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31 December 2016

Annual Report and Financial Statements

UNITED BANK UK

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OFFICERS AND PROFESSIONAL ADVISERS

Directors

Mr M Kamal (Chairman)

Mr H Akhai (resigned 3 May 2016)

Mr M Aminuddin* (appointed 22 January 2016)

Mr I Ashraf

Mr B Hasan

Mr W Husain

Mr M M Khan (resigned from CEO role on 22 January 2016 and appointed NED on 3 May 2016)

Mr R Wilton (Chairman of the Audit Committee)

* Executive Director

Secretary

Mr B G Firth

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

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STRATEGIC REPORT

The Directors have pleasure in presenting the Strategic Report and the audited financial statements for the year to 31 December 2016 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 Company registered 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 products through its branch network in major cities in the UK; wholesale banking, treasury and money transmission services to Financial Institutions, and trade finance facilities to businesses of all sizes. There have been no significant changes in the Company's principal activities in the year under review. 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 (page 23).

Business results

During 2016 the political environment and financial markets in the UK have been dominated by the EU referendum vote. In spite of the increased volatility from the 'unexpected' result in June, and the surprise reduction in the Bank of England base rate in August, the Company's business model has proved resilient by delivering an increase in revenues and underlying profits[1] for the financial year.

[1] Underlying profit excludes the one-off unrealised fair value gain of £2.7million on the revaluation of investment property from 2015's profit on ordinary activities before taxation.

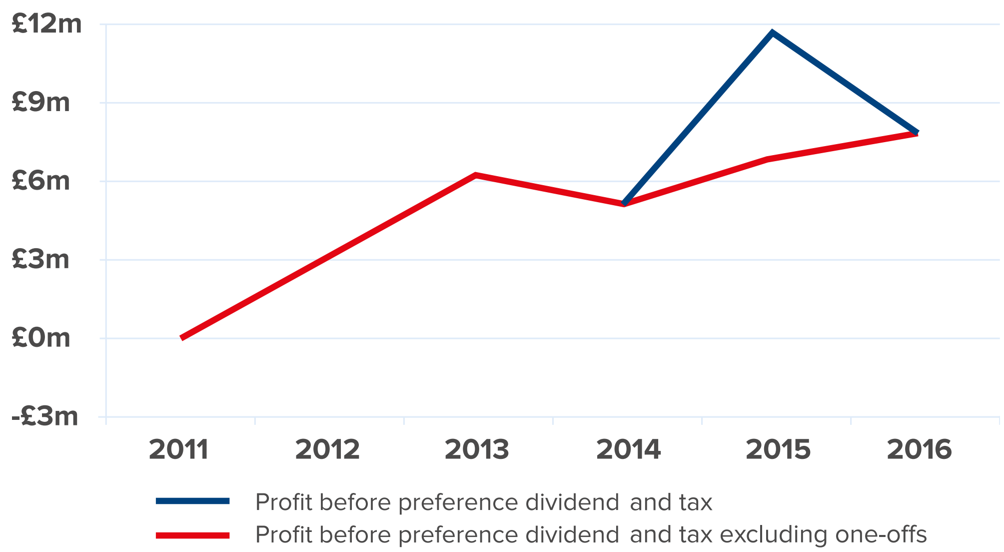
A six year summary of profit on ordinary activities before taxation is shown below:

	2016	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
Profit on ordinary activities before taxation	7,400	9,605	4,960	6,221	1,341	75

The following financial measures are non-Generally Accepted Accounting Principles (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 profit on ordinary activities before taxation and preference dividend achieved since 2011:

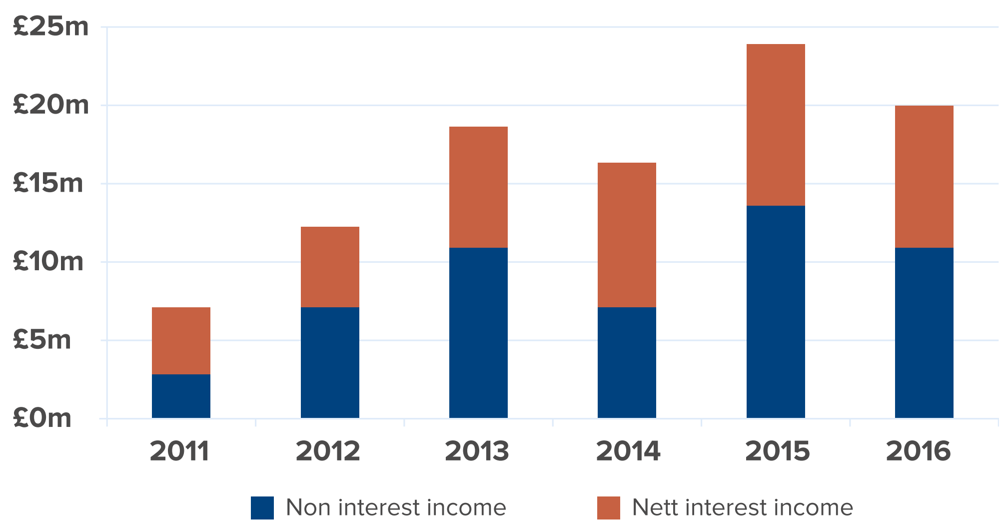
Profits on ordinary activities before taxation and preference dividend



Profit before tax and preference share dividend has reduced by £4million during 2016. However, if profit before tax and preference dividend is adjusted for the one-off items in 2015 from the sale and revaluation of investment properties then there has been a £1million (14%) increase during 2016.

The graph below illustrates the growth in operating income excluding preference share dividend since 2011, and shows the split between net interest income and non-interest income:

Operating income

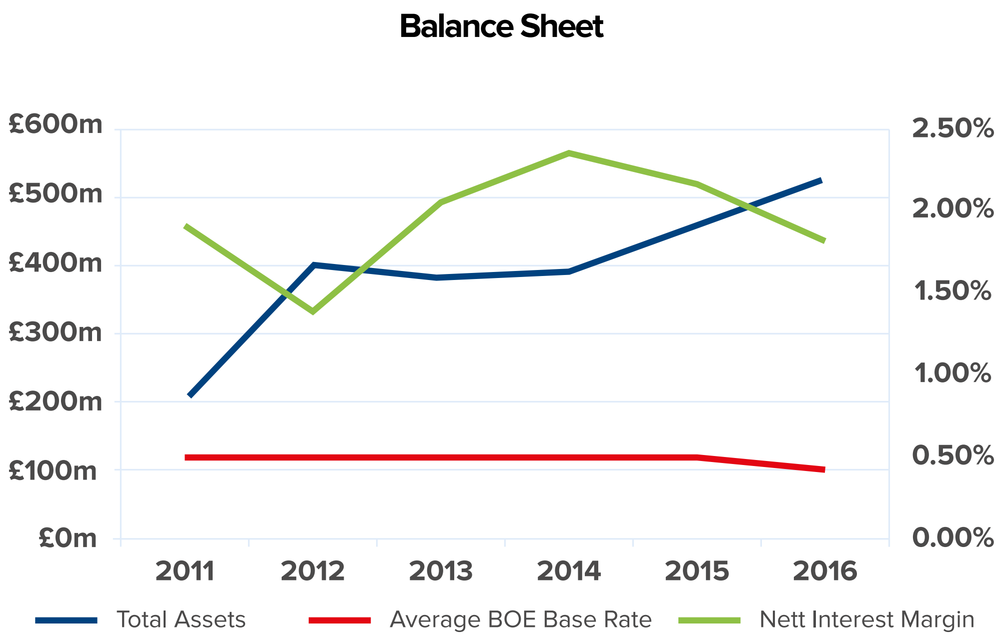


Operating income has reduced by £4million during 2016. However, if operating profit is adjusted for the one-off items in 2015 from the sale and revaluation of investment properties then there has been a £1million (6%) increase during 2016.

Non-interest income excluding one-off items in 2015 from the sale and revaluation of investment properties has increased by £2million (23%) during 2016 due to the increase in foreign exchange business and capital gains from the sale of debt securities.

Net interest income excluding preference dividend has reduced by £0.5million (1%) due to a reduction in the Bank of England base rate and de-risking at the time of the EU referendum vote in order to be prepared for increased market volatility.

The graph below illustrates the growth in the balance sheet since 2011 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 balance sheet has increased by £59million (13%) during 2016 to cross £0.5billion for the first time in the Company's history.

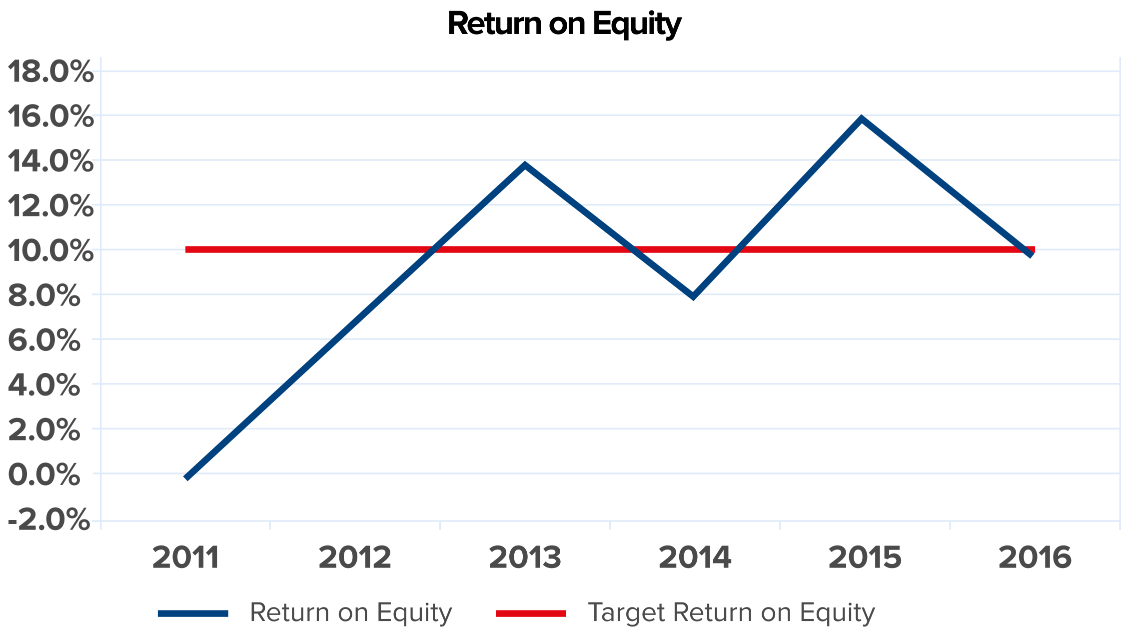
Net interest margin has been squeezed by 34 basis points from a combination of contracting yields from the lower interest rate outlook in the UK, increased liquidity to cope with market stress during the EU referendum, and increasing SWAP costs from the divergence in the outlook for GBP and USD interest rates.

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

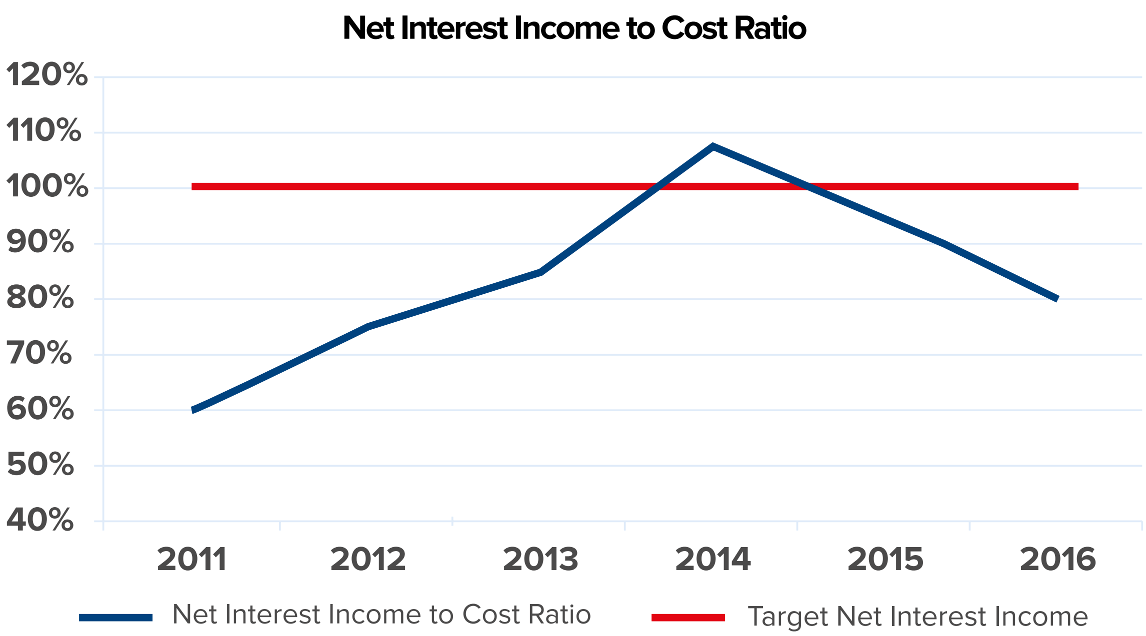
This is defined as the operating profit before taxation and preference dividend divided by shareholders' funds. This measures the shareholders' return on their investment. The graph below illustrates the return on equity since 2011:



This year, the return on equity ratio decreased to 9.9% (2015: 15.8%). In spite of the reduction the return on equity was still on target with the shareholders' expectations. The Company benchmarks itself against other UK incorporated banks of similar size and business lines and 2016's result would place it near the top of its peer group.

2. Net interest income to cost ratio

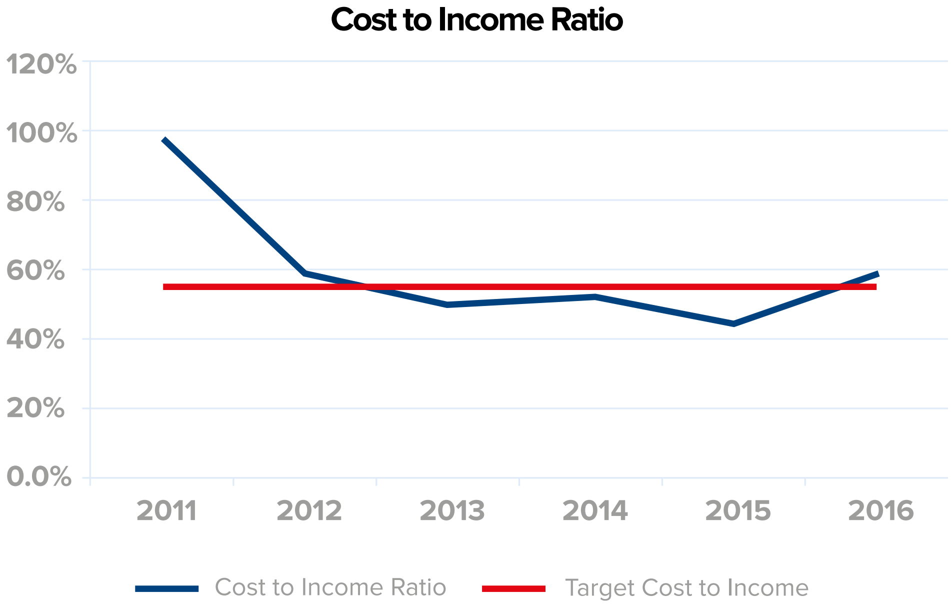
This is defined as net interest income before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio indicates whether the net recurring income from the balance sheet is able to sustain the cost base of the Company. The graph below shows the net interest income to cost ratio since 2011:



This ratio has been adversely affected by a contraction in net interest income and an increase in costs. The reduction in the Bank of England base rate, an increase in the SWAP cost for USD funding, and a higher proportion of liquid assets due to the EU referendum have combined to reduce net interest income by 9% during the year.

Cost to income ratio

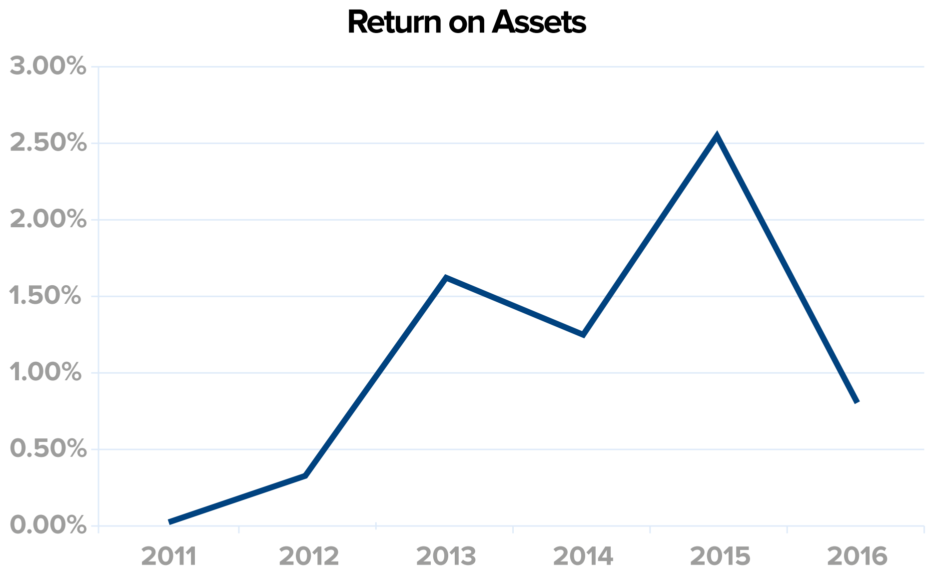
This is defined as operating income before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio measures the operating efficiency of the Company; the lower the ratio the less spent on operating expenses for every £1 earned in revenue. The graph below shows the cost to income ratio since 2011:



The cost to income ratio for 2016 is 59% (2015: 45%); not as good as last year and also above target. The main cause of the deterioration over the last year has been the £1.1million (11%) increase in operating expenses, of which £0.6million relates to one-off items. Income has also dropped by £3.4million (14%) due mainly to £2.7million of one-off unrealised gains arising in 2015 from the revaluation of investment property. The Board expect the ratio to return to target over the coming year.

Return on Assets Ratio

The fourth Capital Requirements Directive (CRD IV) came into effect at the start of 2014 and requires the Company to report on its return on assets. Return on assets is defined as profit on ordinary activities after taxation divided by total assets. The graph below shows the return on assets since 2011:



The return on assets for 2016 is 0.7% (2015: 2.5%). The significant deterioration has been caused by a number of items already mentioned above, and also a £2million reduction of the deferred tax asset following the enactment of a reduction in the UK corporation tax rate and also the new restriction in the amount of tax losses that can be used by banks to offset current year taxable profits.

Business Review

The Company divides itself into 3 distinct business lines; Retail Bank, Financial Institutions, and Treasury. Remittances were treated as a separate business line in the past but this product is now combined with the Retail Bank. 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

The Company has a network of 6 branches that are located within the chosen target market and 6 booths situated at the Pakistan High Commission Consulates. 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 deposits have increased by £49million (13%) as the Company accelerated its deposit-taking whilst interest rates and deposit rates were low. Focus was placed upon increasing the CASA (Current Account and Savings Account) deposits in order to reduce the cost of deposits; which has reduced by 6 basis points during the year.

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. The outcome of the EU referendum mid-year and the resulting uncertainty has meant that the Company has increased retail lending by just £9million (16%), and kept most of its new funds in liquid assets whilst it assesses the impact upon the UK market from a BREXIT.

Money transmission services to Pakistan have always provided a regular revenue stream, but the Company's share of this $2billion a year market* is still very small. The Company's online remittance product, UBL Net Remit, continues to expand through the addition of new customers, and now provides more than 85% of the Company's home remittances by volume.

During 2016 the Company decided to end its Super-Agent remittance channel due to difficulty in overseeing compliance with the Company's anti-money laundering policies. This has had an adverse impact on remittance volumes and revenues.

Trade Finance

The Company has traditionally provided trade finance services to businesses exporting to Pakistan. However, trade flows from the Pakistan market have been in decline so the Company has moved its focus to Bangladesh

* State Bank of Pakistan

and western African countries such as Nigeria and Ghana, and to a lesser extent from Central and Eastern European countries.

The Company has suffered from not diversifying quickly enough and countries in which the Company has been active have suffered recently from downturn in commodity prices. Consequently, at the year-end, balance sheet outstandings were 15% down on the previous year. The Company will continue to broaden its geographic footprint in order to diversify the revenue stream from trade related transactions.

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 available for sale investment portfolio and a floating rate syndicated loan portfolio.

The investment portfolio has continued to deliver an above benchmark return. However, with interest rates expected to rise in the medium term the Board decided to cap the Company's exposure to fixed income securities. In spite of the cap, Treasury were able to realise capital gains during the year of £5million (2015: £3.7million) due to the prolonged spell of volatility in markets.

Through active management the fair value of the investment portfolio has also improved by £2.6million ending the year at an unrealised loss of £8.2million (2015: £10.8million loss).Treasury also manages a floating rate syndicated loan portfolio, which consists mainly of collateralised primary issue loans from rated counter parties in the emerging markets. The syndicated loan portfolio was £72million at the end of 2016 (2015: £89million), and provides some resilience against increasing interest rates in the future.

Future Developments

The Company's strategy is set by the Board of Directors. A five-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.

The Management and Board undertook a review of strategy during 2016. This culminated in a revised Business Plan that targets a 10% year on year increase in the balance sheet and a 10% return on capital.

The emphasis going forward will be on the continued development of sustainable and diversified fee revenue streams, an increase in the proportion of earning in Sterling, and the efficient utilisation of capital and liquidity resources. In particular, the Company will focus primarily on expanding its fast, secure and convenient money transmission service by introducing new channels and adding new countries on the send and receive side. Secondly, the Company will continue to diversify its trade services into new territories, and turn its mainly transactional business into a relationship that deepens through multi-product sales. The Company will also look to expand its foreign exchange products and services to consumers, corporates and wholesale counter-parties.

In respect of balance sheet growth the Company will focus on lowering the cost of funding by raising more relationship based low cost Current Account and Savings Account deposits (CASA). A majority of these funds will be deployed into UK lending, such as the Company's Islamic mortgage product, which has undergone a complete review during 2016.

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 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 five years.

The Board chose to conduct the review over a 5 year period as it coincided with its business plan projections, which covered the period from 2016 to 2020.

The Company devised and ran a series of stress scenarios against its 31st December 2015 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 in operation 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

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 risk 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. Formal standing committees are maintained for effective management and oversight of these risks. Capital is maintained by ensuring that risks are identified and managed effectively. The Risk Management Policies of the Company including the use of financial instruments are set out in note 21.

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 who valued the building in the previous financial year has confirmed that the range of valuations obtained in the previous year are still valid, and the carrying value of the building in these accounts remains at the lower end of that range.

A second key estimate included within the year's financial results is the recognition of a £2million deferred tax asset for brought-forward tax losses. The Company has had increasing profits for the last 5 years and these have followed the business plan growth trajectory. Therefore the profits for the next 5 years contained within the business plan have been used as the basis for calculating the deferred tax asset. The planned profits have been discounted by 20% to allow for volatility and also the partial reversal of the unrealised revaluation loss arising from the available-for-sale investment portfolio. Allowance has been made in the deferred tax asset calculation for the restriction to 25% of taxable profits that can be set-off against brought-forward tax losses. The Board believe that the calculation is a fair assessment of future taxable profits. Further details of principal risks and uncertainties are set out in 1(t).

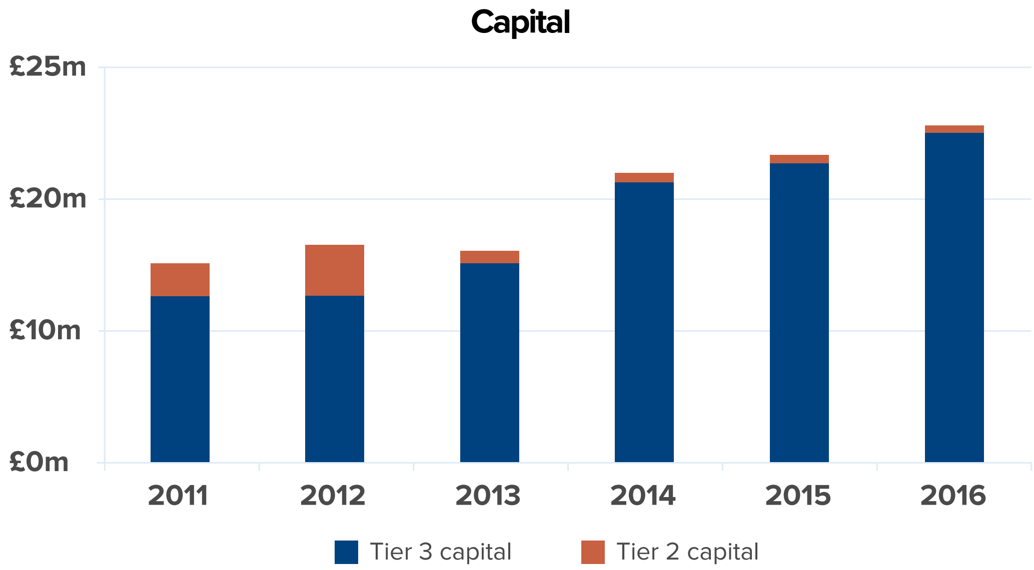
Capital Resources

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. This is confirmed by their injection of £15million of additional funding in October 2014, taking their total investment in the Company to £45million. 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 the capital resources did not fall below £61million during the year.

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 below shows the growth in capital resources since 2011:



Tier 1 capital has increased by £6.6million (10%) over the year as a result of the retained profits and the reduction in the unrealised loss on revaluation of the available-for-sale debt securities and deferred tax assets. The Company also paid an ordinary dividend of £2.5million during the year. Tier 2 capital has increased by £0.2million (9%) due to the increase of the collective provision although this was partially offset by the amortisation of the amount of the subordinated loan qualifying as capital resources.

Defined Benefit Pension Scheme

The Company's defined benefit pension scheme had its last triennial valuation carried out in 2014. The valuation showed a £0.5million surplus as at 1 January 2014.

The FRS 102 valuation of the pension scheme's assets and liabilities for the 2016 year-end has shown a £0.7million increase in the deficit over the last year, mainly due to the decrease in the annualised yield of an AA rated 15 year corporate bond, which is used to discount the Scheme's liabilities. The increase in the deficit has been recognised in the Statement of Comprehensive Income for the year. The Board continue to believe that the remaining deficit of £1million is temporary, and the funding position will improve as the economy recovers.

Preference Shares

The Company uses preference shares to return its profits resulting from the utilisation of tax losses and the recovery of written-off loans back to the parent bank that those tax losses and bad debts were transferred from upon merger (see note 16 for further details).

In the past, the utilisation of tax losses when calculating the tax charge for the year would lead to the recognition of a preference share liability in the financial statements. Last year, following a closer examination of the Shareholders Agreement that governs the preference share terms and conditions, it was decided that the preference share liability arises in the accounting year following the year when the tax losses are actually utilised. Therefore the preference share liability of £0.48million recognised in the financial statements relates to the tax losses utilised in the 2015 tax computation and submitted to HMRC during 2016.

Subordinated Loan

During 2013, the Company issued a 5 year subordinated loan of £2million payable to the parent bank, United Bank Limited upon maturity. In accordance with regulatory rules, the extent of the loan that qualifies as tier 2 capital is calculated by amortising the loan equally over its term. Full disclosure of the loan's terms and conditions can be found in note 25.

Liquidity Resources

The Company maintains a minimum amount of high quality unencumbered eligible assets in a Liquid Assets Buffer (LAB) in accordance with the Individual Liquidity Guidance (ILG) it has received from the Prudential Regulation Authority (PRA). The LAB is available to meet liquidity shortfalls arising during periods of market, idiosyncratic or market and idiosyncratic stress. 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 repo facility with a top tier counterparty to raise strategic or tactical funding when required.

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.

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 who have worked hard during the year to achieve the exceptional financial performance recorded by the Company.

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

Mr B G Firth
Company Secretary

DIRECTORS REPORT

The Directors have pleasure in presenting the annual report and audited financial statements for the year to 31 December 2016 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 M Kamal (Chairman)
Mr H Akhai (resigned 3 May 2016)
Mr M Aminuddin (Chief Executive Officer – appointed 22 January 2016)
Mr I Ashraf
Mr B Hasan

Mr W Husain
Mr M M Khan (resigned from CEO role on 22 January 2016 and appointed NED on 3 May 2016)
Mr R Wilton

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

There have been a number of changes in the membership of the Board during the previous financial year and therefore the Board decided to postpone an independent evaluation of its effectiveness until 2016. The review, which was facilitated by an external Company, looked at the effectiveness of both the Board and the Board Committee's activities and personnel, and assessed how the Board interfaces with Management too. An interactive questionnaire was completed in December 2015 by all Directors of the Company and those members of management who interface with the Board. The survey results were fed-back to the Board in 2016, and although the results were encouraging, the Board has agreed an action plan to address both areas identified by the external facilitators as 'could do better'.

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 and Compliance Committee
  Mr R Wilton (Chairman), Mr H Akhai (resigned 3 May 2016), Mr I Ashraf, Mr B Hasan, Mr M Khan (appointed 3 May 2016)
    - Oversight of financial reporting
    - Oversight of external audit
    - Oversight of internal control
    - Oversight of internal audit
    - Oversight of corporate governance and regulatory compliance
    - Oversight of financial crime including anti-money laundering
    - Oversight of compliance

- Board Risk Committee
  Mr W Husain (Chairman), Mr I Ashraf, Mr B Hasan, Mr R Wilton
    - 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.

- HR Remuneration and Appointments Committee
  Mr B Hasan (Chairman), Mr H Akhai (resigned 3 May 2016), Mr I Ashraf, Mr M Khan (appointed 3 May 2016), Mr R Wilton
    - 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

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.

The day-to-day activities of the Company are controlled by the Management Committee. Business development and performance is monitored by the Business Committee. The employees who served on the Management

Team and Business Committee during the year are set out overleaf along with their specific area of responsibility within the Company (* indicates member of the Management Committee).

Mr M Aminuddin* – Chief Executive Officer (appointed January 2016)
Mr M M Khan* - Chief Executive Officer (resigned January 2016)
Ms K Bhardwaj* – General Counsel (resigned July 2016)
Mr W Brown* – Head of Retail and Commercial Product
Mr N Dostmohammad – Head of Financial Institutions (resigned July 2016)
Mr C Durham* – Head of Compliance
Mr B Dyson* - Head of Human Resources (appointed January 2016)
Mr B Firth* – Chief Financial Officer, Chief Operating Officer and Company Secretary
Mr Z Haider* – Head of Treasury and Investments
Mr D Locking* - Head of Financial institutions (appointed June 2016)
Mr E O'Hara* - Chief Risk Officer (appointed June 2016)
Mr N Rahman* - Head of Commercial and Retail Banking (resigned November 2016)
Mr A Ul-Hasan – Head of Operations and Strategic Initiatives
Mr T Varkey – Head of Internal Audit

The Management Team 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.
- Conduct Risk Committee – responsible for the monitoring and management of 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.
- Investment Committee – responsible for managing and monitoring the investment and syndicated loan portfolios.
- Risk Committee – responsible for the oversight of risk management.
- Security Committee – responsible for the management of data security and business continuity.
- Steering Committee – responsible for the oversight of the implementation of strategic change within the Company.

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

Directors' Indemnification

The Company has arranged qualifying third party indemnity insurance for all of its 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 £79million at the end of 2016. Now that the Company has sufficient capital resources and is generating a stable and commensurate profit the Directors agreed to implement a dividend policy in 2015 to return 50% of the net annual distributable profits to the Shareholders. Therefore, the Shareholders' have declared a dividend of £2.2million (2015: £2.5million), being approximately 50% of 2016's net annual distributable profits.

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 labour force 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 HR Remuneration and Appointments 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 HR Appointments and Remuneration 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 ought to have taken as a Director in order to make himself 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

Mr B G Firth
Company Secretary

24 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNITED NATIONAL BANK LTD

We have audited the financial statements of United National Bank Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of directors and auditor

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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit 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.

Opinion 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 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 where 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.

Mr G Simpson
(Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katherine's Way, London E1W 1DD

Date: 24 March 2017

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
Interest receivable from debt securities		10,087,595	7,718,436
Interest receivable from Group undertakings		65,142	3,652
Other interest receivable and similar income		9,140,372	8,736,837
		19,293,109	16,458,925
Interest payable to Group undertakings		(558,126)	(2,344,328)
Interest payable		(9,715,587)	(6,368,685)
Net Interest Income		**9,019,396**	**7,745,912**
Fees and commissions receivable		3,475,840	3,391,588
Loss from foreign exchange		(2,084,527)	(4,281,251)
Fair value gain on derivatives	8	3,744,814	5,713,139
Fair value gain on investment properties		-	2,748,659
Profit on realised debt securities		5,043,480	3,674,133
Other operating income		346,832	2,342,909
Operating Income		**19,545,835**	**21,335,089**
Administrative expenses	2	(10,854,031)	(9,748,140)
Depreciation and amortisation	9 and 11	(883,599)	(823,226)
Impairment losses	7 and 21	(557,756)	(1,200,360)
Other debt recoveries		150,000	41,380
Total operating expenses		**(12,145,386)**	**(11,730,346)**
Profit on ordinary activities before taxation	3	**7,400,449**	**9,604,743**
Tax on profit on ordinary activities		(3,003,823)	2,146,674
Profit/(loss) on ordinary activities after taxation		**4,396,626**	**11,751,417**

The profit for the current year and the preceding year are derived from continuing operations. The notes on page 29 to 71 form part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income	Notes	2016 £	2015 £
Profit for the year		**4,396,626**	**11,751,417**
Re-valuation gain on freehold property	11	-	6,184,650
Movement on deferred tax relating to freehold property		-	(1,236,930)
Re-measurement gain on defined benefit pension schemes	22	(682,000)	329,000
Movement on deferred tax relating to pension liability		117,640	(62,000)
Revaluation of available for sale debt securities		3,234,823	(5,003,780)
Current tax related to available for sale debt securities		(645,382)	1,013,265
Deferred tax adjustment due to tax reduction		518,193	-
Total other comprehensive income		**2,543,274**	**1,224,205**
Total comprehensive income for the year		**6,939,900**	**12,975,622**

The notes on page 29 to 71 form part of these Financial Statements.

BALANCE SHEET

Balance Sheet	Notes	2016 £	2015 £
Assets			
Cash and balances at central banks		75,380,334	36,182,195
Loans and advances to customers	6	180,722,026	187,072,848
Debt securities		234,153,205	206,464,999
Derivatives at fair value	8	930,058	6,426
Intangible assets	9	656,451	487,526
Investment properties	10	7,970,068	7,970,068
Tangible fixed assets	11	17,881,812	18,025,897
Other assets	12	3,924,840	6,019,244
Prepayments and accrued income		643,737	874,583
Total assets		**522,262,531**	**463,103,786**
Liabilities			
Deposits by banks	13	12,841,595	15,434,901
Repurchase agreements	14	10,298,714	-
Customer accounts	15	404,285,205	354,807,797
Derivatives at fair value	8	2,801,297	5,787,571
Other liabilities	16	5,984,752	5,523,288
Accruals and deferred income		606,853	716,569
Provisions for liabilities	17	3,908,429	3,734,622
Subordinated debt	25	2,013,009	2,016,261
		442,739,854	**388,021,009**
Called up share capital	18	45,000,000	45,000,000
Investment revaluation reserve	21	(8,274,621)	(10,864,062)
Revaluation reserve		10,482,684	9,974,209
Profit and loss account		32,314,614	30,972,630
Shareholders' funds		**79,522,677**	**75,082,777**
Total liabilities and capital		**522,262,531**	**463,103,786**
Memorandum items			
Contingent liabilities (contract amount):	19		
Letters of credit		2,402,120	3,729,638
Guarantees		524,327	389,522
		2,926,447	**4,119,160**
Commitments	20	705,548	1,871,527

The notes on page 29 to 71 form part of these Financial Statements.

These financial statements were approved and authorised for issue by the Board of Directors on 24 March 2017.
Signed on behalf of the Board of Directors

Mr M Aminuddin
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital £	Retained earnings £	Investment revaluation reserve £	Revaluation reserve £	Total £
As at 1 January 2015	45,000,000	20,444,187	(6,873,547)	5,036,515	63,607,155
Profit for the year	-	11,751,417	-	-	11,751,417
Actuarial gain recognised relating to the pension scheme 22	-	329,000	-	-	329,000
Movement on deferred tax relating to pension liability	-	(62,000)	-	-	(62,000)
Fair value movement on available for sale investments	-	-	(5,003,780)	-	(5,003,780)
Current tax related to available for sale debt securities	-	-	1,013,265	-	1,013,265
Revaluation movement of tangible assets	-	-	-	6,184,650	6,184,650
Movement on deferred tax relating to freehold property	-	-	-	(1,236,930)	(1,236,930)
Total comprehensive income for the year	**-**	**12,018,417**	**(3,990,515)**	**4,947,720**	**12,975,622**
Transfer of depreciation on revaluation surplus	-	10,026	-	(10,026)	-
Dividend paid	-	(1,500,000)	-	-	(1,500,000)
Balance at 31 December 2015	**45,000,000**	**30,972,630**	**(10,864,062)**	**9,974,209**	**75,082,777**
Profit for the year	-	4,396,626	-	-	4,396,626
Actuarial loss recognised relating to the pension scheme 22	-	(682,000)	-	-	(682,000)
Movement on deferred tax relating to pension liability	-	117,640	-	-	117,640
Fair value movement on available for sale investment	-	-	3,234,823	-	3,234,823
Current tax related to available for sale debt securities	-	-	(645,382)	-	(645,382)
Deferred tax adjustment due to rate reduction				518,193	518,193
Total comprehensive income for the year	**-**	**3,832,266**	**2,589,441**	**518,193**	**6,939,900**
Transfer of depreciation on revaluation surplus	-	9,718	-	(9,718)	-
Dividend paid	-	(2,500,000)	-	-	(2,500,000)
Balance at 31 December 2016	**45,000,000**	**32,314,614**	**(8,274,621)**	**10,482,684**	**79,522,677**

The notes on page 29 to 71 form part of these Financial Statements.

Description of reserves

Share capital – represents the nominal value of shares that have been issued.

Retained earnings – 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.

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES	Notes	2016 £	2015 £
Profit before tax	5	7,400,449	9,604,743
Adjustments:			
Depreciation and amortisation	3	883,599	823,226
Net charge in respect of defined benefit pension scheme	22	10,000	20,000
Impairment losses on loans and advances and other items		407,757	1,200,360
Gain on sale of investment property		-	(2,185,143)
Fair value movement on investment properties	10	-	(2,748,659)
Accretion of discounts and amortisation of premiums		(7,681,412)	(7,228,083)
Interest payable on preference shares	16	479,110	1,639,183
Effects of exchange rate changes on cash and cash equivalents		(8,328,960)	167,996
		(14,229,906)	(8,311,120)
Decrease/(increase) in operating assets			
Change in loans to banks		-	5,121,233
Change in loans and advances		5,932,316	5,629,383
Change in derivative financial instruments		(923,632)	250,528
Change in other operating assets		1,697,341	(504,980)
		6,706,025	10,496,164
(Decrease)/increase in operating liabilities			
Change in deposits from banks and customers		55,213,062	53,389,439
Change in derivative financial instruments		(2,986,274)	1,495,975
Change in other operating liabilities		(891,069)	498,032
		51,335,719	55,383,446
Net cash inflow from operating activities		51,212,287	67,173,233
INVESTING ACTIVITIES			
Purchase of fixed assets	9 and 11	(907,238)	(499,724)
Sale of investment property		-	4,482,800
Purchase of debt securities		(197,319,973)	(165,771,556)
Proceeds on sale/maturity of debt securities		180,548,002	96,290,651
		(17,679,209)	(65,497,829)
FINANCING ACTIVITIES			
Repayment of obligations under finance lease		(12,107)	(8,187)
Payment to preference shareholders	16	(2,118,294)	(732,438)
Net increase/(decrease) in subordinated debt		(3,252)	940
Repurchase agreements	14	10,298,714	-
Dividends paid	23	(2,500,000)	(1,500,000)
Net cash flow from financing activities		5,665,061	(2,239,685)
Change in cash and cash equivalents		39,198,139	(564,281)
Cash and cash equivalents at the beginning of the year		36,182,195	36,746,476
Cash and cash equivalent at the end of year		75,380,334	36,182,195
Cash and cash equivalents consist of			
Cash at bank and in hand		67,051,374	36,350,191
Effects of exchange rate changes on cash and cash equivalents		8,328,960	(167,996)
Cash and cash equivalents		75,380,334	36,182,195

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.

NOTES TO THE ACCOUNTS

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 as well as 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 5 to 18. The Company has had increasing profits in the last 5 years and it is projected to be profitable into the foreseeable future. The Company has considerable financial resources together with a diversified and stable funding base. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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, having notified its shareholders which have not objected, 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 method. The effective interest rate 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 effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Calculation of the effective interest rate 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 effective interest rate 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 gain/ (loss) 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 (i), (ii) and (iii)).

All income derives from banking business is 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.

(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.
- The ability to measure reliably the expenditure attributable to the software during its development.

1. Accounting Policies

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- 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. The surplus or deficit on revaluation is recognised in the profit and loss account.

(h) Tangible fixed assets and depreciation

Tangible fixed 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 fixed 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.

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	20-30% per annum
Office equipment	15-25% per annum
Leasehold property	10% per annum
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.

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 effective interest rate 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 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.

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 substantially 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 are differences 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. 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.

1. Accounting Policies (continued)

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.

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events 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

The Company has chosen to apply the measurement and recognition provisions of IAS 39 Financial instruments: *Recognition* and *Measurement*.

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 effective interest rate 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 effective interest rate 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 measured at fair value with fair value gains or losses recognised directly in equity through the statement of other comprehensive income. Interest is calculated using the effective interest rate method and is recognised in profit or loss along with impairment losses.

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.

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 effective interest rate 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 included in equity. 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 effective interest rate 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 as an interest expense.

(q) Repurchase agreements and resale agreements

Repurchase and resale agreements are treated as collaterised 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 collaterised financing transaction with creditors ("Repos"). Assets and liabilities recognised under collaterised 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 profit or loss. 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 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 or loss. There were no contracts with embedded derivatives as at the year end.

1. Accounting Policies (continued)

(s) Geographical Analysis

The Company's primary focus is Retail Banking in the United Kingdom.

(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: 6 and 7)

At 31 December 2016 gross loans and advances totalled £186,846,508 (2015: £194,714,556) against which impairment allowances of £6,124,482 (2015: £6,779,415) 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) Fair value of financial instruments (Note: 21)

Where the fair value of financial instruments cannot be reasonably determined, 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 counter party, 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.

(iii) Defined benefit pension scheme (Note: 22)

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. See note 22 for the disclosures relating to the defined benefit pension scheme.

(iv) Useful economic lives of intangible and tangible fixed assets (Note: 9 and 11).

The annual depreciation charge for tangible fixed 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 note 9 and 11 for the carrying amount of the tangible and intangible assets and note 1(f) and 1(h) for the useful economic lives for each class of asset

(v) Recognition of deferred tax for brought forward losses (Note: 5)

During the year the Company recognised a £2million (2015:£4million) deferred tax asset for brought-forward tax losses. The Company has had increasing profits for the last 5 years and these have followed the business plan growth trajectory. Therefore the profit for the next 5 years contained within the business plan has been used as the basis for calculating the deferred tax asset. The planned profits have been discounted by 20% to allow for volatility and also the partial reversal of the unrealised revaluation loss arising from the available-for-sale investment portfolio. Allowance has been made in the deferred tax asset calculation for the restriction to 25% of taxable profits that can be set-off against brought-forward tax losses.

(vi) Revaluation of properties (Note 11)

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 2016 desktop valuation assessment conducted by Roger Meads; FRIC from John Lang LaSalle.

2. Administrative Expenses

	2016 No.	2015 No.
Average number of employees	111	99
Front Office	48	48
Back Office	63	51
	£	£
Wages and salaries	5,876,469	5,253,824
Social security costs	736,420	571,260
Other pension costs	512,426	423,401
Total staff costs	7,125,315	6,248,485
Other administrative expenses	3,728,716	3,499,655
	10,854,031	**9,748,140**

3. Profit on Ordinary Activities Before Tax

	2016 £	2015 £
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	50,000	54,000
-fees paid for audit-related assurance services *	38,500	38,500
-tax compliance services	6,500	6,500
-tax advisory services	11,040	87,005
-other assurance services	20,000	6,000
Depreciation and amortisation	883,599	823,226
Interest payable on preference shares	479,111	2,253,532
Defined contribution pension cost	512,426	423,401
Foreign exchange losses	2,084,527	4,281,251
Profit on realised debt securities	(5,043,480)	(3,674,133)
Changes in the fair value of derivatives	(3,744,815)	(5,713,139)
Changes in the fair value of investment properties	-	(2,748,659)
Rental of premises held under operating leases	104,490	87,831

* These fees were borne by the ultimate parent company and relate to the audit of interim financial information used for consolidation.

4. Directors' Emoluments

	2016 £	2015 £
Directors' fees and emoluments	545,451	384,143
Fees payable to Independent Non-Executive Directors	70,000	53,750
Pension contributions	24,056	24,510
	639,507	**462,403**

The highest paid Director received emoluments excluding pension contributions, totalling £274,720 (2015: £384,143) and the amount of pension contributions paid to the Company's defined contribution scheme was £2,056 (2015: £24,510). There were two Directors who were part of the Company pension scheme during the year (2015: one).

5. Taxation

(i) **Analysis of tax charge on ordinary activities**	**2016 £**	**2015 £**
Current tax charge	1,003,823	1,303,594
Deferred tax charge (credit) to profit and loss account:		
Origination and reversal of timing differences	1,400,000	(3,642,344)
Effect of change in tax rates	600,000	192,076
Tax charge/(credit) for the year	**3,003,823**	**(2,146,674)**
(ii) **Factors affecting tax charge (credit) for the current year**		
Profit on ordinary activities before tax	**7,400,449**	**9,604,743**
Tax at 20.00% (2015: 20.50%) thereon	1,480,090	1,944,960
Effects of:		
Preference share dividend	95,822	456,340
Non-deductible expenses	5,261	23,112
Increase/(decrease) in unrecognised losses	803,562	(80,374)
Recognition of losses not previously recognised	-	(4,728,357)
Tax rate differences	600,000	237,645
Prior year adjustment	19,088	-
Total tax charge (credit) for the year	**3,003,823**	**(2,146,674)**

Deferred Taxation

As at 31 December 2016 there were accumulated tax losses of £33.1million (2015: £36.6million) carried forward. A deferred tax asset of £2million (2015: £4million) has been recognised. The full deferred tax breakdown is shown overleaf.

5. Taxation (continued)

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £(527,742) (2015: £285,665).

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:

	2016 £	2015 £
Tax losses	2,000,000	4,000,000
Unrealised gain on properties	(2,936,429)	(3,454,623)
Pension scheme deficit	165,240	56,000
Total	(771,189)	601,377

The amount of deferred tax that would be expected to reverse in 2017 has been estimated as £0.3million. This comprises of £1.6million of losses that are expected to be used based on the forecast profit figures.

A deferred tax asset of £3,942,254 (2015: £2,725,278) has not been recognised in relation to accelerated depreciation and trading losses carried forward, but also includes provisions for the first time. The asset will be recognised when further future taxable profits are available against which the unused tax losses and unused tax credits can be utilised. The unrecognised deferred tax assets are:

	1 January 2016 £	Movement £	31 December 2016 £
Tax losses	2,589,748	1,030,550	3,620,298
Accelerated depreciation	135,530	69,375	204,905
Provisions	-	117,051	117,051
Total	**2,725,278**	**1,216,976**	**3,942,254**

6. Loans and Advances to Customers

2016	Non-performing loans £	Performing loans £	Total £
Remaining maturity:			
Over five years	-	16,763,987	16,763,987
Five years or less but over one year	-	73,348,534	73,348,534
One year or less but over three months	-	42,418,031	42,418,031
Three months or less	-	43,905,561	43,905,561
Overdue	10,410,395	-	10,410,395
	10,410,395	176,436,113	186,846,508
Impairment losses on loans and advances (note:7)	(6,124,482)	-	(6,124,482)
	4,285,913	**176,436,113**	**180,722,026**
Amount repayable on demand	-	1,608,606	1,608,606
(included within three months or less above)			
2015			
Remaining maturity:			
Over five years	-	14,852,325	14,852,325
Five years or less but over one year	-	69,482,329	69,482,329
One year or less but over three months	-	54,658,919	54,658,919
Three months or less	-	47,016,817	47,016,817
Overdue	8,704,166	-	8,704,166
	8,704,166	186,010,390	194,714,556
Impairment losses on loans and advances (note: 7)	(6,779,415)	-	(6,779,415)
	1,924,751	**186,010,390**	**187,935,141**
Amount repayable on demand	**-**	**5,732,010**	**5,732,010**
(included within three months or less above)			

7. Impairment Losses

Loans and advances

	Specific £	Collective £	2016 Total £	2015 Total £
At 1 January	6,063,091	716,324	6,779,415	7,557,090
Charge to profit and loss account	61,280	559,745	621,025	513,391
Release to profit and loss	(150,000)	-	(150,000)	(1,280,026)
Amounts written off	(1,125,958)	-	(1,125,958)	(11,040)
At 31 December	4,848,413	1,276,069	6,124,482	6,779,415

Debt Securities

	2016 £	2015 £
At 1 January	2,689,594	797,750
Charge to profit and loss account	-	1,891,554
Released on disposal of the related debt security	(2,689,594)	-
At 31 December	-	2,689,304

There are no other assets (2015: £Nil) that are subject to impairment except for investments and loans and advances as highlighted above.

8. Derivatives At Fair Value

		Fair Value	
2016	Notional amounts £	Assets £	Liabilities £
Exchange rate-related contracts			
Forward foreign exchange	278,984,147	930,058	2,801,297
2015			
Exchange rate-related contracts			
Forward foreign exchange	269,624,186	6,426	5,787,571

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

The fair value gain on derivatives of £3,744,814 (2015: £5,713,139) recognised in the profit and loss account is the difference between the fair value of forward foreign exchange contracts at the start and end of the year.

9. Intangible Assets

Cost	Computer software £
At 1 January 2016	2,878,874
Additions	575,599
At 31 December 2016	3,454,473
Amortisation	
At 1 January 2016	2,391,349
Charge for the year	406,673
At 31 December 2016	2,798,022
Carrying amount	
At 31 December 2016	656,451
At 1 January 2016	487,526

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.

10. Investment Property

Carrying amount	Property at Brook Street London £	Property at Thomas St Manchester £	Total £
At 1 January 2016	7,400,068	570,000	7,970,068
At 31 December 2016	7,400,068	570,000	7,970,068

The carrying value of the investment properties are based on a market based desktop valuations conducted by Roger Meads; FRICS from John Lang LaSalle in December 2016 and Tim Smee; FRICS from Quantum Valuation LLP in December 2015 as set out overleaf:

10. Investment Property (continued)

Property	Fair value £	Cost £	Accumulated Depreciation £	Historical Net Book value £
2 Brook Street, London	7,400,068	2,645,867	394,726	2,251,141
79 Thomas Street, Manchester	570,000	225,000	88,655	136,345
Total	7,970,068	2,870,867	483,381	2,387,486

At 31 December 2016, the future minimum leases rentals receivable under non-cancellable leases for the investment properties were as follows:

	2016 £	2015 £
Not later one year	109,899	294,089
Later than one year and not later than five years	99,572	207,632
Later than five years	23,922	43,325
	233,393	545,046

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 2 - 9 years.

11. Tangible Fixed Assets

	Computer Equipment £	Office equip-ment £	Lease-hold property £	Freehold land and buildings £	Total £
Cost or valuation					
At 1 January 2016	1,180,396	800,600	511,695	18,636,033	21,128,724
Additions	241,202	44,160	-	46,277	331,639
At 31 December 2016	**1,421,598**	**844,760**	**511,695**	**18,682,310**	**21,460,363**
Depreciation					
At 1 January 2016	988,201	624,975	328,567	1,161,084	3,102,827
Charge for the year	144,632	81,919	51,310	197,863	475,724
At 31 December 2016	**1,132,833**	**706,894**	**379,877**	**1,358,947**	**3,578,551**
Carrying amount					
At 31 December 2016	**288,765**	**137,866**	**131,818**	**17,323,363**	**17,881,812**
At 1 January 2016	**192,195**	**175,625**	**183,128**	**17,474,949**	**18,025,897**

	Carrying value 31 Dec 2016			Historical cost net book value 31 Dec 2016	
	Total	Tangible Fixed assets	Investment property	Tangible fixed assets	Investment property
Property	£	£	£	£	£
2 Brook Street, London	23,432,391	16,032,323	7,400,068	4,830,145	2,251,141
3-5 Oak Lane, Bradford	233,759	233,759	-	43 ,113	-
391-393 Stratford Road, Birmingham	460,913	460,913	-	56,079	-
79 Thomas Street, Manchester	570,000	-	570,000	-	136,345

The valuation amount relating to 2 Brook Street London property was based on a 2016 desktop valuation assessment conducted by Roger Meads; FRICS from John Lang LaSalle. The other property valuation amounts were based on a 2015 valuation assessment conducted by Tim Smee from Quantum Valuation LLP.

Included within freehold property is land £13,444,518 (2015: £13,444,518), which is not depreciated.

Assets under finance leases have a net book value of £25,716 (2015: £31,383) with minimum lease payments of £30,593 (2015: £38,268).

12. Other Assets

	2016 £	2015 £
Deferred tax	2,165,240	4,056,000
Remittance funds receivable	852,588	488,560
Capital work-in-progress	45,368	379,158
Security deposit	380,302	315,896
Advance payments	50,803	310,458
Rent deposits	302,779	302,779
Sundry debtors	127,760	166,393
	3,924,840	6,019,244

13. Deposits by Banks

	2016 £	2015 £
Repayable on demand	12,579,622	15,233,811
With agreed maturity dates or periods of notice by remaining maturity:		
One year or less but over three months	-	-
Three months or less but not repayable on demand	261,973	201,090
	12,841,595	15,434,901

14. Repurchase Agreements

	2016 £	2015 £
Repurchase agreements	10,298,714	-
	10,298,714	-

These are 4.5 year repurchase agreement sterling borrowings secured against UK gilts. The repurchase date is 22 July 2020 and the borrowings carry a coupon rate of 3mGBP Libor plus 53bps payable quarterly.

15. Customer Accounts

	2016 £	2015 £
Repayable on demand	82,936,112	69,160,391
With agreed maturity dates or periods of notice by remaining maturity:		
Over three years	119,135,447	76,956,292
Three years or less but over one year	90,555,995	102,550,499
One year or less but over three months	73,513,981	68,288,230
Three months or less	38,143,670	37,926,139
	404,285,205	354,881,551

16. Other Liabilities

	2016 £	2015 £
Taxation and social security	2,476,695	290,328
Unapplied deposits	680,397	397,915
Finance lease	27,674	32,334
Amounts due to preference shareholders (see below)	4	1,639,187
Accrued expenses	2,116,135	2,536,737
Other liabilities	683,847	626,787
	5,984,752	5,523,288

16. 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 2015	118,091	2	118,093
Tax losses utilised during the year	614,349		614,349
Realised debt recoveries	1,639,183	-	1,639,183
Interest payable to preference shareholders	2,253,532	-	2,253,532
Dividends paid	(732,438)		(732,438)
Amounts due on 31 December 2015	1,639,185	2	1,639,187
Tax losses utilised during the year	479,111	-	479,111
Interest payable to preference shareholders	479,111	-	479,111
Dividend Paid	(2,118,294)	-	(2,118,294)
Amounts due on 31 December 2016	2	2	4
Amounts due to preference shareholders comprise:			
- share capital	2	2	4

An estimated amount of £714,538 relating to utilisation of tax losses will be payable in the form of preference share dividend in 2017, when the tax losses are actually utilised.

17. Provision for Other Liabilities

	2016 £	2015 £
Provision for deferred tax	2,936,429	3,454,622
Pension liability (Note 22)	972,000	280,000
	3,908,429	3,734,622

18. Called Up Share Capital

	2016 No. of shares	2016 Amount £	2015 No. of shares	2015 Amount £
Issued, allotted and fully paid				
Ordinary shares of £1 each	45,000,000	45,000,000	45,000,000	45,000,000

19. 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. Of the total value, £520,507 is cash collateralised (2015: £1,337,609). 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.

20. Commitments

	2016 £	2015 £
*Unutilised overdraft commitments	514,982	1,871,527
Other commitments (less than one year)	190,566	-
	705,548	1,871,527

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

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, Glasgow and Manchester with remaining terms between 0.5 – 14 years.

	2016 £	2015 £
Within one year	94,500	294,089
Between one year and five years	277,249	207,632
Later than five years	300,000	43,325
	671,749	545,046

The Company had the following future minimum finance lease payments:	2016 £	2015 £
Within one year	15,296	12,756
Between one year and five years	15,296	25,512
Total gross payments	30,592	38,268
Less finance charges	(4,877)	(6,885)
*Carrying amount of liability	25,715	31,383

*The carrying amount of the finance lease reflected in the balance sheet (see note 16) includes accrued interest charges of £1,958 (2015: £951) totalling £27,674 (2015: £32,334).

Certain office equipment ("franking machines") is held under finance lease arrangements. The finance lease liabilities are secured by the assets held under finance lease (see note 11). The lease arrangements include fixed lease payments and a purchase option at the end of the lease term. The lease term remaining is 2 years.

21. 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, US Dollars or Japanese Yen 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 also has a Chief Risk Officer who reports directly to the Board. The Chief Risk Officer is responsible for overseeing all aspects of the 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.

21. Financial Instruments and Risk Management (continued)

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.

Fair values of 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 they 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 in the range of £2-4million (2015: £4-£7million).

Fair values of 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 (a) 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 to the right are the Company's financial instruments by category.

2016	AFS £'000	HTM £'000	FVTPL £'000	Loans and receivables £'000	Total £'000
Financial assets					
Cash and balances with central banks	-	-	-	75,380	75,380
Loans and advances to customers	-	-	-	180,722	180,722
Debt securities	180,624	53,529	-	-	234,153
Derivatives at fair value	-	-	930	-	930
	180,624	53,529	930	256,102	491,185
Financial liabilities					
Deposits by banks	-	-	-	12,842	12,842
Borrowings from financial institutions	-	-	-	10,299	10,299
Customer accounts	-	-	-	404,285	404,285
Preference shares	-	-	-	4	4
Subordinated debt	-	-	-	2,013	2,013
Derivatives at fair value	-	-	2,801	-	2,801
	-	-	2,801	429,443	432,244

2015	AFS £'000	FVTPL £'000	Loans and receivables £'000	Total £'000
Financial assets				
Cash and balances with central banks	-	-	36,182	36,182
Loans and advances to customers	-	-	187,935	187,935
Debt securities	206,465	-	-	206,465
Derivatives at fair value	-	6	-	6
	206,465	6	224,117	430,588
Financial liabilities				
Deposits by banks	-	-	15,435	15,435
Customer accounts	-	-	354,881	354,881
Preference shares	-	-	1,639	1,639
Subordinated debt	-	-	2,015	2,015
Derivatives at fair value	-	5,788	-	5,788
	-	5,788	373,970	379,758

Interest Income		
Available for sale	8,702	7,718
Held to maturity	1,386	-
Derivative financial instruments	-	414
Loans and receivables	9,205	8,327
	19,293	16,459
Interest Expense		
Derivative financial instruments	1,897	-
Loans and receivables (includes preference share dividend)	8,377	8,713
	10,274	8,713

21. Financial Instruments and Risk Management (continued)

Fair value measurement (continued)

A total of £391,688 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 (2015: £952,108 and £11,097 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.

Fair value measurement

Fair value hierarchy reflects the significance of observable market inputs for financial instruments measured at fair value.

(a) Quoted market prices

The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

(b) Valuation techniques using observable inputs

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g.) because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date.

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

	(a) £'000	(b) £'000	(c) £'000	Total £'000
2016				
Financial assets				
Available for sale investments	180,624	-	-	180,624
Derivatives at fair value	-	930	-	930
	180,624	930	-	181,554
Financial liabilities				
Derivatives at fair value	-	2,801	-	2,801
	-	2,801	-	2,801
2015				
Financial assets				
Available for sale investments	197,316	-	9,149	206,465
Derivatives at fair value	-	6	-	6
	197,316	6	9,149	206,471
Financial liabilities				
Derivatives at fair value	-	5,788	-	5,788
	-	5,788	-	5,788

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 2016 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 (a) 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 (2015: one) exposure of this nature. The underlying assumptions normally used in calculating the appropriate carrying amount includes: credit risk of the counter party, 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. A discount rate of 8.125% was used in arriving at the fair value of the 2015 exposure.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party 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.

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

		2016		2015
	Carrying Value £'000	Maximum Exposure £'000	Carrying Value £'000	Maximum Exposure £'000
Cash and balances with central banks	75,380	75,380	36,182	36,182
Loans and advances to customers				
Loans and receivables	180,722	180,722	187,073	187,073
Debt securities				
Available for sale	180,624	180,624	206,465	206,465
Held to maturity	53,529	53,529	-	-
Derivative financial assets				
Currency forwards	930	930	6	6
Unutilised overdraft commitments	-	514	-	1,872
	491,185	491,699	429,726	431,598

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

21. Financial Instruments and Risk Management (continued)

Credit risk (continued)

	Debt securities		Loans and advances to customers	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Carrying amount	234,153	206,465	180,722	187,935
Individually impaired				
Grade 5b: Substandard	-	-	4,024	-
Grade 6: Doubtful	-	-	3,528	5,824
Grade 7: Loss	-	12,672	2,858	2,880
Impairment allowance (specific)	-	(2,689)	(4,848)	(6,063)
Impairment allowance (collective)	-	-	(1,276)	(716)
Carrying amount	-	9,983	4,286	1,925
Past due but not impaired				
Grade 4b: Watchlist				
Up to 30 days	-	-	-	-
30 – 90 days	5,856	5,180	6,248	7,706
Grade 5a: Substandard				
Up to 30 days	-	-	-	-
30 – 90 days	-	-	-	-
90 – 180 days	-	-	-	-
180 days +	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	5,856	5,180	6,248	7,706
Neither past due nor impaired				
Grade 1-3: Low – fair risk	228,297	191,302	170,188	178,304
Grade 4a: Watchlist	-	-	-	-
Carrying amount	228,297	191,302	170,188	178,304

All other assets of the Company are neither past due or impaired (2015: Same).

Credit risk (continued)

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

Fitch ratings	2016 £'000	2015 £'000
AAA	6,131	1,324
AA+	-	65,514
AA	67,693	-
AA-	-	2,759
BBB+	7,710	-
BBB	8,235	2,660
BBB-	26,549	25,712
BB+	5,163	8,099
BB	11,050	14,102
BB-	30,546	20,604
B+	42,410	22,092
B	18,545	18,286
B-	10,121	13,122
CCC+	-	2,208
Total	234,153	196,482

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.

21. Financial Instruments and Risk Management (continued)

Credit risk (continued)

debt. 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 2016, all grade 5b, 6 and 7 loans and advances had been considered for forbearance (2015: 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	
	2016	**2015**
	£'000	**£'000**
Carrying amount	180,722	187,935
Individually impaired		
Property	23	1,604
Others	-	17
Unsecured	4,263	304
Carrying amount	4,286	1,925
Past due but not impaired		
Property	5,467	3,841
Unsecured	781	3,865
Carrying amount	6,248	7,706
Neither past due nor impaired		
Property	54,211	47,839
Unsecured	110,967	124,357
Other	5,010	6,108
Carrying amount	170,188	178,304

The average loan to value ratio for customer loans secured by property is 49% (2015: 51%); calculated by dividing the balance owed to the Company by the latest valuation held for the property. Independent property valuations are undertaken regularly where the loan to value ratio is greater than 50%, and more frequently where it is likely that there has been a material change in value. 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.

Credit risk concentration

The Company manages credit risk concentration by setting exposure limits to groups or individual counter parties, 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 overleaf summarises the sector and location concentration risk for the Company at the year-end.

	Loans and advances to customers 2016 £'000	Loans and advances to customers 2015 £'000
Central and local government	26,572	18,644
Food, beverage, tobacco	479	5,058
Textiles, leather, clothes	1,057	1,052
Other manufacturing	8	-
Retail	4,131	3,779
Wholesale including import and export	2	24
Transport, storage, communication	-	2,709
Construction	6,339	6,359
Real estate - buy, sell, develop and letting	24,547	2,066
Financial	46,690	56,169
Others	5,284	4,148
Individuals	65,613	87,927
Total	**180,722**	**187,935**
Concentration by location		
Great Britain	67,256	58,370
Europe	26,125	21,801
South Asia	36,405	47,344
Africa	23,434	19,563
Rest of world	27,502	40,857
Total	**180,722**	**187,935**

21. Financial Instruments and Risk Management (continued)

Investment Securities

All investment securities held by the Company at 31 December 2016 are rated (2015: all except African Bank Limited Bonds).

In 2016, a total of £28,855 (2015: £883,345) 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 £1.891million.

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

	2016 £'000	2015 £'000
As at 1 January	206,465	136,651
Purchases	197,320	159,480
Sales	(180,548)	(93,012)
Interest/amortisation	7,681	10,006
Unrealised gains/(losses)	3,235	(6,660)
Balance at 31 December	**234,153**	**206,465**

The movement in unrealised losses during the year were as follows

	2016 £'000	2015 £'000
As at 1 January	(10,864)	(6,873)
Movement in the year	3,235	(6,660)
Transfer to profit and loss account	-	1,656
Movement on current tax relating to movement on investment securities	(645)	1,013
Unrealised losses accounted in SOCI during the year net of tax	**2,590**	**(3,991)**
Balance at 31 December	**(8,274)**	**(10,864)**

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

Analysis of sector concentration

	2016 £'000	2015 £'000
Central government	131,778	106,412
Financial institutions	63,634	80,469
Corporates	38,741	19,584
Balance at 31 December	**234,153**	**206,465**

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.

21. 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	Less than 1 month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Total	Carrying amount
31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative assets							
Cash and balances with central banks	75,380	-	-	-	-	75,380	75,380
Loans and advances to customers	13,491	36,239	46,460	83,190	19,085	198,465	180,722
Debt securities	6,786	13,361	21,154	139,032	97,125	277,458	234,153
	95,657	49,600	67,614	222,222	116,210	551,303	490,255
Non-derivative liabilities							
Deposits by banks	12,763	79	-	-	-	12,842	12,842
Repurchase agreements	-	28	84	10,579	-	10,691	10,299
Customer accounts	89,628	32,996	77,439	215,024	4,496	419,583	404,285
Liabilities against assets subject to finance lease	28	-	-	-	-	28	28
Subordinated debt	-	13	39	2,066	-	2,118	2,013
	102,419	33,116	77,562	227,669	4,496	445,262	429,467
Derivative contracts							
Forward foreign exchange contracts inflow	(922)	(80)	-	-	-	(930)	(930)
Forward foreign exchange contracts outflow	1,123	1,678	-	-	-	2,801	2,801
						-	
	201	1,598	-	-	-	1,871	1,871
Unutilised overdraft commitments	515	-	-	-	-	515	-
	103,135	34,714	77,562	227,669	4,496	447,648	431,338

Residual contractual maturities of financial instruments as at 31 December 2015	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	36,182	-	-	-	-	36,182	36,182
Loans and advances to customers	25,531	24,718	54,590	79,183	17,377	201,399	187,073
Debt securities	23,182	10,000	31,583	100,653	94,368	259,786	206,465
	84,895	34,718	86,173	179,836	111,745	497,367	429,720
Non-derivative liabilities							
Deposits by banks	15,357	78	-	-	-	15,435	15,435
Customer accounts	82,651	24,473	69,595	195,023	1,462	373,204	354,808
Liabilities against assets subject to	31	-	-	-	-	31	31
Finance lease							
Subordinated debt	-	-	56	2,106	-	2,162	2,016
Preference shares	-	-	1,639	-	-	1,639	1,639
	98,039	24,551	71,290	197,129	1,462	392,471	373,929
Derivative contracts							
Forward foreign exchange contracts inflow	(5)	(1)	-	-	-	(6)	(6)
Forward foreign exchange contracts outflow	3,432	2,356	-	-	-	5,788	5,788
	3,427	2,355	-	-	-	5,782	5,782
Unutilised overdraft commitments	1,872	-	-	-	-	1,872	-
	103,338	26,906	71,290	197,129	1,462	400,125	379,711

21. 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 2016 and 31 December 2015. 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	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2016							
Assets							
Cash and balances with central banks	4,608	-	-	-	-	70,772	75,380
Loans and advances to customers	83,177	27,164	13,928	48,305	7,685	463	180,722
Debt securities	16,888	7,809	6,383	115,789	87,284	-	234,153
Intangible assets	-	-	-	-	-	656	656
Investment property	-	-	-	-	-	7,970	7,970
Tangible fixed assets	-	-	-	-	-	17,882	17,882
Derivatives at fair value	-	-	-	-	-	930	930
Other assets	-	-	-	-	-	3,925	3,925
Prepayments and accrued income	-	-	-	-	-	645	645
Total assets	104,673	34,973	20,311	164,094	94,969	103,243	522,263
Liabilities							
Deposits by banks	4,751	-	-	-	-	8,091	12,842
Repurchase agreements	10,299	-	-	-	-	-	10,299
Customer accounts	57,134	24,891	47,637	205,409	4,282	64,932	404,285
Derivatives at fair value	-	-	-	-	-	2,801	2,801
Subordinated debt	-	2,013	-	-	-	-	2,013
Pension fund liability	-	-	-	-	-	972	972
Other liabilities	-	-	-	-	-	5,985	5,985
Accruals and deferred income	-	-	-	-	-	607	607
Provisions for liabilities	-	-	-	-	-	2,936	2,936
Shareholders' funds	-	-	-	-	-	79,523	79,523
Total liabilities	72,184	26,904	47,637	205,409	4,282	165,847	522,263
Interest rate sensitivity gap	32,489	8,069	(27,326)	(41,315)	90,687	(62,604)	-
Cumulative sensitivity gap	32,489	40,558	13,232	(28,083)	62,604	-	-

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2015							
Assets							
Cash and balances with central banks	-	-	-	-	-	36,182	36,182
Loans and advances to customers	128,349	43,362	3,543	3,446	3,633	5,602	187,935
Debt securities	33,127	7,937	14,773	69,283	81,345	-	206,465
Intangible assets	-	-	-	-	-	488	488
Investment property	-	-	-	-	-	7,970	7,970
Tangible fixed assets	-	-	-	-	-	18,025	18,025
Derivatives at fair value	-	-	-	-	-	6	6
Other assets	-	-	-	-	-	6,019	6,019
Prepayments and accrued income	-	-	-	-	-	875	875
Total assets	161,476	51,299	18,316	72,729	84,978	75,167	463,965
Liabilities							
Deposits by banks	9,009	-	-	-	-	6,426	15,435
Customer accounts	54,579	22,061	46,227	178,313	1,194	52,508	354,882
Derivatives at fair value	-	-	-	-	-	5,788	5,788
Subordinated debt	-	2,015	-	-	-	-	2,015
Pension fund liability	-	-	-	-	-	280	280
Other liabilities	-	-	-	-	-	5,523	5,523
Accruals and deferred income	-	-	-	-	-	717	717
Provisions for liabilities	-	-	-	-	-	3,454	3,454
Shareholders' funds	-	-	-	-	-	75,871	75,871
Total liabilities	63,588	24,076	46,227	178,313	1,194	150,567	463,965
Interest rate sensitivity gap	97,888	27,223	(27,911)	(105,584)	83,784	(75,400)	-
Cumulative sensitivity gap	97,888	125,111	97,200	(8,384)	75,400	-	-

21. 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.

	2016	2015
Financial assets		
Loans and advances to banks	-	-
Loans and advances to customers	4.47%	4.22%
Debt securities	4.51%	5.37%
Financial liabilities		
Deposits by banks	0.31%	0.09%
Repurchase agreements	1.09%	-
Customer accounts	1.99%	1.92%
Subordinated debt	2.62%	2.72%

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:

	2016		2015	
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
GBP	2,751	(2,753)	2,358	(2,314)
USD	(7,295)	7,813	(4,915)	5,242
EUR	(654)	690	(188)	199

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.

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 8 gives details of the notional principal amounts and fair values as at 31 December 2016 and 31 December 2015.

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 2016 and 31 December 2015, 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 2016					
Assets					
Cash and balances with central banks	50,295	22,100	1,839	1,146	75,380
Loans and advances to customers	71,826	91,611	17,285	-	180,722
Debt securities	103,934	130,219	-	-	234,154
Derivatives at fair value	930	-	-	-	930
Intangible assets	656	-	-	-	656
Investment property	7,970	-	-	-	7,970
Tangible fixed assets	17,882	-	-	-	17,882
Other assets	3,392	533	-	-	3,925
Prepayments and accrued income	644	-	-	-	644
Total assets	257,529	244,463	19,124	1,146	522,263
Liabilities					
Deposits by banks	12,420	119	303	-	12,842
Repurchase agreements	10,299	-	-	-	10,299
Customer accounts	378,810	23,545	1,875	54	404,285
Derivatives at fair value	2,801	-	-	-	2,801
Pension fund liability	972	-	-	-	972
Other liabilities	4,782	769	388	46	5,985
Accruals and deferred income	607	-	-	-	607
Provision for liabilities	2,936	-	-	-	2,936
Subordinated debt	2,013	-	-	-	2,013
Shareholders' funds	86,612	(7,023)	(66)	-	79,523
Total liabilities	502,252	17,410	2,500	100	522,263
Net (liabilities)/assets	(244,723)	227,053	16,624	1,046	-
Net currency forwards	243,541	(229,007)	(16,587)	4,106	2,053
Net position	(1,182)	(1,954)	37	5,152	2,053

21. 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 2015					
Assets					
Cash and balances with central banks	13,667	9,478	12,135	902	36,182
Loans and advances to customers	61,228	116,723	9,984	-	187,935
Debt securities	71,270	134,896	-	299	206,465
Derivatives at fair value	-	6	-	-	6
Intangible assets	488	-	-	-	488
Investment property	7,970	-	-	-	7,970
Tangible fixed assets	18,025	-	-	-	18,025
Other assets	5,699	320	-	-	6,019
Prepayments and accrued income	875	-	-	-	875
Total assets	179,222	261,423	22,119	1,201	463,965
Liabilities					
Deposits by banks	12,369	2,527	539	-	15,435
Customer accounts	323,157	19,036	12,640	49	354,882
Derivatives at fair value	5,788	-	-	-	5,788
Pension fund liability	280	-	-	-	280
Other liabilities	4,721	610	149	43	5,523
Accruals and deferred income	499	209	-	9	717
Provision for liabilities	3,454	-	-	-	3,454
Subordinated debt	2,015	-	-	-	2,015
Shareholders' funds	88,917	(12,929)	(117)	-	75,871
Total liabilities	441,200	9,453	13,211	101	463,965
Net (liabilities)/assets	(261,978)	251,970	8,908	1,100	-
Net currency forwards	257,598	(254,509)	(8,881)	-	(5,792)
Net position	(4,380)	(2,539)	27	1,100	(5,792)

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 8) 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 overleaf 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.

21. Financial Instruments and Risk Management (continued)

Foreign exchange risk (continued).

	2016		2015	
	10% increase £'000	10% decrease £'000	10% increase £'000	10% decrease £'000
USD	(195)	195	254	(254)
EUR	4	(4)	3	(3)

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, is the way the Company 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. The Company is regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and is subject to EBA reporting requirements as implemented by the approved authorities. Details of the Company's Risk Management Policy can be found in the unaudited Pillar III disclosures required under the PRA's Rulebook for Capital Requirements Regulation CRR firms on the Company's website, www.ubluk.com.

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 required on the Company's website, www.ubluk.com. The capital of the Company contains share capital, retained earnings and other regulatory adjustments required by regulators.

The Company has not reported any breaches of its capital requirements during the year (2015: same).

22. 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.

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 2016 by Premier Pensions Management, independent consulting actuaries.

The amounts recognised are as follows:

	2016 £'000	2015 £'000
Present value of funded obligations	(6,350)	(5,162)
Fair value of plan assets	5,378	4,882
Gross pension liability	(972)	(280)
Deferred tax asset	165	56
Net pension liability	(807)	(224)

The amounts recognised in profit or loss is as follows:

	2016 £'000	2015 £'000
	£'000	£'000
Interest income	178	179
Interest expense	(188)	(210)
Net interest expense	(10)	(31)

22. Post-Employment Benefits (continued)

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

The amounts recognised in other comprehensive income are as follows:

	2016 £'000	2015 £'000
Return on plan assets less interest income	(10)	(22)
Experience gains and losses on liabilities and assets	(672)	351
Actuarial gain and losses during the year	(682)	329
Movement in related deferred tax asset	118	(62)
Actuarial (loss)/gain recognised in SOCI	(564)	267

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

	2016 £'000	2015 £'000
As at 1 January	5,162	5,474
Interest expense	188	184
Actuarial loss/(gain)	1,141	(351)
Benefits paid	(141)	(145)
Balance at 31 December	6,350	5,162

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

	2016 £'000	2015 £'000
As at 1 January	4,882	4,885
Interest income	178	164
Actuarial gain/(loss)	459	(22)
Benefits paid	(141)	(145)
Balance at 31 December	5,378	4,882

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

	2016	2015
Insurance policies	57.51%	73.13%
Annuities	9.26%	8.75%
Guaranteed Annuity Rates	33.23%	18.12%
Total	100.00%	100.00%

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

The fair values of plan assets were as follows:

	2016 £'000	2015 £'000
Insurance policies	3,093	3,570
Annuities	498	427
Cash	1	1
Guaranteed Annuity Rates	1,786	884
Total	5,378	4,882

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 2016 is on an ongoing basis. If the policy had been surrendered at 31 December 2016 the surrender value would have been £3,093,000 (31 December 2015: £3,570,000). It is not the Company's intention to surrender the policy.

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:

	2016	2015
Rate of increase of pensions in payment	3.40%	3.30%
Rate of revaluation of pensions in deferment	2.50%	2.50%
Discount rate	2.60%	3.70%
Price inflation (RPI)	3.40%	3.30%
Price inflation (CPI)	2.60%	2.50%
Expected return on assets	2.60%	3.70%
Post retirement mortality		
Current pensioners at 65 - male	87.1	87.1
Current pensioners at 65 - female	89.4	89.3
Future pensioners at 65 - male	88.6	88.5
Future pensioners at 65 - female	90.9	90.8

22. Post-Employment Benefits (continued)

United Bank UK – Group Personal Pension Plan

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 £512,426 (2015: £423,401). The charge (current service cost) for the defined benefit scheme was £Nil (2015: £Nil) and there was a further charge of £Nil (2015: £Nil) for past service cost.

Of the contributions paid in the year, £24,056 (2015: £24,510) was made on behalf of directors. It is estimated that contributions of £516,505 would be made to the defined contribution scheme in 2016 and £Nil to the defined benefit scheme. The Company also paid £22,362 (2015: £21,256) to provide death in service benefits.

23. Ordinary Dividend Paid

Ordinary dividends amounting to £2.5million were paid in 2016 (2015: £1.5million). The Directors, at their Board meeting held on 7th March 2017, declared an ordinary dividend of 50% of the 2016 distributable profits. The dividend payable during 2017 is approximately £2.2million.

24. 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. Bestway (Holdings) 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 (Holdings) 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 18.

25. Related Party Transactions

During the year, three 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 2016 and 31 December 2015.

	United Bank Ltd		National Bank of Pakistan		Bestway Foundation	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Loans to	5,198	718	386	440	-	-
Deposits from	8,648	10,972	193	2,570	-	-
Subordinated loan issued to	2,013	2,016	-	-	-	-
Contingent letter of credit liabilities	138	8	-	-	-	-
Forward FX purchases	14,000	38,000	12,500	-	-	-
Forward FX sales	14,230	39,026	12,696	-	-	-
Interest receivable from	65	-	1	3	-	-
Interest payable to	70	78	9	1	-	-
Preference share dividend payable to	479	1,639	-	-	-	-

During 2013, United Bank Limited converted their preference share dividend in respect of 2012 into a subordinated loan of £2,006,000. The loan is for a term of 5 years and is subordinated to the claims of depositors and other creditors. The Prudential Regulation Authority classifies this loan as tier 2 capital, and approval from them is required prior to early redemption. Interest is payable on a six-monthly basis at the rate of 2% per annum plus six-month GBP LIBOR. The outstanding loan including accrued interest at the 31 December 2016 was £2,013,009 (2015: £2,016,262).

In 2011, the Company issued a mortgage to Mr M.M. Khan, a director. The total outstanding balance on the mortgage as at 31 December 2016 was £1,206,570. An amount of £29,225 (2015: £35,376) was charged as interest in respect of these loans. As at 31 December 2016, Mr M.M. Khan had deposits of £12,002 (2015: £105,905). An amount of £484 (2015: £937) was paid as interest in respect of these deposits.

In 2015, the Company issued a secured term loan to Mr Ashraf, a Director. The outstanding balance on the loan as at 31 December 2016 was £366,095 (2015:£396,103). An amount of £14,150 (2015: £10,152) was charged as interest during the year. As at 31 December 2016, Mr Ashraf had deposits of £125,967 (2015: £105,134). An amount of £60 (2015: £274) was paid as interest in respect of these deposits.

In 2016, the Company issued a personal loan to Mr M Aminuddin, a Director. The outstanding balance on the loan as at 31 December 2016 was £43,889. An amount of £1,323 was charged as interest during the year. As at 31 December 2016, Mr M Aminuddin had deposits of £92. An amount of £Nil was paid as interest in respect of these deposits.

26. 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.

UNITED BANK UK