

Company Registration number: 07653660



ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

UNION BANK OF INDIA (UK) LIMITED
Financial Statements
For the year ended 31 March 2016

Contents	Page No
Officers and professional advisers	2
Directors' report	3 -4
Strategic report	5-13
Statement of directors' responsibilities	14
Independent auditor's report to the shareholders of Union Bank of India (UK) Ltd	15-16
Income statement	17
Statement of comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22-46

UNION BANK OF INDIA (UK) LIMITED
Officers and Professional advisers
For the year ended 31 March 2016

Company registration number	07653660 dated 01 June 2011
The Board of Directors	Mr. Arun Tiwari Chairman
	Mr. Rakesh Sethi Director (appointed on 04/11/2015)
	Mr. Vivek Jayawant Mhatre Director (resigned on 01/04/2015)
	Mr. Brajeshwar Sharma Managing Director & CEO (appointed on 25/03/2015)
	Mr. Sendhil Ramanathan Managing Director & CEO (resigned on 22/04/2015)
	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 (appointed on 15/12/2015) Mr. Kishor Poudel (resigned on 17/12/2015)
Registered office	Senator House 85 Queen Victoria Street London EC4V 4AB
Statutory auditor	Deloitte LLP Chartered Accountants and Statutory Auditor London

UNION BANK OF INDIA (UK) LIMITED

Directors' Report

for the year ended 31 March 2016

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2016. 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 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 covering retail, corporate and commercial banking, trade finance and treasury services to its customers.

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

New initiative

During the year 2015-16, the Bank has launched internet banking facility, to help its retail and corporate clients. Retail clients can view accounts and make payments within the UK via (Banks Automated Clearing System) BACS and FPS (Faster Payment System). At present, the bank does not charge any fees for making payments using BACS or FPS through internet banking. Corporate clients have a view only facility, allowing them to view their accounts on a real time basis.

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 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. They 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.

Initially the Bank had share capital of 2 ordinary shares of GBP 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. During the year ended 31 March 2016, 10 million ordinary shares of USD 1 each were issued. Total issued and paid up share capital as of 31 March 2016 is USD 50 million and GBP 2. Hundred percent shares of the Bank are held by the Union Bank of India (parent bank).

Political and charitable donations

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

UNION BANK OF INDIA (UK) LIMITED
Directors' Report (continued)
for the year ended 31 March 2016

Directors

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

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 no change in the auditor of the Bank for the year ended 31 March 2016.

Deloitte LLP, Chartered Accountant 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.

Dividends

The Directors do not recommend the payment of a dividend (31 March 2015: 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 2016 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
Strategic Report
for the year ended 31 March 2016

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 2016.

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 on raising 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'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 covering retail, corporate and commercial banking, trade finance and treasury services to its customers.

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. It published its first financial accounts as of 31 March 2015. This year has been the first full year of its business operations. 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 and persons of Indian origin across the globe and also overseas companies looking to invest in India.

For the purpose of the business review, the management has described activity within individual business segments.

Key financial highlights

During the year, the Bank made a Profit before tax of USD 1,437,000 (31 March 2015: Loss of USD 1,181,000). The Bank's interest earning assets increased from USD 129,012,000 (31 March 2015) to USD 259,054,000 (31 March 2016). The capital, funding and liquidity positions of the Bank remained comfortable throughout the year.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

Key performance indicators

	2016	2015
	USD '000	USD '000
Net interest income	3,389	1,036
Operating expenses	(3,571)	(2,920)
Profit/(loss) before tax	1,437	(1,181)
Profit/(loss) after tax	1,119	(960)
Deposits from customers	100,252	50,951
Loans and advances to customers	186,129	73,286
Asset base	268,707	134,856

Outlook

The International Monetary Fund has projected global growth at 3.4 percent in 2016 and 3.6 percent in 2017.

Growth in advanced economies is projected to rise by 0.2 percent in 2016 to 2.1 percent, and hold steady in 2017. Overall activity remains resilient in the United States, supported by still-easy financial conditions and strengthening housing and labour markets, but with the dollar strength weighing on manufacturing activity and lower oil prices curtailing investment in mining structures and equipment. In the euro area, stronger private consumption supported by lower oil prices and easy financial conditions is outweighing a weakening in net exports. Growth in Japan is also expected to firm in 2016, on the back of fiscal support, lower oil prices, accommodative financial conditions, and rising incomes.

Growth in emerging markets and developing economies is projected to increase to 4.3 and 4.7 percent in 2016 and 2017, respectively.

Growth in China is expected to slow to 6.3 percent in 2016 and 6.0 percent in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance. 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.

Higher growth is projected for the Middle East, but lower oil prices, and in some cases geopolitical tensions and domestic strife, continue to weigh on the outlook.

Emerging Europe is projected to continue growing at a broadly steady pace, albeit with some slowing in 2016. Russia, which continues to adjust to low oil prices and Western sanctions, is expected to remain in recession in 2016.

The UK recovery since mid-2009 has been relatively slow by historical standards, but still faster than most other G7 economies over this period. UK GDP growth slowed a little in 2015, but consumer spending growth remains relatively strong, helped by lower oil prices. UK GDP growth is expected to average just over 2% in 2016. Consumer spending will be the main driver of UK growth this year, helped by continued low energy and food prices.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

Outlook (continued)

Risks to growth are weighted to the downside in the short term due to international risks, particularly in relation to emerging markets, as well as uncertainties relating to the EU referendum. But there are also upside possibilities if the global environment improves and productivity growth rates accelerate in the UK. London continues to lead the recovery with projected growth of around 3% in 2016 but all other UK regions should also register positive real growth of around 1.4-2.3% per annum this year.

Inflation is expected to remain low in 2016, but could rise back towards its 2% target by the end of 2017, so the (Monetary Policy Committee) MPC may start to raise interest rates gradually during the course of 2017 and beyond.

Forward looking

Looking to the Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership), the Bank plans to have cautious and controlled growth, particularly in new lending business and it will continue to focus and enhance its credit risk framework to make it more robust. The Bank has an objective of well capitalised, diversified balance sheet with sustainable growth for the year.

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 (Anti Money Laundering) AML. The Bank intends to open a couple of branches within the next few years. The Bank is also in the process of starting online opening of deposit accounts.

The Bank commenced its commercial operations in July 2014 and recorded a loss after tax of USD 960,000 for the year ended 31 March 2015. During the year ended 31 March 2016, the Bank has made a profit after tax of USD 1,119,000. It is expected that the balance of accumulated losses will be wiped off in the 1st half of the financial year 2016/17.

Retail Banking

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

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

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 fund, and the 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) 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

Good governance is critical to delivering 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 two Executive Directors, two 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 to 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 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:

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

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, Compliance Officer/MLRO and the Secretary is the Risk Manager.

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.

Executive Management Committee - meets quarterly, consists of two independent UK based Non-Executive Directors, and the two Executive Directors, and the Secretary is the Manager, Credit.

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 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 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 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 Individual Liquidity Adequacy Assessment (ILAA) and capital - the Individual Capital Adequacy Assessment Process (ICAAP) as well as qualitative parameters such as reputation risk and conduct risk.

ICAAP and ILAA statements 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 ICAAP and ILAA are subject to interim review and update in response to material changes to the business or regulatory environment.

The ILAA 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.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

Risk management framework (continued)

The Bank has the following committees of executives:

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 the Risk and 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 31.

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 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 the Internal Audit function.

Regulatory environment

The Capital Requirements Regulations ("CRR") currently in place includes 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.

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 going forward.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

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/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 going forward. 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

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 also be relevant and for domestic systemic firms the systemic risk buffer will be relevant.

The PRA buffer, as applicable – some firms may be subject to a PRA buffer which 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 PRA published its package of policy on the Pillar 2 framework. The new framework came into force from 1 January 2016. New individual capital guidance (ICG) is now applicable from 1 January 2016.

The PRA has updated reporting data items and instructions and sets out changes to the Pillar 2 data items (FSA071 to FSA082) and reporting instructions. The amended rules came into effect from 5 February 2016.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

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 firm need to meet a higher LCR requirement of 80% from 1st Oct. 2015, this requirement would apply until the end of 2016. Then the LCR minimum requirement would increase from 80% to 90% from 1st Jan. 2017 and would reach 100% from 1st Jan. 2018.

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.

UNION BANK OF INDIA (UK) LIMITED
Strategic Report (continued)
for the year ended 31 March 2016

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

The Bank is covered by the Financial Services Compensation Scheme (FSCS).

From 3 July 2015, the PRA reduced the deposit protection limit from £85,000 to £75,000 as a result of requirements in the European Deposit Guarantee Schemes Directive (DGSD). Until 31 December 2015, eligible deposits of individuals and small organisation in banks, building societies and credit unions authorised by the PRA were protected up to a limit of £85,000.

From 1 January 2016, the eligible limit is £75,000 for all deposit holders unless/otherwise excluded under DGSD.

From 3 July 2015, eligible deposits of large companies and small local authorities became eligible for protection.

Depositors that are not eligible for FSCS protection under the DGSD, such as credit institutions and financial institutions are excluded from protection.

This report was approved by the Board of Directors on 20 April 2016 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 2016

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 that:

- 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


Brajeshwar Sharma
Managing Director & CEO


Dr Anand Kumar
Executive Director & Dy CEO

20 April 2016

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 2016

We have audited the financial statements of Union Bank of India (UK) Limited for the year ended 31 March 2016 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 34. 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 2016 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) LIMITED

**Independent Auditor's report to the shareholders of Union Bank of India (UK) Limited
for the year ended 31 March 2016**

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 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

(Senior Statutory Auditor)

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

Hill House
1 Little New Street
London
EC4A 3TR

20 April 2016

UNION BANK OF INDIA (UK) LIMITED
Income Statement
for the year ended 31 March 2016

Company Registration No: 07653660

	Notes	2016 USD '000	2015 USD '000
Interest and similar income	4	6,043	1,262
Interest and similar expense	5	(2,654)	(226)
Net interest income		<u>3,389</u>	<u>1,036</u>
Net fees and commission income	6	1,366	369
Net trading income		21	19
Other operating income		232	315
Operating income		<u>5,008</u>	<u>1,739</u>
Personnel costs	7	(1,717)	(1,286)
Operating lease	27	(345)	(369)
Depreciation and amortisation	18,19	(222)	(211)
General administrative expenses	9	(1,287)	(1,054)
Profit/(Loss) before tax		<u>1,437</u>	<u>(1,181)</u>
Income tax credit/(charge)	10	(318)	221
Profit/(Loss) for the year from continuing operations		<u>1,119</u>	<u>(960)</u>

The notes on pages 22 to 46 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED
Statement of Comprehensive income
for the year ended 31 March 2016

Company Registration No: 07653660

	2016 USD '000	2015 USD '000
Total profit/(loss) for the year attributable to equity shareholders	1,119	(960)
Other comprehensive income net of tax		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value of AFS	74	69
Tax relating to change in fair value of AFS	(15)	(15)
Net gain on AFS investments	59	54
Total comprehensive income attributable to equity shareholders for the year	1,178	(906)

The notes on pages 22 to 46 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED
Statement of Financial position
as at 31 March 2016

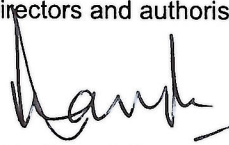
Company Registration No: 07653660

	Notes	2016 USD '000	2015 USD '000
Assets			
Cash and balances with Banks	11	6,957	3,518
Loans and advances to Banks	12	40,040	31,005
Loans and advances to customers	13	186,129	73,286
Financial investments - available for sale	14	29,338	24,721
Financial investments - held to maturity	15	3,547	-
Derivative financial instruments - assets	16	715	-
Property, plant and equipment	18	591	731
Intangible assets	19	82	132
Capital work in progress		64	22
Deferred tax assets	20	287	452
Other assets	21	957	989
Total assets		268,707	134,856
Liabilities			
Derivative financial instruments - liabilities	16	-	156
Deposits from Banks	22	65,540	44,976
Intra-group borrowings	23	50,570	-
Deposits from customers	24	100,252	50,951
Repurchase agreements	25	2,219	-
Other liabilities	26	854	625
Total liabilities		219,435	96,708
Equity			
Share capital	28	50,000	40,000
Fair value reserves		59	54
Retained earnings		(787)	(1,906)
Total shareholder's equity		49,272	38,148
Total equity and liabilities		268,707	134,856

The financial statements were approved by the Board of Directors and authorised for issue on 20 April 2016.



Brajeshwar Sharma
 Managing Director & CEO



Dr Anand Kumar
 Executive Director & Dy CEO

Company registration no: 07653660

The notes on pages 22 to 46 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED
Statement of Changes in equity
for the year ended 31 March 2016

Company Registration No: 07653660

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
Comprehensive income for the year					
Profit for the year		-	-	1,119	1,119
Issue of share capital	28	10,000	-	-	10,000
Net change in fair value of AFS investments		-	5	-	5
Total comprehensive income for the year		10,000	5	1,119	11,124
Balance as at 31 March 2016 attributable to shareholders of the Bank		50,000	59	(787)	49,272

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

The notes on pages 22 to 46 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED
Statement of Cash flows
for the year ended 31 March 2016

	Notes	2016 USD '000	2015 USD '000
Cash flows from operating activities			
Net profit/(loss) before tax for the year		1,437	(1,181)
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	19	69	58
Depreciation for property, plant and equipment	18	153	153
Cash flows before changes in operating activities		222	211
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	21	32	(338)
(Decrease)/Increase in other liabilities	26	62	301
Net Increase in working capital		94	(37)
Cash flows from operating activities			
Increase in loans and advances to customers	13	(112,843)	(73,286)
(Increase)/decrease in loans and advances to banks	12	(9,035)	3,995
Increase in deposits from Banks	22	20,564	44,976
Increase in deposits from customers	24	49,301	50,951
Increase in repurchase agreements	25	2,219	-
Increase in derivative financial instruments - Assets	16	(715)	-
(Decrease)/Increase on derivative financial instruments - liabilities	16	(156)	153
		(50,665)	26,789
Net cash flows used in operating activities (A)		(48,913)	25,782
Cash flows from investing activities			
Acquisition of AFS investments (net of reserves)	14	(4,597)	(24,652)
Acquisition of HTM investments	15	(3,547)	-
Acquisition of property, plant and equipment	18	(13)	(24)
Acquisition of intangible assets	19	(19)	(121)
(Increase) / decrease in capital work in progress		(42)	7
Net cash flows used in investing activities (B)		(8,218)	(24,790)
Cash flows from financing activities			
Proceeds from issue of equity share capital	28	10,000	-
Proceeds from Intra-group borrowings	23	50,570	-
Net cash flows from financing activities (C)		60,570	-
Net increase in cash and cash equivalents (A+B+C)		3,439	992
Cash and cash equivalents at beginning of the year		3,518	2,526
Cash and cash equivalents at close of the year	11	6,957	3,518

The notes on pages 22 to 46 form part of these financial statements.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements
for the year ended 31 March 2016

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 2016.

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 issued by the Interpretations Committee (IFRIC), 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 2016 were authorised for issue on 20 April 2016.

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 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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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 its 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 estimate 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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

2 Basis of preparation (continued)

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 these financial statements which are issued but not yet effective:

IFRS 9 'Financial Instruments' – In November 2009, the (International Accounting Standard Board) 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 periods 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 issued 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 (effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2016)

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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 flow.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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 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.

(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 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.

(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.

(iv) 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.

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 when the proceeds are received, net of direct costs.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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 the 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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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 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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

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
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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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

3 Significant accounting policies (continued)

o) Income 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.

p) 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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

3 Significant accounting policies (continued)

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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

4 Interest and similar income	2016	2015
	USD '000	USD '000
Interest income from loans	4,771	877
Interest income from investments - available for sale	939	196
Interest income from investments - held to maturity	45	-
Interest income from investments - held for trading	-	14
Interest on interbank placements	288	175
	6,043	1,262
5 Interest and similar expense	2016	2015
	USD '000	USD '000
Deposit from customers	1,331	163
Deposit from banks	579	63
Intra-group borrowings	734	-
Repurchase agreements	10	-
	2,654	226
6 Net fees and commission income	2016	2015
	USD '000	USD '000
Processing fees and commission	1,366	369
	1,366	369
7 Personnel costs	2016	2015
	USD '000	USD '000
Wages and salaries (including Directors' emoluments)	1,491	1,168
Social security costs	157	98
Other employee benefits	69	20
	1,717	1,286
The average number of monthly employees (including executive Directors) was as follows:		
	2016	2015
	Number	Number
Commercial and retail banking activities	17	15
8 Directors' emoluments	2016	2015
	USD '000	USD '000
Emoluments	390	356
Emoluments comprise salary and benefits in kind	2016	2015
	USD '000	USD '000
Highest paid Director:		
Emoluments	146	135

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

9 General administrative expenses	2016	2015
	USD '000	USD '000
Other premises costs	270	282
IT costs	118	84
Other administrative expenses	516	312
Legal and professional costs	268	257
Marketing expenses	81	88
Finance costs	33	31
	<u>1,286</u>	<u>1,054</u>

Legal and professional costs include the following :

Auditor's remuneration - audit services	71	69
Auditor's remuneration - other services	-	4
	<u>71</u>	<u>73</u>

10 Income tax	2016	2015
	USD '000	USD '000
Analysis of tax charge/(credit) in year		
Corporate tax charge/(credit)	167	(15)
Deferred tax (see note 20):		
Effect of rate changes	23	4
Relating to originating and reversal of temporary differences	143	(224)
Adjustments in respect of prior years	(15)	14
Total deferred tax charge/(credit)	<u>151</u>	<u>(206)</u>
Total tax charge/(credit)	<u>318</u>	<u>(221)</u>

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:

	2016	2015
	USD '000	USD '000
Profit/(Loss) on ordinary activities before tax	<u>1,437</u>	<u>(1,181)</u>
Standard rate of corporation tax in the UK	20.0%	21.0%
Tax charge/(credit) at the domestic income tax rate of 20% (2015: 21%)	287	(248)
Effects of:		
Tax effect of non - deductible depreciation	6	6
Tax effect of other non - deductible expenses/non-taxable income	17	4
Tax effect of rate changes	23	4
Adjustment in respect of prior years	(15)	14
Total tax charge/(credit) for year	<u>318</u>	<u>(221)</u>

	2016	2015
	USD '000	USD '000
Tax relating to change in fair value of AFS	<u>15</u>	<u>15</u>

Factors that may affect future tax charges

With effect from 1 April 2015, the standard rate of corporation tax has reduced to 20% from 21%. The rate will be the same from 1 April 2016.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

11 Cash and balances with Banks	2016	2015
	USD '000	USD '000
Cash on hand	6	9
Cash at Bank	6,951	3,509
	<u>6,957</u>	<u>3,518</u>

12 Loans and advances to Banks	2016	2015
	USD '000	USD '000
Interbank placements	40,040	31,005
	<u>40,040</u>	<u>31,005</u>

In the previous year the Bank has reported accrued interest on 'Loans and advances to Banks' of USD 5,000 to 'Other assets'. In the current year it has been reclassified from 'Other assets' to 'Loans and advances to Banks'.

13 Loans and advances to customers	2016	2015
	USD '000	USD '000
Term loan	151,876	39,525
Overdraft	20,272	2,153
Trade finance	11,725	30,931
Other loans	2,256	677
	<u>186,129</u>	<u>73,286</u>

In the previous year the Bank has reported accrued interest on 'Loans and advances to customers' of USD 287,000 to 'Other assets'. In the current year it has been reclassified from 'Other assets' to 'Loans and advances to customers'.

14 Financial investments - available for sale	2016	2015
	USD '000	USD '000
Quoted investments		
Government debt securities	12,490	10,028
Other securities	16,848	14,693
	<u>29,338</u>	<u>24,721</u>

15 Financial investments - held to maturity	2016	2015
	USD '000	USD '000
Quoted investments		
Other securities	3,547	-
	<u>3,547</u>	<u>-</u>

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

16 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.

Derivatives used as:	31-Mar-16		
	Assets	Liabilities	Notional amount
	USD '000	USD '000	USD '000
Currency swaps	715	-	30,937
	<u>715</u>	<u>-</u>	<u>30,937</u>
	31-Mar-15		
	Assets	Liabilities	Notional amount
	USD '000	USD '000	USD '000
Currency swaps	-	156	3,126
	<u>-</u>	<u>156</u>	<u>3,126</u>

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

17 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:

	Quoted market prices (Level 1)	2015/16 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	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	-	65,540	-
Deposits from customers	-	100,252	-
Repurchase agreements	-	2,219	-
	-	168,011	-

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

17 Fair value of assets and liabilities (continued)

	Quoted market prices (Level 1)	2014/15 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	-
Financial investments – HTM	-	-	-
Loans and advances to Banks	-	31,005	-
Loans and advances to customers	-	73,286	-
Derivative financial instruments - Assets	-	-	-
	10,028	118,984	-
Financial liabilities			
Derivative financial instruments - liabilities	-	156	-
Deposits from Banks	-	44,976	-
Deposits from customers	-	50,951	-
Repurchase agreements	-	-	-
	-	96,083	-

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

18 Property, plant and equipment	Leasehold improvements USD '000	Furniture & equipment USD '000	Computer hardware USD '000	Total USD '000
Cost				
As at 1 April 2014	559	276	102	937
Additions	-	8	16	24
As at 31 March 2015	559	284	118	961
Additions	-	-	13	13
As at 31 March 2016	559	284	131	974
Cumulative depreciation				
As at 1 April 2014	(37)	(26)	(14)	(77)
Additions	(56)	(57)	(40)	(153)
As at 31 March 2015	(93)	(83)	(54)	(230)
Additions	(56)	(56)	(41)	(153)
As at 31 March 2016	(149)	(139)	(95)	(383)
Net book value				
As at 1 April 2015	466	201	64	731
As at 31 March 2016	410	145	36	591

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

19 Intangible assets	Capitalised software USD '000
Cost	
As at 1 April 2014	81
Additions	121
As at 31 March 2015	202
Additions	19
As at 31 March 2016	221
Amortisation	
As at 1 April 2014	(12)
Additions	(58)
As at 31 March 2015	(70)
Amortisation charge for the year	(69)
As at 31 March 2016	(139)
Carrying value	
As at 31 March 2015	132
As at 31 March 2016	82

20 Deferred tax assets	2016 USD '000	2015 USD '000
Deferred tax assets on losses		
As at 1 April 2015	536	323
Tax credit to income statement	(181)	228
Tax relating to change in fair value of AFS	(15)	(15)
As at 31 March 2016	340	536
Deferred tax liabilities on fixed assets		
As at 1 April 2015	84	77
Tax charge to income statement	(31)	7
As at 31 March 2016	53	84
21 Other assets	2016 USD '000	2015 USD '000
Other receivables	469	551
Prepayments and accrued income	488	438
	957	989

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

22 Deposits from Banks	2016 USD '000	2015 USD '000
Interbank borrowings	65,540	44,976
	65,540	44,976

In the previous year the Bank has reported accrued interest on 'Deposits from Banks' of USD 37,000 to 'Other liabilities'. In the current year it has been reclassified from 'Other liabilities' to 'Deposits from Banks'.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

23 Intra-group borrowings	2016	2015
	USD '000	USD '000
Intra-group borrowings	50,570	-
	<u>50,570</u>	<u>-</u>

24 Deposits from customers	2016	2015
	USD '000	USD '000
Current accounts	7,678	2,732
Savings accounts	1,616	1,148
Fixed term deposits	90,958	47,071
	<u>100,252</u>	<u>50,951</u>

In the previous year the Bank has reported accrued interest on 'Deposits from customers' of USD 144,000 to 'Other liabilities'. In the current year it has been reclassified from 'Other liabilities' to 'Deposits from customers'.

25 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.

	2016	2016	2015	2015
	USD '000	USD '000	USD '000	USD '000
	Carrying	Carrying	Carrying	Carrying
	amount of	amount of	amount of	amount of
	transferred	associated	transferred	associated
	assets	liabilities	assets	liabilities
Repurchase agreements	<u>3,003</u>	<u>2,219</u>	<u>-</u>	<u>-</u>

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 at 31 March 2016 were USD 3 million (Mar 2015-Nil) included in Financial Investments - available for sale.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

26 Other liabilities	2016	2015
	USD '000	USD '000
Other creditors	-	4
Accruals and deferred income	578	591
Corporation tax liability	167	-
Provisions	109	30
	<u>854</u>	<u>625</u>

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

27 Operating lease commitments

Payments recognised in expenses:

	Land and	Land and
	buildings	buildings
	2016	2015
	USD '000	USD '000
Rent of bank premises at Senator House	345	369
	<u>345</u>	<u>369</u>

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

	2016	2015
	USD '000	USD '000
Within one year	388	402
In two to five years	1,553	1,606
In over five years	824	1,254
	<u>2,765</u>	<u>3,262</u>

28 Share capital	2016	2016	2015	2015
	Number	USD	Number	USD
Issued and fully paid				
Ordinary shares of GBP 1 each	<u>2</u>	<u>3</u>	<u>2</u>	<u>3</u>
Ordinary shares of USD 1 each	2016	2016	2015	2015
	Number	USD '000	Number	USD '000
As at 1 April	40,000,000	40,000	40,000,000	40,000
Issue of Share Capital *	10,000,000	10,000	-	-
As at 31 March	<u>50,000,000</u>	<u>50,000</u>	<u>40,000,000</u>	<u>40,000</u>

* The Bank has issued share capital of USD 10,000,000 (2015: USD Nil) in favour of its parent company, Union Bank of India, by way of 10,000,000 (2015: Nil) ordinary shares of USD 1 each.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

29 Other commitments and contingencies

Commitments in respect of financial instruments are as follows:

	2016	2015
	USD '000	USD '000
Commitments to buy treasury securities	31,652	2,970
Commitments to sell treasury securities	30,937	3,126
Letter of credit	7,334	2,809
Bank guarantee	4,159	20
Undrawn committed facilities	13,724	2,153

30 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		Expenses	
	2016	2015	2016	2015
	USD '000	USD '000	USD '000	USD '000
Interest income on placements	-	29	-	-
Interest income on trade finance	351	78	-	-
Interest expense on borrowings	-	-	734	6
	<u>351</u>	<u>107</u>	<u>734</u>	<u>6</u>

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

	Amounts owed by related parties	
	2016	2015
	USD '000	USD '000
Assets		
Nostro account balance with Union Bank of India, India	16	35
Trade finance	11,725	30,655
	<u>11,741</u>	<u>30,690</u>

	Amounts owed to related parties	
	2016	2015
	USD '000	USD '000
Liabilities		
Intra-group borrowings	50,570	-
	<u>50,570</u>	<u>-</u>

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)

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

31 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	Collateral	% of exposure
	USD '000	USD '000	USD '000
Bank Deposits	3,224	3,224	100.0%
Bank Guarantees	30,491	30,491	100.0%
Fixed Assets (Movable and Immovable)	128,858	140,178	108.8%
Corporate Guarantee	12,950	12,950	100.0%
Unsecured	10,606	-	0.0%
	<u>186,129</u>	<u>186,843</u>	<u>100.4%</u>

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

31 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 2016:

Countries	2016	2015	2016	2015
	Exposure	Exposure	% of Total Exposure	% of Total Exposure
	USD '000	USD '000	USD '000	USD '000
Belgium	8,976	8,976	3.4%	6.8%
Germany	9,051	267	3.4%	0.2%
India	89,159	75,604	33.4%	57.0%
Mauritius	10,000	-	3.7%	-
Philippines	-	4,020	0.0%	3.0%
Singapore	11,961	-	4.5%	-
South Africa	4,574	-	1.7%	-
Switzerland	3,610	10,000	1.4%	7.5%
United Arab Emirates	5,180	-	1.9%	0.0%
UK	101,809	18,565	38.2%	14.0%
USA	22,406	15,098	8.4%	11.4%
	<u>266,726</u>	<u>132,530</u>	<u>100.0%</u>	<u>100.0%</u>

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

31 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	
	2016	2015	2016	2015
	USD '000	USD '000	USD '000	USD '000
On Demand	393	-	6,500	16,000
Due within 3 months	25,612	19,458	33,540	15,005
Due between 3 to 12 months	56,823	33,085	-	-
Due between 1 to 5 years	90,292	11,271	-	-
Due after 5 years	13,009	9,472	-	-
Total	186,129	73,286	40,040	31,005

Liabilities:	Deposit from Banks		Deposit from customers	
	2016	2015	2016	2015
	USD '000	USD '000	USD '000	USD '000
On Demand	-	3,000	9,281	2,217
Due within 3 months	39,934	20,000	11,646	9,007
Due between 3 to 12 months	26,176	21,976	67,000	37,213
Due between 1 to 5 years	50,000	-	12,128	2,514
Due after 5 years	-	-	197	-
	116,110	44,976	100,252	50,951

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 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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

31 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	
	2016 USD '000	2015 USD '000	2016 USD '000	2015 USD '000
INR	16	35	-	-
GBP	426	33	-	-
EURO	88	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.

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 is in turn 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.

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.

UNION BANK OF INDIA (UK) LIMITED
Notes to the Financial Statements (continued)
for the year ended 31 March 2016

31 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.

	2016	2015
	USD '000	USD '000
Paid up share capital	50,000	40,000
Retained earnings	(787)	(1,906)
Fair value reserves for AFS	59	54
Tier one capital	<u>49,272</u>	<u>38,148</u>

32 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.

33 Events after the balance sheet date

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

34 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.