Company Registration number: 07653660

# UNION BANK OF INDIA (UK) LIMITED

## FINANCIAL STATEMENTS

## 31 MARCH 2015

**UNION BANK OF INDIA (UK) LIMITED**
**Financial Statements**
**For the year ended 31 March 2015**

Contents

**UNION BANK OF INDIA (UK) LIMITED**
**Officers and Professional advisers**
**For the year ended 31 March 2015**

| | |
|---|---|
| Company registration number | 07653660 dated 01 June 2011 |
| The Board of directors | Arun Tiwari<br>Chairman |
| | Vivek Jayawant Mhatre<br>Non-Executive Director (Retired on 01/04/2015) |
| | Sendhil Ramanathan<br>Managing Director & CEO |
| | Brajeshwar Sharma<br>Director (appointed on 25/03/2015) |
| | Dr Anand Kumar<br>Executive Director & Dy CEO |
| | John Kerr<br>Non-Executive Director |
| | Patrick Joseph Quinn<br>Non-Executive Director |
| Company secretary | Kishor Poudel |
| Registered office | Senator House<br>85 Queen Victoria Street<br>London EC4V 4AB |
| Statutory auditor | Deloitte LLP<br>Chartered Accountants and Statutory Auditor<br>Hill House<br>1 Little New Street<br>London EC4A 3TR |

**UNION BANK OF INDIA (UK) LIMITED**
**Directors' Report**
**for the year ended 31 March 2015**

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2015. 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 and Wales received permission to function as a bank from the Prudential Regulation Authority ("PRA") on 6 September 2013, but with a restriction on raising deposits. The Bank fulfilled the conditions imposed by the PRA with respect to this restriction and the restriction was lifted on 10 July 2014. Since then the Bank has commenced its commercial operations.

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

### Going concern

The accounts 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 operational support.

The Directors have assessed current and anticipated 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 and reasonably expect it to continue in operational existence 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.

As at the close of the previous accounting year the Bank had share capital of 2 ordinary shares of £1 each. Prior to the receipt of authorisation from the PRA, the Bank increased its regulatory capital in August 2013 by issuing 10 million ordinary shares of USD 1 each. Further 30 million ordinary shares of USD 1 each were issued in March 2014. The entire share capital was issued to Union Bank of India.

### Political and charitable donations

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

### Directors

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

## UNION BANK OF INDIA (UK) LIMITED
## Directors' Report (continued)
## for the year ended 31 March 2015

### Directors' indemnities

The Bank has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Statement as to disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this annual report confirm that:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish 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 a change in the auditor of the Bank for the year ended 31 March 2015. King and King were the external auditor of the Bank for year ended 31 March 2014.

Deloitte LLP, Chartered Accountant were appointed as the statutory auditor of the Bank with effect from 31 July 2014 and have expressed their willingness to continue as auditor of the Bank. Accordingly, a resolution is to be proposed at the next Board of Directors meeting for the re-appointment of Deloitte LLP 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.

### Dividends

The Directors do not recommend the payment of a dividend (31 March 2014: 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 21 April 2015 and signed on its behalf by:

**Sendhil Ramanathan**
Managing Director & CEO

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

**UNION BANK OF INDIA (UK) LIMITED**
**Strategic Report**
**for the year ended 31 March 2015**

The Directors have pleasure in presenting their strategic report and the financial statements for Union Bank of India (UK) Ltd (the "Bank") for the year ended 31 March 2015.

**Business model**

The Bank is a UK incorporated Bank authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Bank's PRA firm reference number is 601551. The Bank is covered by the Financial Services Compensation Scheme (FSCS).

The Bank had received permission to function as a Bank from the PRA on 6 September 2013, but with a restriction to raise deposits. As mentioned in the Directors' report, the Bank had fulfilled conditions imposed by the PRA with respect to this restriction. The PRA has lifted the restrictions on 10 July 2014. Since then the Bank has commenced its commercial operations.

The Bank will initially operate from a single branch in Central London and intends to open a small number of additional branches over the next few years as the business grows.

**Primary objectives**

The Bank's primary objectives are:

• to create sustainable growth within the UK;
• to support the Parent's customer relationships for providing international banking;
• 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**

During the year 2013/14, the Bank moved to new premises at Senator House, 85 Queen Victoria Street, London. The Bank has recruited senior management staff to set up robust systems, procedures and policies to enable successful management of its business risks once the Bank is in operation.

**Key financial highlights**

During the year, the Bank made a loss before tax of USD 1,181,000 (31 March 2014: USD 1,192,000) which is mainly attributable to personnel costs, moving to new premises, depreciation and other day-to-day expenses.

**Key performance indicators**

| | **2015** | **2014** |
|---|---|---|
| | **USD '000** | **USD '000** |
| Net interest income | 1,036 | 35 |
| Operating expenses | (2,920) | (1,227) |
| Loss before tax | (1,181) | (1,192) |
| Loss after tax | (960) | (946) |
| Deposits from customers | 50,807 | - |
| Loans and advances to customers | 72,999 | - |
| Asset base | 134,856 | 39,381 |

### Outlook

The UK economy grew by 2.6% in 2014 as a whole, which was the fastest rate seen since 2007 and the strongest growth rate in the G7. However, UK quarter-on-quarter GDP growth slowed somewhat to 0.5% in the fourth quarter of 2014, which appears to reflect the drag from sluggish growth in the Eurozone as well as wider global geopolitical risks related to the situation in Russia/Ukraine and the Middle East in particular. But lower global oil prices have been a positive factor from the perspective of UK consumers.

UK growth has been driven primarily by services over the past five years, but manufacturing and construction have also been on an upward trend since early 2013 despite some slowdown in late 2014. The slowdown in the Eurozone has been partly offset by stronger growth in the US since the second quarter of 2014, but more generally international risks have increased over the past nine months. As such, UK growth remains heavily dependent on domestic demand.

UK employment has continued to rise strongly, which has supported consumer spending growth despite relatively subdued rates of average real earnings growth until recent months. Rising house prices have also supported consumer confidence and spending, but have moderated since mid-2014. Business investment had been showing signs of a stronger recovery in recent years, though this fell back somewhat in late 2014 according to the latest preliminary official estimates. Public spending cuts have slowed down over the past year, but will remain a drag on growth for many years to come and could accelerate again after the general election.

The Bank expects continued investment growth in 2015, but at a slower rate than in 2014 as business confidence could be affected by increased international risks and possibly also temporary uncertainty around the general election outcome.

Inflation will remain very low this year, but could rebound to close to target in 2016 if past falls in global energy and food prices do not continue. There could be upside risks to this inflation outlook in the longer term if domestic wages start to recover without a corresponding rise in productivity.

The Bank does not expect any immediate rise in official UK interest rates, but a gradual upward trend seems likely to begin in late 2015 or early 2016.

### Forward looking

In recognition of the increased impact of the regulatory environment in the financial services industry as a whole, we have consciously moved to strengthen our internal systems and controls with increased emphasis towards Risk, Compliance and AML.

The Bank commenced its commercial operations in July 2014 and has recorded a loss after tax of USD 960,000 for the year ended 31 March 2015. During the Q4 of the financial year ending March 2015, the Bank's operations were profitable on a standalone basis. It is expected that the accumulated losses up to March 2015 will be wiped off in the financial year 2015/16.

### Retail Banking

The Bank offers Personal current accounts, Personal savings accounts, Business current accounts, Fixed deposits and Remittances to India through our office in London. The Bank also assists Non-Resident Indian (NRI) customers, based in the UK, with their Indian-related banking facilities with Union Bank of India.

**Corporate and Commercial Banking**

The Bank's corporate business aims to provide products and services to enhance trade and investment between the UK and India. The Bank is looking to build on the start made during this first year of operations by expanding 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 balance sheet, and the market and liquidity risk 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) or Held for trading (HFT) or Available for sale (AFS) as per the investment policy of the Bank at the time of acquiring that 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**

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 two Executive Directors, two Non-Executive Directors representing the shareholder and two independent UK based Non-Executive Directors and meets quarterly. All Non-Executive 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 scrutiny to 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 and external audit (Level 3).

Responsibility for overseeing the risk framework of the Bank is devolved to the following Board committees, each of which is chaired by a Non-Executive Director:

**Corporate Governance (continued)**

**Risk and Compliance Committee** - meets quarterly, consists of two independent UK based Non-Executive Directors (one of whom acts as chair), the two Executive Directors, and its secretary is the Compliance Officer/MLRO.

**Audit Committee** - 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.

**Management Committee** - meets quarterly, consists of two independent UK based Non-Executive Directors, one independent Indian based Non-Executive director, and the two Executive Directors.

**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 maintain the Bank's and its employees' compliance with the legal and regulatory obligations in respect of both AML and conduct of business issues. 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 IT, Compliance and Risk Management 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 so that exposure is 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 and monitored and that the policies and procedures established to address these risks are strictly adhered to. The outcomes of each of these risk management processes will be 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 (including compliance, conduct and reputational 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 Individual Liquidity Adequacy Assessment (ILAA) and capital - the Individual Capital Adequacy Assessment Process (ICAAP) as well as qualitative parameters such as reputation risk, conduct risk.

The ILAA is prepared on an annual basis along with stress testing and is approved by the Board of the Bank. This is developed as a part of the planning and budgeting process to ensure that the Bank's business plans are achievable within its capital and liquidity resources. ILAA is subject to an interim review and update, should there be any material changes in the business or regulatory environment.

The ILAA and the ICAAP are reviewed by the PRA and PRA 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 which help in collective responsibilities for various functions:

Asset and Liability Committee (ALCO)

Executive Management Committee (EMC)

IT and Operations Committee (ITOC)

Investment Committee (IC)

Credit Committee (CC)

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

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 28.

**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 attitude to risk and internal control. Significant risks identified in connection with the development of new activities are subject to consideration by the Board, while the risk of new products developed are subject to the approval of the Risk and Compliance Committee of the Board.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives audit reports undertaken by the internal audit function.

**Regulatory environment**

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

The Bank is aware that the regulation contains 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 ensure that the Bank is compliant with the rules at all times.

The regulatory environment during the year under review remained as challenging as the previous years, especially with the advent of 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 going forward.

**Capital Requirements Directive**

The Bank shall be subject to the CRD IV, which implements capital requirements in the revised European Union Basel III framework. Our Bank complies with the requirements of CRR 1/CRD IV (Basel III), on the high level expectations on the Capital 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 recently approved CRD IV, implementation of Basel III is imminent and will play a significant role in determining how the Bank and other financial institutions globally undertake their business going forward. As per the new 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.

This report was approved by the Board of Directors on 21 April 2015 and signed on its behalf by:

**Sendhil Ramanathan**
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 2015**

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

The Companies Act 2006, being the applicable law 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:

- The financial statements, 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

**Sendhil Ramanathan**
Managing Director & CEO

**Dr Anand Kumar**
Executive Director & Dy CEO

21 April 2015

**UNION BANK OF INDIA (UK) LIMITED**

**Independent Auditor's report to the shareholders of Union Bank of India (UK) Limited for the year ended 31 March 2015**

We have audited the financial statements of Union Bank of India (UK) Limited for the year ended 31 March 2015 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 31. 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 financials 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 2015 and of the loss 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) LIMITED

**Independent Auditor's report to the shareholders of Union Bank of India (UK) Limited for the year ended 31 March 2015**

**Opinion on other matter 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 Company's 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 2015

**UNION BANK OF INDIA (UK) LIMITED**
**Income Statement**
**for the year ended 31 March 2015**

**Company Registration No: 07653660**

| | Notes | 2015 USD '000 | 2014 USD '000 |
|---|---|---|---|
| Interest and similar income | 4 | 1,262 | 35 |
| Interest and similar expense | 5 | (226) | - |
| **Net interest income** | | 1,036 | 35 |
| Net fees and commission income | 6 | 369 | - |
| Net trading income | | 19 | - |
| Other operating income | | 315 | - |
| **Operating income** | | 1,739 | 35 |
| Personnel costs | 7 | (1,286) | (483) |
| Operating lease | 24 | (369) | (250) |
| Depreciation and amortisation | 17,18 | (211) | (89) |
| General administrative expenses | 9 | (1,054) | (405) |
| **Loss before tax** | | **(1,181)** | **(1,192)** |
| Income tax credit | 10 | 221 | 246 |
| **Loss for the year from continuing operations** | | **(960)** | **(946)** |

**The notes on pages 19 to 42 form part of these financial statements.**

**UNION BANK OF INDIA (UK) LIMITED**
**Statement of Comprehensive income**
**for the year ended 31 March 2015** **Company Registration No: 07653660**

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Total loss for the year attributable to equity shareholders | (960) | (946) |
| **Other comprehensive income net of tax** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Net change in fair value of AFS | 69 | - |
| Tax relating to change in fair value of AFS | (15) | - |
| **Net gain on AFS investments** | 54 | - |
| **Total comprehensive income attributable to equity Shareholders for the year** | **(906)** | **(946)** |

**The notes on pages 19 to 42 form part of these financial statements.**

**UNION BANK OF INDIA (UK) LIMITED**
**Statement of Financial position**
**as at 31 March 2015**

**Company Registration No: 07653660**

| | Notes | 2015 USD '000 | 2014 USD '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Banks | 11 | 3,518 | 2,526 |
| Loans and advances to Banks | 12 | 31,000 | 35,000 |
| Financial investments - available for sale | 14 | 24,721 | - |
| Loans and advances to customers | 13 | 72,999 | - |
| Property, plant and equipment | 17 | 731 | 860 |
| Intangible assets | 18 | 132 | 69 |
| Capital work in progress | | 22 | 29 |
| Deferred tax assets | 19 | 452 | 246 |
| Other assets | 20 | 1,281 | 651 |
| **Total assets** | | **134,856** | **39,381** |
| **Liabilities** | | | |
| Derivative financial instruments - liabilities | 15 | 156 | 3 |
| Deposits from Banks | 21 | 44,939 | - |
| Deposits from customers | 22 | 50,807 | - |
| Other liabilities | 23 | 806 | 324 |
| **Total liabilities** | | **96,708** | **327** |
| **Equity** | | | |
| Share capital | 25 | 40,000 | 40,000 |
| Fair value reserves | | 54 | - |
| Retained earnings | | (1,906) | (946) |
| **Total shareholder's equity** | | **38,148** | **39,054** |
| **Total equity and liabilities** | | **134,856** | **39,381** |

The financial statements were approved by the Board of Directors and authorised for issue on 21 April 2015.

**Sendhil Ramanathan**
Managing Director & CEO

**Dr Anand Kumar**
Executive Director & Dy CEO

Company registration no: 07653660

**The notes on pages 19 to 42 form part of these financial statements.**

UNION BANK OF INDIA (UK) LIMITED
Statement of Changes in equity
for the year ended 31 March 2015

Company Registration No: 07653660

| 31 March 2015 | Notes | Issued capital USD '000 | Fair value reserves USD '000 | Retained earnings USD '000 | Total equity USD '000 |
|---|---|---|---|---|---|
| Balance as at 1 April 2014 | | 40,000 | - | (946) | 39,054 |
| **Comprehensive income for the year** | | | | | |
| Loss for the year | | - | - | (960) | (960) |
| Net change in fair value of AFS investments | | - | 54 | - | 54 |
| **Total comprehensive income for the year** | | - | 54 | (960) | (906) |
| Balance as at 31 March 2015 attributable to shareholders of the Bank | | **40,000** | **54** | **(1,906)** | **38,148** |

| 31 March 2014 | Notes | Issued capital USD '000 | Fair value reserves USD '000 | Retained earnings USD '000 | Total equity USD '000 |
|---|---|---|---|---|---|
| Balance as at 1 April 2013 | | - | - | - | - |
| **Comprehensive income for the year** | | | | | |
| Loss for the year | | - | - | (946) | (946) |
| Issue of share capital | 25 | 40,000 | - | - | 40,000 |
| **Total comprehensive income for the year** | | 40,000 | - | (946) | 39,054 |
| Balance as at 31 March 2014 attributable to shareholders of the Bank | | **40,000** | **-** | **(946)** | **39,054** |

**The notes on pages 19 to 42 form part of these financial statements.**

**UNION BANK OF INDIA (UK) LIMITED**
**Statement of Cash flows**
**for the year ended 31 March 2015**

| | Notes | 2015 USD '000 | 2014 USD '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss after tax for the year | | (960) | (946) |
| **Adjustments to reconcile profit from operations:** | | | |
| Amortisation of intangible non-current asset | 18 | 58 | 12 |
| Depreciation for property, plant and equipment | 17 | 153 | 77 |
| Income tax credit | 10 | (206) | (246) |
| **Cash flows before changes in operating activities** | | 5 | (157) |
| **Movement in working capital** | | | |
| Increase in receivables & prepayments | 20 | (630) | (651) |
| Increase in other liabilities | 23 | 482 | 324 |
| **Net Increase in working capital** | | (148) | (327) |
| **Cash flows from operating activities** | | | |
| Loans and advances to customers | 13 | (72,999) | - |
| Loans and advances to banks | 12 | 4,000 | (35,000) |
| Deposits from Banks | 21 | 44,939 | - |
| Deposits from customers | 22 | 50,807 | - |
| Derivative financial instruments - liabilities | 15 | 153 | 3 |
| | | 26,900 | (34,997) |
| **Net cash flows used in operating activities (A)** | | 25,797 | (36,427) |
| **Cash flows from investing activities** | | | |
| Acquisition of AFS investments (net of reserves) | | (24,667) | - |
| Acquisition of property, plant and equipment | 17 | (24) | (937) |
| Acquisition of intangible assets | 18 | (121) | (81) |
| (Increase) / decrease in capital work in progress | | 7 | (29) |
| **Net cash flows used in investing activities (B)** | | (24,805) | (1,047) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of equity share capital | 25 | - | 40,000 |
| **Net cash flows from financing activities (C)** | | - | 40,000 |
| **Net increase in cash and cash equivalents (A+B+C)** | | 992 | 2,526 |
| **Cash and cash equivalents at 1 April 2014** | | 2,526 | - |
| **Cash and cash equivalents at 31 March 2015** | 11 | **3,518** | **2,526** |

**The notes on pages 19 to 42 form part of these financial statements.**

## 1 Reporting entity

Union Bank of India (UK) Limited (the "Bank") 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 2015.

## 2 *Basis of preparation*

### *a) Statement of compliance*

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union.

The Bank's financial statements for the year ended 31 March 2015 were authorised for issue on 21 April 2015.

### *b) Basis of measurement*

The financial statements of the Bank are prepared on a historical cost basis in accordance with the special provisions of Part XV of the Companies Act, 2006 relating to banking companies and applicable accounting standards except for the derivative financial instruments, financial instruments at fair value through profit or loss and financial investments available-for-sale, which are measured at fair value.

### *c) 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.

### *d) 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 judgments 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.

## 2 Basis of preparation (continued)

***i) Identification of impairment of financial assets***

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are provided for if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank considers the following factors in assessing objective evidence of impairment:

- when the counterparty is in default of principal or interest payments; or
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation; or
- where the Bank files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation; or
- where the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments; or
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets.

All individually significant loans are assessed for specific impairment. Individually significant and non-significant loans found not to be impaired are then collectively assessed for impairment that has been incurred, but not yet been identified. Loans subject to collective impairment testing are grouped to loan portfolios on the basis of similar risk rating.

***ii) Allowances for impairment of financial assets carried at amortised cost***

The Bank periodically reviews their financial assets carried at amortised cost, viz. loans and advances and HTM investments, to identify any early signs of financial deterioration. Additionally, for those loans and HTM investments where there is either a default or an objective evidence of impairment, judgement is required by management in the estimation of the amount and timing of expected cash flows to determine the level of impairment allowance to be recorded. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Management's estimates of future cash flows on individually impaired loans and HTM investments are based on historical experience for assets with similar credit risk characteristics. The expected recovery is subject to execution risks associated with the recovery of collateral in different jurisdictions.

**2 Basis of preparation (continued)**

***iii) Fair value measurement of financial instruments***

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

***e) Provisions***

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

***f) Going concern***

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future.

***g) Standards and interpretations***

At the date of authorisation of these financial statements, the following Standards and Interpretation which have not been applied in this financial statements were in issue but not yet effective:

IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduces new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with less complex and improved standards for financial instruments.

The second and third phases in IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting. The IASB re-opened the requirement for classification and measurement in IFRS 9 in 2012 to address practice and other issues, with an exposure draft of revised proposal issued in November 2012.

IFRS 9 is effective for Annual reporting period beginning on or after 1 January 2018, with early adoption permitted. The Bank is currently in the process of evaluating the potential effect of this standard.

Other Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IAS 27(amended on Aug 2014) - Equity method in separate financial statements;
- IFRS 15 - Revenue from contracts with customers;
- IAS 16 and IAS 38 (amended on May 2014) -Clarification of acceptable methods of depreciation and amortization;
- Amendments to IFRS 11 (May 2014) - Accounting for acquisitions of interests in joint operations; and
- IFRS 14 - Regulatory deferral accounts.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

## 3 *Significant accounting policies*

### *a) 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.

### *b) 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.

### *c) Fee and commission income*

Fee & 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.

### *d) 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.

### *e) 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'.

### *f) Dividend income*

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

**3 Significant accounting policies (continued)**

***g) Measurement***

***Financial assets***
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss and financial investments available for sale, which are measured at fair value. During the year the Bank did not hold any held-to-maturity investments.

***(i) 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 on the financial statements on the settlement date. For a sale transaction, the asset continues to be on the financial statements until settlement date and the transaction remains an off balance sheet commitment until then.

***(ii) 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.

***(iii) 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.

***Financial liabilities and equity instruments***

***(i) 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 at the proceeds received, net of direct costs.

## 3 Significant accounting policies (continued)

***(ii) Financial instruments***

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.

***h) Fair value measurement***

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

***i) 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.

**j) De-recognition of financial assets and financial liabilities**

**(i) 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.

## 3 Significant accounting policies (continued)

### (ii) 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.

### (iii) 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.

### (iv) Impairment of loans and advances

Loans and advances are evaluated individually and collectively for impairment.

### (v) 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 judgment.

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.

### k) 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.

## 3 Significant accounting policies (continued)

***l) 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 |

***m) 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 |

***n) 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.

**3 Significant accounting policies (continued)**

***o) Income 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.

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.

***p) Operating leases***

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

**3 Significant accounting policies (continued)**

***q) 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.

***r) Impairment of property, plant and equipment and intangible assets***
At each balance sheet date, the Bank reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

***s) Trade receivables and other financial assets***
Trade receivables and other financial assets are initially measured at fair value and subsequently under the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

***t) 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.

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.

## 3 Significant accounting policies (continued)

***u) Other liabilities***

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost under the effective interest rate method.

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.

## 4 Interest and similar income

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Interest income from loans | 877 | - |
| Interest income from investments - available for sale | 196 | - |
| Interest income from investments - held for trading | 14 | - |
| Interest on interbank placements | 175 | 35 |
| | 1,262 | 35 |

## 5 Interest and similar expense

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Deposit from customers | 163 | - |
| Deposit from banks | 63 | - |
| | 226 | - |

## 6 Net fees and commission income

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Processing fees | 369 | - |
| | 369 | - |

## 7 Personnel costs

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Wages and salaries (including Directors' emoluments) | 1,168 | 415 |
| Social security costs | 98 | 46 |
| Other employee benefits | 20 | 22 |
| | 1,286 | 483 |

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

| | 2015 Number | 2014 Number |
|---|---|---|
| Commercial and retail banking activities | 15 | 6 |

## 8 Directors' emoluments

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Emoluments | 356 | 132 |

Emoluments comprise salary and benefits in kind.

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Highest paid Director: | | |
| Emoluments | 135 | 73 |

## 9 General administrative expenses

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Other premises costs | 282 | 152 |
| IT costs | 84 | 13 |
| Other administrative expenses | 312 | 87 |
| Legal and professional costs | 257 | 117 |
| Marketing expenses | 88 | - |
| Finance costs | 31 | 36 |
| | 1,054 | 405 |

| | 2015 | 2014 |
|---|---|---|
| **Legal and professional costs include the following :** | | |
| Auditor's remuneration - audit services | 69 | 21 |
| Auditor's remuneration -other services | 4 | - |
| | 73 | 21 |

## 10 Income tax

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| **Analysis of tax charge in year** | | |
| Corporate tax credit | (15) | - |
| Deferred tax (see note 19): | | |
| Effect of rate changes | 4 | 23 |
| Relating to originating and reversal of temporary differences | (224) | (269) |
| Adjustments in respect of prior years | 14 | - |
| Total deferred tax credit | (206) | (246) |
| Total tax credit | (221) | (246) |

**Factors affecting tax credit for year**

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

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Loss on ordinary activities before tax | (1,181) | (1,192) |
| Standard rate of corporation tax in the UK | 21.0% | 23.0% |
| Tax credit at the domestic income tax rate of 21% (2014: 20%) | (248) | (274) |
| Effects of: | | |
| Tax effect of non- deductible depreciation | 6 | 5 |
| Tax effect of other non - deductible expenses/non-taxable income | 4 | - |
| Tax effect of rate changes | 4 | 23 |
| Adjustment in respect of prior years | 14 | - |
| Total tax credit for year | (221) | (246) |

**Factors that may affect future tax charges**

With effect from 1 April 2014, the standard rate of corporation tax has reduced to 21% from 23%. With effect from 1 April 2015, this rate has been further reduced to 20%.

## 11 Cash and balances with Banks

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Cash on hand | 9 | - |
| Cash at Bank | 3,509 | 2,526 |
| | 3,518 | 2,526 |

## 12 Loans and advances to Banks

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Interbank placements | 31,000 | 35,000 |

## 13 Loans and advances to customers

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Corporate lending | 36,531 | - |
| Term loan | 2,769 | - |
| Overdraft | 2,153 | - |
| Trade finance | 30,873 | - |
| Other loans | 673 | - |
| | 72,999 | - |

## 14 Financial investments - available for sale

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| **Quoted investments** | | |
| Government debt securities | 10,028 | - |
| Other securities | 14,693 | - |
| | 24,721 | - |

## 15 Exposure to Derivatives

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-15 | | |
|---|---|---|---|
| **Derivatives used as:** | **Assets** | **Liabilities** | **Notional amount** |
| | **USD '000** | **USD '000** | **USD '000** |
| Currency swaps | - | 156 | 3,126 |
| | - | 156 | 3,126 |

| | 31-Mar-14 | | |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Notional amount** |
| | **USD '000** | **USD '000** | **USD '000** |
| Currency swaps | - | 3 | 2,832 |
| | - | 3 | 2,832 |

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 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.

## 16 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:

| | | 2014/15 | |
|---|---|---|---|
| | Quoted market prices (Level 1) | Valuation techniques using observable market data (Level 2) | Valuation techniques using non-observable market data (Level 3) |
| | USD '000 | USD '000 | USD '000 |
| **Financial assets** | | | |
| Financial investments – AFS | 10,028 | 14,693 | - |
| Loans and advances to Banks | - | 31,000 | - |
| Loans and advances to customers | - | 72,999 | - |
| | 10,028 | 118,692 | - |
| **Financial liabilities** | | | |
| Derivative financial instruments - liabilities | - | 156 | - |
| Deposits from Banks | - | 44,939 | - |
| Deposits from customers | - | 50,807 | - |
| | - | 95,902 | - |

**16 Fair value of assets and liabilities (continued)**

| | 2013/14 Quoted market prices (Level 1) | Valuation techniques using observable market data (Level 2) | Valuation techniques using non-observable market data (Level 3) |
|---|---|---|---|
| | USD '000 | USD '000 | USD '000 |
| **Financial assets** | | | |
| Financial investments – AFS | - | - | - |
| Loans and advances to Banks | - | 35,000 | - |
| Loans and advances to customers | - | - | - |
| | - | 35,000 | - |
| **Financial liabilities** | | | |
| Derivative financial instruments - liabilities | - | 3 | - |
| Deposits from Banks | - | - | - |
| Deposits from customers | - | - | - |
| | - | 3 | - |

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

**17 Property, plant and equipment**

| | Leasehold improvements USD '000 | Furniture & equipment USD '000 | Computer hardware USD '000 | Total USD '000 |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 April 2013 | - | - | - | - |
| Additions | 559 | 276 | 102 | 937 |
| As at 31 March 2014 | **559** | **276** | **102** | **937** |
| Additions | - | 8 | 16 | 24 |
| **As at 31 March 2015** | **559** | **284** | **118** | **961** |
| **Cumulative depreciation** | | | | |
| As at 1 April 2013 | - | - | - | - |
| Additions | (37) | (26) | (14) | (77) |
| As at 31 March 2014 | **(37)** | **(26)** | **(14)** | **(77)** |
| Additions | (56) | (57) | (40) | (153) |
| **As at 31 March 2015** | **(93)** | **(83)** | **(54)** | **(230)** |
| **Net book value** | | | | |
| As at 1 April 2014 | 522 | 250 | 88 | 860 |
| **As at 31 March 2015** | **466** | **201** | **64** | **731** |

## 18 Intangible assets

| | Capitalised software USD '000 |
|---|---|
| **Cost** | |
| As at 1 April 2013 | - |
| Additions | 81 |
| **As at 31 March 2014** | **81** |
| Additions | 121 |
| **As at 31 March 2015** | **202** |
| **Amortisation** | |
| As at 1 April 2013 | - |
| Additions | (12) |
| **As at 31 March 2014** | **(12)** |
| Amortisation charge for the year | (58) |
| **As at 31 March 2015** | **(70)** |
| **Carrying value** | |
| **As at 31 March 2014** | 69 |
| **As at 31 March 2015** | **132** |

## 19 Deferred tax assets

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| **Deferred tax assets on losses** | | |
| As at 1 April | 323 | - |
| Tax credit to income statement | 213 | 323 |
| As at 31 March | 536 | 323 |
| **Deferred tax liabilities on fixed assets** | | |
| As at 1 April | 77 | - |
| Tax charge to income statement | 7 | 77 |
| As at 31 March | 84 | 77 |

## 20 Other assets

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Other receivables | 551 | 540 |
| Prepayments and accrued income | 730 | 111 |
| | 1,281 | 651 |

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

## 21 Deposits from Banks

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Interbank borrowings | 44,939 | - |
| | 44,939 | - |

## 22 Deposits from customers

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Current accounts | 2,732 | - |
| Savings accounts | 1,148 | - |
| Fixed term deposits | 46,927 | - |
| | 50,807 | - |

## 23 Other liabilities

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Other creditors | 4 | - |
| Accruals and deferred income | 772 | 310 |
| Provision for leasehold dilapidations | 30 | 14 |
| | 806 | 324 |

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

## 24 Operating lease commitments

Payments recognised in expenses:

| | Land and buildings 2015 USD '000 | Land and buildings 2014 USD '000 |
|---|---|---|
| Rent of bank premises at Senator House | 369 | 250 |
| | 369 | 250 |

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

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Within one year | 402 | 69 |
| In two to five years | 1,606 | 1,803 |
| In over five years | 1,254 | 1,959 |
| | 3,262 | 3,831 |

## 25 Share capital

| | 2015 Number | 2015 USD | 2014 Number | 2014 USD |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Ordinary shares of £1 each | 2 | 3 | 2 | 3 |

| Ordinary shares of USD 1 each | 2015 Number | 2015 USD '000 | 2014 Number | 2014 USD '000 |
|---|---|---|---|---|
| As at 1 April | 40,000,000 | 40,000 | - | - |
| Issue of Share Capital * | - | - | 40,000,000 | 40,000 |
| As at 31 March | 40,000,000 | 40,000 | 40,000,000 | 40,000 |

* The Bank has issued share capital of USD nil (2014: USD 40,000,000) in favour of its parent company, Union Bank of India, by way of USD nil (2014: 40,000,000) ordinary shares of USD 1 each.

## 26 Other commitments and contingencies

Commitments in respect of financial instruments are as under:

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| Commitments to buy treasury securities | 2,970 | 2,830 |
| Commitments to sell treasury securities | 3,126 | 2,835 |
| Letter of credit | 2,809 | - |
| Bank guarantee | 20 | - |
| Undrawn committed facilities | 2,153 | - |

## 27 Related party transactions

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

| | Income | | Expenses | |
|---|---|---|---|---|
| | 2015 USD '000 | 2014 USD '000 | 2015 USD '000 | 2014 USD '000 |
| Interest income on placements | 29 | 2 | - | - |
| Interest expense on deposit | - | - | 6 | - |
| | 29 | 2 | 6 | - |

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

| | Amounts owed by related parties | |
|---|---|---|
| | 2015 USD '000 | 2014 USD '000 |
| **Assets** | | |
| Nostro account balance with Union Bank of India, India | 35 | 26 |
| Deposit placed with DIFC branch of Union Bank of India | - | 7,000 |
| Trade finance | 30,655 | - |
| | 30,690 | 7,026 |

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 following key management personnel are considered to be related parties:

Mr Sendhil Ramanathan (Managing Director and Chief Executive Officer)

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

## 28 Risk management

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

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

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

No collateral was held in respect of exposures to Banks and financial institutions at the year end.

| Collateral type | Loans and advances to customers USD '000 | Collateral USD '000 | % of exposure USD '000 |
|---|---|---|---|
| Bank Deposits | 4 | 6 | 150.0% |
| Bank guarantees | 30,873 | 30,873 | 100.0% |
| Fixed assets (movable and immovable) | 22,308 | 52,563 | 235.6% |
| Corporate guarantee | 13,726 | 21,140 | 154.0% |
| Unsecured | 6,088 | 6,088 | 100.0% |
| | 72,999 | 110,670 | 151.6% |

## 28 Risk management (continued)

### 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-term liquidity because assets and liabilities run off and are replaced; the pattern of the Bank's more long-term liquidity will be reconstituted many times over before their settlement time draws near.

The Bank has developed its Individual Liquidity Adequacy Assessment (ILAA) document as required by the PRA and has stress tested the liquidity adequacy, the results of which have been reviewed by Senior Management during the year.

The responsibility for ensuring that the Bank can meet the obligations as they fall due rests with the Bank's management. Under the PRA regulations the Bank is compliant of 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 compliant with the Bank's business activities and expressed risk tolerance.

• The Asset and Liability Committee ("ALCO") is responsible for reviewing and recommending it 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 ILAA model as required by the PRA, 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.

### 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 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 | |
|---|---|---|---|---|
| | 2015 USD '000 | 2014 USD '000 | 2015 USD '000 | 2014 USD '000 |
| INR | 35 | 26 | - | - |
| GBP | 33 | - | - | 120 |
| EURO | 1 | - | - | - |

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.

## 28 Risk management (continued)

### Trade payables

It is Bank's policy to settle trade payables within 30 days in order to minimise any currency risk.

### 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 2015:

| Countries | 2015 Exposure | 2014 Exposure | 2015 % of Total Exposure | 2014 % of Total Exposure |
|---|---|---|---|---|
| | USD '000 | USD '000 | USD '000 | USD '000 |
| Belgium | 8,976 | - | 6.8% | - |
| Germany | 267 | - | 0.2% | - |
| India | 75,604 | 28,026 | 57.2% | 74.7% |
| Philippines | 4,020 | - | 3.0% | - |
| Switzerland | 10,000 | - | 7.6% | - |
| United Arab Emirates | - | 7,000 | - | 18.7% |
| UK | 18,273 | 2,500 | 13.8% | 6.7% |
| USA | 15,098 | - | 11.4% | - |
| | 132,238 | 37,526 | 100.0% | 100.0% |

### 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 these risks. ALCO is in turn assisted by Risk management department and changes in 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. Major sources of operational risks for the Bank are identified by management as IT security, internal and external fraud, process errors, money laundering risks and external events like failure of transportation, non- availability of utilities etc.

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls, including IT Security Policy for all financial transactions, a Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, anti-bribery and corruption policy, records retention policy, compliance code of conduct etc. These are reviewed periodically.

## 28 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.

| | 2015<br>USD '000 | 2014<br>USD '000 |
|---|---|---|
| Called up share capital | 40,000 | 40,000 |
| Retained earnings | (1,906) | (946) |
| Fair value reserves for AFS | 54 | - |
| Tier one capital | 38,148 | 39,054 |

## 29 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.

## 30 Events after the balance sheet date

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

## 31 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.