 16,424         | 15,721        |
| - 1 year or less but over 3 months | 8,083          | 2,417         |
| - 5 years or less but over 1 year  | -              | -             |
| - Over 5 years                     | -              | -             |
|                                    | <b>102,521</b> | <b>74,110</b> |

Customer accounts include amounts totalling US\$1,269,000 (31st March 2008 – US\$510,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

Customer accounts are categorised as other liabilities in accordance with IAS 39.

# Notes to the Financial Statements

## Continued

| <b>24. Other liabilities</b>  | 2009         | 2008         |
|-------------------------------|--------------|--------------|
|                               | US\$'000     | US\$'000     |
| Taxation and social security  | 606          | 890          |
| Accounts payable              | 1,593        | 693          |
| Customers' unclaimed balances | 359          | 278          |
|                               | <b>2,558</b> | <b>1,861</b> |

| <b>25. Accruals and deferred income</b> | 2009         | 2008         |
|---|--------------|--------------|
|   | US\$'000     | US\$'000     |
| Other accruals                          | 1,408        | 2,423        |
| Deferred income                         | 84           | 109          |
|   | <b>1,492</b> | <b>2,532</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 2014.

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**

|   | 2009            | 2008            |
|---|-----------------|-----------------|
|   | 000's           | 000's           |
| <b>Authorised</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 year, the Bank undertook commercial arm's length transactions with UBN and its subsidiaries (the UBN Group) in the normal course of business. These include loans and deposits and foreign currency transactions. 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                           | 2009                        |                 | 2008                        |                 |
|------------------------------------|-----------------------------|-----------------|-----------------------------|-----------------|
|                                    | Highest balance during year | Closing balance | Highest balance during year | Closing balance |
| <b>Holding company</b>             |                             |                 |                             |                 |
| <i>Assets</i>                      |                             |                 |                             |                 |
| Cash at bank and in hand           | 223                         | 59              | 58                          | -               |
| Loans and advances to banks        | 30,160                      | 8,755           | 20,713                      | 10,592          |
| <i>Liabilities</i>                 |                             |                 |                             |                 |
| Deposits by banks                  | 681,001                     | 650,023         | 1,014,002                   | 623,500         |
| Accruals and deferred income       | 296                         | 2               | 528                         | 247             |
| Subordinated liabilities (note 26) | 15,000                      | 15,000          | 15,000                      | 15,000          |
| <i>Income</i>                      |                             |                 |                             |                 |
| From holding company               |                             | 1,611           |                             | 1,270           |
| <i>Expense</i>                     |                             |                 |                             |                 |
| To holding company                 |                             | 4,411           |                             | 19,584          |
| <b>Fellow subsidiaries</b>         |                             |                 |                             |                 |
| <i>Liabilities</i>                 |                             |                 |                             |                 |
| Deposits by banks                  | 1,890                       | 1,693           | 2,786                       | 2,577           |
| Customer accounts                  | 353                         | 263             | 355                         | 353             |
| <i>Income</i>                      |                             |                 |                             |                 |
| From fellow subsidiaries           |                             | 16              |                             | -               |
| <i>Expense</i>                     |                             |                 |                             |                 |
| To fellow subsidiaries             |                             | 21              |                             | 56              |

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

Mortgage advances were approved and advanced during the year, on a commercial arm's lengths basis, to two (2008 – nil) directors of the parent company. As at 31st March 2009 a total mortgage amount of US\$365,156 (31st March 2008 – US\$nil) was outstanding in respect of these directors.

In addition, at 31st March 2009 a loan made to one executive director of the Bank, on terms generally available to staff, remained outstanding in the amount of US\$22,356 (31st March 2008 - US\$63,674).

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

### 29. Contingent liabilities and commitments

|                                   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-----------------------------------|------------------|------------------|
| Letters of credit                 | 39,754           | 60,490           |
| Guarantees given to third parties | 1,968            | 2,783            |

# 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 balance sheet 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

|                                    | 2009<br>US\$'000 |              |              | 2008<br>US\$'000 |              |          |
|------------------------------------|------------------|--------------|--------------|------------------|--------------|----------|
|                                    | Gross amount     | Collateral   | Net          | Gross amount     | Collateral   | Net      |
| Within 3 months                    | 3,427            | 645          | 2,782        | 499              | 3,026        | -        |
| 6 months or less but over 3 months | 3,504            | 2,838        | 666          | -                | -            | -        |
| 1 years or less but over 6 months  | -                | -            | -            | -                | -            | -        |
| Over 1 year                        | -                | -            | -            | -                | -            | -        |
|                                    | <b>6,931</b>     | <b>3,483</b> | <b>3,448</b> | <b>499</b>       | <b>3,026</b> | <b>-</b> |

### (ii) Credit exposure by sector

|             | 2009<br>US\$'000 | 2008<br>US\$'000 |
|-------------|------------------|------------------|
| Banks       | 1,126,099        | 1,122,098        |
| Corporate   | 25,541           | 35,070           |
| Individuals | 1,526            | 478              |
|             | <b>1,153,166</b> | <b>1,157,646</b> |

### (iii) Credit exposure by location

|   | 2009<br>US\$'000 | 2008<br>US\$'000 |
|---|------------------|------------------|
| Europe                                      | 947,273          | 964,856          |
| Africa                                      | 56,694           | 57,138           |
| Others (mainly Canada, Japan and Australia) | 149,199          | 135,652          |
|   | <b>1,153,166</b> | <b>1,157,646</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 (95%) (31st March 2008 – 97%) 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 March 2009, the bank's maximum exposure to credit was

US\$1,194millions (31st March 2008 – US\$1,221millions), none of which 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\$41.8millions (31st March 2008 – US\$63.3millions) against which the bank held cash collateral of US\$36.4millions (31st March 2008 – US\$51.2millions). In addition, the bank had collateral of US\$24.1millions (31st March 2008 – US\$13.2millions) 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:

### 2009

| US\$'000                                     | Time Band          |              |             |           |               | Total            |
|--|--------------------|--------------|-------------|-----------|---------------|------------------|
|  | Less than 3 Months | 3 – 6 Months | 6-12 Months | 1-5 Years | 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>-</b>  | <b>15,000</b> | <b>1,107,427</b> |

### 2008

| US\$'000                                     | Time Band          |              |             |           |               | Total            |
|--|--------------------|--------------|-------------|-----------|---------------|------------------|
|  | Less than 3 Months | 3 – 6 Months | 6-12 Months | 1-5 Years | Over 5 Years  |                  |
| <b>Liabilities</b>                           |                    |              |             |           |               |                  |
| Deposits by banks                            | 1,015,926          | -            | -           | -         | -             | 1,015,926        |
| Customer accounts                            | 71,693             | 2,417        | -           | -         | -             | 74,110           |
| Other liabilities                            | 1,861              | -            | -           | -         | -             | 1,861            |
| Subordinated liabilities                     | -                  | -            | -           | -         | 15,000        | 15,000           |
| Off balance sheet – undrawn loan commitments | 5,705              | -            | -           | -         | -             | 5,705            |
| <b>Total liabilities</b>                     | <b>1,095,185</b>   | <b>2,417</b> | <b>-</b>    | <b>-</b>  | <b>15,000</b> | <b>1,112,602</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.

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:

## 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       |          |                      |       |

## 2008

| 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                  | 1,155,967          | 52           | 87          | 160       | 0            | 4,489    | 1,160,755            |       |
| Total liabilities and capital | (1,087,619)        | (17,417)     | -           | -         | -            | (55,719) | (1,160,755)          |       |
| Interest rate sensitivity gap | 68,348             | (17,365)     | 87          | 160       | 0            | (51,230) | -                    |       |
| Cumulative gap                | 68,348             | 50,983       | 51,070      | 51,230    | 51,230       |          |                      |       |

# 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:

## 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)         |

# Notes to the Financial Statements

## Continued

2008

| US\$'000   | Currencies    |               |              |           | Total         |
|--|---------------|---------------|--------------|-----------|---------------|
|  | US dollar     | £ Sterling    | Euro         | Other     |               |
| Total Financial assets   | 1,055,115     | 49,368        | 49,876       | 3,287     | 1,157,646     |
| Less: fixed rate assets  | (431,598)     |               |              |           | (431,598)     |
| Total Variable rate assets   | 623,517       | 49,368        | 49,876       | 3,287     | 726,048       |
| Total Financial liabilities  | 988,647       | 47,997        | 50,161       | 3,231     | 1,090,036     |
| Less: fixed rate liabilities   | (391,289)     | (10,813)      | (1,550)      | -         | (403,652)     |
| Total Variable rate liabilities  | 597,358       | 37,184        | 48,611       | 3,231     | 686,384       |
| <b>Net cash flow interest rate risk exposure</b>                       | <b>26,159</b> | <b>12,184</b> | <b>1,265</b> | <b>56</b> | <b>39,664</b> |
| Possible movement in Libor/Euribor (bps)                               | 100           | 100           | 100          | 100       |               |
| Possible impact of increase in Libor/Euribor on profit/loss before tax | 262           | 122           | 13           | 1         | 398           |
| Tax charge-30%   | (78)          | (37)          | (4)          | -         | (119)         |
| Possible impact of increase in Libor/Euribor on profit/loss after tax  | 184           | 85            | 9            | 1         | 279           |
| Possible impact of decrease in Libor/Euribor on profit/loss before tax | (262)         | (122)         | (13)         | (1)       | (398)         |
| Tax charge-30%   | 78            | 37            | 4            | -         | 119           |
| Possible impact of decrease in Libor/Euribor on profit/loss after tax  | (184)         | (85)          | (9)          | (1)       | (279)         |

### (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', which is agreed with the FSA.

Details of the Bank's assets and liabilities by currency of denomination are summarised in US dollars in table (c) 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:

#### 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>    |

#### 2008

| US\$'000                        | Currencies  |              |              |           | Total       |
|---------------------------------|-------------|--------------|--------------|-----------|-------------|
|                                 | US dollar   | £ Sterling   | Euro         | Other     |             |
| Total assets                    | 1,057,116   | 50,208       | 50,144       | 3,287     | 1,160,755   |
| Total liabilities and capital   | (1,056,576) | (50,787)     | (50,161)     | (3,231)   | (1,160,755) |
| Unsettled spot foreign exchange | (178)       | 283          | (126)        | 21        | -           |
| <b>Currency position</b>        | <b>362</b>  | <b>(296)</b> | <b>(143)</b> | <b>77</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 historic 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

### 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)   |

### 2008

| US\$'000                             | Currencies (FC) |       |       |
|--------------------------------------|-----------------|-------|-------|
|                                      | £ Sterling      | Euro  | Other |
| Net foreign currency exposures       | (296)           | (143) | 77    |
| Impact of 5% increase in FC:USD rate | (15)            | (7)   | 4     |
| Impact of 5% decrease in FC:USD rate | 15              | 7     | (4)   |

#### (f) Lending Commitments

|  | 2009<br>US\$'000 | 2008<br>US\$'000 |
|--|------------------|------------------|
| Undrawn formal standby facilities, credit lines and other commitments to lend: |                  |                  |
| Contract amount  | 5,495            | 5,705            |
| Credit equivalent amount   | 2,747            | 1,100            |
| Risk weighted amount   | 2,747            | 1,100            |

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\$0.83 million. At 31st March 2008, amounts so authorised but not yet expended amounted to US\$0.45 million.

#### 32. Dividends

A dividend payment of US\$1,278,000 was made in respect of the year ended 31st March 2008 (31st March 2007 - US\$1,012,500).

The directors propose a final dividend of US\$0.0246 per ordinary share amounting to US\$1,107,000 (31st March 2008 – US\$0.0284 per share, amounting to US\$1,278,000). The proposed dividend will be accounted for when declared.

# Notes to the Financial Statements

## Continued

### 33. Fair values of financial instruments

Set out below is a year-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.

|                                 | 2009                   |                        | 2008                   |                        |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                 | Book Value<br>US\$'000 | Fair Value<br>US\$'000 | Book Value<br>US\$'000 | Fair Value<br>US\$'000 |
| <b>Assets</b>                   |                        |                        |                        |                        |
| Cash at bank and in hand        | 6,937                  | 6,937                  | 18,859                 | 18,859                 |
| Loans and advances to banks     | 1,009,976              | 1,009,976              | 671,641                | 671,641                |
| Loans and advances to customers | 27,067                 | 27,067                 | 35,548                 | 35,548                 |
| Debt securities                 | 109,186                | 109,249                | 431,598                | 431,666                |
| <b>Liabilities</b>              |                        |                        |                        |                        |
| Deposits by banks               | 981,853                | 981,853                | 1,015,926              | 1,015,926              |
| Customer accounts               | 102,521                | 102,521                | 74,110                 | 74,110                 |
| Other liabilities               | 2,558                  | 2,558                  | 1,821                  | 1,821                  |
| 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, the 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:

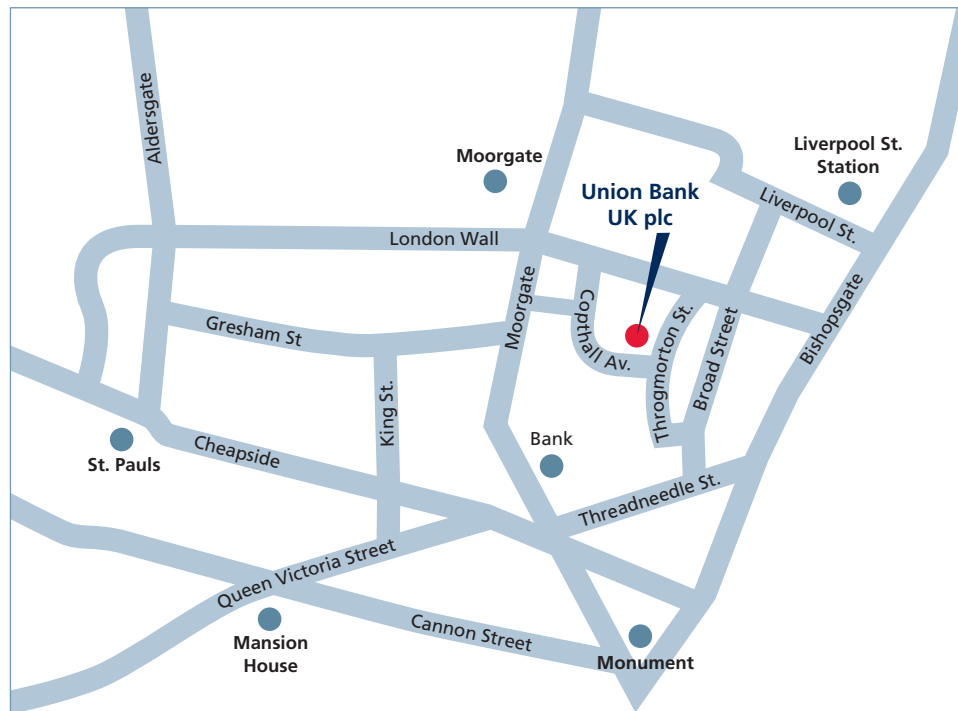
#### Corporate Affairs Department

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<br>36 Marina<br>Lagos, Nigeria<br>Tel: +234 (0) 1 263 0361/261 430<br>(+234 (0) 1 266 3594 – International Banking) |
| Union Homes Savings & Loans Limited                           | Mortgage lending                                   | 153 Ikorodu Road<br>Onipanu<br>Lagos, Nigeria<br>Tel: +234 (0) 582 0799  |
| Union Capital Markets Limited                                 | Investment and financial advisory services         | Plot 97, Adeola Odeku Street<br>Victoria Island<br>Lagos, Nigeria<br>Tel: +234 (0) 1 262 7395                                      |
| Union Assurance Company Limited                               | Life and general insurance                         | Stallion Plaza<br>36 Marina (13th Floor)<br>Lagos, Nigeria<br>Tel: +234 (0) 1 264 0277   |
| Union Registrars Limited                                      | Share registration                                 | 2 Burma Road<br>Apapa<br>Lagos, Nigeria<br>Tel: +234 (0) 1 587 7305  |
| Union Trustees Limited  | Trust and custody services                         | 160/162 Broad Street<br>PZ Building<br>Lagos, Nigeria<br>Tel: +234 (0) 1 264 0271  |
| HFC Bank (Ghana) Limited                                      | Retail and commercial banking and mortgage lending | Ebankese<br>35 Sixth Avenue<br>North Ridge<br>PO Box CT4603<br>Cantonments<br>Accra, Ghana<br>Tel: +233 (0) 21 242 090-4           |
| Banque Internationale du Benin                                | Retail and commercial banking                      | BP 03-2098<br>Carrefour Des 3<br>Avenue Giran<br>Cotonou<br>Benin<br>Tel: +212 (0) 2 222 4142                                      |
| Union Bank of Nigeria Plc South African Representative Office | Representation                                     | 8th Floor<br>Fredsure Towers<br>13 Fredman Drive<br>Sandton<br>2196<br>Republic of South Africa<br>Tel: +27 (0) 11 883 3313        |

# Contact Details



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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