ANNUAL REPORT
2016-17

Union Bank
of India (UK) Ltd

UNION BANK OF INDIA (UK) LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Union Bank of India (UK) Ltd

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OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 MARCH 2017

Company Registration Number	**07653660**
The Board of Directors	**Mr. Arun Tiwari** Chairman
	Mr. Rakesh Sethi Director (resigned on 30/06/2016)
	Mr. Brajeshwar Sharma Managing Director & CEO
	Dr. Anand Kumar Executive Director & Dy CEO
	Mr. John Kerr Non-Executive Director
	Mr. Patrick Joseph Quinn Non-Executive Director
Company Secretary	**Mr. John Leonard Dale**
Registered Office	Senator House 85 Queen Victoria Street London EC4V 4AB
Statutory Auditor	**Deloitte LLP** Chartered Accountants 2 New Street Square London EC4A 3BZ

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2017. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

Union Bank of India (UK) Ltd (the Bank) is a wholly owned subsidiary of Union Bank of India, one of the leading public sector banks in India.

Principal activity and Business review

The Bank which is registered as a Company with the Companies House of England & Wales received permission to function as a bank from the Prudential Regulation Authority (PRA) on 6 September 2013 and commenced its commercial operations on 10 July 2014. The Bank is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is covered by the Financial Services Compensation Scheme (FSCS).

The Bank offers a range of products to its customers covering retail, corporate and commercial banking, trade finance and treasury services.

The principal currency (functional currency) is US Dollars (USD) as it represents the currency of the primary economic environment in which the Bank operates.

Proposed initiative

During the year 2016/17, the Bank decided to launch the following facilities in the next financial year;

- Online deposit platform to canvass retail deposits at competitive rates,
- Indian Rupee (INR) remittance facility to cater to the need of existing and potential customers, and
- Open one more branch in the next financial year to mark our presence in another part of Greater London.

Going concern

The Financial Statements are prepared on a going concern basis. The Bank has adequate resources to continue its operations for the foreseeable future along with strong support from its parent company in the form of capital and operations.

The Directors have assessed the current economic environment and the future economic conditions along with the Bank's risk management framework and are confident that the Bank will be well placed to manage its business risks successfully. The directors expect the bank to operate profitably for the foreseeable future.

Capital structure

The Bank has maintained its capital base at levels which exceed the current minimum requirements of the PRA, the banking regulator in the UK.

The issued and paid up share capital as of 31 March 2016 was - USD 50 million and GBP 2. There were further infusions during the financial year, on 31 May 16 - USD 10 million, on 25 January 2017 - USD 10 million and on 24 March 2017 - USD 10 million, making the total issued and paid up share capital as at 31 March 2017 of USD 80 Million and GBP 2. Hundred percent of the shares of the Bank are held by the Union Bank of India (parent Bank).

Political donations

During the year the Bank did not make any political donations.

Directors
The Directors who served during the year and to the date of signing the financial statements, are listed on page 2.

Directors' indemnities
Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

Directors' and Officers' Liability insurance covers defence costs for the Directors in certain circumstances. All the Directors were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third party liabilities that they may incur as a result of their service on the Board. All Directors' indemnities were in place during the year and remain in force

Statement as to disclosure of information to the auditor
Each of the persons who is a Director on the date of approval of this annual report confirm that:

- So far as the Directors are aware, there is no relevant audit information of which the Bank's Auditor is unaware of; and
- The Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to ensure that the Bank's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor
There was no change in the Auditor of the Bank for the year ended 31 March 2017.

Deloitte LLP, Chartered Accountants are the Statutory Auditor of the Bank and they have expressed their willingness to continue as Auditor of the Bank.

General Meeting
In accordance with the Companies Act 2006 the Bank is not required to hold an Annual General Meeting (AGM).

Dividends
The Directors do not recommend the payment of a dividend (31 March 2017: USD nil).

Events after Balance Sheet date
The Directors are not aware of any reportable event after the Balance Sheet date.

This report was approved by the Board on 20 April 2017 and signed on its behalf by:

Brajeshwar Sharma
Managing Director & CEO

Registered office:
Senator House
85 Queen Victoria Street
London
EC4V 4AB

The Directors have pleasure in presenting their strategic report and the financial statements for Union Bank of India (UK) Ltd. for the year ended 31 March 2017.

Business model

The Bank is a UK incorporated Bank authorised by the PRA and regulated by the FCA and the PRA. The Bank's PRA firm reference number is 601551. The Bank is covered by the FSCS.

The Bank's focus is to build a sustainable business model with a strong and robust corporate governance and control environment. The Bank offers a range of products to its customers covering retail, corporate and commercial banking, trade finance and treasury services.

Primary objectives

The Bank's primary objectives are:

- To create sustainable growth within the UK;
- To support the Parent Bank's customers by providing international banking facilities;
- To improve existing customer relationships by increasing the range of products and services available to customers;
- To become the Bank of first choice for the UK related business for the Indian corporates;
- To ensure that the risks inherent in the business are subject to robust controls and risk management oversight;
- To ensure that new and enhanced technologies are implemented to support the business; and
- To build and develop leadership capability and management expertise.

Review of the business

The Bank commenced its commercial operations in July 2014. The Bank has set up robust systems, procedures and policies for successful management of its business risks. The business strategy of the Bank has mainly been driven by the increased globalisation of the Indian economy, the growing trend of Indian corporates expanding overseas, the large population of non-resident Indians, persons of Indian origin across the globe and also overseas companies looking to invest in India.

For the purpose of this strategic review, the management has described activity within individual business sections.

Key financial highlights

During the year, the Bank made a profit before tax of USD 3,377,000 (31 March 2016: profit of USD 1,437,000). The Bank's interest earning assets increased from USD 258,993,000 (31 March 2016) to USD 334,461,000 (31 March 2017). The capital with phased infusion, funding and liquidity positions of the Bank remained comfortable throughout the year.

Key performance indicators

	2017 USD '000	2016 USD '000
Net interest income	7,106	3,389
Non-interest income	1,227	1,619
Operating expenses	(4,956)	(3,571)
Profit/(loss) before tax	3,377	1,437
Profit/(loss) after tax	2,688	1,119
Deposits from customers	168,942	100,252
Loans and advances to customers	276,985	186,069
Asset base	337,590	268,647

Outlook

Uncertain Macro Environment:

In January 2017, The International Monetary Fund (IMF) had projected global growth to slow down to 3.1 percent in 2016 against the actual of 3.2 percent for 2015, before recovering to 3.4 percent in 2017. This revision, reflects a more restrained outlook for advanced economies following the referendum vote to leave the European Union and weaker growth in the United States which was 1.6 percent in 2016 against 2.6 percent in 2015. Projected growth for United States in 2017 is 2.3 percent. This forecast is based on the assumption of a changing policy mix under a new administration in the United States and its global ramifications.

According to the (IMF), economic activity is projected to pick up pace in 2017 and 2018, especially in emerging markets and developing economies.

UK Macro Environment:

The relatively stable economic backdrop we saw in the first half of 2016 became more volatile as the year progressed due to the drag on business investment from increased political and economic uncertainty following the 'Brexit' vote leading to some short-term market variability. After this initial period, consumer confidence measures recovered and the second half of the year saw continued steady economic growth. While the depreciation of Sterling may well have a positive effect on the external net trade contribution to economic growth, it is expected to lead to higher inflation.

Although the growth of UK is projected to slow to 1.6% by 2018, due to a decline in business investment, driven in particular by uncertainty about the UK's future trading relationships with the EU in the longer term, it is not expected that the UK to suffer a recession this year.

The UK economy ended the year 2016 with consecutive quarters of GDP growth and a stable labour market with the unemployment rate at around 5%. With inflation averaging just below 1% in 2016, this provided some support for household real incomes at a time when nominal earnings growth remained restrained.

The consensus expectation for 2017 sees slower growth with continued low interest rates alongside the possibility of rising unemployment. Inflation has breached the Bank of England target of 2% in 2017, currently (as at March 2017) at 2.3% due to the impact of volatile oil prices and Sterling depreciation being felt. Mortgage market lending growth ended 2016 at 3%, its strongest end to a year since 2008, with house prices continuing to rise, albeit at a slower pace than in the previous years.

Outlook (continued)

Geographical Macro Environment:

Growth in China was a bit stronger than expected. The growth forecast for 2017 was revised up for China to 6.5 percent (0.3 percentage point above the October forecast), on expectations of continued policy support.

India and the rest of emerging Asia are generally projected to continue growing at a robust pace, although with some countries facing strong headwinds from China's economic rebalancing and global manufacturing weakness.

In India, the growth forecast for the fiscal 2016/17 and next fiscal year were trimmed to 6.6 percent and 7.2 percent respectively against the growth of 7.6 percent in 2015/16, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruptions associated with the recent currency note withdrawal and exchange initiative.

While growth in emerging Asia, especially India continues to be resilient, the largest economies in sub-Saharan Africa (Nigeria, South Africa, and Angola) are experiencing sharp slowdowns or recessions as lower commodity prices interact with difficult domestic political and economic conditions.

The analysts have projected a cautious outlook for the Middle East with lower oil prices, and in some cases geopolitical tensions and domestic strife, continue to weigh on the outlook.

The European economy had to cope with numerous international and domestic challenges including the lowest pace of global and trade growth since 2009, geopolitical tensions, terrorist attacks in several Member States, stressed banking sectors, UK's vote to leave the EU, and a mounting backlash against globalisation. So far though, the European economy has proved to be resilient and has stayed on the course of economic growth and job creation. EU GDP growth rose towards the end of last year and looks to have maintained its momentum into this year. The European Commission had projected GDP growth of 1.8 percent for 2017 and 2018 against 1.9 percent in 2016.

Forward looking

We expect the slowdown of the UK economy as seen this year to continue, as economic uncertainties prevail. We expect net interest margin to remain broadly stable, predicated on interest rate not reducing further, with continued competitive pressures on asset margins. Cost management remains a key focus as we continue to invest and grow, while capturing future operational efficiencies. We expect our corporate lending to be slower than in recent years, consistent with forecasted slowdown in the UK economic growth and as we actively manage exposures to certain segments in line with our proactive risk management practices.

Retail Banking

The Bank offers personal current accounts, personal savings accounts, business current accounts, fixed deposits and service for remittance to India. The Bank also facilitates Non-Resident Indian (NRI) customers, based in the UK, for their India-related banking facilities.

Corporate and Commercial Banking
The Bank's corporate business aims to provide products and services to enhance trade and investment between the UK and other countries including India. The Bank is looking to expand its product range, developing existing relationships and acquiring new ones, while minimising risk by remaining focused on its core competencies.

Treasury
The Treasury Function focuses on managing the funding, market and liquidity risks of the Bank. The Bank complies with and maintains a Liquidity Asset Buffer (LAB) in line with the Individual Liquidity Guidance (ILG) stipulated by the PRA. The Bank also maintains an investment portfolio of Corporate Bonds. Both LAB and Corporate Bonds are classified as either Held to maturity (HTM), Held for trading (HFT) or Available for sale (AFS) as per the investment policy of the Bank at the time of acquiring the investment. The Bank reviews the asset/liability maturity mismatches on an ongoing basis and maintains liquidity gaps within prescribed limits, which are monitored by the Asset and Liability Committee (ALCO) of the Bank.

The Bank is able to access wholesale borrowings from the market and has been able to raise bilateral loans and borrowings at a competitive cost by leveraging on the existing relationships of Union Bank of India.

Corporate Governance
Good governance is critical to deliver a sound and well-run business. At the centre of good governance is an effective Board. The first responsibility for maintaining the safety and soundness of the Bank lies with the Board. Failures of governance or the improper management of risk by the Board, have been a key factor in many of the major financial sector failures of recent years.

The Bank places a strong emphasis on internal governance and maintenance of high ethical standards in its working practices.

The Bank's corporate governance is driven by the Board which comprises of two Executive Directors, one Non-Executive Directors representing the shareholder and two independent UK based Non-Executive Directors and meets quarterly. All the Directors have considerable banking and regulatory experience gained at a senior level within global financial institutions.

The Board has the collective responsibility of promoting the long-term success of the Bank. While the Executive Directors have direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and to analyse the decisions taken by the Executive Directors.

The Bank follows the industry standard approach of "3 Lines of Defence" comprising:

- Operational controls as set out in functional and departmental procedures, manuals (Level 1);
- Oversight, monitoring and periodic reporting by the Bank's control functions (Level 2); and
- Internal Audit (Level 3).

Responsibility for overseeing the risk and compliance framework of the Bank is devolved to the following two Board level committees, each of which are chaired by a Non-Executive Director.

Union Bank of India (UK) Ltd

Corporate Governance (continued)

a) Risk and Compliance Committee (RCC) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair), the two Executive Directors, Compliance Officer/MLRO and the Secretary is the Risk Manager.

b) Audit Committee of the Board (ACB) meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as Chair), and its secretary is the Head of Internal Audit.

Anti-Money Laundering (AML) & Compliance

The Bank maintains an independent Compliance Function, which ensures that the business is conducted in compliance with all regulatory requirements. The Bank has a robust AML regime.

The Bank's Compliance Function is responsible for ensuring that adequate policies and procedures are in place to ensure that the Bank and its employees' are compliant with the legal and regulatory obligations in respect of both AML and Conduct of Business. Such policies and procedures are designed to detect and minimise any risk of failure by the Bank to comply with its regulatory obligations, as well as any associated risks.

Internal Audit

The Internal Audit function is the third line of defence and is independent of operations. It is responsible for reviewing all business lines and support functions such as Risk Management, Compliance and IT within the Bank. Internal Audit provides independent assurance that the Bank's policies and procedures have been implemented effectively and that there are adequate controls in place to mitigate significant risks within acceptable tolerance levels.

Risk management framework

The Bank has developed a comprehensive risk management framework, setting out the Bank's risk appetite, covering all relevant risks, to ensure that the key risks facing the Bank are clearly identified, understood, measured, monitored and mitigated and that the policies and procedures established to address these risks are strictly adhered to. The outcomes of each of these risk management processes are used to identify the material risks that the Bank is exposed to. The Bank is primarily exposed to credit risk, market risk, liquidity risk and operational risk.

The Bank's risk appetite has been developed and articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The anchors on which the framework has been based include quantitative parameters such as liquidity the Internal Liquidity Adequacy Assessment Process (ILAAP) and capital the Internal Capital Adequacy Assessment Process (ICAAP) as well as qualitative parameters such as reputation risk and conduct risk.

Both the documents are prepared and submitted to the Board of the Bank. These are developed as part of the planning and budgeting process to ensure that the Bank's business plans are achievable within its capital and liquidity resources. Both the ILAAP and ICAAP are subject to interim review and update in response to material changes to the business or regulatory environment.

The ILAAP and the ICAAP are reviewed by the PRA, which advises the Individual Liquidity Guidance (ILG) and Individual Capital Guidance (ICG) for the Bank. The Bank complies with the ILG and ICG at all times.

Risk management framework (continued)

The Bank has the following committees of executives:

- Asset and Liability Committee (ALCO)
- Credit Committee (CC)
- Executive Management Committee (EMC)
- Investment Committee (IC)
- IT and Operations Committee (ITOC)
- Management Committee of the Board (MCB)

The minutes of these committee meetings are placed before the Risk & Compliance Committee of the Board for review and discussion.

Details of the Bank's risk management objectives and policies, including those in respect of financial instruments, and details of the Bank's indicative exposure to risks are given in Note 29.

Internal control and financial reporting

The Directors are responsible for establishing effective internal control in the Bank and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records and for reliability of financial information used within the business and for publication.

Such procedures are designed to contain and manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against material misstatement, errors, losses or fraud. The procedures that the Directors have established are designed to provide effective internal control within the Bank.

The Directors and Senior Management of the Bank have adopted policies which set out the Board's approach to risk management and internal controls. Significant risks identified in connection with the development of new activities are subject to consideration by the Board, while the risks of new products are reviewed by the RCC, who recommend to the Board which products should be approved.

The effectiveness of the internal control system is reviewed regularly by the Board, RCC and the Audit Committee, which receives Audit Reports undertaken by Internal Audit.

Regulatory environment

The Capital Requirements Regulations (CRR) currently in place include implementing technical standards for reporting i.e. the guidance, templates, technical standards and validation required for reporting to supervisors.

The Bank is aware that the regulations contain a provision that sets out the scope, frequencies and remit for Capital Requirements Directive IV (CRD IV) reporting. The reporting documents have been developed by the European Banking Authority (EBA).

The Bank operates in a highly regulated environment and is therefore subject to regulatory risk. The changes to the regulations are made frequently, and the Banks' financial control and risk management functions ensure that the Bank is compliant with the rules at all times.

Regulatory environment (continued)

The regulatory environment during the year under review remained as challenging as the previous years, especially with the advent of Common Reporting (COREP). The UK regulators continued to establish more stringent banking rules and reporting requirements in order to ensure banks are maintaining adequate capital and liquidity to survive any further global crisis and to promote financial stability. Further changes are expected in the next financial year, some of them are:

- Upcoming changes in Pillar 2A framework:
  The PRA proposes to use the refined P2A approach to mitigate potential double counting of expected credit losses for SA firms under the new International Financial Reporting Standard (IFRS) 9 which will apply from 1 January 2018. The proposed implementation date for the updated Pillar 2A capital framework is 1 January 2018.
- PSD2:
  The EBA launched a public consultation on its draft Guidelines on the complaints procedures to be taken into consideration by competent authorities (CAs) to ensure and monitor effective compliance by payment service providers (PSPs) of the revised Payment Services Directive (PSD2).

Capital Requirements Directive

The Bank is subject to the CRD IV framework, which implements capital requirements in the revised European Union Basel III framework. The Bank complies with the capital requirements of CRR and CRD IV (Basel III), as set out in the PRA's approach document to banking supervision mainly covering the composition and quality of capital.

Under the terms of the approved CRD IV, implementation of Basel III is imminent and plays a significant role in determining how the Bank and other financial institutions globally undertake their business. The regulations requiring the Bank to apply Common Reporting standards (COREP) for capital adequacy and large exposures which involve significant system and control processes. The Bank has complied with these requirements.

It is the Bank's policy to remain compliant with all regulatory requirements at all times. In this endeavour the Bank continues to update its policies and procedures as and when required by the changes brought in by the regulators and statutory authorities.

The framework for regulatory capital

The PRA determines a minimum regulatory capital level and additional buffers for the firms, as set out in terms of the Basel and EU risk-weighted framework. The UK capital framework comprises four parts:

- Pillar 1 — requirements to provide protection against credit, market and operational risk, for which firms follow internationally agreed methods of calculation and calibration.
- Pillar 2A — requirements imposed by the PRA reflecting estimates of risks either not addressed or only partially addressed by the international standards for Pillar 1.
- CRD IV buffers, as applicable – these comprise the capital conservation buffer and the counter-cyclical capital buffer, which are relevant to all firms. For Globally Systemically Important Institutions (G-SIIs), the G-SII buffer will be relevant and for domestic systemic firms, the systemic risk buffer will be relevant.
- The PRA buffer, as applicable – is an amount of capital that firms should hold in addition to their minimum level of regulatory capital (Pillar 1 plus Pillar 2A) to cover risks and elements of risk not covered elsewhere, and losses that may arise under a stress.

The leverage ratio framework

To complement the risk-weighted capital regime, firms should take into account the risk of excessive leverage when assessing the adequacy of capital levels.

For major Banks and Building Societies subject to the UK leverage ratio framework, the PRA requires a minimum leverage ratio be met at all times and expects firms in scope to have regulatory capital that is equal to or greater than any applicable leverage ratio buffers. This framework comprises three parts:

i) a 3% leverage ratio minimum requirement, denominated in Tier 1 capital, which must be met with at least 75% Common Equity Tier 1 (CET1) capital;
ii) an additional leverage ratio buffer, applicable to UK Global Systemically Important Institutions (G-SIIs) identified by the PRA, with the buffer rate calibrated at 35% of a relevant firm's G-SII capital buffer rate, which must be met with CET1 capital; and
iii) a countercyclical leverage ratio buffer of CET1 capital, calibrated at 35% of a relevant firm's countercyclical capital buffer rate and rounded to the nearest 10 basis points.

The liquidity framework

The PRA expects all firms to take responsibility for ensuring that there is no significant risk that they cannot meet their liabilities as they fall due. PRA has increased supervisory activities to ensure that firms are running their business in a prudent manner to ensure they have an appropriate degree of resilience to liquidity stresses.

On 10 October 2014, the European Commission published a Delegated Act to supplement EU Regulation (EU) No 575/2013 ('Delegated Act') with regard to the liquidity coverage requirement (LCR) for credit institutions. EU legislation sets out direct requirements for firms on liquidity. The EU Liquidity Coverage Requirement (LCR) sets a prescribed 30 day stress test, which firms must meet with qualifying liquid assets.

The PRA has proposed that UK Banks and in-scope investment firms need to meet a higher LCR requirement of 90% from 1 January 2017 and would reach 100% from 1 January 2018.

We are conducting stress testing on regular basis to ensure liquidity and capital adequacy. The Board approves the stress testing framework and reviews the outputs of stress testing as part of the approval processes for the ICAAP and the ILAAP.

Single customer view
The PRA requires deposit-takers to be able to produce a single, consistent view of each depositor's funds, to enable the FSCS to implement rapid pay-out. This 'Single Customer View' (SCV) is essential to ensure that the FSCS is able rapidly to recompense depositors in relation to covered deposits, minimising the adverse effect of firm failure on the stability of the financial system. The Bank has put in place adequate systems and procedures to comply with the requirements.

Senior Managers Regime
The Senior Managers Regime (SMR) came into force on 7 March 2016. It is aimed at supporting a change in culture at all levels in firms through a clear identification and allocation of responsibilities to individuals responsible for running them. This is an important element of the PRA's approach to the assessment of management and governance of firms, and part of the integrated and structured way that the PRA delivers its forward-looking risk-based approach to banking supervision.

Compensation as per FSCS
Eligible deposits with the Bank are protected up to the compensation limit by the Financial Services Compensation Scheme, the UK's deposit protection scheme.
with effect from 30 January 2017, the deposit protection limit changed from £75,000 to £85,000 as a result of requirements in the European Deposit Guarantee Schemes Directive (DGSD).
Credit institutions and financial institutions are not eligible for protection under FSCS.

This report was approved by the Board of Directors on 20 April 2017 and signed on its behalf by:

Brajeshwar Sharma
Managing Director & CEO

Registered office:
Senator House
85 Queen Victoria Street
London
EC4V 4AB

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2017

The Directors are responsible for preparing the financial statements in accordance with the applicable law and regulations.

The Companies Act 2006, in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Bank's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Bank for that period.

In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' responsibility statement

Each Director, whose name appears in the Directors' Report and accounts confirms that, to the best of each person's knowledge and belief that:

- The financial statements are prepared in accordance with IFRSs as adopted by the EU and in accordance with Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profitability of the Bank;
- The Directors' Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Bank and the description of the principal risks and uncertainties that they face;
- So far as the Directors are aware, there is no relevant audit information of which the Bank's Auditor is unaware; and
- The Directors have taken all steps that ought to have been taken by them as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's Auditor is aware of that information.

By order of the Board

Brajeshwar Sharma
Managing Director & CEO

Dr Anand Kumar
Executive Director & Dy CEO

20 April 2017

UNION BANK OF INDIA (UK) LIMITED

Union Bank of India (UK) Ltd

INDEPENDENT AUDITOR'S REPORT TO THE STAKEHOLDERS OF UNION BANK OF INDIA (UK) LIMITED FOR THE YEAR ENDED 31 MARCH 2017

We have audited the financial statements of Union Bank of India (UK) Limited for the year ended 31 March 2017 which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flow and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amount and disclosures in the financial statements sufficient to give reasonable assurance that the financial statement are free from material misstatement, whether caused by fraud or error. This includes an assessment of, whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Union Bank of India (UK) Ltd

INDEPENDENT AUDITOR'S REPORT TO THE STAKEHOLDERS OF UNION BANK OF INDIA (UK) LIMITED FOR THE YEAR ENDED 31 MARCH 2017

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Caroline Britton

Caroline Britton
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Hill House
1 Little New Street
London
EC4A 3TR

21 April 2017

UNION BANK OF INDIA (UK) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 USD '000	2016 USD '000
Interest and similar income	2	11,649	6,043
Interest and similar expense	3	(4,543)	(2,654)
Net interest income		7,106	3,389
Net fees and commission income	4	507	1,366
Net trading income		310	21
Other operating income		410	232
Operating income		8,333	5,008
Personnel costs	5	(1,826)	(1,717)
Operating lease	25	(300)	(345)
Depreciation and amortisation	16,17	(233)	(222)
General administrative expenses	7	(2,597)	(1,287)
Profit/(Loss) before tax		**3,377**	**1,437**
Income tax credit/(charge)	8	(689)	(318)
Profit/(Loss) for the year from continuing operations		**2,688**	**1,119**

The notes on pages 22 to 44 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	2017 USD '000	2016 USD '000
Total profit/(loss) for the year attributable to equity shareholders	2,688	1,119
Other comprehensive income net of tax		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value of AFS	(693)	5
Tax relating to change in fair value of AFS	120	-
Net gain/(loss) on AFS investments	(573)	5
Total comprehensive income attributable to equity shareholders for the year	**2,115**	**1,124**

The notes on pages 22 to 44 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Notes	2017 USD '000	2016 USD '000
Assets			
Cash and balances with Banks	9	919	6,957
Loans and advances to Banks	10	7,000	40,040
Loans and advances to customers	11	276,985	186,069
Financial investments - Available for sale	12	36,612	29,338
Financial investments - Held to maturity	13	13,864	3,547
Derivative financial instruments - Assets	14	324	715
Property, plant and equipment	16	461	591
Intangible assets	17	31	82
Capital work in progress		69	64
Deferred tax assets	18	480	287
Other assets	19	845	957
Total assets		**337,590**	**268,647**
Liabilities			
Derivative financial instruments - Liabilities	14	-	-
Deposits from Banks	20	35,701	65,540
Intra-group borrowings	21	50,268	50,570
Deposits from customers	22	168,942	100,252
Repurchase agreements	23	-	2,219
Other liabilities	24	1,292	794
Total liabilities		**256,203**	**219,375**
Equity			
Share capital	26	80,000	50,000
Fair value reserves		(514)	59
Retained earnings		1,901	(787)
Total shareholder's equity		**81,387**	**49,272**
Total equity and liabilities		**337,590**	**268,647**

The notes on pages 22 to 44 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 20 April 2017.

Brajeshwar Sharma
Managing Director & CEO

Dr Anand Kumar
Executive Director & Dy CEO

Company registration no: 07653660

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

31 March 2017	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2016		50,000	59	(787)	49,272
Issue of share capital	26	30,000	-	-	30,000
Total Comprehensive Income for the year		-	(573)	2,688	2,115
Profit for the year		-	-	2,688	2,688
Net change in fair value of AFS investments		-	(573)	-	(573)
Balance as at 31 March 2017 attributable to shareholders of the Bank		**80,000**	**(514)**	**1,901**	**81,387**

31 March 2016	**Notes**	**Issued capital USD '000**	**Fair value reserves USD '000**	**Retained earnings USD '000**	**Total equity USD '000**
Balance as at 1 April 2015		40,000	54	(1,906)	38,148
Issue of share capital		10,000	-	-	10,000
Total Comprehensive Income for the year		-	5	1,119	1,124
Profit for the year		-	-	1,119	1,119
Net change in fair value of AFS investments		-	5	-	5
Balance as at 31 March 2016 attributable to shareholders of the Bank		**50,000**	**59**	**(787)**	**49,272**

The notes on pages 22 to 44 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

Union Bank of India (UK) Ltd

	Notes	2017 USD '000	2016 USD '000
Cash flows from operating activities			
Net profit/(loss) before tax for the year		3,377	1,437
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	74	69
Depreciation for property, plant and equipment	16	159	153
Cash flows before changes in operating activities		233	222
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	19	112	32
Increase in provisions			
(Decrease)/Increase in other liabilities	24	(385)	62
Net Increase in working capital		(273)	94
Cash flows from operating activities			
(Increase)/Decrease in loans and advances to customers	11	(90,916)	(112,843)
(Increase)/Decrease in loans and advances to banks	10	33,040	(9,035)
Increase/(Decrease) in deposits from Banks	20	(29,839)	20,564
Increase in deposits from customers	22	68,690	49,301
Increase/(Decrease) in repurchase agreements	23	(2,219)	2,219
(Increase)/Decrease in derivative financial instruments - Assets	14	391	(715)
(Decrease)/Increase on derivative financial instruments - Liabilities	14	-	(156)
		(20,853)	(50,665)
Net cash flows used in operating activities (A)		(17,516)	(48,913)
Cash flows from investing activities			
Acquisition of AFS investments (net of reserves)	12	(7,847)	(4,597)
Acquisition of HTM investments	13	(10,317)	(3,547)
Acquisition of property, plant and equipment	16	(29)	(13)
Acquisition of intangible assets	17	(23)	(19)
(Increase) / decrease in capital work in progress		(5)	(42)
Net cash flows used in investing activities (B)		(18,221)	(8,218)
Cash flows from financing activities			
Proceeds from issue of equity share capital	26	30,000	10,000
Proceeds from/(Repayment to) Intra-group borrowings	21	(301)	50,570
Net cash flows from financing activities (C)		29,699	50,570
Net increase in cash and cash equivalents (A+B+C)		(6,038)	3,439
Cash and cash equivalents at beginning of the year		6,957	3,518
Cash and cash equivalents at close of the year	9	**919**	**6,957**

The notes on pages 22 to 44 form part of these financial statements.

1 Accounting policies

These financial statements are prepared for Union Bank of India (UK) Ltd. (the "Bank") under the UK Companies Act 2006. Union Bank of India (UK) Limited is a limited company incorporated in the United Kingdom under the Companies Act 2006. The Bank is a wholly owned subsidiary of Union Bank of India, one of the leading public sector banks of India. The address of the registered office is Senator House, 85 Queen Victoria Street, London (UK) EC4V 4AB. The nature of the Bank's operations and its principal activity is set out on page 3.

The Bank did not hold any client money or other assets during the year ended 31 March 2017.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis using the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts and assets held for sale, where applicable.

Compliance with International Financial Reporting Standards

Financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provision of the UK Companies Act 2006. At the date of authorisation of these financial statements, the following Standards and Interpretation which have not been applied in these financial statements which have been issued but not yet effective:

IFRS 9 'Financial Instruments' (IFRS 9) In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018.

IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019.

1.2 Functional and presentation currency

The financial statements of the Bank are presented in US Dollars (USD), which is the presentation and functional currency of the Bank as it represents the currency of the primary economic environment in which the Bank operates. A significant proportion of the Bank's assets and revenues are transacted in US Dollars.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency i.e. foreign currency, are recorded at the rates of exchange prevailing on the dates of the transactions. Any resulting exchange differences are included in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the Balance Sheet date.

1 Accounting policies (continued)

1.3 Use of estimates and judgements

The preparation of the financial statements in conformity with the generally accepted accounting principles requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In particular, considerable judgment by the management is required in the estimation of the amount and timing of future cash flows. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The following accounting estimates and judgements are considered important for the Bank's financial results and financial condition because: (i) they are highly vulnerable to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

- Impairment loss allowances for financial assets
- Provision for dilapidation

1.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

a) Interest and similar income and expense

Interest income for all interest bearing financial instruments is recognised in interest and similar income in the income statement using the effective interest rates of the financial assets and financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flow.

b) Fee and commission income

Fee and Commission income is earned from a diverse range of services provided by the Bank to its customers and accounted for as follows;

• income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, facilitating, coordinating, or participating in the negotiation of, a transaction for a third-party);

• income earned from the provision of services is recognised as revenue as the services are provided.

c) Profit on exchange transactions

Profit on exchange transactions comprises profit (net of loss) on dealings in foreign exchange. All income earned by way of foreign exchange commission and charges on foreign exchange transactions except interest are to be included under this heading.

d) Lease transactions

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term are classified as operating leases. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General administrative expenses'.

1 Accounting policies (continued)

e) Dividend income
Dividend income is recognised when the right to receive the dividend income is established.

1.5 Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including computer software, which are assets that necessarily take a substantial period of time to develop for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they occur.

1.6 Employee benefits
The Bank has two pay groups of employees in the UK; those on secondment to the Bank from the Parent Bank and those who are locally recruited. The employees on secondment are governed by the salary structure approved by the Board of Directors of the Parent Bank. Their salary, perquisites and allowances are fixed accordingly. The salary to the locally recruited staff is as per their respective employment contract. The Bank currently has no incentivised pay structure for its employees and Directors.

No bonus has been paid to employees during the year.

1.7 Intangible assets
Intangible assets are stated at cost or fair value on recognition less accumulated amortisation and any impairment in value.

Amortisation is calculated so as to write off the cost or valuation of intangible assets over their estimated useful lives, using the straight-line method, on the following basis:

Software	up to 3 years

1.8 Property, plant and equipment
Property, plant and equipment are capitalised and are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated from the date the asset is brought into use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, using the straight-line method, on the following basis:

Leasehold improvements	over the lease period
Furniture and equipment	up to 5 years
Computer hardware	up to 3 years

1.9 Financial assets and liabilities

(i) Financial assets
The Bank classifies its financial assets in the following categories; financial assets at fair value through profit and loss, financial investments available for sale, which are measured at fair value and financial investments held to maturity which are measured at amortised cost.

1 **Accounting policies (continued)**

(a) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management if it meets the criteria as defined in IAS 39. Financial assets held for trading are initially recognised and measured at fair value in the statement of financial position. All changes in fair value are recognised as part of trading income in profit and loss. For a purchase transaction, from trade date until settlement date, the asset remains an off Balance Sheet asset and it is recognised in the financial statements on the settlement date. For a sale transaction, the asset continues to be in the financial statements until settlement date and the transaction remains an off balance sheet commitment until then.

(b) Financial investments available for sale

Financial investments available for sale are non-derivative instruments that are designated as available for sale or are not classified under any other category of financial assets. Financial investments available for sale include debt investments which are carried at fair value. These investments are measured initially at fair value plus transaction costs. Unrealised gains or losses are recorded, as a component of fair value reserve, until such investments are sold, collected or otherwise disposed off, or until any such investment is determined to be impaired. On disposal of an investment, the cumulative gain or loss recognised is reclassified to the income statement as gains or losses on sale of investments.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services to a debtor with no intention of trading the receivable. Loans and receivables are initially measured at fair value and transaction costs; and subsequently measured at amortised cost using the effective interest method less any specific impairment.

(d) Held to maturity Investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Bank intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held to maturity investments are measured at amortised cost.

(ii) Financial liabilities and equity instruments

(a) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all liabilities. Equity instruments issued by the Bank are recorded when the proceeds are received, net of direct costs.

1 **Accounting policies (continued)**

(b) Other financial liabilities

All non-derivative financial liabilities (including deposits from customers/Banks and subordinated liabilities) are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(c) Sale and repurchase agreements

The Bank enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties. As the substance of the sale and repurchase is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting the Bank's obligation to repurchase the transferred assets for a fixed price at a future date is recognised as liability. As a result of these transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. The Bank remains exposed to interest rate risk and credit risk on these pledged transactions. The counterparty's recourse is not limited to the transferred assets.

1.10 **Derivatives financial instruments**

The Bank enters into various financial instruments as principal to manage the Bank's Balance Sheet. These mainly include foreign exchange related contracts.

Exchange rate related contracts include spot and currency swap transactions. The Bank's currency swap transactions generally involve an exchange of currencies and an agreement to re-exchange the currency at a future date where the swaps relate to assets and liabilities denominated in different currencies.

1.11 **De-recognition of financial assets and financial liabilities**

(a) Financial assets

A financial asset (or where applicable a part of a financial asset or part of similar financial assets) is derecognised when:

• the rights to receive cash flows from the asset have expired; or

• the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

• the Bank has transferred substantially all the risks and rewards of the asset; or

• the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

1 Accounting policies (continued)

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement and the associated liability is also recognised.

1.12 Impairment of financial assets

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a set of financial assets is impaired. A financial asset or a set of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date;
- the loss event had an impact on the estimated future cash flows of the Bank's financial assets; and
- a reliable estimate of the amount can be realised.

(a) Impairment of loans and advances

Loans and advances are evaluated individually and collectively for impairment.

(b) Impairment of financial investments in AFS portfolio

The Bank assesses, at each balance sheet date, whether there is objective evidence that a financial investment in the AFS portfolio is impaired. In case of such evidence, it is considered impaired if its acquisition cost (net of any principal repayments and amortisation) exceeds the recoverable amount. The recoverable amount of a quoted financial investment in the AFS portfolio is determined to be impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future.

The standard method applied for a non-quoted equity instrument is based on the multiple of earnings observed in the market for comparable companies. Management may adjust the valuation determined in this way based on its judgement.

If a financial investment in the AFS portfolio is determined to be impaired, the cumulative loss that was previously recognised in equity is included in the income statement as a component of 'Impairment charges on financial assets'. After recognition of impairment on a financial investment in the AFS portfolio, an increase in fair value of a debt instrument up to the original cost is recognised in the income statement as a component of 'Impairment charges on financial assets', provided the fair value increase is objectively related to a specific event occurring after the impairment loss was recognised in the Income Statement.

1 Accounting policies (continued)

1.13 Impairment of non-financial assets

At each Balance Sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets (including goodwill) are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The cash-generating unit represents the lowest level at which non-financial assets including goodwill is monitored for internal management purposes and is not larger than an operating segment.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The recoverable amounts of goodwill have been based on value in use calculations.

1.14 Financial guarantees

In the ordinary course of business, the Bank may give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within other liabilities) at fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

1.15 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances with Banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value and are used by the Bank in the management of its short-term commitments.

1.16 Income tax, including deferred tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

1 Accounting policies (continued)

1.16 Income tax, including deferred tax (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will exist to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

1.17 Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the non-cancellable lease period provided the same is ascertainable, unless another basis is more appropriate.

1.18 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provision for leasehold dilapidations relates to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Provisions are reviewed at the end of each reporting date to reflect the current best estimate. If it is no longer probable that an outflow will be required to settle the obligation, the provisions are reversed.

Union Bank of India (UK) Ltd

2 Interest and similar income

	2017 USD '000	2016 USD '000
Interest income from loans	10,487	4,771
Interest income from investments - available for sale	544	939
Interest income from investments - held to maturity	405	45
Interest income from investments - held for trading	1	-
Interest on interbank placements	212	288
	11,649	**6,043**

3 Interest and similar expense

	2017 USD '000	2016 USD '000
Deposit from customers	2,524	1,331
Deposit from banks	719	579
Intra-group borrowings	1,283	734
Repurchase agreements	17	10
	4,543	**2,654**

4 Net fees and commission income

	2017 USD '000	2016 USD '000
Processing fees and commission	507	1,366
	507	**1,366**

5 Personnel costs

	2017 USD '000	2016 USD '000
Wages and salaries (including Directors' emoluments)	1,610	1,491
Social security costs	156	157
Other employee benefits	60	69
	1,826	**1,717**

The average number of monthly employees (including executive Directors) was as follows:

	2017 Number	2016 Number
Commercial and retail banking activities	19	17

6 Directors' emoluments

	2017 USD '000	2016 USD '000
Emoluments	373	390

Emoluments comprise salary and benefits in kind

	2017 USD '000	2016 USD '000
Highest paid Director:		
Emoluments	147	146

7 General administrative expenses

	2017 USD '000	2016 USD '000
Other premises costs	226	270
IT costs	228	118
Other administrative expenses	333	456
Privision on Standard Assets	1,310	60
Legal and professional costs	368	268
Marketing expenses	59	81
Finance costs	73	33
	2,597	1,286

Legal and professional costs include the following :

Auditor's remuneration - audit services	60	71
Auditor's remuneration - other services	-	-
	60	71

8 Income tax

	2017 USD '000	2016 USD '000
Analysis of tax charge/(credit) in year		
Corporate tax charge/(credit)	732	167
Deferred tax (see note 18):		
Effect of rate changes	(5)	23
Relating to originating and reversal of temporary differences	(38)	143
Adjustments in respect of prior years	-	(15)
Total deferred tax charge/(credit)	(43)	151
Total tax charge/(credit)	689	318

Factors affecting tax charge/(credit) for year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	2017 USD '000	2016 USD '000
Profit/(Loss) on ordinary activities before tax	3,377	1,437
Standard rate of corporation tax in the UK	20.0%	20.0%
Tax charge/(credit) at the domestic income tax rate of 20% (2016: 20%)	675	287
Effects of:		
Tax effect of non - deductible depreciation	8	6
Tax effect of other non - deductible expenses/non-taxable income	11	17
Tax effect of rate changes	(5)	23
Adjustment in respect of prior years	-	(15)
Total tax charge/(credit) for year	689	318

	2017 USD '000	2016 USD '000
Tax relating to change/(credit) in fair value of AFS	(105)	15

Factors that may affect future tax charges

The standard rate of corporation tax rate has remain unchanged to 20%.

9 Cash and balances with Banks

		2017 USD '000	2016 USD '000
Cash on hand		8	6
Cash at Bank		911	6,951
		919	6,957

10 Loans and advances to Banks

		2017 USD '000	2016 USD '000
Interbank placements		7,000	40,040
		7,000	40,040

11 Loans and advances to customers

		2017 USD '000	2016 USD '000
Term loan		230,831	151,876
Overdraft		45,645	20,272
Trade finance		1,660	11,725
Other loans		219	2,256
	Gross	278,355	186,129
Impairment loss allowance (General provision)		(1,370)	(60)
	Net	276,985	186,069

Movement in Impairment loss allowance	USD '000
As at 31 March 2015	-
Addition during the year	60
As at 31 March 2016	**60**
Addition during the year	1,310
As at 31 March 2017	**1,370**

12 Financial investments - available for sale

	2017 USD '000	2016 USD '000
Quoted investments		
Government debt securities	21,034	12,490
Other securities	15,578	16,848
	36,612	29,338

13 Financial investments - held to maturity

	2017 USD '000	2016 USD '000
Quoted investments		
Government debt securities	-	-
Other securities	13,864	3,547
	13,864	3,547

Union Bank of India (UK) Ltd

14 Derivative financial instruments

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risks in long or short-term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the income statement.

The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

		31-Mar-17	
Derivatives used as:	**Assets**	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	324	-	25,802
	324	-	25,802

		31-Mar-16	
	Assets	**Liabilities**	**Notional amount**
	USD '000	**USD '000**	**USD '000**
Currency swaps	715	-	30,937
	715	-	30,937

There is no incidence of default of any counterparty with whom the Bank has entered into such contracts. The Bank does not anticipate deterioration of the credit quality of issuers of any such derivative contracts. All the contracts are double legged with the same institution, and as such maximum risk on account of default is the marked to market value, which is already provided in the financial statements. No exchange of principal is required in any of the trades.

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15 Fair value of assets and liabilities

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

Level 1 Securities: The fair value for financial instruments traded in active markets is based on their quoted market price or dealer price quotations without any deduction for transaction costs.

Level 2 Securities: For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Level 3 Securities: Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

The following tables set out the valuation methodologies adopted by asset and liability categories measured at fair value in the financial statements:

		2016-17	
	Quoted market prices (Level 1) USD '000	Valuation techniques using observable market data (Level 2) USD '000	Valuation techniques using non-observable market data (Level 3) USD '000
Financial assets			
Financial investments – AFS	21,034	15,578	-
Financial investments – HTM	-	13,864	-
Loans and advances to Banks	-	7,000	-
Loans and advances to customers	-	278,355	-
Derivative financial instruments - Assets	-	324	-
	21,034	315,121	-
Financial liabilities			
Derivative financial instruments - Liabilities	-	-	-
Deposits from Banks	-	85,969	-
Deposits from customers	-	168,942	-
Repurchase agreements	-	-	-
	-	254,911	-

15 Fair value of assets and liabilities (continued)

	2015-16 Quoted market prices (Level 1) USD '000	Valuation techniques using observable market data (Level 2) USD '000	Valuation techniques using non-observable market data (Level 3) USD '000
Financial assets			
Financial investments – AFS	12,490	16,848	-
Financial investments – HTM	-	3,547	-
Loans and advances to Banks	-	40,040	-
Loans and advances to customers	-	186,129	-
Derivative financial instruments - Assets	-	715	-
	12,490	247,279	-
Financial liabilities			
Derivative financial instruments - liabilities	-	-	-
Deposits from Banks	-	116,110	-
Deposits from customers	-	100,252	-
Repurchase agreements	-	2,219	-
	-	218,581	-

The Directors consider that fair values of the Bank's financial assets and liabilities to be approximately equal to their carrying amounts.

16 Property, plant and equipment

	Leasehold improvements USD '000	Furniture & equipment USD '000	Computer hardware USD '000	Total USD '000
Cost				
As at 1 April 2015	559	284	118	961
Additions	-	-	13	13
As at 31 March 2016	**559**	**284**	**131**	**974**
Additions	-	-	29	29
As at 31 March 2017	**559**	**284**	**160**	**1,003**
Cumulative depreciation				
As at 31 March 2015	(93)	(83)	(54)	(230)
Depreciation charge	(56)	(56)	(41)	(153)
As at 31 March 2016	**(149)**	**(139)**	**(95)**	**(383)**
Depreciation charge	(56)	(57)	(46)	(159)
As at 31 March 2017	**(205)**	**(196)**	**(141)**	**(542)**
Net book value				
As at 1 April 2016	410	145	36	591
As at 31 March 2017	**354**	**88**	**19**	**461**

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17 Intangible assets

	Capitalised software USD '000
Cost	
As at 1 April 2015	202
Additions	19
As at 31 March 2016	**221**
Additions	23
As at 31 March 2017	**244**
Amortisation	
As at 1 April 2015	(70)
Additions	(69)
As at 31 March 2016	**(139)**
Amortisation charge for the year	(74)
As at 31 March 2017	**(213)**
Carrying value	
As at 31 March 2016	82
As at 31 March 2017	**31**

18 Deferred tax assets

	2017 USD '000	2016 USD '000
Deferred tax assets on losses		
As at 1 April	340	536
Tax credit to income statement	29	(181)
Tax relating to change in fair value of AFS	120	(15)
As at 31 March	489	340
Deferred tax liabilities on fixed assets		
As at 1 April	53	84
Tax charge to income statement	(44)	(31)
As at 31 March	9	53

19 Other assets

	2017 USD '000	2016 USD '000
Other receivables	407	469
Prepayments and accrued income	438	488
	845	957

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

20 Deposits from Banks

	2017 USD '000	2016 USD '000
Interbank borrowings	35,701	65,540
	35,701	65,540

21 Intra-group borrowings

	2017 USD '000	2016 USD '000
Intra-group borrowings	50,268	50,570
	50,268	50,570

22 Deposits from customers

	2017 USD '000	2016 USD '000
Current accounts	13,393	7,678
Savings accounts	2,336	1,616
Fixed term deposits	153,213	90,958
	168,942	100,252

23 Repurchase agreements

The Bank enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties. As the substance of the sale and repurchase is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting the Bank's obligation to repurchase the transferred assets for a fixed price at a future date is recognised as liability. As a result of these transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. The Bank remains exposed to interest rate risk and credit risk on these pledged transactions. The counterparty's recourse is not limited to the transferred assets.

	2017 USD '000 Carrying amount of transferred assets	2017 USD '000 Carrying amount of associated liabilities	2016 USD '000 Carrying amount of transferred assets	2016 USD '000 Carrying amount of associated liabilities
Repurchase agreements	-	-	3,003	2,219

The Bank enters into sale and repurchase agreements and similar transactions of debt securities which are accounted for as secured borrowings. The carrying amount of assets that were provided as at 31 March 2017 were Nil - (Mar 2016- USD 3 million) included in Financial Investments - available for sale.

24 Other liabilities

	2017 USD '000	2016 USD '000
Other creditors	-	-
Accruals and deferred income	456	578
Corporation tax liability	771	167
Provisions for dilapidation	65	49
	1,292	794

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

25 Operating lease commitments

Payments recognised in expenses:

	Land and buildings 2017 USD '000	Land and buildings 2016 USD '000
Rent of bank premises at Senator House	300	345
	300	345

Total of future minimum lease payments under non-cancellable operating lease are as follows:

	2017 USD '000	2016 USD '000
Within one year	337	388
In two to five years	1,349	1,553
In over five years	378	824
	2,064	2,765

26 Share capital

	2017 Number	2017 USD	2016 Number	2016 USD
Issued and fully paid				
Ordinary shares of GBP 1 each	2	3	2	3

Ordinary shares of USD 1 each	2017 Number	2017 USD '000	2016 Number	2016 USD '000
As at 1 April	50,000,000	50,000	40,000,000	40,000
Issue of Share Capital *	30,000,000	30,000	10,000,000	10,000
As at 31 March	80,000,000	80,000	50,000,000	50,000

* The Bank has issued share capital of USD 30,000,000 (2016: USD 10,000,000) in favour of its parent company, Union Bank of India, by way of ordinary shares of USD 1 each.

27 **Other commitments and contingencies**

Commitments in respect of financial instruments are as follows:

	2017 USD '000	2016 USD '000
Commitments to buy treasury securities/ Forex	26,126	31,652
Commitments to sell treasury securities/ Forex	25,802	30,937
Letter of credit	2,244	7,334
Bank guarantee	5,116	4,159
Undrawn committed facilities	10,142	13,724

28 **Related party transactions**

a) During the year, the Bank entered into the following transactions with various branches of the Union Bank of India, (the parent bank):

	Income 2017 USD '000	Income 2016 USD '000	Expenses 2017 USD '000	Expenses 2016 USD '000
Interest income on placements	10	-	-	-
Interest income on trade finance	109	351	-	-
Interest expense on borrowings	-	-	1,283	734
	119	351	1,283	734

The Bank had the following balances with related parties at 31 March

	Amounts owed by related parties 2017 USD '000	Amounts owed by related parties 2016 USD '000
Assets		
Nostro account balance with Union Bank of India, India	10	16
Trade finance	1,660	11,725
	1,670	11,741

	Amounts owed to related parties 2017 USD '000	Amounts owed to related parties 2016 USD '000
Liabilities		
Intra-group borrowings	50,268	50,570
	50,268	50,570

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

b) The ultimate controlling party of the Bank is Union Bank of India, incorporated in India which is both the parent Bank (ownership - 100%) and ultimate controlling party.

c) The following key management personnel are also considered to be related parties:

Mr. Brajeshwar Sharma (Managing Director and Chief Executive Officer)

Dr. Anand Kumar (Executive Director and Deputy Chief Executive Officer)

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29 Risk management

The Bank is exposed to the following risks in relation to its financial assets and liabilities:

- Credit risk
- Country risk
- Liquidity risk
- Market risk : currency risk
- Interest rate risk
- Operational risk
- Capital risk management

The fair values of the Bank's financial assets and liabilities are in all cases considered to be approximately equal to their carrying amounts.

Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in financial loss to the Bank. The Bank has a Credit Risk Management and Loan Policy ("CRMLP") in place. The CRMLP describes the principles which underpin and drive the Bank's approach to credit risk management together with the systems and processes through which they are implemented and administered. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Bank's maximum exposure to credit risk.

The Bank considers that the credit quality of those financial assets which are neither past due nor impaired is sufficiently high to present negligible risk of default. There are no financial assets that would otherwise be past due or impaired whose terms have been renegotiated. There are no financial assets to related parties which are past due but which have not been impaired.

Collateral

Collateral is held to mitigate credit risk exposure and may include one or more of:

1. Bank Deposits under Lien including those with third party institutions
2. Marketable Securities
3. Current Assets
4. Bank Guarantees & Letters of Credit
5. Fixed Assets (Movable & Immovable)
6. Corporate Guarantees

Collateral type	Loans and advances to customers USD '000	Collateral USD '000	% of exposure USD '000
Bank Deposits	375	375	100.0%
Bank Guarantees	7,098	7,772	109.5%
Fixed Assets (Movable and Immovable)	198,742	267,179	134.4%
Corporate Guarantee	57,684	94,037	163.0%
Unsecured	14,456	-	0.0%
	278,355	369,363	132.7%

29 Risk management (continued)

Country risk exposure

Country risk is the risk of an adverse effect that an occurrence within a country could have on the Bank. The Bank's risk management framework incorporates measures and tools to monitor this risk.

The following table provides a summary by country of risk as of 31 March 2017:

Countries	2017 Exposure	2016 Exposure	2017 % of Total Exposure	2016 % of Total Exposure
	USD '000	USD '000		
Australia	486	-	0.1%	-
Belgium	9,150	8,976	2.7%	3.4%
British Virgin Island	22,685	-	6.7%	-
Cayman Island	12,000	-	3.6%	-
France	487	-	0.1%	-
Germany	7,551	9,051	2.2%	3.4%
India	50,494	89,159	15.0%	33.4%
Indonesia	9,087	-	2.7%	-
Mauritius	10,001	10,000	3.0%	3.7%
Mexico	4,854	-	1.4%	-
Oman	2,776	-	0.8%	-
Other (MDBs)	3,465	-	1.0%	-
Portugal	3,241	-	1.0%	-
Saudi Arabia	983	-	0.3%	-
Singapore	16,095	11,961	4.8%	4.5%
South Africa	5,771	4,574	1.7%	1.7%
Switzerland	3,766	3,610	1.1%	1.4%
United Arab Emirates	5,688	5,180	1.7%	1.9%
United Kingdom	110,347	101,809	32.7%	38.2%
United States of America	58,147	22,406	17.3%	8.4%
	337,074	266,726	100.0%	100.0%

Liquidity risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due. Liquidity risk is managed by balancing its cash flows with forward thinking rolling time bands so that under normal conditions the Bank is comfortably placed to meet its payment obligations as they fall due. The immediate focus is on short and medium-term funding and liquid asset management. This ensures management of liquidity risks as part of our ongoing business management within our daily operations, strategy and planning.

The Bank has developed its Internal Liquidity Adequacy Assessment Process (ILAAP) and stress testing process to assess the liquidity adequacy, the results of which have been reviewed by Senior Management during the year.

29 Risk management (continued)

The liquidity profile as at reporting date is as shown below:

Assets	Loans and advances to customers		Loans and advances to Banks	
	2017	2016	2017	2016
	USD '000	USD '000	USD '000	USD '000
On Demand	-	393	-	6,500
Due within 3 months	14,853	25,612	7,000	33,540
Due between 3 to 12 months	68,545	56,823	-	-
Due between 1 to 5 years	164,974	90,292	-	-
Due after 5 years	29,983	13,009	-	-
Total	278,355	186,129	7,000	40,040

Liabilities:	Deposit from Banks		Deposit from customers	
	2017	2016	2017	2016
	USD '000	USD '000	USD '000	USD '000
On Demand	-	-	15,729	9,281
Due within 3 months	10,000	39,934	13,421	11,646
Due between 3 to 12 months	25,969	26,176	101,514	67,000
Due between 1 to 5 years	50,000	50,000	38,278	12,128
Due after 5 years	-	-	-	197
	85,969	116,110	168,942	100,252

The responsibility for ensuring that the Bank can meet its obligations as they fall due rests with the Bank's management. Under the PRA regulations the Bank is compliant with its ILG on an ongoing basis. The Bank has a prudent liquidity policy and adequate management systems and controls in place to ensure that the policy is adhered to at all times.

• The Board of Directors are ultimately responsible for ensuring that the liquidity policy remains relevant and up to date at all times and is in line with the Bank's business activities and expressed risk tolerance.

• The Asset and Liability Committee ("ALCO") is responsible for reviewing and recommending liquidity policy to the Board of Directors. ALCO is supported by Risk Management, which is responsible for monitoring the compliance on a daily basis.

• The Bank has developed its ILAAP, which includes a series of stress tests and limits.

• The responsibility of day-to-day management of the Bank's liquidity position is delegated to the Bank's Treasury department.

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29 Risk management (continued)

Currency risk

Currency risk is the risk that arises from the change in price of one currency against another.

The Bank is mainly exposed to fluctuations in the value of INR, EUR and GBP. During the ordinary course of its business, the Bank enters into sales and purchase transactions denominated in foreign currencies, hence an exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters, as referred to below.

The carrying amount of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2017 USD '000	2016 USD '000	2017 USD '000	2016 USD '000
INR	-	16	5	-
GBP	-	426	979	-
EURO	49	88	-	-

The currency risk is managed by minimising the time delays between the date the Bank becomes party to the contract and the date of the related cash receipt or payment.

Interest rate risk

Interest rate risk is the risk that arises due to possibilities of a fluctuation in rates, and how that impacts on the pricing structure of the Bank's assets and liabilities. Moreover the Bank is also exposed to interest rate risk due to the nature of the rate being either fixed or floating. Most liabilities have fixed interest rates while for some assets interest rates are floating and are benchmarked to certain index rates like LIBOR or Bank rates which are dynamic and prone to fluctuations.

The Bank's ALCO meets monthly to monitor this risk. ALCO in turn reviews the interest rates in various currencies arising from repricing of assets, liabilities and derivative instruments. The Bank manages part of this risk by carefully matching the cost of liabilities with that of asset pricing and if need be the Bank would use interest rate swaps to mitigate the risk.

Operational risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events.

The Bank has put in place an Operational Risk policy to manage operational risk in an effective, efficient and proactive manner. The primary objective of the policy is to identify the operational risks that the Bank is exposed to from failed, inadequate and/or missing controls, processes, people, systems or from external events or a combination of all the five, assess or measure their magnitude, monitor them and control or mitigate them by using a variety of checks. Within the Operational risk framework, new products, processes and services introduced by the Bank are subject to rigorous risk evaluation and approval. In addition to the policy, the Bank has specific operational policies in place covering (inter alia) IT Security, Outsourcing policy and business continuity plan.

The Bank has identified various possible risk scenarios and has put in place an internal control framework to mitigate identified risks. This framework is set out in the form of departmental policies and procedures, which are reviewed on a regular basis.

29 Risk management (continued)

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure. The Bank's authority to operate as a bank is dependent upon the maintenance of adequate capital resources. The Bank is required to meet minimum regulatory requirements in the UK.

The Bank's regulatory capital requirements are set by way of the ICG by the PRA. The Bank has had surplus capital over and above the capital required as per the ICG during the year.

The Bank's regulatory capital is categorised into Tier one capital, which includes ordinary share capital, and retained earnings.

	2017 USD '000	2016 USD '000
Paid up share capital	80,000	50,000
Retained earnings	1,901	(787)
Fair value reserves for AFS	(514)	59
Tier one capital	81,387	49,272

30 Ultimate parent company

The ultimate parent company is Union Bank of India, a public sector bank incorporated in India, which is both the immediate and ultimate controlling party. The consolidated financial statements for Union Bank of India are available to the public and may be obtained from Union Bank Bhavan, 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400021 or from their website www.unionbankofindia.co.in.

31 Events after the balance sheet date

There have been no reportable events after the balance sheet date.

32 Pillar III

The Bank is authorised by the PRA and regulated by the FCA and the PRA, therefore the Bank is required to publish the Pillar III disclosures. These are available at the Bank's website: www.unionbankofindiauk.co.uk.