

Company Registration No. 4146820

United National Bank Limited

Annual Report and Financial Statements

31 December 2018

United National Bank Limited

Annual report and financial statements 2018

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United National Bank Limited

Officers and professional advisers

Directors

Mr B Hasan (Chairman and Independent Non-Executive Director)
Mr R Wilton (Chairman of the Audit Committee and Senior Independent Non-Executive Director)
Mr M Aminuddin* (resigned 24 January 2018)
Mr B Firth* (appointed 4 September 2018)
Ms S Kamil
Mr M M Khan (resigned 17 September 2018)
Mr R Mohyeddin (resigned 22 June 2018)
Mr M Naeem (appointed 30 July 2018)
Mr S Z Ijaz (appointed 26 October 2018)
Mr M F Haider (appointed 21 November 2018)
* Executive Director

Secretary

Mr T Varkey

Registered office

2 Brook Street
London
W1S 1BQ

Auditor

Mazars LLP
Chartered Accountants and Registered Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

United National Bank Limited

Strategic report

The Directors have pleasure in presenting the strategic report and the audited financial statements for the year to 31 December 2018 for United National Bank Limited (the 'Company').

Overview

The Company is a banking institution incorporated and domiciled in the UK, and authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and PRA. The registered Company number is 4146820 and the registered office is at 2 Brook Street, London, W1S 1BQ.

The Company was formed in 2001 from the merger of the UK branches of two Pakistani banks, United Bank Limited and National Bank of Pakistan, who had been operating in the UK since the mid-1960s.

The principal activities of the Company are to provide Retail Banking, Wholesale Banking, Treasury and Money Transmission services to UK-based individuals and corporate customers. Although there have been some changes to the strategic direction of the Company during the year, the principal activities have remained the same. The Directors are not aware, at the date of this report, of any likely major changes to the Company's activities in the next year, and expect the Company to continue as a going concern for the foreseeable future (see note 1b).

Business results

During 2017 the Board of Directors indicated their desire to reduce the overall risk appetite and the return on capital expectation commensurate with the reduced risk. In order to implement the Board's wishes, the internal business plan, devised towards the end of 2017 set out the Company's intention to reduce the value of risk-weighted assets. The Company proposed to do this by actively decreasing exposures to emerging market debt securities, and to shift its focus towards growing the UK-property secured lending portfolio.

During the second quarter of 2018 there was a significant deterioration in the market value of the debt securities caused by a number of external factors, which included US-China trade wars, political uncertainty in Turkey and Pakistan and heightened concerns about the potential economic impact of a no-deal Brexit. As a result of these external factors, the Company experienced a considerable increase in the unrealised losses on our portfolio, which grew from £2m at the end of 2017 to nearly £14m by mid-August 2018.

This significant deterioration put the regulatory capital surplus under increasing pressure and therefore the management took the decision to accelerate the de-risking strategy and begin exiting some of the investment portfolio earlier than originally intended. Although the Company realised losses on the sale of these bonds, there was an overall positive effect on the capital adequacy position which ensured the Company did not breach its regulatory requirements or need to dip into capital buffers.

As a result of this accelerated de-risking, towards the end of 2018 a large proportion of the balance sheet was invested in High Quality Liquid Assets (HQLAs) such as UK and US Treasury Bills and short-dated UK Gilts. This ensured that the liquidity position was very comfortable but at the cost of a reduced yield.

The 2018 performance was also adversely impacted by £3.3m impairment on an exposure to a UK high street retailer, which experienced financial difficulties during the year and ultimately ended up going into administration in August 2018.

The table below shows a summary of profit on ordinary activities before taxation for the past six years, along with details of the items which have been adjusted to determine the underlying profitability of the Company.

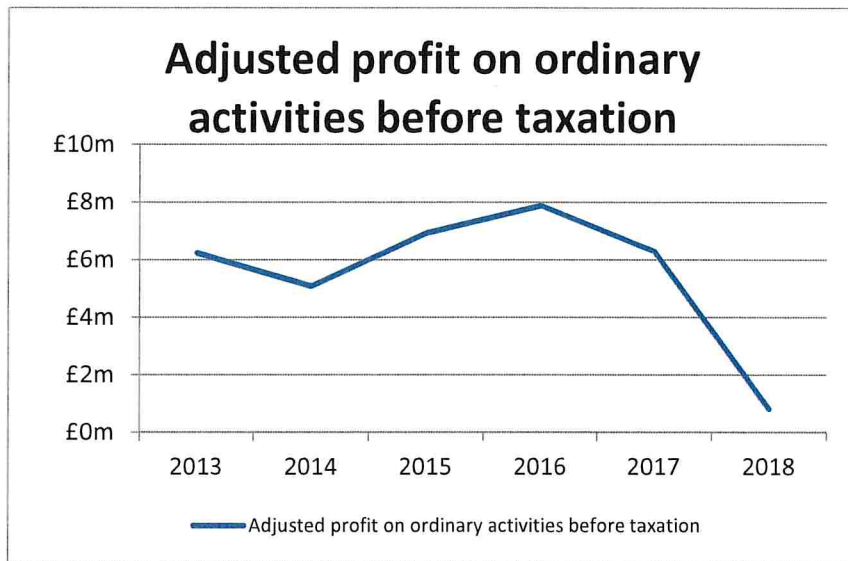
All figures in GBP 000s	2018	2017	2016	2015	2014	2013
Profit/(loss) on ordinary activities before tax	(3,779)	711	7,401	9,605	4,960	6,221
<i>Adjusting items:</i>						
Interest payable on preference shares	234	778	479	2,254	118	13
Revaluation gain on Brook Street premises	(787)	-	-	(2,750)	-	-
Gain on disposal of repossessed property	-	-	-	(2,185)	-	-
Realised losses on de-risking actions	2,487	-	-	-	-	-
Impairment provisions	2,652	4,799	-	-	-	-
Adjusted profit on ordinary activities before tax	807	6,288	7,880	6,924	5,078	6,234

United National Bank Limited

Strategic report

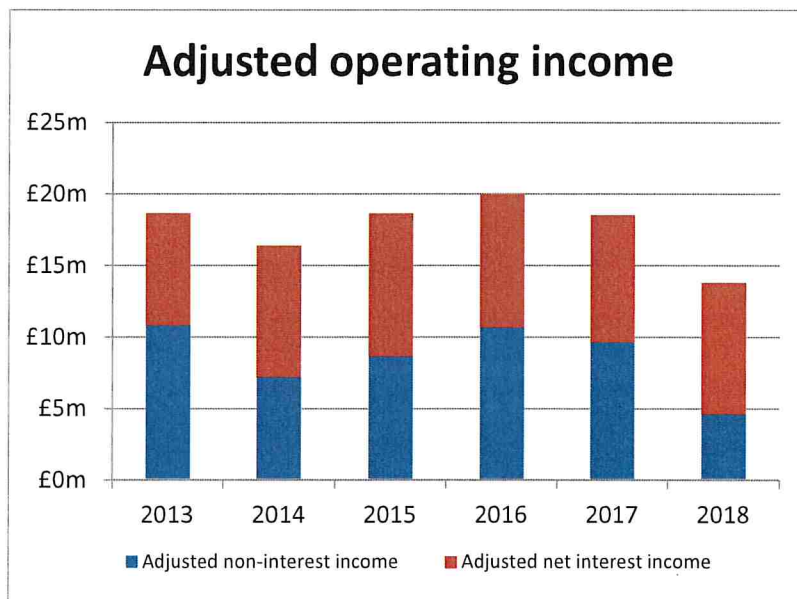
The following financial measures referenced 'adjusted' are non-GAAP and should be considered supplemental to, and not a substitute for, financial information prepared in accordance with generally accepted accounting principles. The definitions of these non-GAAP financial measures may differ from similarly titled measures used by others. The Company uses non-GAAP financial measures to facilitate management's internal comparisons to the Company's historical operating results, to competitors' operating results, and to provide greater transparency to shareholders of supplemental information used by management in its financial and operational decision-making. The Company also uses non-GAAP financial measures which exclude certain charges and credits because it believes that such items are not indicative of its core operating results and trends, and do not provide meaningful comparisons with other reporting periods.

The graph below shows the adjusted profit on ordinary activities before taxation since 2013:



Adjusted profit before tax has reduced by £5.5 million during 2018.

The graph below illustrates the movement in adjusted operating income since 2013, and shows the split between net interest income and non-interest income:



United National Bank Limited

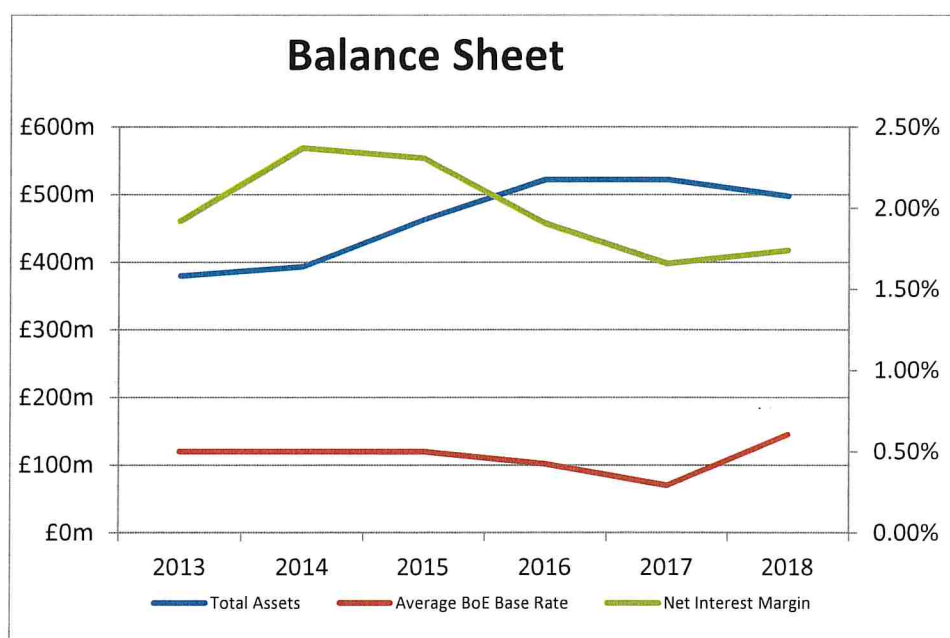
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Adjusted non-interest income (adjusted to exclude the de-risking losses, and the property revaluation gain) has decreased by £4.8 million during 2018 due primarily to the absence of capital gains from the sale of investments, but also resulting from lower transaction volumes for remittances and trade finance business.

Adjusted net interest income (adjusted to exclude the interest payable on preference dividends) increased by £0.3 million (3%) due to increased yields on our investment book. However, the majority of this increase was in the early part of the year before most of the de-risking actions had been completed. The increased yields were also partly the result of movements in the GBP:USD FX rate which enhanced our USD interest when expressed in GBP terms.

Total adjusted operating income has reduced by £4.5 million during 2018 to £14.0m (2017: 18.5m).

The graph below illustrates the growth in the balance sheet since 2013 and the movement in the net interest margin (net interest income divided by total assets) compared with the Bank of England base rate over the same period:



The total balance sheet reduced by about 5% during 2018 to end the year at £498 million.

Net interest margin has increased by 8 basis points primarily as a result of decreased swap costs from reducing our currency mismatch, and also due to the impact of the movement in the GBP:USD FX rate.

Key performance indicators

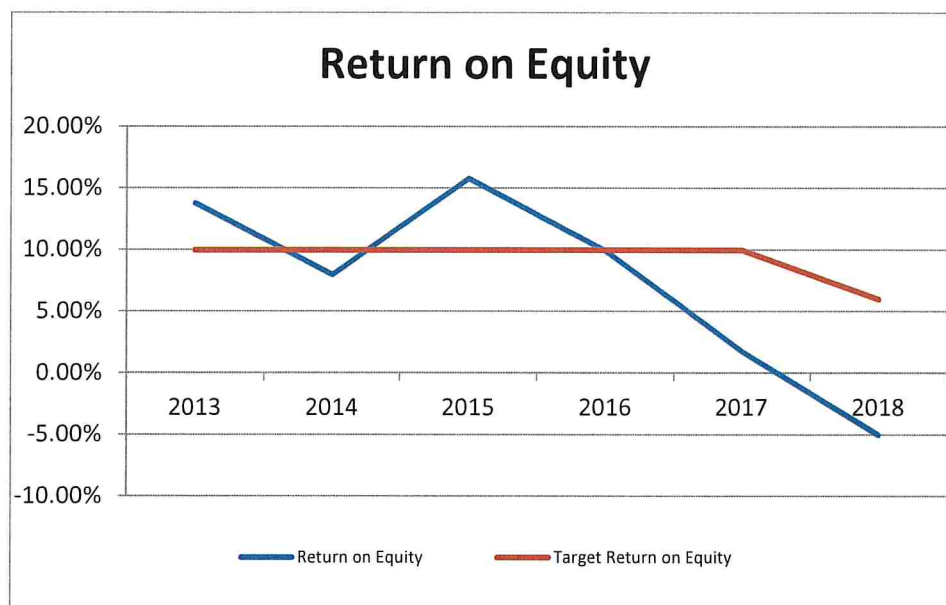
The Company uses 3 ratios in order to measure and to quantify the financial performance and progress against the strategic objective to become the leading UK-based financial solutions provider in the South Asian community:

1. Return on equity

This is defined as the operating profit before taxation and preference dividend divided by shareholders' funds. This measures the shareholders' return on their investment. The following graph illustrates the return on equity since 2013:

United National Bank Limited

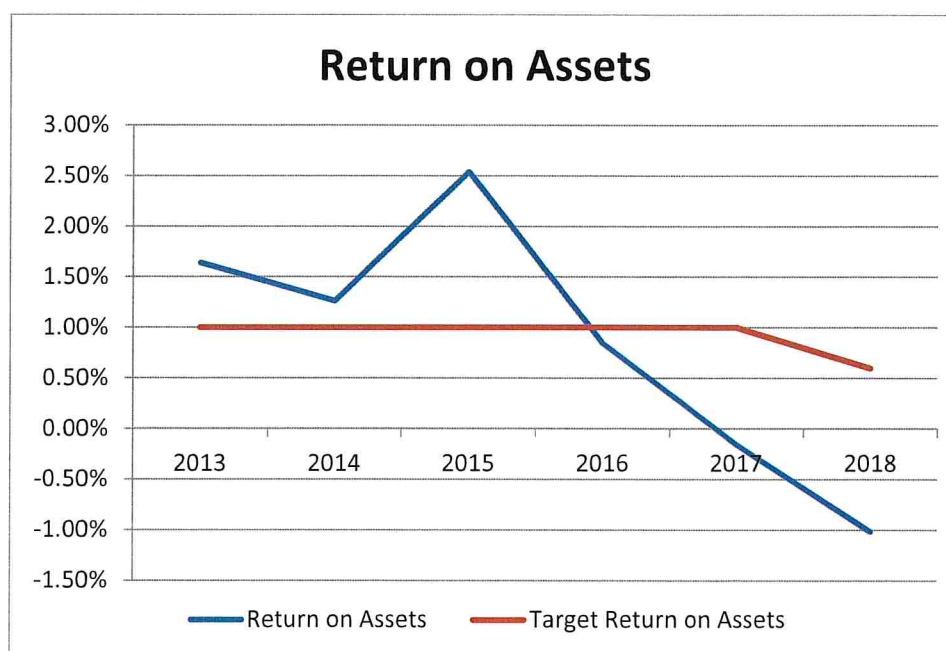
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This year, the return on equity ratio decreased to -5.0% (2017: 1.8%), compared to the shareholders' expectations in 2018 of 6%. If we exclude the impact of the impairment charges the ratio for 2018 would be -1.9% (2017: 7.2%).

2. Return on assets

Return on assets is defined as profit on ordinary activities after taxation divided by total assets. The disclosure of this ratio is also a requirement of the fourth Capital Requirements Directive ('CRD IV') which came into effect in 2014. The following graph shows the return on assets since 2013:



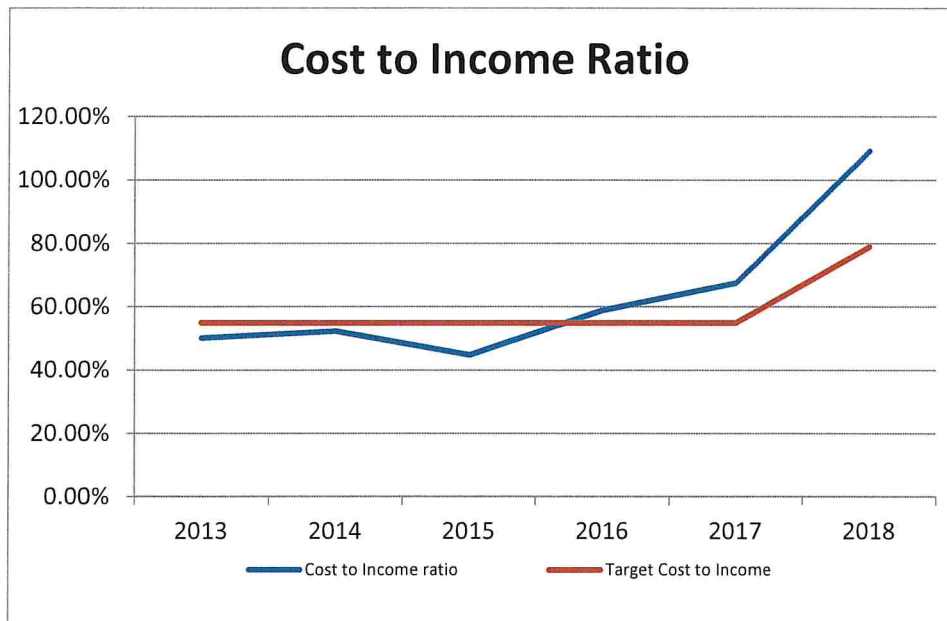
There was a negative return on assets for 2018 of -1.0% (2017: -0.2%).

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3. Cost to income ratio

This is defined as operating income before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio measures the operating efficiency of the Company; the lower the ratio the less spent on operating expenses for every £1 earned in revenue. The graph below shows the cost to income ratio since 2013:



The cost to income ratio for 2018 is 109% (2017: 68%), which shows deterioration from 2017 and remains above the current target level of 79%. The main cause of the deterioration over the last year has been the £6.4 million (35%) decrease in operating income. Expenses have also increased by £0.7 million (5%) due mainly to £0.3 million of additional costs for professional and consultancy services, and £0.3 million relating to operational losses.

Business Review

The Company divides itself into 3 distinct business lines: Retail Banking, Wholesale Banking and Treasury. By diversifying the revenue stream the Company hopes to avoid the issue experienced in the past when the closure of a business line led to the Company making a loss.

Retail bank

At 31 December 2018 the Company operated 5 branches in the UK, however, it is currently in the process of closing the branches located in Bradford and Ilford, and this process is expected to be completed during the first half of 2019. This will leave 3 branches operating in London (Mayfair), Birmingham and Manchester. In addition, the Company currently operates 6 booths which are situated within the various Pakistan High Commission consulates located around the UK. Additionally, the Company has developed an online presence for deposit-taking, which overcomes the limitations of the small branch network.

The main activity for the Retail Bank is deposit mobilisation and retention. During the last year, Current Account and Savings Account (CASA) deposits decreased by £13 million (13%) whilst term deposits increased by £14 million (5%), resulting in total retail deposits being up by £1million (0.5%) year-on-year. As a result of these changes, the average duration of deposits increased causing the average deposit cost to also increase by 6 basis points to 1.83% (2017: 1.77%). The growth in term deposits, which was focused in the months of May and June was the result of a successful ISA campaign which took place before the change in strategy. The focus for 2019 will be on increasing the proportion of CASA deposits in order to reduce the overall cost of deposits.

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The Company has taken a cautious approach to lending in the UK over the last few years due to the historically low interest rates and the volatility in property values outside of London. However, towards the end of 2018 the outlook for the UK economy was looking more optimistic and in November we saw the first increase in the Bank of England base rate for more than 10 years. As a result of these factors the Company has begun to focus on growing the Retail lending business in 2019 and beyond.

During the year the Company launched its broker network, which has increased the geographical coverage for its mortgage products, and there are plans to further expand this network to more brokers throughout 2019 to generate more business leads.

Money Transmission Services to Pakistan have always provided a regular revenue stream, but the Company's share of this \$2billion a year market remains very small. The Company's online remittance product, UBL NetRemit, continues to expand through the addition of new customers, and now provides more than 60% of the Company's home remittances by volume.

Treasury

The poor credit conditions in Europe and a desire to diversify from the UK led the Board to take the decision at the end of 2011 to deploy most of the Company's new funds outside of Europe to minimise contagion risk. The investment has been in 2 asset classes; a fixed income investment portfolio and a floating rate syndicated loan portfolio.

Although the size of the portfolio reduced as a result of de-risking the average return on investments (excluding HQLA's) improved in 2018 to 5.29% (2017: 4.92%). Both the size and tenor of the portfolio have been reduced during the year, and the surplus funds have been placed in lower yielding HQLAs, adversely affecting the Company's interest income. In the first half of the year the Treasury Department were able to realise capital gains of £0.9m, however, as a result of the de-risking actions in the second half of the year we ended up realising a loss for the full year of £0.7 million (2017: £5.4million gain).

Treasury also manages a floating rate syndicated loan portfolio, which consists mainly of collateralised primary issue loans from rated counterparties in the emerging markets. The syndicated loan portfolio was reduced down to £34 million at the end of 2018 (2017: £77million), but continues to provide some resilience against increasing interest rates in the future.

Future developments

The Company's strategy is set by the Board of Directors. A three-year plan is drawn up to project growth and resource requirements, and a detailed annual budget is prepared to set short-term targets and allow progress to be monitored.

The Company's Management Team is charged with the responsibility of executing the plans to achieve the strategic goals. Monthly budget variances are calculated and explained, and submitted to the Board for review. This timely reporting allows corrective action to be taken as early as possible to enable the plans to be achieved.

Towards the end of 2018, the management and Board devoted significant time to review the Company's future strategy. This culminated in a revised Business Plan that focuses initially on reducing the overall levels of risk in the business and building a firm foundation for business in future years. As a result the Company expects to maintain the balance sheet at the present level during the coming year and is targeting a 1% to 2% return on capital for 2019. For subsequent years the Company will look to increase the balance sheet by 6% per annum. Going forward, the Company is also targeting a lower return on capital commensurate with the lower risk.

The emphasis during 2019 will be on improving the credit quality of the asset book and narrowing the Company's geographical exposure to focus on investing in countries in which the Company has knowledge and expertise, or locations in which the parent banks have a presence. As a result of this de-risking exercise we anticipate a reduction in net yields on the investment book, which is reflected in the reduced profit expectations for the year. The Company believes these actions will help to limit any potential downside volatility in the market value of our debt securities which could otherwise erode the Company's capital resources.

In respect of balance sheet growth the Company will continue to focus on lowering the cost of funding by raising more low cost deposits, in both GBP and USD. The Company intends to continue the recent growth trend in the

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Retail loan book by adding more brokers to its network, and will also actively seek opportunities to increase lending secured on residential real estate in select locations and sectors.

The Directors expect that the Company's strategy will lead to a sustained growth in profitability in the medium term providing economic conditions do not deteriorate significantly.

Going concern

During the year the Board has conducted a robust assessment of the principal risks to the viability of the Company as part of its internal capital and liquidity adequacy assessment process. The process involves the Board and management assessing the Company's:

- Processes, strategies and systems;
- The major sources of risk to the Company's ability to meet its liabilities as they fall due;
- The results of internal stress testing of these risks; and
- The amounts and types of financial and capital resources, and whether or not these are adequate to cover the nature and level of the risks to which the Company is exposed over the next three years.

The Board chose to conduct the review over a 3 year period as it coincided with its business plan projections, which covered the period from 2018 to 2020.

The Company devised and ran a series of stress scenarios against its 31st December 2017 financials and core business plan, and identified the key vulnerabilities of the Company and the mitigants that can be employed by management. The Company also conducted a reverse stress testing exercise (a stress scenario that makes the business model become unviable). The stress tests, which include various extreme scenarios over a prolonged period, received substantial input from the senior management team.

Based on the tests conducted and the results obtained the Board has concluded that they have a reasonable expectation that the Company will be able to continue to operate, and meet its liabilities as they fall due, over the period of assessment and therefore the financial statements have been prepared on a going concern basis.

Principal risks and uncertainties

Financial and operational risks

The Company is exposed to a variety of financial risks that arise in the course of its business. These risks include credit risk, market risk and operational risks such as conduct and financial crime. The Company has in place a risk management framework that is designed to limit the adverse effects of these risks on the financial performance of the Company but as a bank it is not possible to eliminate all the risks. The risk management policies of the Company including the use of financial instruments are set out in note 22.

Brexit

It is clear that the UK's intended exit from the European Union has resulted in ongoing volatility in the financial markets throughout 2018. Following extensive negotiations between UK and EU representatives an agreement has been drafted, however, at present the terms of this agreement do not appear to have majority support in the UK Parliament. This has increased the probability of a no-deal Brexit which is widely expected to have a significant detrimental impact on the UK economy. The Company has given consideration to the potential impacts and it has been a factor in a number of recent credit risk decisions.

The Company's customer base and activities are primarily focused in the UK and Pakistan with negligible exposure to the EU, and therefore management believe the potential direct impact on the Company should be minimal. However, it is likely that there would be an indirect impact of general changes in the UK financial environment. Adverse movements in house prices, unemployment levels, interest rates and foreign exchange

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markets could affect the Company and its clients, but we believe our prudent credit risk decisions and low average Loan to Value (LTV) ratios will limit the potential downside.

Materiality

As part of the process of producing the annual financial statements the Company is required to make an assessment of the level of materiality to ensure that the information reported within, both financial and non-financial, meets the needs of the shareholders.

Information is considered material if its omission or misrepresentation could influence the economic decisions shareholders take. Conversely, the inclusion of immaterial information can obscure key messages and impair the clarity of information provided in the strategic report.

Income recognition

The method of accounting for income recognition requires management to make a number of assumptions and judgements, particularly with regard to the timing and classification of fees and commissions. In order to minimise the risk of a material misstatement in this area the Company has in place a robust financial control framework to give comfort that the revenue is reported on an appropriate basis, and in accordance with the applicable accounting standards. Currently, the Company recognises income on a straight line basis as opposed to effective interest rate ('EIR'). However, an assessment was conducted to ascertain the impact of using EIR, which came up to be £242k. This was considered not material to warrant any adjustment.

Investment properties

A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. A recent desktop valuation undertaken by a firm of surveyors has indicated that the market value has increased since the last formal valuation was conducted. As a result of this we have reflected the increased carrying value of the building in these accounts. Further analysis is provided in note 11.

Deferred tax asset

The Company operates in the United Kingdom and is therefore subject to United Kingdom corporation tax. Estimates are required in determining the provision for taxes at the balance sheet date. The Company recognises tax liabilities for transactions whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets of the period in which the final tax is agreed with the relevant tax authorities. In relation to current year tax there are no assumptions or estimates that significantly affect the tax provision.

As a result of the post-tax losses experienced by the Company in 2017 and 2018, and a reduction in future profit expectations due to the lower-risk business model, the Company has taken the decision to derecognise the deferred tax asset at 31 December 2018. Despite the derecognition of the asset on the Balance Sheet, carry forward losses will still be available to set off against future profits, subject to the loss restriction rules currently imposed on UK banks.

Further details of principal risks and uncertainties are set out in note 1(t).

Capital resources

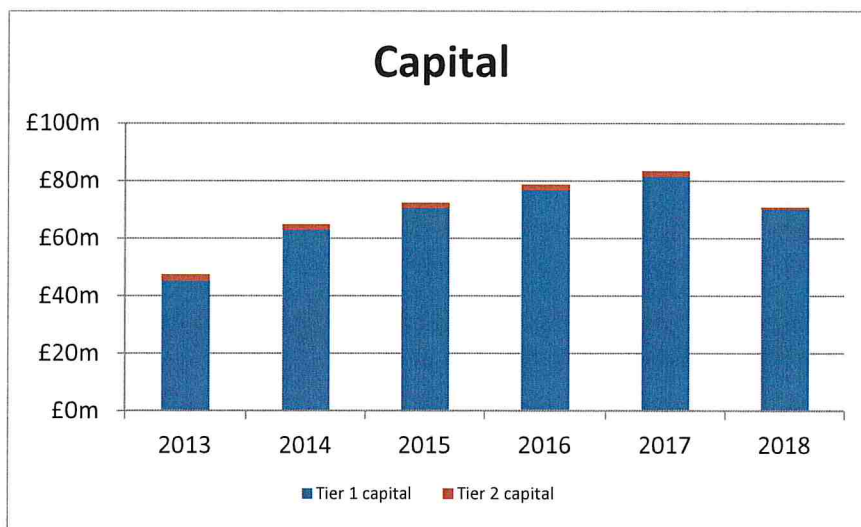
United National Bank Limited is 55% owned by United Bank Limited and 45% owned by National Bank of Pakistan. Both parent banks are established and profitable banks in Pakistan, and committed to the future growth of the Company. A breakdown of the capital resources of the Company at the balance sheet date is set out in the Statement of Changes in Equity. The Company has not reported any breaches of its capital requirements during the year and did not need to make use of any capital buffer.

Further details of the Company's capital requirements and capital risk management policy can be found in the unaudited Pillar III disclosures on the Company's website, www.ubluk.com.

The graph overleaf shows the movement in capital resources since 2013:

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Tier 1 capital has decreased by £11.4 million (14.0%) over the year as a result of the operating loss and the deterioration in the market value of the remaining available-for-sale debt securities. The Tier 2 capital has decreased by £1.1 million (56.6%) due to a reduction in the amount of collective provision and the maturity of the subordinated loan arrangement.

Defined benefit pension scheme

The Company's defined benefit pension scheme had its last triennial valuation carried out in 2017. The valuation showed a £0.3million deficit as at 1 January 2017. Following an agreement with the scheme trustees, the Bank began making regular monthly contributions of £9,030 in order to reduce the deficit. These payments began in February 2018 and are scheduled to continue until December 2020.

The FRS 102 valuation of the pension scheme's assets and liabilities for the 2018 year-end has shown a surplus of £0.15 million (2017: -£0.16 million). However, the pension scheme surplus has been restricted to £Nil in the Company's financial results. The surplus has arisen from an increase in actuarial gains which have reduced the value of the defined benefit obligations as well as the monthly contributions highlighted in the preceding paragraph.

Preference shares

The Company uses preference shares to return net income back to the parent bank resulting from the utilisation of tax losses and the recovery of written-off loans relating to tax losses and bad debts that were transferred upon merger (see note 17 for further details).

The preference share liability arises in the accounting year following the year when the tax losses are actually utilised. Therefore the preference share interest of £0.3 million recognised in the financial statements relates to the tax losses utilised in the 2017 tax computation and submitted to HMRC during 2018 as well as debt recoveries.

Liquidity resources

The Company maintains a minimum amount of unencumbered HQLAs in a Liquid Assets Buffer (LAB) in accordance with the Individual Liquidity Guidance requirement (ILG) it has received from the PRA. This stock of HQLAs is available to meet liquidity shortfalls arising during periods of market stress, idiosyncratic stress or a combination of the two. The Company has held long-term UK Government bonds (gilts), short-term UK Treasury Bills and also US Treasuries as part of the LAB. The Company has not reported any breaches of its liquidity requirements during the year.

The Company holds an investment portfolio of quoted, internationally rated, and predominantly fixed income bonds that are designated as available for sale to meet its own day to day liquidity requirements. The Company also has in place a number of repo facilities with top-tier counterparties that can be utilised to raise strategic or tactical funding when required.

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Human resources

The Company encourages staff involvement by a process of communication and consultation. This takes the form of information through normal management channels, a staff newsletter and inter-department groups formed for a particular project; e.g. embedding the principles of treating customers fairly.

At the end of 2017, the Company launched the Employee Engagement Committee. Membership of the committee is on a voluntary basis and is open to staff (other than Executive Committee members) from all branches and departments. The committee provides a confidential forum for employees to raise a broad range of day-to-day issues, which are then discussed with the Executive Committee on a regular basis. Its mission statement is to prioritise employee engagement, boost staff morale, act as a channel between senior management and staff and assist in transforming the culture within the Company.

Training is an important focus for the Company. E-learning is used to both train and assess competence for compliance related subjects. Annually all staff gather together for a weekend of training on Company specific policies and procedures as well as team-building exercises. Specific skills like IT training or leadership are enhanced by attending third-party training courses. Staff who fulfil pivotal roles are encouraged to study for relevant examinations, and to keep up to date with latest developments.

The Company seeks to provide a competitive rewards and benefits package for its entire staff. This involves reviewing the benefit package on a regular basis, benchmarking it against the industry standards, and identifying cost effective solutions. As a result of changes made over the last few years the Company now offers a competitive package of salary and benefits, which is in line with other financial institutions operating in the UK.

The Company operates a non-contractual discretionary bonus scheme. The size of the bonus pool is determined by the profit before preference dividend achieved in excess of the annual budget. The pool is divided between staff based on a number of factors including the performance of the individual as assessed through the annual appraisal process.

The Company recognises the importance of having an identity that distinguishes it from its competitors. This identity is translated into values that govern the behaviour of all staff. During the year the Company has used the annual staff training weekend to communicate to staff the chosen values and the expected behaviours.

The Company's workforce is one asset that is not recognised on its balance sheet but contributes significantly to the value of the Company. The Board would like to thank the members of staff for their efforts and the contribution they have made to the Company during the year.

Approved by the Board of Directors
and signed by order of the Board



T Varkey
Company Secretary
15 April 2019

United National Bank Limited

Directors' report

The Directors have pleasure in presenting the Annual Report and Financial Statements for the year to 31 December 2018 for United National Bank Limited ('the Company'). A number of disclosures previously incorporated in the Directors' Report are now included in the Strategic Report. These include:

- a) A review of the Company's results;
- b) Definition of the Company's key performance indicators and objectives;
- c) A description of the Company's future developments;
- d) Principal risks and uncertainties facing the Company including exposure to credit risk, price risk, and liquidity risk and financial risk management objectives and policies; and
- e) Details of the Company's capital, liquidity and human resources and requirements.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors elected to prepare the financial statements in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- Provide additional disclosures when compliance with specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Organisation and governance

The Board of Directors (Board) has a supervisory role in overseeing the business, strategic direction, organisational structure and risk management activities of the Company. In pursuing corporate objectives, the Board and management have committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others.

The Directors who served on the Board during the year are set out below together with those noted as appointed or terminated during the year.

Mr B Hasan (Chairman)

Mr B Firth (Chief Executive Office – appointed 4 September 2018)

Mr M Aminuddin (Chief Executive Officer - resigned 24 January 2018)

Mr R Wilton

Ms S Kamil

Mr M M Khan (resigned 17 September 2018)

Mr R Mohyeddin (resigned 22 June 2018)

Mr M Naeem (appointed 30 July 2018)

Mr S Z Ijaz (appointed 26 October 2018)

Mr M F Haider (appointed 21 November 2018)

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Directors' report

The Board membership represents an appropriate mix of experience and knowledge relevant to the Company's business lines.

The Board carried out an internal effectiveness review during the year and has decided to make changes to its composition in order to meet current best practice. The changes will take place during 2019, and once embedded the Board will undertake an externally facilitated Board effectiveness review.

Board meetings are held at least four times a year, and additional meetings can be held at any time to discuss urgent issues.

The Board has also constituted the following committees to set policy, review progress, and deal with specific and critical issues relevant to the committee's objectives. The committees, their board members, and their responsibilities are:

- Board Audit Committee
Mr R Wilton (Chairman), Mr B Hasan, Mr M Naeem, Mr S Z Ijaz and Mr M F Haider
 - Oversight of financial reporting
 - Oversight of external audit
 - Oversight of internal control
 - Oversight of internal audit
 - Oversight of corporate governance and regulatory compliance

- Board Risk and Compliance Committee
Mr R Wilton (interim chairman), Mr B Hasan, Ms S Kamil, Mr S Z Ijaz and Mr M F Haider
 - Determine the policies and principles that govern the identification and evaluation of risks
 - Ensure that systems, policies and procedures for the management and monitoring of risks are carried-out
 - To ensure that the risk profile of the Company is in line with the risk appetite set by the Board
 - To ensure that capital and liquidity resources are maintained to meet current and future business requirements under normal and stressed conditions
 - Approval of credits and credit provisioning
 - Approval of credit policy and all amendments
 - Review and recommendation to the Board of all lending policies
 - The delegation of credit approval and provisioning limits to the Credit Committee
 - Oversight of financial crime including anti-money laundering
 - Oversight of compliance.

- HR Remuneration and Appointments Committee
Mr B Hasan (Chairman), Mr R Wilton, Mr M Naeem, Mr S Z Ijaz and Mr M F Haider
 - Ensure that the Company is in compliance with all relevant employment law
 - Decide on total remuneration and benefits for senior staff and Executive Directors.
 - Oversee compliance with the Remuneration Code

- Board Nomination Committee
Mr B Hasan (Chairman) and Mr R Wilton
 - To make recommendations to the Board on the Board composition and succession planning
 - To identify and nominate candidates for Board vacancies
 - To evaluate candidates for Board and Board Committee positions

Each committee meets a minimum of three times a year, and is chaired by a Board member, who reports back to the Board at the next meeting.

United National Bank Limited

Directors' report

The day-to-day activities of the Company, including business development and financial performance are controlled by the Executive Committee. The employees who served on the Executive Committee during the year are set out below along with their specific area of responsibility within the Company.

Mr M Aminuddin – Chief Executive Officer (resigned January 2018)
Mr B Firth - Chief Executive Officer (appointed August 2018)
Mr T Afzal - Head of Retail and Commercial Products (resigned February 2018)
Mrs D Grant - Chief Risk Officer (appointed July 2018)
Mr T Varkey – Chief Compliance Officer and Company Secretary (appointed March 2018)
Ms B Dyson - Head of Human Resources
Mr R Mathews – Head of Finance (appointed April 2018)
Mr Z Haider – Head of Wholesale Banking
Ms S Mandeville - Head of Retail Strategy and Marketing
Mr P Murphy - Head of IT
Mr R Rahim – Head of Retail Banking (appointed September 2018)
Mr A Ul-Hasan – Group Head of Operations
Mr P Gregory – Head of Internal Audit (appointed August 2018)

The Executive Committee has formed the following committees to manage specific risks on a day-to-day basis:

- Assets and Liabilities Committee - responsible for identifying, managing and controlling the balance sheet risks in accordance with the Board approved business strategy and risk appetite.
- Operational Risk and Conduct Committee – responsible for the monitoring and management of operational risk and conduct risk including the fair treatment of customers.
- Credit Committee – responsible for the oversight of credit risk, the implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits as delegated by the Board Risk Committee.
- Enhanced Due Diligence Committee – responsible for reviewing and approving the Company's high risk clients including correspondent relationships and the monitoring of all transactions with respect to financial crime risk.
- Wholesale Banking Committee – responsible for managing and monitoring the wholesale banking business, including investment, syndicated loan and commercial lending portfolios.
- Risk Committee – responsible for the oversight of risk management.
- Steering Committee – responsible for the oversight of the implementation of strategic change within the Company.

Each committee has at least one Executive Committee member who is responsible for feedback including the escalation of issues to the Executive Committee.

Directors' indemnification

The Company has arranged qualifying third party indemnity insurance for all Directors.

Share capital and dividends

The Shareholders' Agreement signed by the shareholder banks in 2001 stipulated that ordinary dividends will not be paid for the first five years after the merger to enable the Company to build its capital resources. Since incorporation, the Company's shareholders' funds have grown from £30million to more than £70million at the end of 2018. In 2015 the Directors agreed to implement a dividend policy to return 35% of the net annual distributable profits to the shareholders. As a result of the realised loss for the year, the Board of Directors has taken the decision not to declare a dividend for the financial year ended 31 December 2018 (2017: nil).

United National Bank Limited

Directors' report

Diversity policy

The Company recognises and embraces the benefits of having a diverse workforce, and sees increasing diversity as an essential element in maintaining a competitive advantage. A truly diverse workforce will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between employees.

The Company is committed to the principle of equal opportunity in employment. Accordingly, the Board and management will ensure that recruitment, selection, training, development and promotion results in no job applicant receiving less favourable treatment because of a protected characteristic.

The Board operates a formal boardroom diversity policy which aims to promote diversity in the composition of the Board. Under this policy, all Board appointments will be made on the basis of individual competence, skills and expertise measured against identified objective criteria.

In reviewing Board composition, the Board Nomination Committee will consider the benefits of all aspects of diversity in order to enable it to discharge its duties and responsibilities effectively.

In identifying suitable candidates for appointment to the Board, the Board Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

Auditor

Mazars LLP has expressed its willingness to continue in office. Under the Companies Act 2006 section 487(2) they will be automatically re-appointed as Auditor 28 days after these accounts are sent to the shareholders, unless the shareholders exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Each Director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) 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 Company's auditor is aware of that information.

This confirmation is given and should be interpreted with the provisions of section 418 of Companies Act 2006.

Approved by the Board of Directors
and signed by order of the Board



T Varkey
Company Secretary

15 April 2019

Independent auditor's report to the members of United National Bank Limited

Opinion

We have audited the financial statements of United National Bank Limited (the 'company') for the year ended 31 December 2018 which comprise Profit and Loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Statement of cash flows and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

The directors' view on the impact of Brexit is disclosed on page 8.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Area of Focus	How our audit addressed the area of focus
<p>Credit Risk in relation to loan loss provisions</p> <p>Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at both specific and collective provisions.</p> <p>There is also an inherent risk over credit events that have occurred but have not been identified at the year end. UNB calculates its collective provision using a collective impairment model. This model uses market data with a management adjustment, increasing management judgement and therefore the risk of misstatement.</p>	<p>We have assessed the design, and tested the operating effectiveness, of the key controls operating at United National Bank in relation to credit processes (e.g. underwriting, monitoring, collections and provisioning).</p> <p>We assessed senior management's ability to identify impairment triggers on a timely basis and, in consideration of the value of collateral where relevant, determined whether the exposure will be repaid as originally intended.</p> <p>In relation to specific provisions, provisions have been assessed to ensure they are appropriate by reviewing all nonperforming loans plus a sample of loans across the performing portfolio. We have independently assessed the level of provision, with consideration to valuation of collateral or other sources of repayment.</p> <p>In relation to the collective provision, we have assessed the methodology and assumptions applied in the model and considered whether they are consistent with our understanding of the Bank's portfolio. We have also re-performed the calculation of the provision and verified inputs to source information.</p> <p><i>We found the approach taken in respect of the loan loss provisions to be consistent with the requirements of FRS 102. Judgements made were reasonable.</i></p>

<p>Revenue recognition</p> <p>The company’s accounting policy for revenue recognition is set out in the accounting policy notes on “Critical accounting estimates and judgement” on page 34.</p> <p>The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effect interest method (EIR)</p> <p>The EIR takes in to account fees that are an integral part of the instrument’s yield, premiums, discounts and acquisition costs.</p> <p>UNB recognise these fees on a straight line basis as opposed to using the EIR. Management monitor the difference between their straight line approach and EIR manually and adjust where necessary.</p>	<p>We have assessed the design and operating of the controls in place at the Bank relating to revenue recognition.</p> <p>With respect to EIR calculation, over a sample of instruments we have:</p> <ul style="list-style-type: none"> - re-performed the analysis calculations on EIR; - Verified details to underlying agreements; and - Assessed the period over which yield adjustments were applied; <p><i>Judgements applied in determining the basis for revenue recognition were appropriate and management’s assessment of EIR, in accordance with FRS 102, were reasonable.</i></p>
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Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£565k
How we determined it	0.75% of net assets
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to better reflect more appropriately the size of the bank’s operations. Furthermore, net assets remains the focus of the regulator and shareholder banks in terms of capital adequacy.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceed as a whole. Performance materiality of £423k was applied to the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £17k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Other information

The directors are responsible for the other information. The other information comprises of the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board on 7 October 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ending 31 December 2014 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

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.



Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way
London
E1W 1DD
Date: 15 April 2019

United National Bank Limited
Year ended 31 December 2018

Profit and loss account

	Notes	2018 £	2017 £
Interest receivable from debt securities		7,974,396	8,620,957
Interest receivable from group undertakings		236,006	237,693
Other interest receivable and similar income		11,886,359	9,972,557
		<u>20,096,761</u>	<u>18,831,207</u>
Interest payable to group undertakings		(312,180)	(830,698)
Interest payable		(10,822,647)	(9,850,892)
Net interest income		<u>8,961,934</u>	<u>8,149,617</u>
Fees and commissions receivable		1,536,106	2,334,474
Profit from foreign exchange		970,269	1,641,832
Fair value gain on investment properties		787,241	-
(Loss)/profit on realised debt securities	3	(704,103)	5,358,117
Other operating income		317,882	291,796
Operating income		<u>11,869,329</u>	<u>17,775,836</u>
Administrative expenses	2	(12,302,513)	(11,642,444)
Depreciation and amortisation	10 & 12	(912,170)	(890,889)
Impairment losses	7 & 8	(2,651,807)	(4,798,824)
Other debt recoveries		218,430	267,203
Total operating expenses		<u>(15,648,060)</u>	<u>(17,064,954)</u>
(Loss)/profit on ordinary activities before taxation	3	<u>(3,778,731)</u>	<u>710,882</u>
Tax on profit on ordinary activities	5	(1,283,194)	(1,539,350)
Loss for the financial year		<u><u>(5,061,925)</u></u>	<u><u>(828,468)</u></u>

The loss for the current year and the preceding year are derived from continuing operations. The notes on page 27 to 70 form part of these financial statements.

United National Bank Limited
Year ended 31 December 2018

Statement of Comprehensive Income	Notes	2018 £	2017 £
Loss for the year		(5,061,925)	(828,468)
Actuarial gain on defined benefit pension schemes	23	221,000	836,000
Movement on deferred tax relating to pension liability	23	(27,370)	(137,870)
Revaluation of available for sale debt securities		(10,279,086)	5,636,046
*Tax related to revaluation of available for sale debt securities		(338,842)	984,224
Revaluation gain on freehold property		1,915,014	-
Movement on deferred tax relating to freehold property		(325,552)	-
**Deferred tax adjustment due to change in calculation basis		341,122	-
Total other comprehensive (loss)/ income		(8,493,714)	7,318,400
Total comprehensive (loss)/ income for the year		(13,555,639)	6,489,932

*This relates to an adjustment arising from the change in tax legislation which was effective from 1 January 2016. The fair value movement of available for sale debt securities, which were deductible for tax purposes, are no longer deductible. As such, the total tax benefit accrued up to 1 January 2016 associated with these fair value movements will be payable to HMRC. However, HMRC has made concessionary arrangements to allow this tax to be paid over a 5 year period. During 2018, this deferred tax was de-recognised.

**This adjustment arose from the change in the calculation of deferred tax liability on fair value movement of freehold properties from a historical cost basis to an indexation cost basis.

The notes on page 27 to 70 form part of these financial statements.

United National Bank Limited
Year ended 31 December 2018

Balance Sheet	Notes	2018 £	2017 £
Assets			
Cash and balances at central banks		41,303,910	53,211,996
Loans and advances to banks	6	-	3,500,173
Loans and advances to customers	7	194,150,630	224,061,810
Debt securities		229,966,518	207,095,990
Derivatives at fair value	9	350,369	2,868,194
Intangible assets	10	485,176	587,124
Investment properties	11	8,757,309	7,970,068
Tangible fixed assets	12	19,160,217	17,616,883
Other assets	13	3,377,080	4,856,662
Prepayments and accrued income		434,839	293,327
Total assets		<u>497,986,048</u>	<u>522,062,227</u>
Liabilities			
Deposits by banks	14	5,349,870	9,638,462
Repurchase agreements	15	10,303,788	18,343,054
Customer accounts	16	402,810,377	399,838,771
Derivatives at fair value	9	1,458,058	8,672
Other liabilities	17	2,957,737	4,487,164
Accruals and deferred income		1,317,518	821,209
Provisions for liabilities	18	3,181,730	2,747,429
Subordinated debt	26	-	2,014,857
		<u>427,379,078</u>	<u>437,899,618</u>
Called up share capital	19	45,000,000	45,000,000
Investment revaluation reserve	22	(12,272,279)	(1,654,351)
Property revaluation reserve		12,744,491	10,822,966
Profit and loss account		25,134,758	29,993,994
Shareholders' funds		<u>70,606,970</u>	<u>84,162,609</u>
Total liabilities and capital		<u>497,986,048</u>	<u>522,062,227</u>
Memorandum items			
Contingent liabilities (contract amount):	20		
Letters of credit		593,186	1,248,181
Guarantees		366,925	302,216
		<u>960,111</u>	<u>1,550,397</u>
Commitments	21	<u>569,924</u>	<u>554,625</u>

The notes on page 27 to 70 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 15 April 2019.

Signed on behalf of the Board of Directors



B Firth
 Director

Company Registration No 4146820

United National Bank Limited

Year ended 31 December 2018

Statement of changes in equity

	Notes	Called up share capital	Profit and Loss Account	Investment revaluation reserve	Property Revaluation reserve	Total
		£	£	£	£	£
As at 1 January 2017		45,000,000	32,314,613	(8,274,621)	10,832,685	79,872,678
Loss for the year		-	(828,468)	-	-	(828,468)
Actuarial loss recognised relating to the pension scheme	23	-	836,000	-	-	836,000
Movement on deferred tax relating to pension liability		-	(137,870)	-	-	(137,870)
Fair value movement on available for sale investments		-	-	5,636,046	-	5,636,046
Current tax related to available for sale debt securities		-	-	984,224	-	984,224
Total comprehensive income for the year		-	(130,338)	6,620,270	-	6,489,932
Transfer of depreciation on revaluation surplus		-	9,719	-	(9,719)	-
Dividend paid		-	(2,200,000)	-	-	(2,200,000)
Balance at 31 December 2017		45,000,000	29,993,994	(1,654,351)	10,822,966	84,162,609
Loss for the year		-	(5,061,925)	-	-	(5,061,925)
Actuarial gain recognised relating to the pension scheme	23	-	221,000	-	-	221,000
Movement on deferred tax relating to pension liability		-	(27,370)	-	-	(27,370)
Fair value movement on available for sale investment		-	-	(10,279,086)	-	(10,279,086)
Current tax related to available for sale debt securities		-	-	(338,842)	-	(338,842)
Revaluation gain on freehold property		-	-	-	1,915,014	1,915,014
Movement on deferred tax relating to freehold property		-	-	-	(325,552)	(325,552)
Deferred tax adjustment		-	-	-	341,122	341,122
Total comprehensive income for the year		-	(4,868,295)	(10,617,928)	1,930,584	(13,555,639)
Transfer of depreciation on revaluation surplus		-	9,059	-	(9,059)	-
Balance at 31 December 2018		45,000,000	25,134,758	(12,272,279)	12,744,491	70,606,970

The notes on pages 27 to 70 form part of these financial statements.

Description of reserves

Called up share capital – represents the nominal value of shares that have been issued.

Profit and loss account – includes accumulated comprehensive income for the year and prior periods plus any transfers from revaluation relating to depreciation realised on revaluations less dividend paid.

Investment revaluation reserve – represents the cumulative after tax unrealised change in fair value of financial assets classified as available for sale since their initial recognition.

Revaluation reserve – represents accumulated surplus on annual revaluations of the Company's freehold properties.

United National Bank Limited
Year ended 31 December 2018

Statement of cash flows

		2018	2017
	Notes	£	£
OPERATING ACTIVITIES			
(Loss)/profit before tax	5	(3,778,731)	710,882
Adjustments:			
Depreciation and amortisation	3	912,170	890,889
Net charge in respect of defined benefit pension scheme	23	60,000	25,000
Impairment losses on loans and advances and other items		2,433,377	4,531,621
Fair value movement on investment properties	3	(787,241)	-
Interest payable on preference shares	17	233,674	777,910
Effects of exchange rate changes on cash and cash equivalents		(1,244,042)	(198,765)
		<u>(2,170,793)</u>	<u>6,737,537</u>
Decrease/(increase) in operating assets			
Change in loans to banks		3,500,173	(3,500,173)
Change in loans and advances		27,477,802	(47,871,405)
Change in other operating assets		3,855,839	(2,519,548)
		<u>34,833,814</u>	<u>(53,891,126)</u>
(Decrease)/increase in operating liabilities			
Change in deposits from banks and customers		(1,316,986)	(7,649,567)
Change in other operating liabilities		(187,962)	(5,740,969)
		<u>(1,504,948)</u>	<u>(13,390,536)</u>
Net cash inflow (outflow) from operating activities		<u>31,158,073</u>	<u>(60,544,125)</u>
INVESTING ACTIVITIES			
Purchase of fixed assets	10&12	(438,486)	(556,633)
Purchase of debt securities		(2,050,650,514)	(3,130,458,713)
Accretion of discounts and amortisation of premiums		388,733,635	172,967,224
Proceeds on sale of debt securities		1,628,428,423	2,991,168,974
Net cash inflow (outflow) from investing activities		<u>(33,926,942)</u>	<u>33,120,852</u>
FINANCING ACTIVITIES			
Repayment of obligations under finance lease		(22,954)	(12,108)
Payment to preference shareholders	17	(306,182)	(777,910)
Net (decrease)/increase in subordinated debt		(2,014,857)	1,848
Repurchase agreements	15	(8,039,266)	8,044,340
Dividends paid	24	-	(2,200,000)
Net cash inflow (outflow) from financing activities		<u>(10,383,259)</u>	<u>5,056,170</u>
Change in cash and cash equivalents		<u>(13,152,128)</u>	<u>(22,367,103)</u>
Cash and cash equivalents at the beginning of the year		53,211,996	75,380,334
Effects of exchange rate changes on cash and cash equivalents		1,244,042	198,765
Cash and cash equivalent at the end of year		<u><u>41,303,910</u></u>	<u><u>53,211,996</u></u>

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

The notes on pages 27 to 70 form part of these financial statements.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Significant accounting policies

Reporting entity

United National Bank Limited ('the Company') is a company incorporated in the UK. The address of the registered office is given on page 1. The Company was formed in 2001 from the merger of the UK branches of two Pakistani banks, United Bank Limited and National Bank of Pakistan, who had been operating in the UK since the mid-1960s.

Statement of compliance

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006. The financial statements are expressed in Pounds Sterling ('£') which is the functional currency of the Company being the currency of the primary economic environment in which it operates.

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention basis modified to include the revaluation of freehold properties, investment properties and certain financial assets and liabilities as specified in the accounting policies below.

The preparation of financial statements in conformity with specified FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant in the financial statements are disclosed in note 1(t).

(b) Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic and Directors Reports on pages 2 to 15. During 2018, the Company shareholders' funds declined by £14 million mainly due to the post-tax loss of £5 million as well as the significant adverse fair value movement on the available for sale asset portfolio. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Exemptions under FRS 102

FRS 102 allows certain disclosure exemptions. The Company has taken advantage of the exemption from disclosing the key management compensation, as required by FRS 102 paragraph 33.7.

(c) Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest rate ('EIR') method. The EIR method is a way of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or expense over the expected life of the asset or liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Commitment and utilisation fees are determined as a percentage of the outstanding facility and such fees are included in the EIR on the advance. If the loan agreement is not entered into, those fees are immediately recognised in the profit and loss account.

Fees receivable that represent a return for services provided are generally charged on a transaction basis and recognised when the related service is performed.

Income from foreign exchange relates to foreign exchange income derived from customer facilitation and the unrealised gains and losses on revaluation of foreign currency assets and liabilities as well as foreign currency trading.

Other operating income relates to operating lease income generated by the Company's investment properties. (See accounting policy note I (ii)).

All income derives from banking business carried out in the United Kingdom.

(d) Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange as at the balance sheet date and resulting gains or losses on translation are included in the profit and loss account.

(e) Pensions

The Company operates a defined benefit scheme for certain staff. This scheme is closed for new members and the future accrual of benefits ceased from 1 January 2010. A defined benefit plan defines the pension benefit that the employee will receive on retirement usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The net interest cost on the net defined benefit pension liability is calculated by applying the liability discount rate. The cost is recognised in profit or loss as 'Finance expense'.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

(f) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Software development costs are recognised as an intangible asset when all of the criteria below are demonstrated:

- The technical feasibility of completing the software so that it will be available for use;
- The intention to complete the software and use it;
- How the software will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use the software; and
- The ability to measure reliably the expenditure attributable to the software during its development.

Amortisation is charged so as to allocate the cost of intangibles less residual values over the estimated useful lives, using the straight-line method. The intangible assets are amortised over a 2 to 5 year period.

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

(g) Investment property

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the profit and loss account. Deferred tax is recognised on any fair value movement at the rate expected to apply when the property is sold, however this rate would also need to be one substantively enacted at the balance sheet date. The surplus or deficit on revaluation is recognised in the profit and loss account.

(h) Tangible assets and depreciation

Tangible assets for which fair value can be measured reliably are stated at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Tangible assets whose fair value cannot be measured reliably are stated at cost, which includes direct and acquisition costs less accumulated depreciation and provision for impairment, if required. However, if either of the revaluation or cost measurement methodology is chosen then all tangible assets of that class should be measured by the elected measurement methodology.

Depreciation is provided on a straight-line basis at the following rates to write off the cost of tangible fixed assets over their estimated useful lives:

Computer equipment	20-33% per annum
Office equipment	15-25% per annum
Leasehold property	10% per annum
Freehold and leasehold improvements	10%
Freehold buildings	over 50 years
Freehold land	no depreciation charged

The value of each freehold property is assessed annually by an independent member of the Royal Institution of Chartered Surveyors. The surplus or deficit on book value is transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

(i) Leases

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Company's incremental borrowing rate is used. Incremental direct costs incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded in the balance sheet as a liability on inception of the arrangement. Lease payments are apportioned between capital repayments and finance charges, using the EIR method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in the tangible assets and depreciated and assessed for impairment in the same way as other tangible assets.

(ii) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. The Company is both a lessee and a lessor of operating leases. Payments/receipts under operating leases are charged/credited to the profit and loss account on a straight line basis over the lease term.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce lease expense, on a straight line basis over the lease term. Incentives offered by the Company are charged to the profit and loss account, to reduce income, on a straight line basis over the lease term.

(j) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of future cash flows expected to be derived from an asset or a cash generating unit. The cash flows are discounted using a discount rate that represents the current market risk-free rate and the risks inherent in the asset. If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit or loss.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that could have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of impairment loss is recognised in the profit and loss account.

(k) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that occur between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions in line with the requirements of FRS 102. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(m) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle an obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current assessments of the time value of money and the risks associated with an obligation. The increase in the provision due to passage of time is recognised as a finance cost.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are only recognised when (i) it is probable that there will be an outflow of resources and the amount can be reliably measured at the reporting date (ii) the existence of a liability does not rely on the occurrence or non-occurrence of uncertain future events which are not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(n) Financial assets

Under the options available to it under FRS 102, the Company chose to apply the measurement and recognition provisions of IAS 39 Financial instruments: *Recognition and Measurement*. As a result of this, the Company was not required to undertake a transition to IFRS 9 when it was implemented from 1 January 2018, for those companies which report under the International Financial Reporting Standards framework.

Financial assets are classified as loans and receivables, held to maturity, fair value through profit or loss, or available-for-sale.

Loans and receivables - non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the EIR method less any impairment losses. The Company includes its loans and advances to customers and to banks within this category.

Held to maturity - financial instruments with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the EIR method.

Fair value through profit or loss - any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes accounted for in profit or loss. The Company has foreign exchange forwards that are included within this category.

Available-for-sale - those non-derivative financial assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated as at fair value through profit or loss on initial recognition. Available-for-sale financial assets are initially recognised at cost including transaction costs and thereafter measured at fair value with fair value gains or losses recognised directly in equity through the statement of other comprehensive income.

Exchange differences on available for sale financial assets are recognised in the profit and loss account. The Company has listed investments that are included within this category.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

(o) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables, held-to-maturity, or available-for-sale is impaired.

A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or held-to-maturity investments has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the EIR of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant. Impairment losses are recognised in profit or loss and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Financial assets classified as available for sale - if there is objective evidence that an available for sale financial asset is impaired and the previous decline in the fair value of the asset has been recognised in equity, the cumulative loss that has been recognised in equity is transferred to impairment of investment securities in the profit and loss account. The cumulative loss transferred is the difference between the cost of acquisition and the current fair value of the asset. A subsequent reduction in the impairment provision is reversed through the impairment of investment securities in the profit and loss account.

(p) Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are initially measured at their fair value and subsequently at amortised cost using the EIR method.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Preference shares are a contractual obligation which are treated as a debt instrument and classified as a liability. The dividends on these preference shares are recognised in the profit and loss account as an interest expense.

(q) Repurchase agreements and resale agreements

Repurchase and resale agreements, which are treated as collateralised financing transactions (securities which have been sold with an agreement to repurchase), continue to be shown on the balance sheet and the sale proceeds are recorded as collateralised financing transactions with creditors ('Repos'). Assets and liabilities recognised under collateralised financing transactions are classified as 'held for trading' and are recorded at fair value with changes in fair value recorded in the profit and loss account.

(r) Derivative financial instruments

The Company uses derivative financial instruments to economically hedge exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are measured at fair value with gains and losses arising from changes in their fair value being recognised in the profit and loss account. Derivative fair values are determined from quoted prices in an active market where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

A derivative embedded in a contract is accounted for as stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is carried at fair value through profit and loss. There were no contracts with embedded derivatives as at the year end.

(s) Geographical Analysis

The Company's primary focus is retail banking in the United Kingdom.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

1. Accounting policies (continued)

(t) Critical accounting estimates and judgements

The preparation of the Company financial statements in accordance with FRS 102 requires management to make judgements, estimates and assumptions in applying accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and based on historical experience and factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are as follows:

(i) Allowance for impairment losses on loan and advances (Note: 7 & 8)

At 31 December 2018 gross loans and advances totalled £196,585,948 (2017: £234,018,366) against which impairment allowances of £2,435,318 (2017: £9,956,556) had been made.

The allowance for impairment losses on loans and advances is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively.

(ii) Revenue recognition

Fees, commission, income, premiums and discounts are recognised in the EIR where they are an integral part of the instrument yield. Judgement is required to determine whether fees are recognised as EIR or recognised when a service is performed. Although, the systems do not automatically calculate the EIR, it is monitored manually and adjusted when considered necessary.

(iii) Fair value of financial instruments (Note: 22)

Where the fair value of financial instruments is not observable from a quoted price, the valuation is done using a discounted cash flow model using other observable inputs and information from the market. For available for sale financial instruments where significant estimation techniques have been used, the underlying assumptions used in calculating the appropriate carrying amount includes: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally an adjustment to reflect execution risk.

(iv) Defined benefit pension scheme (Note: 23)

The Company operates a defined benefit scheme. The cost of this scheme and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the liability discount rate. Management estimate these factors in determining the net obligation in the balance sheet. The assumptions reflect historical experience and current trends.

(v) Useful economic lives of intangible and tangible assets (Note: 10 & 12).

The annual depreciation charge for tangible assets is sensitive to changes in the economic useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 10 & 12 for the carrying amount of the intangible and tangible assets and note 1(f) and 1(h) for the useful economic lives for each class of assets.

(vi) Revaluation of properties (Note 12)

A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. The valuation was based on a desktop valuation assessment conducted in December 2018 by Tim Smee, FRICS from Quantum Valuations LLP. The desktop valuation took into account current rental yields for similar properties in the same locality as well as recent comparable sale transactions. In addition, the valuation also considered the evidence collated from the comprehensive valuation which included a site inspection conducted in 2015 by the same valuation firm.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

2. Administrative expenses

	2018	2017
	No.	No.
Average number of employees	108	119
Front Office	38	49
Back Office	70	70
	£	£
Wages and salaries	5,880,184	6,290,368
Social security costs	726,923	810,380
Other pension costs	737,264	524,014
Total staff costs	7,344,371	7,624,762
Other administrative expenses	4,958,142	4,017,682
	<u>12,302,513</u>	<u>11,642,444</u>

3. Profit on ordinary activities before tax

	2018	2017
	£	£
Profit on ordinary activities before tax is stated after charging/(crediting)		
Auditor's remuneration		
-fees payable for the audit of the Company's annual accounts	65,000	58,000
Depreciation and amortisation	912,170	890,889
Interest payable on preference shares	233,674	777,909
Pension costs	737,264	524,014
Foreign exchange profits	(970,269)	(1,641,832)
Profit/(Loss) on realised debt securities	704,103	(5,358,117)
Fair value gain on investment properties	(787,241)	-
Rental of premises held under operating leases	99,786	73,500

During the year £50,500 (2017:£40,000) was paid to the Auditor by the parent company in respect of the 30 June 2018 Group accounts. The total audit remuneration for the year therefore amounted to £115,500 (2017:£98,000).

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

4. Directors' emoluments

	2018 £	2017 £
Directors' fees and emoluments	501,475	419,936
Fees payable to Independent Non-Executive Directors	80,000	77,409
Pension contributions	32,607	25,100
	<u>614,082</u>	<u>522,445</u>

The highest paid director received emoluments excluding pension contributions, totalling £344,839 (2017: £419,936) and the amount of pension contributions paid to the Company's defined contribution scheme was £22,667 (2017: £25,100).

5. Taxation

	2018 £	2017 £
(i) Analysis of tax charge on ordinary activities		
UK corporation tax on profits of the period	(310,134)	671,958
Adjustments in respect of prior periods	(667,080)	867,392
	<u>(977,214)</u>	<u>1,539,350</u>
Foreign tax suffered	29,967	-
Current tax	<u>(947,247)</u>	<u>1,539,350</u>
Origination and reversal of timing differences	1,666,157	-
Adjustments in respect of previous periods	775,459	-
Impact of rate changes	(211,175)	-
Deferred tax	<u>2,230,441</u>	<u>-</u>
Tax charge for the year	<u>1,283,194</u>	<u>1,539,350</u>
(ii) Factors affecting tax charge for the current year		
Profit/(Loss) for the period before tax	<u>(3,778,731)</u>	<u>710,882</u>
Tax at 19.00% (2017: 19.25%) thereon	(717,959)	136,845
Effects of:		
Preference share dividend	44,398	149,747
Non-deductible expenses	24,936	54,593
Deferred tax not provided	2,014,313	(214,814)
Tax rate differences	(190,873)	38,556
Current year impact of AFS transitional adjustment	-	507,031
Prior year adjustments	108,379	867,392
Total tax charge for the year	<u>1,283,194</u>	<u>1,539,350</u>

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

5. Taxation (continued)

Deferred taxation

As at 31 December 2018 there were accumulated tax losses of £31.5million (2017: £31.7million) carried forward and a deferred tax asset of £Nil (2017: £1,661,158). The full deferred tax breakdown is set out below.

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is (£350,642) (2017: £846,354).

Legislation was passed on 18 November 2015 to reduce the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020. New legislation was passed on 15 September 2016 to further reduce this rate to 17% from 1 April 2020. The effect of this reduction is reflected in the deferred tax balance.

As from 1 April 2016, taxable profits that can be set-off against brought-forward tax losses are restricted to 25%.

Deferred tax assets and liabilities on the balance sheet were as follows:

	2018	2017
	£	£
Tax losses	-	1,661,158
AFS revaluations	-	338,842
Unrealised gain on properties (Note 18)	(3,140,141)	(2,586,429)
Pension scheme deficit	-	27,370
Total	(3,140,141)	(559,059)

A deferred tax asset of £7,706,082 (2016: £3,806,146) has not been recognised in relation to accelerated depreciation, trading losses carried forward and the revaluation movement on assets held for sale since 1 January 2016 when the new tax legislation came into force. The breakdown of the unrecognised deferred tax assets are set out below:

	1 January 2017	Movement	31 December 2018
	£	£	£
Tax losses	3,719,486	1,640,967	5,360,453
*Timing differences - trading	-	2,067,384	2,067,384
Accelerated depreciation	86,660	191,585	278,245
Total	3,806,146	3,899,936	7,706,082

*This relates to fair value movement of available for sale assets and the pension fund.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

6. Loans and advances to banks

	2018	2017
	£	£
Loans and advances to banks	-	3,500,173
	<u>-</u>	<u>3,500,173</u>

7. Loans and advances to customers

	Non- performing loans £	Performing loans £	Total £
2018			
Remaining maturity:			
Over five years	-	22,422,408	22,422,408
Five years or less but over one year	-	117,969,435	117,969,435
One year or less but over three months	-	26,928,781	26,928,781
Three months or less	-	26,564,088	26,564,088
Overdue	2,701,236	-	2,701,236
	<u>2,701,236</u>	<u>193,884,712</u>	<u>196,585,948</u>
Impairment losses on loans and advances (note: 8)	(1,581,240)	-	(1,581,240)
Collective provision (note: 8)	-	(854,078)	(854,078)
	<u>1,119,996</u>	<u>193,030,634</u>	<u>194,150,630</u>
Amount repayable on demand (included within three months or less above)	<u>-</u>	<u>1,433,793</u>	<u>1,433,793</u>
2017			
Remaining maturity:			
Over five years	-	12,125,817	12,125,817
Five years or less but over one year	-	128,542,511	128,542,511
One year or less but over three months	-	36,358,717	36,358,717
Three months or less	-	47,472,283	47,472,283
Overdue	9,519,038	-	9,519,038
	<u>9,519,038</u>	<u>224,499,328</u>	<u>234,018,366</u>
Impairment losses on loans and advances (note: 8)	(8,321,651)	-	(8,321,651)
Collective provision (note: 8)	-	(1,634,905)	(1,634,905)
	<u>1,197,387</u>	<u>222,864,423</u>	<u>224,061,810</u>
Amount repayable on demand (included within three months or less above)	<u>-</u>	<u>1,390,946</u>	<u>1,390,946</u>

Description of loans

Performing loans - loans which are neither past due nor impaired

Non-Performing loans - loans which are more than 90 days contractually past due or which have individual provisions raised against them. Objective evidence of impairment may include: indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal repayments, debt being restructured to reduce the burden on the borrower, covenant breaches, loss of significant income flows, and adverse impact of economic factors on the value of any underlying collateral.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

8. Impairment losses

Loans and advances

	Specific £	Collective £	2018 Total £	2017 Total £
At 1 January	8,321,651	1,634,905	9,956,556	6,124,482
Charge to profit and loss account	129,279	(780,827)	(651,548)	4,103,645
Release to profit and loss	(218,430)	-	(218,430)	(267,203)
Amounts written off	(6,651,260)	-	(6,651,260)	(4,368)
At 31 December	<u>1,581,240</u>	<u>854,078</u>	<u>2,435,318</u>	<u>9,956,556</u>

During 2018, the total impairment losses were in respect of the following:

	2018 £	2017 £
Loans and advances to customers	(651,548)	4,103,645
Loans and advances to customers impairment written off directly to profit & loss	(16,645)	695,179
Debt securities	3,320,000	-
Total impairment loss	<u>2,651,807</u>	<u>4,798,824</u>
Recoveries released to profit and loss	(218,430)	(267,203)
Net impairment loss	<u>2,433,377</u>	<u>4,531,621</u>

9. Derivatives at fair value

2018	Notional amounts £	Fair Value	
		Assets £	Liabilities £
Exchange rate-related contracts			
Forward foreign exchange	<u>185,928,240</u>	<u>350,369</u>	<u>1,458,058</u>
2017			
Exchange rate-related contracts			
Forward foreign exchange	<u>227,717,569</u>	<u>2,868,194</u>	<u>8,672</u>

The fair value of derivatives held for non-trading purposes is determined by using observable market data.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

10. Intangible assets

Cost	Computer software £
At 1 January 2018	3,783,911
Additions	310,376
At 31 December 2018	<u>4,094,287</u>
Amortisation	
At 1 January 2018	3,196,787
Charge for the year	412,324
At 31 December 2018	<u>3,609,111</u>
Carrying amount	
At 31 December 2018	<u>485,176</u>
At 31 December 2017	<u>587,124</u>

Amortisation of intangible assets is included in administrative costs. The intangible assets principally comprise computer software that is used by the Company for transaction processing, accounting as well as other business purposes.

11. Investment property

Carrying amount	*Property at Brook Street London £	Property at Thomas St Manchester £	Total £
At 31 December 2017	7,400,068	570,000	7,970,068
At 31 December 2018	8,187,309	570,000	8,757,309

*The property at 2 Brook Street, London has elements of both tangible fixed asset and investment property. The investment property relates to the 3rd and 4th floors of the building which are leased out to third parties.

The carrying value of the investment properties are based on a market based desktop valuations conducted by Tim Smee, FRICS from Quantum Valuation LLP in December 2018 as set out in the table below:

Property	Fair value £	Cost £	Accumulated Depreciation £	Historical Net Book value £
2 Brook Street, London	8,187,309	2,645,867	458,416	2,187,451
79 Thomas Street, Manchester	570,000	225,000	93,155	131,845
Total	<u>8,757,309</u>	<u>2,870,867</u>	<u>551,571</u>	<u>2,319,296</u>

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

11. Investment property (continued)

Operating lease agreements where the Company is a lessor

The Company holds surplus office buildings as investment properties as disclosed above that are let to third-parties. These are non-cancellable leases with remaining terms of between 0.25 and 4.25 years.

At 31 December 2018, the future minimum lease rentals receivable under non-cancellable leases for the investment properties were as follows:

	2018	2017
	£	£
Not later one year	97,391	324,407
Later than one year and not later than five years	62,728	155,600
Later than five years	-	4,519
	<u>160,119</u>	<u>484,526</u>

12. Tangible fixed assets

	Computer equipment	Office equipment	Leasehold property	*Freehold land and buildings	Total
	£	£	£	£	£
Cost or valuation					
At 1 January 2018	1,552,675	907,611	515,545	18,711,727	21,687,558
Revaluation	-	-	-	1,915,014	1,915,014
Additions	48,588	76,044	-	3,533	128,110
Adjustments/write-offs	(55)	-	-	-	(55)
At 31 December 2018	<u>1,601,208</u>	<u>983,655</u>	<u>515,545</u>	<u>20,630,274</u>	<u>23,730,682</u>
Depreciation					
At 1 January 2018	1,294,935	783,319	431,261	1,561,160	4,070,675
Charge for the year	168,008	79,919	50,947	200,972	499,846
Adjustments/write-offs	-	(56)	-	-	(56)
At 31 December 2018	<u>1,462,943</u>	<u>863,182</u>	<u>482,208</u>	<u>1,762,132</u>	<u>4,570,465</u>
Carrying amount					
At 31 December 2018	<u>138,265</u>	<u>120,473</u>	<u>33,337</u>	<u>18,868,142</u>	<u>19,160,217</u>
At 31 December 2017	<u>257,740</u>	<u>124,292</u>	<u>84,284</u>	<u>17,150,567</u>	<u>17,616,883</u>

*Freehold land and buildings only includes the tangible fixed asset element of the Brook Street property. Details of the investment property element of this asset are provided in Note 11.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

12. Tangible assets (continued)

	Carrying value 31 Dec 2018			Historical cost net book value 31 Dec 2018	
	Total	*Tangible Fixed assets	Investment property	Tangible fixed assets	Investment property
Property	£	£	£	£	£
2 Brook Street, London	26,000,000	17,812,691	8,187,309	4,759,121	2,187,451
3-5 Oak Lane, Bradford	222,267	222,267	-	31,621	-
391-393 Stratford Road, Birmingham	439,416	439,415	-	34,582	-
79 Thomas Street, Manchester	570,000	-	570,000	-	131,845

*The tangible fixed assets exclude property improvement assets amounting to £393,767.

The valuation amount relating to 2 Brook Street London property was based on a 2018 desktop valuation assessment conducted by Tim Smeed, FRICS from Quantum Valuation LLP.

Included within freehold property is land valued at £15,359,532 (2017: £13,444,518), which is not depreciated.

Assets under finance leases have a net book value of £35,675 (2017: £11,477) with minimum lease payments of £66,161 (2017: £30,593).

13. Other assets

	2018 £	2017 £
Deferred tax	-	2,027,370
Remittance funds receivable	424,356	354,405
Capital work-in-progress	72,279	284,740
Security deposit	365,654	346,282
Advance payments	23,907	29,904
Rent deposits	209,587	285,835
Sundry debtors	436,650	250,328
Repossessed properties	1,288,000	1,040,000
Tax recoverable	425,134	-
Others	16,063	-
*Deferred costs	115,450	237,798
	<u>3,377,080</u>	<u>4,856,662</u>

*These are unamortised costs relating to fees paid by the Company for outsourcing the mobilisation of fixed deposits.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

14. Deposits by banks

	2018 £	2017 £
Repayable on demand	4,919,651	9,223,324
With agreed maturity dates or periods of notice by remaining maturity: Three months or less but not repayable on demand	430,219	415,138
	<u>5,349,870</u>	<u>9,638,462</u>

15. Repurchase agreements

	2018 £	2017 £
Repurchase agreements	10,303,788	18,343,054
	<u>10,303,788</u>	<u>18,343,054</u>

These include 4.5 year repurchase agreement GBP borrowings of £10,303,788 (2017:£10,294,376) secured against UK gilts. The repurchase date is 22 July 2020 and the borrowings carry a coupon rate of 3 month GBP Libor plus 53bps payable quarterly.

16. Customer accounts

	2018 £	2017 £
Repayable on demand	82,991,523	95,626,916
With agreed maturity dates or periods of notice by remaining maturity:		
Over three years	72,018,047	76,582,639
Three years or less but over one year	144,487,973	144,162,675
One year or less but over three months	60,770,867	52,007,684
Three months or less	42,541,967	31,458,857
	<u>402,810,377</u>	<u>399,838,771</u>

17. Other liabilities

	2018 £	2017 £
Taxation and social security	-	987,610
*Unapplied credits	1,283,203	1,272,651
Finance lease	56,533	29,347
Amounts due to preference shareholders (see overleaf)	4	72,512
Accrued expenses	1,100,356	1,710,964
Other liabilities	517,641	414,080
	<u>2,957,737</u>	<u>4,487,164</u>

*The amount of £1,283,203 relate to items over 90 days old where the customer has not been identified.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

17. Other liabilities (continued)

Amounts due to preference shareholders

The four £1 preference shares that have been issued and allotted have each been designated as one of 'A', 'B', 'C' and 'D' classes of preference shares. The 'A' and 'C' shares are held by United Bank Limited ('UBL') and the 'B' and 'D' shares by National Bank of Pakistan ('NBP'). The preference shares carry no voting rights or any rights in a wind-up situation.

Dividends payable on the 'A' and 'B' preference shares are related to the ability of the Company to utilise tax losses that have been surrendered to it on the transfer of the business from United Bank Limited or National Bank of Pakistan as appropriate.

Dividends payable on the 'C' and 'D' preference shares are related to loans transferred to the Company from United Bank Limited or National Bank of Pakistan, as appropriate, that have been written off or provided for at the point of transfer, and the ability of the Company to realise in excess of such loan value.

A breakdown of the amounts owed to the preference shareholders are shown in the table below:

	UBL Total	NBP Total	Total
	£	£	£
Amounts due on 1 January 2017	2	2	4
Tax losses utilised during the year	777,909	-	777,909
Realised debt recoveries	72,508	-	72,508
	<hr/>	<hr/>	<hr/>
Payable to preference shareholders	850,419	2	850,421
Dividends paid	(777,909)	-	(777,909)
	<hr/>	<hr/>	<hr/>
Amounts due on 31 December 2017	72,510	2	72,512
Tax losses utilised during the year	233,674	-	233,674
Realised debt recoveries	-	-	-
	<hr/>	<hr/>	<hr/>
Payable to preference shareholders	306,184	2	306,186
Dividend Paid	(306,182)	-	(306,182)
	<hr/>	<hr/>	<hr/>
Amounts due on 31 December 2018	2	2	4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amounts due to preference shareholders comprise:			
- share capital	2	2	4
- Realised debt recoveries	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

An estimated amount of £Nil relating to utilisation of tax losses will be payable in the form of preference share dividend in 2019, when the tax losses are actually utilised. Any recovery from written-off loans that were transferred upon merger will be paid as preference share dividend.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

18. Provision for other liabilities

	2018 £	2017 £
Provision for deferred tax	3,140,141	2,586,429
Pension liability (Note 23)	-	161,000
Provision for compensated absences	41,589	-
	<u>3,181,730</u>	<u>2,747,429</u>

The deferred tax provided is the amount expected to be payable in future periods in accordance with the current tax legislation and it is in respect of revaluation and fair value movement of tangible fixed assets and investment properties, respectively. The reversal of any of this amount will only occur when some of the assets are sold.

Provision for compensated balances represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured at salary cost payable for period of absence.

19. Called up share capital

	2018 No. of shares	2018 Amount £	2017 No. of shares	2017 Amount £
Issued, allotted and fully paid				
Ordinary shares of £1 each	45,000,000	45,000,000	45,000,000	45,000,000
	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

20. Contingent liabilities

The Company has contingent liabilities arising from letters of credit opened and confirmed and guarantees issued, which are disclosed at the foot of the balance sheet. The total value £960,111 was all cash collateralised (2017: £884,048). The Company in the normal course of business issues guarantees on behalf of its customers for non-performance or non-delivery of goods and services. Cash collateral is held against these guarantee arrangements.

21. Commitments

	2018 £	2017 £
*Unutilised overdraft commitments	569,924	548,904
Other commitments (less than one year)	-	5,721
	<u>569,924</u>	<u>554,625</u>

*This represents overdraft facilities that have been provided to the Company's customers but are not yet drawn.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

21. Commitments (continued)

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following time bands below. These are in regard to the Company standard lease agreements for the lease of the branches in Ilford and Manchester with remaining terms between 0.9 year and 10 years.

	2018	2017
	£	£
Within one year	70,249	94,500
Between one year and five years	180,000	205,249
Later than five years	210,000	255,000
	<u>460,249</u>	<u>554,749</u>

The Company had the following future minimum finance lease payments:

	2018	2017
	£	£
Within one year	28,013	15,296
Between one year and five years	38,148	15,296
	<u>66,161</u>	<u>30,593</u>
Total gross payments	66,161	30,593
Less finance charges	(9,647)	(1,671)
	<u>56,514</u>	<u>28,922</u>

*Carrying amount of liability

*The carrying amount of the finance lease reflected in the balance sheet (see note 17) includes accrued interest charges of £19 (2017: £425) totalling £56,533 (2017: £29,347).

Certain items of office equipment (franking machines and photocopiers) are held under finance lease arrangements. The finance lease liabilities are secured by the assets held under finance lease (see note 12). The lease arrangements include fixed lease payments and a purchase option at the end of the lease term. The lease term remaining is 4 years.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management

The Company finances its operations by a mixture of shareholders' funds, customer deposits and inter-bank deposits. The deposits raised may be in a range of currencies at floating or fixed rates of interest. The Company's lending is usually in sterling, euros or US dollars and may be either floating or fixed rate. The Company uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

The main risks arising from the Company's financial instruments are:

1. credit risk
2. liquidity risk
3. interest rate risk
4. foreign currency risk
5. regulatory risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which employees understand their roles and obligations.

The Board has established an Audit Committee to monitor compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Company has also a Chief Risk Officer who reports with a dotted line to the Board. The Chief Risk Officer is responsible for overseeing all aspects of risk management policy within the Company including its implementation and effectiveness.

The Company holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

Fair value

The fair value of a financial instrument is the amount for which an asset can be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties. Wherever possible, fair value is determined by reference to a quoted market price for that instrument. In the absence of readily ascertainable market values, fair values are determined based on the best information available e.g. by reference to similar assets, similar maturities or other analytical techniques.

The carrying amounts of the bank's assets and liabilities are considered to equate to the fair values of those assets and liabilities.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management

Financial assets and liabilities not carried at fair value

Loans and advances to banks and customers are considered to be short term in nature and where these relationships are longer term there are considered to be no material factors in terms of impairment, credit or market risk which would indicate that the carrying value differs from the fair value.

Deposits from banks and customers are considered to be short term in nature and where these relationships are longer term there are no material factors which indicate that the carrying value differs from the fair value.

The Company also holds preference shares and the fair value of these instruments can be approximated to the realisation of future tax losses, which is £Nil (2017: £1.7million).

Financial assets and liabilities that are carried at fair value

The Company holds available for sale securities ('AFS') which are carried at fair value. The fair value measurement of these assets is categorised as Level 1 in the fair value hierarchy because these investments can be traded in an active market and prices are readily available on an arm's length basis.

Set out below and overleaf are the Company's financial instruments by category.

2018	AFS	HTM	FVTPL	Loans & receivables	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances with central banks	-	-	-	41,304	41,304
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	-	-	-	194,151	194,151
Debt securities	229,967	-	-	-	229,967
Derivatives at fair value	-	-	350	-	350
Other assets	-	-	-	1,901	1,901
	<u>229,967</u>	<u>-</u>	<u>350</u>	<u>237,356</u>	<u>467,673</u>
Financial liabilities					
Deposits by banks	-	-	-	5,350	5,350
Borrowings from financial institutions	-	-	-	10,304	10,304
Customer accounts	-	-	-	402,810	402,810
Derivatives at fair value	-	-	1,458	-	1,458
Other liabilities	-	-	-	4,204	4,204
	<u>-</u>	<u>-</u>	<u>1,458</u>	<u>422,668</u>	<u>424,126</u>

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

2017	AFS	HTM	FVTPL	Loans & receivable	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances with central banks	-	-	-	53,212	53,212
Loans and advances to banks	-	-	-	3,500	3,500
Loans and advances to customers	-	-	-	224,062	224,062
Debt securities	149,912	57,184	-	-	207,096
Derivatives at fair value	-	-	2,868	-	2,868
Other assets	-	-	-	1,267	1,267
	<u>149,912</u>	<u>57,184</u>	<u>2,868</u>	<u>282,041</u>	<u>492,005</u>
Financial liabilities					
Deposits by banks	-	-	-	9,638	9,638
Borrowings from financial institutions	-	-	-	18,343	18,343
Customer accounts	-	-	-	399,839	399,839
Preference shares	-	-	-	73	73
Subordinated debt	-	-	-	2,015	2,015
Derivatives at fair value	-	-	9	-	9
Other liabilities	-	-	-	1,580	1,580
	<u>-</u>	<u>-</u>	<u>9</u>	<u>431,488</u>	<u>431,497</u>

	2018 £'000	2017 £'000
Interest Income		
Available for sale	6,204	5,738
Held to maturity	1,770	2,883
Loans and receivables	12,122	10,210
	<u>20,096</u>	<u>18,831</u>
Interest Expense		
Derivative financial instruments	3,118	2,097
Loans and receivables (includes preference share dividend)	8,017	8,585
	<u>11,135</u>	<u>10,682</u>

A total of £Nil relating to interest income on impaired debt securities and £Nil relating to interest income on impaired loans and receivables have been recognised in the year (2017: £Nil and £Nil, respectively).

The fair value of derivatives held for non-trading purposes is determined by market prices, or, where market prices are not available, by applying current market information to pricing or valuation models.

As well as using derivatives to hedge foreign exchange exposure, the Company takes exchange rate contract orders from customers and will cover these by entering into similar positions with third parties.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Fair value measurement

The Company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy as follows.

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The table below shows a hierarchy that reflects the significance of observable market inputs for financial instruments measured at fair value.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2018				
Financial assets				
Available for sale investments	229,967	-	-	229,967
Derivatives at fair value	-	350	-	350
	<u>229,967</u>	<u>350</u>	<u>-</u>	<u>230,317</u>
Financial liabilities				
Derivatives at fair value	-	1,458	-	1,458
	<u>-</u>	<u>1,458</u>	<u>-</u>	<u>1,458</u>
2017				
Financial assets				
Available for sale investments	149,912	-	-	149,912
Derivatives at fair value	-	2,868	-	2,868
	<u>149,912</u>	<u>2,868</u>	<u>-</u>	<u>152,780</u>
Financial liabilities				
Derivatives at fair value	-	9	-	9
	<u>-</u>	<u>9</u>	<u>-</u>	<u>9</u>

United National Bank Limited

Notes to the accounts

Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Fair value measurement (continued)

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(a) All investment securities held by the Company at 31 December 2018 are rated. Prices used for fair value calculations are obtained from Bloomberg.

(b) The Company has forward derivative contracts which are OTC derivatives and are not traded, therefore, cannot be measured using category Level 1 input. Observable currency prices obtained from Reuters have been used to determine the fair value of derivatives. Availability of observable market prices reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

(c) The Company uses the discounted cash flow model for determining the fair value of financial instruments where the fair value cannot be reasonably determined. During the year, there was £Nil (2017: £Nil) exposure of this nature. The underlying assumptions normally used in calculating the appropriate carrying amount includes: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally an adjustment to reflect execution risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the Company, this arises principally from the Company's loans and advances to customers, other banks and the investment portfolio. However, the perceived credit risk on the investment portfolio is reflected in the fair value of the debt securities held. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector and country concentration risk).

The Board of Directors has delegated responsibility for the management of credit risk to its Board Risk and Compliance Committee. Their main duties include the approval of credits and credit provisions, the approval of credit policy and subsequent amendments, and the delegation of credit approval and provisioning limits to the Credit Committee.

The Credit Committee is responsible for implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits, as delegated by the Board Risk and Compliance Committee.

The Investment Committee is responsible for performing the first level screening of any proposed new investments, ongoing monitoring of the performance of the investment portfolio, and assessing the risks faced by the Company, through its holdings in the investment portfolio which should be within the overall credit risk limits as delegated by the Board Risk and Compliance Committee.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Credit risk (continued)

The Company's maximum exposure to credit risk, by class of financial instrument is shown in the table below:

	2018		2017	
	Carrying Value £'000	Maximum Exposure £'000	Carrying Value £'000	Maximum Exposure £'000
Cash and balances with central banks	41,304	41,304	53,212	53,212
Loans and advances to banks	-	-	3,500	3,500
Loans and advances to customers				
Loans and receivables	194,151	194,151	224,062	224,062
Debt securities				
Available for sale	229,967	229,967	149,912	149,912
Held to maturity	-	-	57,184	57,184
Derivative financial assets				
Currency forwards	350	350	2,868	2,868
Unutilised overdraft commitments	-	570	-	549
	<u>465,772</u>	<u>466,342</u>	<u>490,738</u>	<u>491,287</u>

The table overleaf shows the breakdown of the Company's on-balance sheet credit exposure categorised by the degree of risk of financial loss:

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Credit risk (continued)

	Debt securities		Loans and advances to customers	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Carrying amount	<u>229,967</u>	<u>207,096</u>	<u>194,151</u>	<u>224,062</u>
<i>Individually impaired</i>				
Grade 5b: Substandard	-	-	-	-
Grade 6: Doubtful	-	-	2,449	2,751
Grade 7: Loss	-	-	252	6,768
Impairment allowance (specific)	<u>-</u>	<u>-</u>	<u>(1,581)</u>	<u>(8,322)</u>
Carrying amount	<u>-</u>	<u>-</u>	<u>1,120</u>	<u>1,197</u>
<i>Past due but not impaired</i>				
Grade 4b: Watchlist				
Up to 30 days	-	10,139	-	-
30 – 90 days	-	-	8,338	10,988
Grade 5a: Substandard				
Up to 30 days	-	-	-	-
30 – 90 days	-	-	-	-
90 – 180 days	-	-	-	-
180 days +	-	-	2,203	-
Allowance for impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>-</u>	<u>10,139</u>	<u>10,541</u>	<u>10,988</u>
<i>Neither past due nor impaired</i>				
Grade 1-3: Low – fair risk	227,021	196,957	183,344	213,512
Grade 4a: Watchlist	<u>2,946</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>229,967</u>	<u>196,957</u>	<u>183,344</u>	<u>213,512</u>
<i>Impairment allowance</i>				
Collective provision	<u>-</u>	<u>-</u>	<u>(854)</u>	<u>(1,635)</u>
Carrying amount	<u>-</u>	<u>-</u>	<u>(854)</u>	<u>(1,635)</u>

All other assets of the Company are neither past due or impaired (2017: Same).

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Credit risk (continued)

The ratings for Debt Securities that are not impaired are set out in the table below:

Fitch ratings	2018 £'000	2017 £'000
AAA	27,180	9,185
AA+	5,896	5,919
AA	118,180	64,615
AA-	-	2,159
BBB+	-	4,220
BBB-	-	6,008
BB+	6,713	8,793
BB	-	18,279
BB-	11,964	11,752
B+	25,300	11,818
B	14,960	36,508
B-	16,383	19,827
CC	-	4,023
CCC+	3,391	3,990
Total	229,967	207,096

The loans and advances portfolio is predominantly unrated.

Impaired loans

Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past due but not impaired

Loans where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Company.

Allowances of impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component is a specific loss provision that relates to individually significant exposures and represents the amount remaining after deducting the expected discounted cash flows from the outstanding loan principal and accrued interest at the balance sheet date.

Forbearance Policy

The Company periodically assesses whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. In conducting this assessment, management takes account of any forbearance arrangements it has with its customers. The Company has a detailed forbearance policy and as part of the arrears management process, the Company will consider providing a forbearance facility to the borrower after considering each case and analysing it based on its own merits and the specific circumstances of the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of arrears. Where the circumstances of the borrower mean that this primary aim is not achievable, the secondary aim is to recover the customer into a 'sustainable terms' position on their debt.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Credit risk (continued)

In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and losing their security. As at 31 December 2018 all grade 5b, 6 and 7 loans and advances had been considered for forbearance (2017: Same).

Write off policy

The Company writes off a loan balance (and any related allowances for impairment losses) when the Board Risk and Compliance Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property and liens over cash deposits. Collateral is not held over loans and advances to banks. The table below shows a breakdown of the credit exposure by collateral type.

	Loans and advances to customers	
	2018	2017
	£'000	£'000
Carrying amount	194,151	224,062
<i>Individually impaired</i>		
Property	1,120	1,197
Unsecured	-	-
Carrying amount	1,120	1,197
<i>Past due but not impaired</i>		
Property	10,541	10,987
Unsecured	-	1
Carrying amount	10,541	10,988
<i>Neither past due nor impaired</i>		
Property	97,378	44,409
Unsecured	85,966	145,318
Other	-	23,785
Carrying amount	183,344	213,512
<i>Impairment allowance –(collective provision)</i>		
Other	(854)	(1,635)
Carrying amount	(854)	(1,635)

The average loan to value ratio for customer loans secured by property is 52% (2017: 56%); calculated by dividing the balance owed to the Company by the latest valuation held for the property. Independent professional property valuations are undertaken every three years for commercial and buy to let mortgages or earlier if market conditions warrant, at the discretion of the Company. Other valuations are undertaken as stated by UK Regulations. The Company will seek to dispose of property and other assets obtained by taking possession of collateral and converting into cash as rapidly as the market for the individual asset permits.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Credit risk (continued)

Credit risk concentration

The Company manages credit risk concentration by setting exposure limits to groups or individual counterparties, sectors, and countries.

The Company monitors credit risk concentration against limits daily. Any excesses, actual or potential, are notified to the Credit Committee for ratification, approval and /or recommendation to the Board Risk and Compliance Committee or the main Board for direction as to remedial action. The table below summarises the sector and location concentration risk for the Company at the year-end.

	Loans and advances to customers 2018 £'000	Loans and advances to customers 2017 £'000
Central and local government	22,569	26,852
Food, beverage, tobacco	1,553	425
Textiles, leather, clothes	-	1,152
Other manufacturing	10,053	1,115
Retail	467	21
Wholesale including import and export	-	2
Transport, storage, communication	10,817	11,439
Construction	6,326	11,139
Real estate - buy, sell, develop and letting	64,975	43,137
Financial	24,146	48,083
Others	18,517	4,614
Individuals	34,728	76,083
Total	194,151	224,062
Concentration by location		
Great Britain	98,363	84,775
Europe	20,217	15,930
South Asia	42,603	52,304
Africa	14,848	31,963
Rest of world	18,120	39,090
Total	194,151	224,062

Investment Securities

Investment securities held by the Company at 31 December 2018 were all rated (2017: all were rated).

In 2018, £2,755,585 (2017: £2,826,242) was reclassified from investment revaluation reserves to profit and loss on de-recognition of available-for-sale securities. Total losses taken as impairment to the profit and loss were £3,320,000.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Investment Securities (continued)

Below is a reconciliation of the opening and closing balance of securities held as well as the sector concentration analysis:

	2018 £'000	2017 £'000
As at 1 January	207,096	234,153
Purchases	2,050,651	3,130,459
Sales	(1,628,428)	(2,991,169)
Interest/amortisation	(388,734)	(171,983)
Unrealised (losses) gains	(10,618)	5,636
Balance at 31 December	<u>229,967</u>	<u>207,096</u>

The movement in unrealised losses during the year were as follows

	2018 £'000	2017 £'000
As at 1 January	(1,654)	(8,274)
Unrealised (losses) gains accounted for in the Statement of Comprehensive Income during the year, net of tax	(10,618)	6,620
Balance at 31 December	<u>(12,272)</u>	<u>(1,654)</u>

The unrealised losses represent the cumulative unrealised change in fair value of financial assets classified as available for sale.

Analysis of sector concentration

	2018 £'000	2017 £'000
Central government	165,958	126,189
Financial institutions	45,309	43,185
Corporates	18,700	37,722
Balance at 31 December	<u>229,967</u>	<u>207,096</u>

Liquidity risk

Liquidity risk is the risk that a Company will encounter difficulty in meeting obligations from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company policy is to monitor the liquidity position daily, with regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions. The Company's Treasury Department is responsible for maintaining sufficient liquidity to meet the Company's obligations and to meet the specific liquidity requirements of the UK supervisory authorities. The key measure used by the Company for managing liquidity risk is the ratio of behaviourally adjusted net liquid assets (maturing in less than one month) to total deposits.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Liquidity risk (continued)

In the unlikely event of a liquidity crisis the policy is to immediately sell the Company's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

The table below shows the undiscounted cash flows on the Company's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Company's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance, and unrecognised loan commitments are not all expected to be drawn down immediately.

Residual contractual maturities of financial instruments as at 31 December 2018	Less than 1 month £'000	More than one month but less than three months £'000	More than three months but less than one year £'000	More than one year but less than five years £'000	More than five years £'000	Total £'000	Carrying amount £'000
Non-derivative assets							
Cash and balances with central banks	35,046	2,371	3,931	-	-	41,348	41,304
Loans and advances to customers	11,135	17,487	33,003	137,502	31,058	230,185	194,151
Debt securities	58,577	54,785	5,078	72,724	60,843	252,007	229,967
	104,758	74,643	42,012	210,226	91,901	523,540	465,422
Non-derivative liabilities							
Deposits by banks	5,255	95	-	-	-	5,350	5,350
Repurchase agreements	17	33	149	10,403	-	10,602	10,304
Customer accounts	93,881	33,070	64,087	222,732	154	413,925	402,810
Liabilities against assets subject to finance lease	57	-	-	-	-	57	57
	99,210	33,198	64,236	233,135	154	429,934	418,521
Derivative contracts							
Forward foreign exchange contracts inflow	(14)	(336)	-	-	-	(350)	(350)
Forward foreign exchange contracts outflow	1,281	177	-	-	-	1,458	1,458
	1,267	(159)	-	-	-	1,108	1,108
Unutilised overdraft commitments	570	-	-	-	-	-	-
	101,047	33,039	64,236	233,135	154	431,042	419,629

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Liquidity risk (continued)

Residual contractual maturities of financial instruments as at 31 December 2017	Less than 1 month £'000	More than one month but less than three months £'000	More than three months but less than one year £'000	More than one year but less than five years £'000	More than five years £'000	Total £'000	Carrying amount £'000
Non-derivative assets							
Cash and balances with central banks	53,212	-	-	-	-	53,212	53,212
Loans and advances to banks	3,500	-	-	-	-	3,500	3,500
Loans and advances to customers	4,823	44,356	41,586	143,097	14,174	248,036	224,062
Debt securities	18,304	25,251	30,009	92,767	64,539	230,870	207,096
	79,839	69,607	71,595	235,864	78,713	535,618	487,870
Non-derivative liabilities							
Deposits by banks	9,560	80	-	-	-	9,640	9,638
Repurchase agreements	261	10,332	103	8,256	-	18,952	18,343
Customer accounts	99,621	28,371	55,682	224,290	3,317	411,281	399,857
Liabilities against assets subject to finance lease	29	-	-	-	-	29	29
Subordinated debt	4	9	2,041	-	-	2,054	2,015
	109,475	38,792	57,826	232,546	3,317	441,956	429,882
Derivative contracts							
Forward foreign exchange contracts inflow	(2,120)	(748)	-	-	-	(2,868)	(2,868)
Forward foreign exchange contracts outflow	9	-	-	-	-	9	9
	(2,111)	(748)	-	-	-	(2,859)	(2,859)
Unutilised overdraft commitments	549	-	-	-	-	549	-
	107,913	38,044	57,826	232,546	3,317	439,646	427,023

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimising the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Company is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

The tables below and overleaf summarise the re-pricing mismatches on the Company's assets and liabilities as at 31 December 2018 and 31 December 2017. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
As at 31 December 2018							
Assets							
Cash and balances with central banks	36,711	4,054	-	-	-	539	41,303
Loans and advances to customers	97,272	32,809	1,747	54,541	7,600	182	194,151
Debt securities	111,950	-	2,040	60,029	55,948	-	229,967
Intangible assets	-	-	-	-	-	485	485
Investment property	-	-	-	-	-	8,757	8,757
Tangible fixed assets	-	-	-	-	-	19,160	19,160
Derivatives at fair value	350	-	-	-	-	-	350
Other assets	-	-	-	-	-	3,377	3,377
Prepayments and accrued income	-	-	-	-	-	435	435
Total assets	246,283	36,863	3,787	114,570	63,548	32,935	497,986
Liabilities							
Deposits by banks	1,260	-	-	-	-	4,090	5,350
Repurchase agreements	-	-	-	10,303	-	-	10,303
Customer accounts	60,780	24,140	36,615	216,359	147	64,769	402,810
Derivatives at fair value	1,458	-	-	-	-	-	1,458
Other liabilities	-	-	-	-	-	2,959	2,959
Accruals and deferred income	-	-	-	-	-	1,318	1,318
Provisions for liabilities	-	-	-	-	-	3,181	3,181
Shareholders' funds	-	-	-	-	-	70,607	70,607
Total liabilities	63,498	24,140	36,615	226,662	147	146,924	497,986
Interest rate sensitivity gap	182,785	12,723	(32,828)	(112,092)	63,401	(113,989)	-
Cumulative sensitivity gap	182,785	195,508	162,680	50,588	113,989	-	-

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Interest rate risk (continued)

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
As at 31 December 2017							
Assets							
Cash and balances with central banks	5,060	-	-	-	-	48,152	53,212
Loans and advances to banks	3,500	-	-	-	-	-	3,500
Loans and advances to customers	126,312	31,473	7,126	50,073	1,115	7,963	224,062
Debt securities	19,303	8,024	38,952	80,733	60,084	-	207,096
Intangible assets	-	-	-	-	-	587	587
Investment property	-	-	-	-	-	7,970	7,970
Tangible fixed assets	-	-	-	-	-	17,617	17,617
Derivatives at fair value	2,868	-	-	-	-	-	2,868
Other assets	-	-	-	-	-	4,857	4,857
Prepayments and accrued income	-	-	-	-	-	293	293
Total assets	157,043	39,497	46,078	130,806	61,199	87,439	522,062
Liabilities							
Deposits by banks	434	-	-	-	-	9,204	9,638
Repurchase agreements	8,049	-	-	10,294	-	-	18,343
Customer accounts	49,366	19,765	32,243	217,569	3,176	77,720	399,839
Derivatives at fair value	9	-	-	-	-	-	9
Subordinated debt	-	2,015	-	-	-	-	2,015
Other liabilities	-	-	-	-	-	4,487	4,487
Accruals and deferred income	-	-	-	-	-	821	821
Provisions for liabilities	-	-	-	-	-	2,747	2,747
Shareholders' funds	-	-	-	-	-	84,163	84,163
Total liabilities	57,858	21,780	32,243	227,863	3,176	179,142	522,062
Interest rate sensitivity gap	99,185	17,717	13,835	(97,057)	58,023	(91,703)	-
Cumulative sensitivity gap	99,185	116,902	130,737	33,680	91,703	-	-

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Interest rate risk (continued)

The table below shows the weighted average interest rates received and paid for each class of financial asset and financial liability exposed to interest rate risk.

	2018	2017
Financial assets		
Balances with other banks	0.47%	0.30%
Loans and advances to customers	5.47%	4.81%
Debt securities	3.50%	3.18%
Financial liabilities		
Deposits by banks	0.07%	0.03%
Repurchase agreements	1.93%	1.71%
Customer accounts	1.83%	1.77%
Subordinated debt	2.71%	2.61%

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on annual income of a 100 basis point rise or fall in the base rate of the main currencies traded by the Company, and assumes a constant balance sheet position:

	2018		2017	
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
GBP	3,178	(3,281)	3,964	(4,106)
USD	3,140	(3,399)	(6,106)	6,551
EUR	(8)	8	(220)	228

Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Company's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimising the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. The Company may from time to time take open positions on its own account (proprietary trading) but these are closely monitored to ensure they remain within the overall foreign exchange policy set by the Board.

The Company does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Foreign exchange risk (continued)

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book). The table set out in note 9 gives details of the notional principal amounts and fair values as at 31 December 2018 and 31 December 2017.

The Company has no significant structural currency exposures that are not covered by forward foreign exchange contracts. The tables shown below and overleaf give details of the Company's assets and liabilities as at 31 December 2018 and 31 December 2017, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Company are matched.

	Sterling £'000	US dollars £'000	Euro £'000	Other currencies £'000	Total £'000
As at 31 December 2018					
Assets					
Cash and balances with central banks	19,209	14,676	6,663	756	41,304
Loans and advances to customers	114,878	79,269	4	-	194,151
Debt securities	141,703	88,264	-	-	229,967
Derivatives at fair value	350	-	-	-	350
Intangible assets	485	-	-	-	485
Investment property	8,757	-	-	-	8,757
Tangible assets	19,160	-	-	-	19,160
Other assets	2,504	858	10	5	3,377
Prepayments and accrued income	435	-	-	-	435
Total assets	307,481	183,067	6,677	761	497,986
Liabilities					
Deposits by banks	4,257	941	152	-	5,350
Repurchase agreements	10,303	-	-	-	10,303
Customer accounts	369,399	27,102	6,303	6	402,810
Derivatives at fair value	1,458	-	-	-	1,458
Pension fund liability	-	-	-	-	-
Other liabilities	2,549	160	192	58	2,959
Accruals and deferred income	1,318	-	-	-	1,318
Provision for liabilities	3,181	-	-	-	3,181
Shareholders' funds	80,976	(10,369)	-	-	70,607
Total liabilities and capital	473,441	17,834	6,647	64	497,986
Net (liabilities)/assets	(165,960)	165,233	30	697	-
Net currency forwards	165,579	(166,650)	-	-	(1,071)
Net position	(381)	(1,417)	30	697	(1,071)

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Foreign exchange risk (continued)

	Sterling £'000	US dollars £'000	Euro £'000	Other currencies £'000	Total £'000
As at 31 December 2017					
Assets					
Cash and balances with central banks	26,123	24,783	1,593	713	53,212
Loan and advances to banks	3,500	-	-	-	3,500
Loans and advances to customers	85,430	122,361	16,271	-	224,062
Debt securities	106,663	100,433	-	-	207,096
Derivatives at fair value	2,868	-	-	-	2,868
Intangible assets	587	-	-	-	587
Investment property	7,970	-	-	-	7,970
Tangible assets	17,617	-	-	-	17,617
Other assets	4,294	563	-	-	4,857
Prepayments and accrued income	293	-	-	-	293
Total assets	255,345	248,140	17,864	713	522,062
Liabilities					
Deposits by banks	4,536	244	4,855	3	9,638
Repurchase agreements	10,294	8,049	-	-	18,343
Customer accounts	368,019	29,809	2,004	7	399,839
Derivatives at fair value	9	-	-	-	9
Other liabilities	3,328	807	310	42	4,487
Accruals and deferred income	2	819	-	-	821
Provision for liabilities	2,747	-	-	-	2,747
Subordinated debt	2,015	-	-	-	2,015
Shareholders' funds	85,685	(1,566)	44	-	84,163
Total liabilities and capital	476,635	38,162	7,213	52	522,062
Net (liabilities)/assets	(221,290)	209,978	10,651	661	-
Net currency forwards	225,559	(211,979)	(10,637)	-	2,943
Net position	4,269	(2,001)	14	661	2,943

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Foreign exchange risk (continued).

The carrying amounts of derivative assets and liabilities represent fair values and have been included in the heading of the various currencies in which they occur. Foreign exchange risk on these instruments has been reflected through currency swaps. The notional principal (note 9) are amounts in respect of forward foreign exchange derivatives which are utilised for managing the foreign exchange risk position of the Company.

The sensitivity analysis table below shows the impact on the Company's profit and loss of possible changes in significant currency exposures based on historical volatility and relevant assumptions regarding near term future volatility.

	2018		2017	
	10% increase £'000	10% decrease £'000	10% increase £'000	10% decrease £'000
USD	(141)	141	(200)	200
EUR	3	(3)	1	(1)

Regulatory risk

Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with an increasing array of regulatory requirements and expectations from banking regulators. Regulatory risk governance begins at the Board level and cascades throughout the organisation. The Company, through its compliance and audit functions, ensures there is adherence to the applicable regulatory requirements, and the resources required for effective compliance are adequate and competent. This ensures regulatory risk is minimised without jeopardising shareholders expectations. Details of the Company's risk management policy can be found in the unaudited Pillar III disclosures on the Company's website www.ubluk.com.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

22. Financial instruments and risk management (continued)

Capital management policy

The Company manages its capital through the Basel 3 framework which was enacted in the United Kingdom from 1 January 2014 via the fourth Capital Requirements Directive ('CRD 4') and the Capital Requirements Regulation ('CRR'). Further details of the Company's capital management policy can also be found in the unaudited Pillar III disclosures, referred to in the paragraph above. The table below, based on the audited financial statements, shows the breakdown of the Company's capital resources:

	2018	2017
	£	£
<u>Tier 1 capital</u>		
Share capital	45,000,000	45,000,000
Retained earnings	25,134,758	29,993,994
Revaluation reserve	472,212	9,168,615
Deferred tax asset arising from tax losses	-	(1,661,158)
Intangible assets	(485,176)	(587,124)
Total – Tier 1 capital	70,121,794	81,914,327
<u>Tier 2 capital</u>		
Subordinated debt	-	332,869
Collective provision	854,078	1,634,903
Total – Tier 2 capital	854,078	1,967,772
Total capital	70,975,872	83,882,099

The Company has not reported any breaches of its capital requirements during the year (2017: no reported breaches).

23. Post-employment benefits

United National Bank Limited Pension and Life Assurance Scheme

As part of the Shareholders' Agreement ('the Agreement') signed on 9 November 2001 between the Company and the shareholders, United Bank Limited and National Bank of Pakistan, it was agreed that the Company may participate as an associated employer in the United Bank Limited Pension and Life Assurance Scheme ('the Scheme') with effect from completion of the transfer of the businesses (19 November 2001) ('the Completion Date'). The Scheme is classified as a defined benefit scheme providing benefits based on final pensionable salary.

Under the terms of the Agreement, the Company is responsible for the funding requirements of the active members whose employment transferred to the Company on the Completion Date and for any new members admitted to the Scheme after this date. United Bank Limited remains responsible for the funding of the deferred members as at the Completion Date.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the Scheme's trust documentation. At present the sole trustee of the Scheme is Pitmans Trustees Limited.

United National Bank Limited

Notes to the accounts

Year ended 31 December 2018

23. Post-employment benefits (continued)

United National Bank Limited Pension and Life Assurance Scheme (continued)

This Scheme is subject to risks in relation to changes in inflation, future salary increases and to changes in the value of investments and the returns derived from such investments. An investment strategy is in place which has been developed by the pension trustees in order to manage and mitigate such risks.

A comprehensive actuarial valuation of the scheme, using the projected unit credit method, was carried out as at 31 December 2018 by Premier Pensions Management, independent consulting actuaries.

The amounts recognised are as follows:

	2018 £'000	2017 £'000
Present value of funded obligations	(5,799)	(6,130)
Fair value of plan assets	5,949	5,969
Gross pension asset /(liability)*	150	(161)
Deferred tax asset	-	27
Net pension asset/ (liability)	150	(134)

*The gross pension asset has been restricted to Nil.

The amounts recognised in profit or loss is as follows:

	2018 £'000	2017 £'000
Interest income	85	138
Interest expense	(145)	(163)
Net interest expense	(60)	(25)

The amounts recognised in other comprehensive income are as follows:

	2018 £'000	2017 £'000
*Gains and losses during the year	221	836
Movement in related deferred tax asset	(27)	(138)
Gains recognised in Statement of Comprehensive Income	194	698

*The gains and losses comprise an actuarial gain of £181k (2017:£836k) and £40k (2017:£Nil) contribution by the Company. The £40k (2017: £Nil) has been expensed by the Company as part of the administrative costs.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

23. Post-employment benefits (continued)

United National Bank Limited Pension and Life Assurance Scheme (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
	£'000	£'000
As at 1 January	6,130	6,350
Interest expense	202	163
Actuarial gain	(385)	(188)
Benefits paid	(148)	(195)
	<u>5,799</u>	<u>6,130</u>
Balance at 31 December	<u>5,799</u>	<u>6,130</u>

Changes in the fair value of plan assets are as follows:

	2018	2017
	£'000	£'000
As at 1 January	5,969	5,378
Interest income	142	138
Actuarial (losses)/gain	(54)	648
Employer contribution	40	-
Benefits paid	(148)	(195)
	<u>5,949</u>	<u>5,969</u>
Balance at 31 December	<u>5,949</u>	<u>5,969</u>

The major categories of plan assets as a percentage of total plan assets are as follows:

	2018	2017
Insurance policies	66.47%	64.68%
Guaranteed Annuities Rates	7.00%	7.90%
Annuities	26.53%	27.42%
	<u>100.00%</u>	<u>100.00%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The fair values of plan assets were as follows:

	2018	2017
	£'000	£'000
Insurance policies	3,954	3,821
Guaranteed Annuity Rates	417	472
Annuities	1,578	1,676
	<u>5,949</u>	<u>5,969</u>
Total	<u>5,949</u>	<u>5,969</u>

The liabilities and assets of the Scheme noted in the tables above relate to those employees for whom the Company has a funding liability.

The asset value supplied by the insurance company for 2018 is on an ongoing basis. If the policy had been surrendered at 31 December 2018 the surrender value would have been £3,954,000 (2017: £3,821,000). It is not the Company's intention to surrender the policy.

United National Bank Limited

Notes to the accounts

Year ended 31 December 2018

23. Post-employment benefits (continued)

United National Bank Limited Pension and Life Assurance Scheme (continued)

Principal assumptions are set out below:

The pension plan has not invested in any of the Company's own financial instruments or other assets of the Company. Principal actuarial assumptions at the reporting date (expressed as weighted averages) are set out below:

	2018	2017
Rate of increase of pensions in payment	3.00%	3.00%
Rate of revaluation of pensions in deferment	2.50%	2.50%
Discount rate	2.75%	2.40%
Price inflation (RPI)	3.40%	3.40%
Price inflation (CPI)	2.60%	2.60%
Expected return on assets	2.75%	2.40%
<i>Post retirement mortality</i>		
Current pensioners at 65 - male	86.8	86.9
Current pensioners at 65 - female	88.7	88.8
Future pensioners at 65 - male	87.9	88.1
Future pensioners at 65 - female	90.0	90.0

Total charge for the year (see note 3)

The total amount charged (excluding amounts debited to net interest income) during the year in respect of the defined benefit contribution scheme and other money purchase schemes amounted to £737,264 (2017: £524,014). The charge (current service cost) for the defined benefit scheme was £40,000 (2017: £Nil).

Of the contributions paid in the year, £32,607 (2017: £25,100) was made on behalf of directors. It is estimated that contributions of £625,409 would be made to the defined contribution scheme in 2019 and £43,769 to the defined benefit scheme.

24. Ordinary dividend paid

No Ordinary dividends were paid in 2018 (2017: £2.2million). The directors, at their Board meeting held on 25 February 2018, did not declare an ordinary dividend for the financial year ended 31 December 2018.

25. Ultimate parent company and controlling party

In 2011, Bestway (Holdings) Limited, a company incorporated in the UK acquired a majority interest in United Bank Limited, a company incorporated in Pakistan making it the ultimate parent company and controlling party. The Bestway Group underwent an internal reorganisation on 21 March 2018. A new holding company called Bestway Group Limited was introduced into the Bestway group holding structure above Bestway (Holdings) Limited. Bestway Group Limited is now the ultimate parent of United National Bank Limited. Bestway Group Limited is the largest group of accounts in which United National Bank Limited is consolidated. Copies of such accounts can be obtained from the Company Secretary, Bestway Group Limited, 2 Abbey Road, Park Royal, London NW10 7BW.

The immediate parent company and controlling party of United National Bank Limited is United Bank Limited, a company incorporated in Pakistan and the parent undertaking of the smallest group of which the Company is a member and for which group accounts are prepared. Copies of such accounts may be obtained from the Company Secretary, United Bank Limited, I.I.Chundrigar Road, Karachi, Pakistan. The shareholding structure of the Company is set out in note 19.

United National Bank Limited

Notes to the accounts Year ended 31 December 2018

26. Related party transactions

During the year, two related companies undertook commercial arm's length transactions with the Company, mainly in the form of deposits placed with the Company. Below are details of amounts due to / from each party as at 31 December 2018 and 31 December 2017.

	United Bank Ltd		National Bank of Pakistan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Loans to	5,851	7,370	216	590
Deposits from	14,094	3,923	145	4,542
Subordinated loan issued to	-	2,015	-	-
Contingent letter of credit liabilities	-	-	-	-
Forward FX purchases	-	-	-	-
Forward FX sales	-	-	-	-
Interest receivable from	585	164	6	10
Interest payable to	2	51	10	-
Preference share dividend paid to	306	778	-	-

During 2013, United Bank Limited converted their preference share dividend in respect of 2012 into a subordinated loan of £2,006,000. The loan was for a term of 5 years and was fully repaid in October 2018.

In 2016, the Company issued a personal loan to Mr M Aminuddin, a director. As at 31 December 2018, the outstanding balance on the loan was £Nil (2017: £23,982). An amount of £Nil (2017: £1,036) was charged as interest during the year. As at 31 December 2018, Mr M Aminuddin had deposits of £Nil (2017: £65). An amount of £Nil (2017: £Nil) was paid as interest in respect of these deposits.

27. Events after the balance sheet date

There have been no significant events between the year end and the date of approval of the accounts which would require a change or additional disclosure in the accounts.