

Company Registration No. 4146820

United National Bank Limited

Annual Report and Financial Statements

31 December 2022

Annual report and financial statements 2022

Contents	Page
Officers and professional advisers	3
Strategic report	4
Directors' report	18
Independent auditor's report	22
Statement of profit or loss	27
Statement of comprehensive income	28
Balance sheet	29
Statement of changes in equity	30
Statement of cash flows	31
Notes to the financial statements	32

United National Bank Limited

Officers and professional advisers

Directors

Mr B Hasan
Mr B Firth
Mr S Dada
Mr M Husain
Mr S Z Ijaz

Secretary

Mr T Varkey

Registered office

2 Brook Street
London
W1S 1BQ

Auditor

Mazars LLP
Chartered Accountants and Registered Auditor
30 Old Bailey
London
EC4M 7AU
United Kingdom

Strategic report

The Directors have the pleasure in presenting the Strategic report and the audited financial statements for the year to 31 December 2022 for United National Bank Limited (the 'Company').

Overview

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

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

The principal activities of the Company are to provide Retail Banking, Wholesale Banking and Money Transmission services to UK-based individuals and corporate customers. The Directors are not aware, at the date of this report, of any likely major changes to the Company's activities in the forthcoming year, and expect the Company to continue as a going concern for the foreseeable future (see note 1 to the financial statements).

Business results

Over the past few years, the Company has been transitioning its business away from emerging market debt securities towards a lower risk balance sheet focusing on secured lending on UK residential real estate (RRE). This change in focus has been successful as the Company achieved another year of strong growth of the RRE portfolio. During 2022, the Company grew its RRE book by £154m (2021: £145m). This had a significant positive impact on the Company's underlying profit, which increased from £2.0m in 2021 to £5.0m as reflected in the table below.

The additional lending was funded by growth in retail deposits, sourced partly through a deposit-aggregator partnership in addition to the Company's own deposit raising channels. The strategic decision to partner with the deposit aggregator has had a positive impact on the Company's operations. It has provided the opportunity to offer its deposit products to a far wider audience whilst also reducing the administrative effort required in the account opening process. By diversifying our deposit-raising channels, we can continue to focus on achieving further growth of our loan book, confident that we can attract sufficient retail funding to meet our requirements.

The following financial measures referenced 'adjusted' are non-GAAP measures and are not a substitute for financial information. 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.

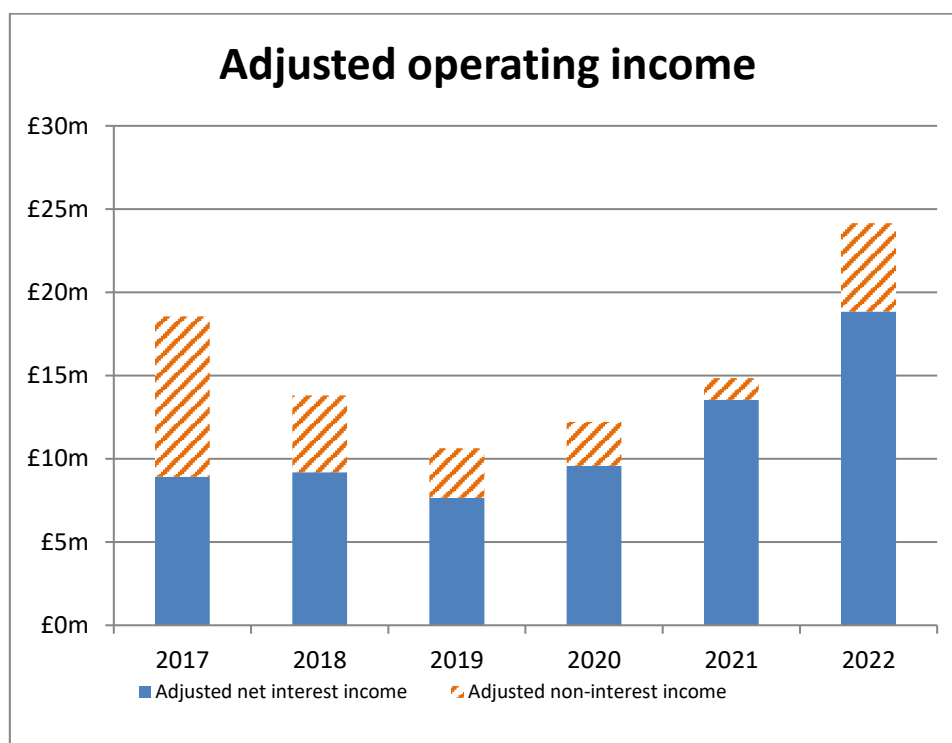
The table below shows a summary of profit (or loss) on ordinary activities before taxation for the past six years, along with details of the items, which have been adjusted in order to determine the underlying profitability of the Company.

All figures in GBP 000s	2017	2018	2019	2020	2021	2022
Profit (loss) on ordinary activities before tax	711	(3,779)	(1,009)	(2,379)	3,226	5,296
<i>Adjusting items:</i>						
Interest payable on preference shares	778	234	-	-	-	98
Revaluation gain on Brook Street premises	-	(787)	-	(52)	(1,208)	-
Profit on disposal of fixed assets	-	-	(209)	-	-	(372)
Enhancement of risk management framework	-	-	538	426	23	-
Onerous property lease termination costs	-	-	172	-	-	-
Realised losses on de-risking actions	-	2,487	-	-	-	-
Adjusted profit on ordinary activities before tax	1,489	(1,845)	(508)	(2,005)	2,041	5,022

Strategic report

The adjusted profit for 2022 was £5m, an improvement of more than £2m from the adjusted profit for the previous year. The primary cause of this movement was attributed to the growth in the RRE loan book and gains from the interest rate swaps.

The graph below illustrates the movement in adjusted operating income since 2017, showing the split between net interest income and non-interest income:



Adjusted non-interest income (as per the table below) has increased by £4m during 2022 due primarily to increased profits from intra-day investment assets trading, increased remittance fees and gains from interest rate swaps.

All figures in GBP 000s	2017	2018	2019	2020	2021	2022
Non-Interest Income as per profit or loss	9,626	2,469	3,176	2,693	2,522	5,677
<i>Adjusting items:</i>						
Fees and Commissions receivable	-	438	-	-	-	-
Less Property disposal & revaluation gains	-	(787)	(209)	(52)	(1,208)	(372)
Realised losses on de-risking actions	-	2,487	-	-	-	-
Adjusted Non-Interest Income	9,626	4,607	2,967	2,641	1,314	5,305

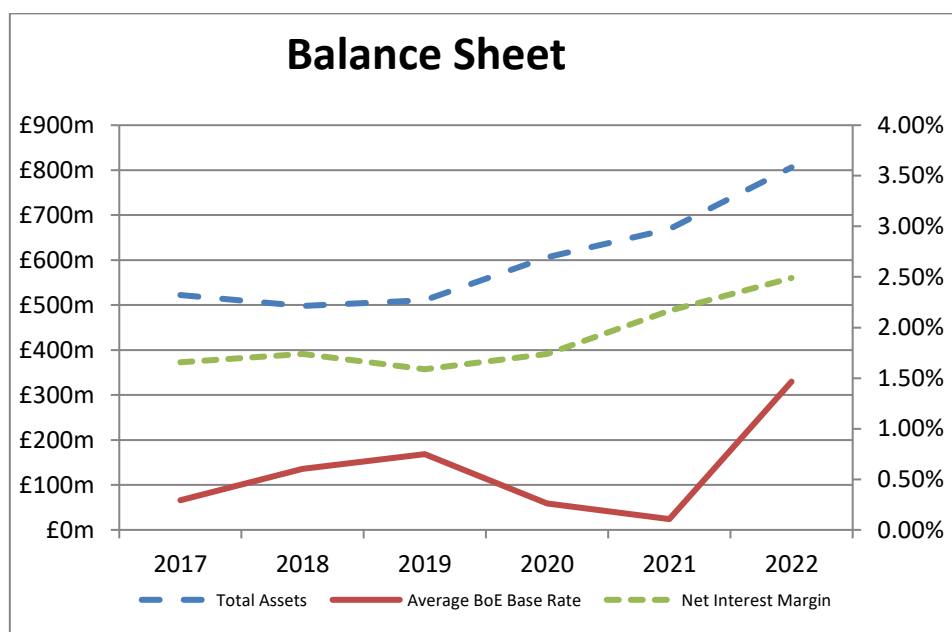
Strategic report

Adjusted net interest income (as per the table below), increased by £5.3m due to the growth in the RRE loan book. However, interest expenses have started to increase and this will impact the Company's interest margin in 2023.

All figures in GBP 000s	2017	2018	2019	2020	2021	2022
Net Interest Income as per profit or loss	8,150	9,400	7,662	9,572	13,534	18,748
<i>Adjusting items:</i>						
Fees and Commissions receivable	-	(438)	-	-	-	-
Preference dividend	778	234	-	-	-	98
Adjusted Net Interest Income	8,928	9,196	7,662	9,572	13,534	18,846

Total adjusted operating income (includes both adjusted non-interest and net interest income) has increased by 62% during 2022 to £24.2m (2021: £14.9m).

The graph below illustrates the growth in the balance sheet since 2017 and the movement in the net interest margin (net interest income divided by total assets) compared with the average Bank of England (BOE) base rate over the same period:



The total balance sheet grew by 20.6% during 2022 to end the year at £806m.

Net interest margin has increased by 32 basis points from 2.17% in 2021 to 2.49% in 2022, primarily been driven by the growth in the loan book.

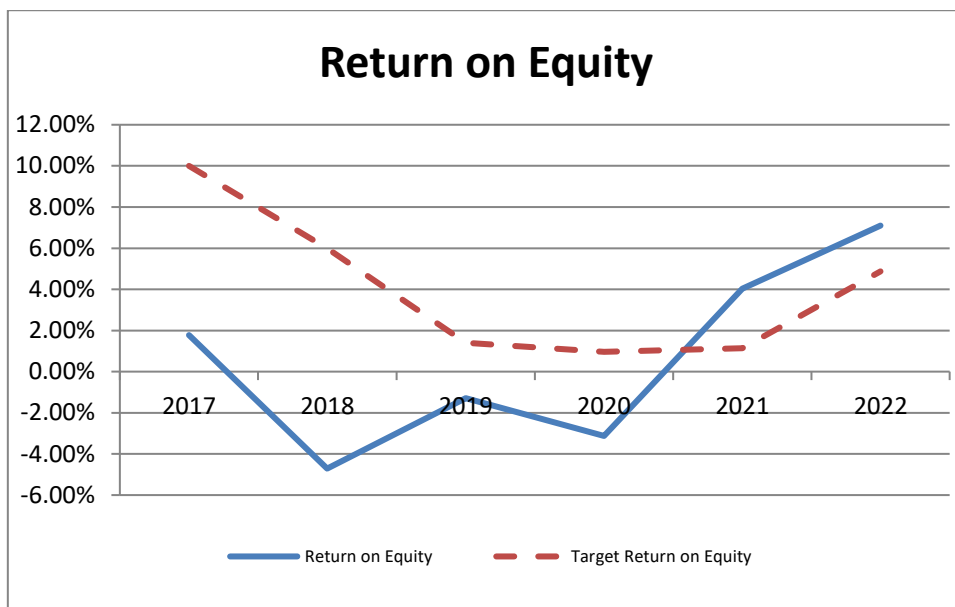
Key performance indicators

The Company uses three 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 profit or loss on ordinary activities before taxation and preference dividend divided by shareholders' funds. This measures the shareholders' return on their investment. This profit is before the adjustments highlighted above. The graph overleaf illustrates the return on equity since 2017:

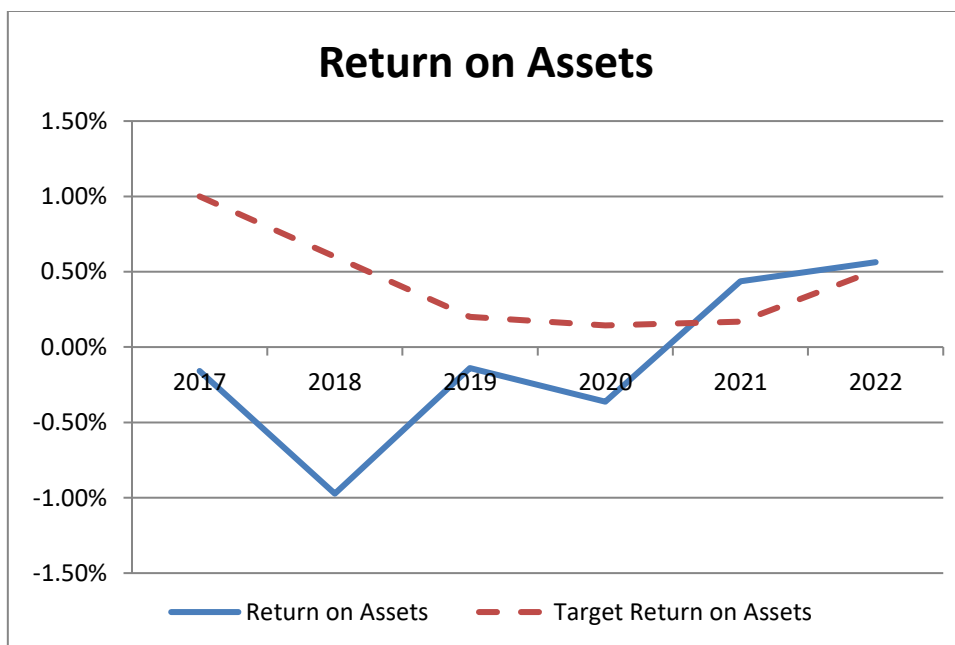
Strategic report



In 2022, the return on equity ratio increased to 7.1% (2021: 4.0%). This increase is a result of the Company's return to profitability during 2021 arising primarily from increased net interest income driven by the growth of the RRE loan book as well as gains from interest rate swaps.

2. Return on assets

Return on assets is defined as profit or loss for the year divided by total assets. The disclosure of this ratio is also a requirement of the fourth Capital Requirements Directive ('CRD IV') which came into effect in 2014. The graph below shows the return on assets since 2017:

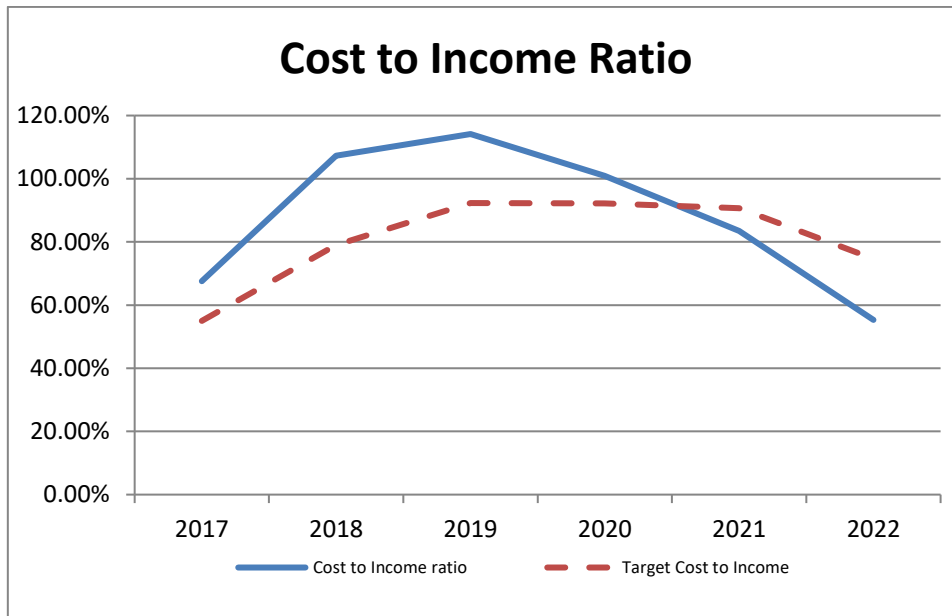


There was a positive return on assets for 2022 of 0.6% (2021: 0.4%).

Strategic report

3. Cost to income ratio

This is defined as operating expenses (excluding impairment charges and debt recoveries) divided by total operating income (net interest income plus non-interest income) before preference dividend. 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 2017:



The cost to income ratio for 2022 is 55.3% (2021: 83.5%), which shows an improvement from 2021. The main cause of the improvement over the last year has been the 52% increase in operating income, primarily caused by the growth in the RRE loan book as well as gains arising from revaluation and unwinding of interest rate swaps. Core operating expenses have grown by 1% compared to 2021, which is well below the headline inflation rate averaging 10%. This was largely driven by savings in headcount and premises costs as a result of closure of Manchester and Birmingham branches.

Business Review

Over the past few years, the Company has made significant efforts to de-risk its balance sheet and to narrow its focus towards a limited range of core activities. The core business is lending secured on UK residential real estate, funded by UK retail deposits. The Company continues to engage in a limited amount of wholesale banking activity, but this is considered legacy business, and is therefore not intended to be replaced on maturity.

Strategic report

Future developments

The Board of Directors set the Company's strategy. A three-year business 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 on a monthly basis.

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

Towards the end of every year, the management and Board set aside time to review and discuss the Company's future strategy. These discussions culminate in a Business Plan, which continues to focus on building a sustainable and resilient business for the future.

During 2022, the Company executed and completed its strategy to streamline the business by closing both the Birmingham and Manchester branches. In addition, the customer support team were successfully relocated from Birmingham to London and as a result, all of the Company's operations are now being conducted from a single location. This strategy was executed with minimal disruption to the customers and to the business as a whole. The Company expects these initiatives to deliver long-term operational efficiency and effectiveness as well as provide a better service to the customers.

In 2023, the strategic intent of the Company is to explore other business opportunities such as private banking in order to increase the diversity of its revenue streams. These opportunities will be exploited by leveraging the relationships with the client network that the Company has built through its RRE lending activities.

Going concern

The financial statements are prepared on a going concern basis and the Directors have a reasonable expectation that the Company has the resources to continue in business for the 12 months from the approval or signing of the financial statements and the foreseeable future. In making this assessment, the Directors have considered a wide range of information including all principal risks noted in this strategic report relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Company's capital and liquidity plans have been stress tested and have been reviewed by the Directors.

The impact of headwinds emanating from challenges facing the UK economy and Pakistan economy have been assessed and incorporated within the 2023-2025 financial and business plans. The Directors assessed the expected effect of management actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the Internal Capital Adequacy Assessment Process (ICAAP) approved in 2022. This scenario was guided by the January 2022 Annual Cyclical Scenario ('ACS' or 'Anchor Scenario') specified by the Bank of England for use in preparing ICAAP stress tests. In addition, the Directors also assessed the impact of a Pakistan sovereign debt default scenario on the Company's business and operations. Having regard for the severe financial outcomes from these scenarios and the reverse stress tests also conducted as well as the Internal Liquidity Adequacy Assessment Process (ILAAP), the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements throughout the going concern period. More details on ICAAP and ILAAP are provided on page 11 and 14 of this document.

After making enquiries, the Directors believe that the Company has sufficient resources to continue in operation for the foreseeable future and for 12 months from the date of approval or signing the financial statements and the Company has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the PRA. The Board concluded that there is no material uncertainty on going concern therefore it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

Board engagement with our stakeholders

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

In doing this, section 172 requires a Director to have regard to, among other matters: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the Company.

The Directors consider these factors set out above in discharging their duties under section 172. More details of how our Board engages with stakeholders are set out overleaf.

Strategic report

Customers

The Directors receive updates from senior management on the Company's interaction with customers. Additionally, the Board members would attend charity dinner events which customers are also invited to and for example, some Board members attended a charity dinner to raise funds for Pakistan flood victims.

Employees

The Board receives updates from senior management on various metrics and feedback tools relating to employees. The Board uses this feedback to formulate improvement initiatives. Senior management is tasked to develop action plans for implementing these initiatives, which are continuously monitored. Further details on employee engagement can be found on page 16.

Shareholders

We continue to engage with our shareholders focusing our dialogue on:

- The factors driving current performance and expectation of future performance; and
- Credit risk appetite, liquidity and capital adequacy.

Suppliers

The Company undertakes due diligence procedures on direct suppliers, the objective of which is to identify and mitigate risk, including enquiring into suppliers' policies on Anti Money Laundering (AML), data protection and modern slavery prevention. The Company continuously reviews its outsourced service partners to ensure it is receiving value for money, that service level agreements are adhered to, and it also seeks to ensure suppliers are paid on time.

Environment

The Company seeks to drive positive environmental impact across its business activities. More details on the Company's environmental related initiatives are found within the Climate Change Risk section on page 16.

Community

We recognise the importance of contributing to our communities and the Company is engaged in various activities, which have a positive impact on the community we serve. Every year staff undertake various fund raising initiatives to support a variety of charitable causes.

The Pakistan community constitute a major portion of our customer base and accordingly the Company participates in various activities that serve this community, such as sponsorship of Pakistan High Commission events. In addition, the Company, through its money transmission products, facilitates Pakistani diaspora remittances to Pakistan.

Regulators

The Board recognises the importance of open and continuous dialogue with the Company's regulators. The Chairman, Chief Executive and other members of the Board have regular meetings with the PRA.

Principal risks and uncertainties

Financial and operational risks

The Company is exposed to a variety of financial and operational risks that arise in the course of its business. These risks include credit risk, market risk and operational risks such as conduct and financial crime. The Company has in place a risk management framework that is designed to limit the adverse effects of these risks on the financial performance of the Company but as a bank, it is not possible to eliminate all the risks. The risk management policies of the Company including the use of financial instruments are set out in note 24.

Credit risk

Credit Risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument in accordance with the agreed terms. Credit Risk manifests itself in the financial instruments and products that the Company offers and in which it invests and can arise in respect of both on and off-balance sheet exposures.

Risk Appetite

The Company operates within defined roles and responsibilities for risk management with oversight at Board and executive level and independent oversight provided by Internal Audit. The Company's approach to Credit Risk is set out in the Credit Risk Policy, which is approved by the Board annually.

Strategic report

Mitigation

Active monitoring and assessment of its credit risk portfolio is crucial to the Company's risk management discipline. This is achieved through the regular monitoring of key portfolio indicators and limits, stress test analysis and assurance activity with regular reports provided to all stakeholders across the Company.

Liquidity risk

As part of the risk management framework, efficient management of liquidity is essential to the Company in order to maintain the sustainability of the business. Treasury have created a framework to manage all liquidity risk exposures under both normal and stressed conditions. The framework is designed to maintain liquidity resources that are sufficient in amount, quality and funding tenor profile to remain within the liquidity risk appetite as expressed by Board. The liquidity risk appetite is monitored against both internal and regulatory liquidity metrics.

Treasury has the primary responsibility for managing liquidity risk within the set risk appetite. Both Risk and Treasury contribute to the production of the ILAAP. The ILAAP process is an annual exercise to identify inherent liquidity risks within our balance sheet at a product, segment and currency level and ensure that the liquid asset portfolio maintained by the Company is adequate enough to cover any shortfall in a 'firm specific' or 'market wide' stress scenario.

The Treasury and Market Risk functions are responsible for the management and governance of the liquidity risk mandate, as defined by the Board. The framework established by treasury and market risk is designed to deliver the appropriate term and structure of funding, consistent with the liquidity risk appetite set by the Board. The framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Company's balance sheet, contingent liabilities and the recovery plan. Monitoring of liquidity Early Warning Indicators (EWIs) and Key Risk Indicators (KRIs) reduce the likelihood that a liquidity stress event could lead to an inability to meet Company's obligations as they fall due. The Board approves the funding plan, internal stress tests, regulatory stress test results, recovery plan and liquidity risk appetite.

Management of maturity mismatch

Asset and liability maturity mismatch is monitored by the Asset and Liability Committee (ALCO) with an overlay of behavioral assumptions. The Company ensures that it has diversified funding sources in order to mitigate funding shortfall and rollover risk. The deposit and funding base is maintained within the Company's risk appetite. Deposit concentration from the top depositors is regularly monitored by ALCO to mitigate concentration risk. The Company's liquidity contingency plan is regularly updated as a part of ILAAP processes.

Management of Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book (IRRBB) is driven by various activities, which include customer deposit taking and lending, investment and divestment in proprietary assets and funding. The Company, for the first time this year, used interest rate swap (IRS) agreements to mitigate some of the IRRBB risks. In addition, ALCO regularly monitors liquidity gap limits as part of interest rate risk management.

However, the Company remains susceptible to interest rate and other non-traded market factors:

- due to the behavioural preferences of the depositors and loan holders; and
- movement in the yield curve can affect interest income margin and this is monitored by regular sensitivity analysis and stress tests.

Market price risk

The Company's available for sale (AFS) securities are exposed to market price volatility that may have adverse impact on the balance sheet. Price action is monitored by both Front Office, the First Line of Defence (1LoD) and the Risk team, Second Line of Defence (2LoD). Front office observe price changes during business hours, and where any price is seen to have exhibited anomalous volatility, underlying causes are investigated. The front office then determine whether price movements are primarily down to market factors or idiosyncratic developments for any individual security. The front office also periodically update the mark to market for their own reference. In the event that price changes trigger a movement beyond certain mandate thresholds, front office will inform the Risk team about any developments.

The Risk team meanwhile, monitors price levels independently, marking the AFS portfolio to market and circulating amongst Company's management. In the event that Risk team deems that a certain price movement is significant, they may request further explanation from the front office.

Strategic report

In the event that front office determine that a material credit development has altered the price of any security within the bond portfolio, this issue will be raised initially to Risk team, and subsequently within the relevant committee for the members of said committee to evaluate the severity of the credit developments, and prescribe relevant remedial or monitoring actions.

Foreign exchange risk

Foreign exchange (FX) risk is defined as the risk of financial losses and liquidity concerns due to adverse movements of foreign exchange rates against the Company's net foreign exchange position. The Company has assets and liabilities denominated in foreign currencies. Exchange gains and losses are recognised in the income statement as they arise. The Company's policy is to measure and control foreign exchange risk exposure as part of the overall market risk limits on foreign exchange spot, forwards, and swaps, intra-day and overnight open position limits by currency, gross forward limit, total net short position limit, permissible currencies, and permissible foreign exchange products. Limits are monitored at all times and management monitors risks reported through daily dashboards.

The Company does not currently deal in FX derivative instruments for speculative purposes; however, it holds foreign currency swaps for funding purposes to strategically invest the additional capital denominated in foreign currency assets with relatively attractive yields.

LIBOR replacement

The Bank has a LIBOR transition programme to manage the impact of the Bank of England's plan to discontinue the use of LIBOR as a reference rate after 2021. Work to decommission LIBOR has involved ceasing the issuance and purchase of new LIBOR lending/investment, developing and delivering alternative reference rate products, and implementing a back-book migration strategy based on consensual counterparty agreement where possible. All new Floating Rate Notes (FRNs) added recently are linked to either SONIA or SOFR. New floating rate loans are being benchmarked with the spread on BOE base rate. As at 31 December 2022, the Company had assets amounting to £28.6m (2021: £44.0m) that are still using the LIBOR as a reference rate. The Company is on target to fully transition the residual exposures to alternative benchmark rates by the final deadline date of 30 June 2023.

Russia – Ukraine Conflict

The intensification of the Russia-Ukraine conflict has introduced a significant risk factor to global markets, at a time when economies are still recovering from Covid-19 and already contending with the prospect of rising inflation and tighter monetary policy setting. In addition, given Russia's pole position as a top exporter of major commodities such as oil, natural gas and wheat, the conflict has resulted in a rapid uptick in prices globally.

Emerging markets (EMs) face a variety of additional credit risks stemming from the Russia-Ukraine conflict, with further price pressures and diminished investor risk tolerance being among the most prominent. These risks to the emerging markets as well as the global markets continue to impact on our AFS portfolio resulting in the unrealised losses increasing from £3.9m to £13.9m as at 31 December 2021 and 31 December 2022, respectively. It is noted that the significant downturn of the Pakistan economy has also contributed significantly to the increase in the AFS unrealised losses. See below Pakistan economy commentary. In addition, the global economic headwinds resulted in Sri Lanka defaulting on its sovereign debt and accordingly the Company had to provide a provision of £5.1m against its Sri Lanka sovereign debt security holdings in 2022.

Pakistan macroeconomic conditions

As of 31 December 2022, the Company held £21.9 m (2021:11.4m) of Pakistan sovereign debt. This exposure has accumulated unrealised losses of £12.9m (2021:+£165k) negatively impacting the capital position of the Company. This was largely due to the headwinds facing the Pakistan economy. The country is facing acute economic challenges punctuated by high inflation rates, increasing interest rates and depreciating currency. The Russia – Ukraine conflict has caused a steep increase in energy prices further fueling a highly inflation environment. The severe floods experienced in 2022 have further exacerbated the highly fragile economic conditions. The Macroeconomic risks therefore remain high as Pakistan faces challenges associated with a large current deficit, high public debt and lower demand from its traditional customers amid subdued global growth. These significant economic headwinds resulted in the downgrade of the Pakistan sovereign credit rating from B- to CCC+ in October 2022. In February 2023, there has been further downgrades of Pakistan sovereign debt by Fitch and Moody to CCC-, an indication of the precarious state of the economy. As noted, on page 9 within the Going Concern section, the Company has assessed that it has sufficient capital and liquidity resources to withstand these headwinds.

Strategic report

UK Macroeconomic Conditions

The UK economy is undergoing challenging times with prevailing inflation rates exceeding 10% towards the end of 2022, increased interest rates and weaker sterling. The Bank of England has signaled that it will not shy away from further interest rate increases in order to curtail inflation. These further increases in interest rates could lead to generally weaker than expected growth, reduced business confidence and higher unemployment. These factors, combined with the direct effect of increased interest rates, may have an adverse impact on the affordability of loan arrangements for borrowers. In addition, it could cause stress in the lending portfolio and underwriting activities of the Company with resultant higher credit losses driving increased impairment charges. However, regular stress testing performed on the Company's UK lending portfolio show it to be relatively well secured with an average loan-to-value of 62% and, as a result, the impairment levels are expected to remain low.

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 well-established and profitable banks in Pakistan, and both are committed to the future growth of the Company.

A breakdown of the capital resources of the Company at the balance sheet date is set out in the Statement of Changes in Equity. Details of the Company's capital management process are set out in the paragraphs below:

Capital risk is defined as the risk that the Company assesses its sub-optimal quantity or quality of capital or that capital can inefficiently be deployed across the business lines. This arises when the Company has insufficient capital resources to support its strategic objectives and plans, and to meet both regulatory and external stakeholder's requirements and expectations. This could be a result of crystallization of any risks to which it is exposed. The Company's capital management approach is focused on maintaining sufficient capital resources across its regulated levels of the capital structure in order to limit such exposures while optimising value.

The Company maintains capital levels commensurate with a prudent level of solvency and to support this, the capital risk appetite is calibrated by taking into account both the internal view of the amount of capital the Company should hold as well recognising external regulatory requirements.

The Company measures both its capital requirements through applying the regulatory framework as outlined in Capital Requirements Directive IV (CRD IV, 27 June 2013), made up of the Capital Requirements Directive (2013/36/EU), implemented through national law (via policy and supervisory statements published by the PRA) and the Capital Requirements Regulation (CRR, 575/2013).

Further details of the Company's capital risk management can also found in the unaudited Pillar III disclosure document.

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8% of total Risk Weighted Assets ('RWAs'). At least 4.5% of RWAs are required to be covered by common equity Tier 1 ('CET1') capital and at least 6% of risk-weighted assets are required by Tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework, the aggregate of which is referred to as the Company's Total Capital Requirement ('TCR'), and a number of regulatory capital buffers described in the following paragraphs.

Additional minimum requirements under Pillar 2A are set by the PRA as firm-specific Individual Capital Requirement ('ICR') reflecting a point in time estimate, which may change over time, of the minimum amount of capital that is needed by the Company to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered by Pillar II, such as pensions and interest rate risk in the banking book ('IRRBB'). The Company's Pillar 2A capital requirement was 3.98% of RWAs as of 31 December 2022.

The Company is also required to hold a number of regulatory capital buffers, which are required to be met with CET1 capital. The Capital Conservation Buffer ('CCoB') is a standard buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of stress.

In addition, there is the Countercyclical Capital Buffer ('CCyB') which is time varying and is designed to hold additional capital to remove or reduce the build-up of systemic risk in times of credit expansion, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The CCyB rate for the UK was increased to 1.0% with effect from 13 December 2022. This rate is scheduled to increase again to 2.0% in July 2023.

As part of the capital planning process, forecast capital positions are subject to a wide-ranging programme of stress testing to determine the adequacy of the Company's capital resources against the minimum requirements, including ICR. The PRA considers outputs from the Company's stress tests and also the annual Bank of England Concurrent Stress Testing parameters for non-participating banks, as well as the Company's other regulatory capital buffers and non-stress related elements. This is part of the process for informing the setting of a bank specific capital buffer for the Company, known as the PRA buffer.

Strategic report

The PRA requires this buffer to be confidential between the Company and the PRA. All buffers are required to be met with CET1 capital. Usage of PRA Buffer would trigger a dialogue between the Company and the PRA to agree what action is required.

The Company mitigates the Capital risk by having a Risk Management Framework ('RMF') that includes the setting of Capital Risk Appetite ('CRA'). Close monitoring of capital ratios is undertaken to ensure the Company meets regulatory requirements and risk appetite levels and deploys its capital resources efficiently. Comprehensive stress testing analyses takes place to evidence capital adequacy. Reporting of actual base case and stress ratios is undertaken frequently, or at a minimum as part of ICAAP and Recovery and Resolution Planning ('RRP') with oversight and challenge by ALCO and Board Risk and Compliance Committee ('BRCC').

The ICAAP is an assessment of the Company's capital position, outlining both regulatory and internal capital resources and requirements resulting from Company's business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, structural foreign exchange, interest rate risk in the banking book and risk driven by credit concentration risk. Climate risk is also considered as part of the ICAAP, and the approach to this process is evolving.

RRP relate to PRA rules that require authorised firms to draw up recovery plans and resolution packs. Recovery plans are designed to outline credible actions that authorised firms could implement. The Company currently provides the PRA with a recovery plan as when requested.

The table below, based on these audited financial statements, shows the breakdown of the Company's capital resources:

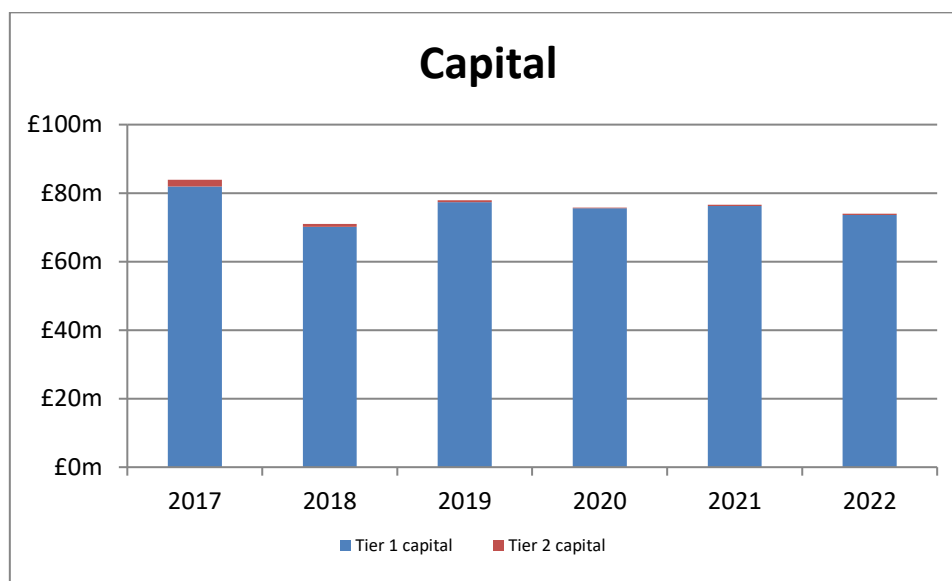
	2022	2021
	£	£
Tier 1 capital		
Share capital	45,000,000	45,000,000
Retained earnings	30,223,261	25,297,603
Revaluation reserve	(610,050)	9,784,117
Intangible assets	(254,630)	(538,802)
Pension asset	(759,850)	-
Total – Tier 1 capital	73,598,731	79,542,918
Tier 2 capital		
Collective provision	368,530	411,884
Total capital	73,967,261	79,954,802

The Company has not reported any breaches of its capital requirements during the year (2021: no reported breaches).

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

The graph overleaf shows the movement in capital resources since 2017:

Strategic report



Tier 1 capital has decreased by £6m (7.5%) over the year mainly as a result of the increase in AFS unrealised losses. The Tier 2 capital, which derives from the collective provision has remained at £0.4m.

Defined benefit pension scheme

The FRS 102 valuation of the pension scheme’s assets and liabilities for the 2022 year-end has shown a surplus of £1.2m (2021: deficit of £0.2m). This was primarily caused by increase in long-term interest rates, which has decreased the value of the defined benefit obligations.

In accordance with the rules of the UNB Pension Scheme, the Company has an unconditional right to a refund of surplus assets assuming the full settlement of liabilities in the event of a plan wind-up. Based on these rights, the net surplus at the balance sheet date is recognised in full, and subject to a deduction of the 35% tax charge currently applicable to authorised surplus payments. Accordingly, the Company has recognised a net surplus of £760k after 35% tax deduction.

Preference shares

The Company uses preference shares to return net income back to the parent bank resulting from the utilisation of tax losses and the recovery of written-off loans relating to tax losses and bad debts that were transferred upon merger (see note 19 for further details).

The preference share liability arises in the accounting year following the year when the tax losses are actually utilised. As a result, in 2022 the Company utilised tax losses of £518k (2021: £Nil) which translated to a preference share interest payable of £98k (2021: £Nil).

Liquidity resources

The Company maintains a minimum amount of unencumbered High Quality Liquid Assets (HQLAs) in accordance with the Individual Liquidity Guidance ('ILG') requirement it has received from the PRA. This stock of HQLAs is available to meet liquidity shortfalls arising during periods of market stress, idiosyncratic stress or a combination of the two. The Company holds exposures to UK and US Governments (Gilts and Treasury Bills) and Multilateral Development Banks as part of the HQLA portfolio. The Company has not reported any breaches of its liquidity requirements during the year.

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

United National Bank Limited

Strategic report

Climate Change

The Glasgow Climate Pact, agreed at COP26 in November 2021, set out country agendas to instigate climate change measures over the next decade. The UK Government announced that it would become the first G20 country to make it mandatory for its listed companies, banks and insurers with more than 500 employees to disclose their climate-related risks and opportunities.

Although the Company falls outside of this size criterion, we expect disclosure requirements to cascade down to capture businesses at all levels and size. In the meantime, the Company has taken a proportional approach, in keeping with its size, with various internal climate change and environmental initiatives and measures in 2022 as set out below:

- Installed timers for heating, air conditioning units and lighting within the Head Office to reduce the amount of energy wasted when the office is not in use for efficient heating and cooling methods;
- Incentivised commuting to work via modes of transport that produce less emissions, through either the Company's cycle to work scheme or salary sacrifice ULEV car scheme; and
- Discontinued the use of single use plastic cups throughout all sites and provided reusable glasses and cups for staff.

The Company remains committed to minimising the impact of its operations on the environment, as we recognise our contribution to transitioning to a low carbon economy.

Governance and Risk Management

The governance surrounding the management of Climate Change Risk is via the Company's overall Enterprise Risk management framework, which includes:

- an environmental Risk Policy approved by the Board of Directors.
- Climate Change Risk Assessment, which sets out the Company's various exposures and their associated Physical and Transitional risks, together with the Controls in place to reduce financial harm to the Company, caused by the assets exposed to Climate Change risks.

In consideration to its lending policy and property lending criteria, the Company takes into account EPCs (Energy Performance Certificates) and flood risk assessments when underwriting loans.

The Company's Chief Risk Officer has responsibility within the organisation for oversight of the management of climate change related risks and their mitigations, which are discussed at various Risk Management Committees.

Metrics and targets

In 2023, the Company will gain a better understanding of appropriate metrics and targets, which will feed into future disclosures. The Company has begun to calculate its carbon footprint for 2022, with a view to reach Net Zero Carbon emissions in the future.

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.

Staff 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. Unfortunately this event has been curtailed for the past 2 years as a result of the Covid-19 pandemic, but these are expected to resume in 2023 with the first event scheduled for the middle of May. 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 is confident that it 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 tax and 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.

Strategic report

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

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



B Firth
Director

26 April 2023

United National Bank Limited

Directors' report

The Directors have the pleasure in presenting the Annual Report and Financial Statements for the year to 31 December 2022 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, 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. The 2022 financial statements will be published on the Company's website. The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from other jurisdictions.

The Directors 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 resigned during the year:

Mr Z Soomro	Chairman (resigned October 2022)
Mr B Hasan	Independent Non-Executive Director
Mr R Wilton	Independent Non-Executive Director (Resigned in March 2023)
Mr B Firth	Chief Executive Officer
Mr S Dada	Non-Executive Director
Mr M Husain	Independent Non-Executive Director
Mr M F Haider	Chief Risk Officer (resigned December 2022)*
Mr S Z Ijaz	Non-Executive Director
Mr A Usmani	Non-Executive Director (resigned June 2022)

*Executive Director

United National Bank Limited

Directors' report

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

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

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

- **Board Audit Committee**
Mr R Wilton (Chair- resigned in March 2023), Mr B Hasan, Mr M Husain (Appointed Chair in April 2023) and Mr S Z Ijaz
 - Oversight of financial reporting;
 - Oversight of external audit;
 - Oversight of internal control;
 - Oversight of internal audit; and
 - Oversight of corporate governance and regulatory compliance.

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

- **HR Remuneration and Appointments Committee**
Mr B Hasan (Chair), Mr M Husain and Mr S Z Ijaz
 - Ensure that the Company is in compliance with all relevant employment law;
 - Decide on total remuneration and benefits for senior staff and Executive Director; and
 - Oversee compliance with the Remuneration Code.

- **Board Nomination Committee**
Mr B Hasan (Chair) and Mr M Husain
 - To make recommendations to the Board on the Board composition and succession planning;
 - To identify and nominate candidates for Board vacancies; and
 - To evaluate candidates for Board and Board Committee positions.

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

The Executive Committee controls the day-to-day activities of the Company, including business development and financial performance.

The employees who served on the Executive Committee during the year are set out below along with their specific area of responsibility within the Company.

Mr B Firth	Chief Executive Officer
Mr M F Haider	Chief Risk Officer (resigned December 2022)
Mr R Mathews	Head of Finance
Mr Z Haider	Chief Business Officer
Mr D Harkins	Head of Operations (resigned September 2022)
Mr T Varkey	Chief Compliance Officer and Money Laundering Risk Officer

Mr T Varkey, in addition to his duties as Chief Compliance Officer and Money Laundering risk Officer has also assumed the role of the Chief Risk Officer.

United National Bank Limited

Directors' report

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

- Assets and Liabilities Committee - responsible for identifying, managing and controlling the balance sheet risks in accordance with the Board approved business strategy and risk appetite;
- Operational Risk and Conduct Committee – responsible for the monitoring and management of operational risk and conduct risk including the fair treatment of customers;
- Credit Committee – responsible for the oversight of credit risk, the implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits as delegated by the Board Risk Committee;
- Financial Crime 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;
- Business Committee – responsible for managing and monitoring the wholesale and retail banking business, including investment, syndicated loan, corporate/financial institutions and commercial lending portfolios; and

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

Directors' indemnification

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

Internal Audit

The Board Audit Committee monitors the activities and effectiveness of Internal Audit function and agrees the audit plan and budget. At each meeting, the Internal Auditor presents a summary audit status report and report on the progress of each individual audit performed in the quarter. The Committee has regard to the level of internal audit resources applied, the implications of any audit recommendations and tracking of outstanding actions. The Board is satisfied that there are sufficient resources for Internal Audit function to effectively conduct its duties for the 2023 financial year.

Events after the reporting period

Credit risk deterioration of part of the Company's sovereign bonds.

The details are set out in Note 29.

Share capital and dividends

In 2015, the Directors agreed to implement a dividend policy to return at least 35% of the net annual distributable profits to the shareholders. The ordinary dividends paid and declared in 2022 of £1.015m (2021: £Nil) were in respect of the year ended 31 December 2021. The directors, at their Board meeting held on 16 March 2023, declared an ordinary dividend amounting to £Nil for the financial year ended 31 December 2022.

Diversity policy

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

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

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

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

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

Auditor

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

United National Bank Limited

Directors' report

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

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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



B Firth
Director
26 April 2023

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

Opinion

We have audited the financial statements of United National Bank Limited (the 'Company') for the year ended 31 December 2022 which comprise the Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Company's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Company's future financial performance;
- Assessing the sufficiency of the Company's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process, and evaluating the results of management stress testing, including consideration of principal risks on liquidity and regulatory capital;
- Reviewing the directors' going concern assessment and evaluating the appropriateness of managements' key assumptions;
- Assessing the historical accuracy of forecasts and testing the arithmetical accuracy of the cash flow forecasts prepared by management;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Reading regulatory correspondence and minutes of meetings of the risk committee, the audit committee and the board of directors;
- Considering whether there were events subsequent to the balance sheet date which could have a bearing on the going concern conclusion; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

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

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

This matter, together with our findings, was communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p>Credit risk: Impairment losses on loans and advances to customers</p> <p><i>Refer to significant accounting policies (Note 1); and Notes 2, 8, 10 and 24 of the financial statements.</i></p> <p>As at 31 December 2022, the Company had a collective provision of £0.4 million (2021: £0.4 million).</p> <p>Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end collective provision.</p> <p>The Company accounts for the impairment of loans and advances to customers using an incurred loss model. Management calculates two types of impairment provisions.</p> <ul style="list-style-type: none"> • A specific provision is recognised for loans and advances where there is an observable loss event; and • A collective provision is recorded to recognise credit events that have occurred but have not been identified at the year-end. <p>Estimating the collective provision requires judgement in deriving assumptions to be applied in the assessment. The collective provision model is most sensitive to movements in the probability of default ('PD'). The collective provision is derived from a model that uses a combination of the Company's experience and external data. There is a risk that external data applied by the Company is not an appropriate proxy for the loan portfolio and that the model applied is not viable. Therefore, there is a greater risk of misstatement in the collective provision on loans and advances to customers.</p>	<p>Our audit procedures included, but were not limited to:</p> <p>We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the Company in relation to loan underwriting, monitoring and provisioning.</p> <p>In respect of the model used to determine the collective provision, with the assistance of our in-house credit modelling specialists, we:</p> <ul style="list-style-type: none"> • Critically assessed the appropriateness of the methodology used by management; • Challenged the reasonableness of external data used in the collective provision model and checked relevance of this data based on our understanding of the Company's portfolio; • Reviewed the key assumptions used in applying the methodology adopted for PDs and assessed it for reasonableness; • Verified inputs to source documentation; • Performed sensitivity analysis over the key assumptions on PDs; and • Tested the mathematical integrity of the model. <p>We performed a stand-back assessment of the resulting collective provision estimate to assess its appropriateness and reasonableness by considering the credit quality of the portfolio and performing benchmarking across similar banks.</p> <p>We assessed the appropriateness of impairment provision disclosures in the financial statements.</p> <p>Our observations</p> <p>Based on the audit procedures performed, we found that the assumptions used by management in assessing the collective provision are reasonable and the collective provision on loans and advances to customers as at 31 December 2022 is materially correct in accordance with the requirements of FRS 102.</p>

Our application of materiality and an overview of the scope of our audit

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

Overall materiality	£739,000 (2021: £801,000)
How we determined it	1% net assets (2021: 1% of net assets)
Rationale for benchmark applied	Due to the volatility of profits, net assets are deemed to be the most appropriate benchmark given this is the focus of the shareholders to assess the value of their investment. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

	<p>We set performance materiality at £480,000 (2021: £480,000), which represents 65% (2021: 60%) of overall materiality.</p> <p>In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount in the middle of our normal range was appropriate.</p>
Reporting threshold	<p>We agreed with the directors that we would report to them misstatements identified during our audit above £22,000 (2021: £24,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.</p>

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of Directors

As explained more fully in the statement of directors' responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulatory and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and of the Financial Conduct Authority (‘FCA’).

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considering the risk of acts by the Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and the FCA;
- Inspecting minutes of meetings of the board of directors, the audit committee and the risk committee held during the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as Companies Act 2006 and UK tax legislation.

In addition, we evaluated the directors’ and management’s incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risk related to posting manual journal entries to manipulate financial performance.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

The risks of material misstatement that had the greatest effect on our audit are discussed in the “Key audit matters” section of this report.

A further description of our responsibilities is available on the FRC’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other matters which we are required to address

Following the recommendation of the Company’s audit committee, we were appointed by the Company’s board of directors on 7 December 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 9 years, covering the years ended 31 December 2014 to 31 December 2022.

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

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

Use of the audit report

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



Maximiliano Bark (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

30 Old Bailey

London

EC4M 7AU

26 April 2023

United National Bank Limited
Statement of profit or loss
For the year ended 31 December 2022

	Note	2022 £	2021 £
Interest receivable from debt securities		3,402,074	1,636,909
Interest receivable from group undertakings		85,430	82,669
Other interest receivable		26,604,318	19,462,715
		<u>30,091,822</u>	<u>21,182,293</u>
Interest payable to group undertakings		(108,360)	-
Interest payable		<u>(11,235,244)</u>	<u>(7,648,141)</u>
		<u>(11,343,604)</u>	<u>(7,648,141)</u>
Net interest income		<u>18,748,218</u>	<u>13,534,152</u>
Fees and commissions receivable		463,844	364,505
Profit from foreign exchange		720,867	695,012
Fair value gain on investment properties		-	1,207,628
Profit on realised debt securities	5	344,705	221,247
Other operating income		139,404	34,028
Profit on disposal of fixed assets		372,270	-
Gains and fair value movement on interest rate derivatives	11	3,635,562	-
Non-interest income		<u>5,676,652</u>	<u>2,522,420</u>
Total income	3	<u>24,424,870</u>	<u>16,056,572</u>
Administrative expenses	4	(12,752,766)	(12,688,136)
Depreciation and amortisation	13,15	(755,530)	(721,946)
Impairment (losses)/ recoveries	10	(5,620,263)	579,196
Profit on ordinary activities before taxation	5	5,296,311	3,225,686
Income tax expense	7	<u>(754,543)</u>	<u>(307,680)</u>
Profit for the year		<u><u>4,541,768</u></u>	<u><u>2,918,006</u></u>

United National Bank Limited
Statement of other comprehensive income
For the year ended 31 December 2022

	2022 £	2021 £
Profit for the year	4,541,768	2,918,006
Other comprehensive (loss) income		
Gain on the revaluation of land and buildings	98,316	2,757,108
Movement on deferred tax relating to freehold property	90,190	(523,851)
Deferred tax adjustment due to change in tax rates	-	(1,039,431)
Actuarial gain on defined benefit pension scheme	889,850	617,000
Fair value movement on available for sale debt securities	<u>(10,073,633)</u>	<u>(759,595)</u>
Other comprehensive (loss) income for the year, net of tax	<u>(8,995,277)</u>	<u>1,051,231</u>
Total comprehensive (loss) income for the year	<u><u>(4,453,509)</u></u>	<u><u>3,969,237</u></u>

United National Bank Limited
Balance sheet
As at 31 December 2022

	Notes	2022 £	2021 £
Assets			
Cash and balances at banks		6,703,512	33,695,043
Loans and advances to customers	8	638,315,902	505,967,194
Loans and advances to banks	9	2,000,329	2,253,488
Derivatives financial assets	11	3,137,104	414,198
Debt securities	24	122,536,714	92,219,766
Prepayments and accrued income		772,017	827,884
Intangibles	13	254,630	538,802
Investment properties	14	9,446,895	9,446,895
Tangible fixed assets	15	21,122,931	21,854,142
Other assets	16&25	1,906,588	1,503,458
Total assets		<u>806,196,622</u>	<u>668,720,870</u>
Liabilities			
Customer accounts	18	700,089,790	534,268,186
Deposits by banks and credit unions	17	21,387,884	41,317,578
Deferred income		2,299,569	2,170,663
Derivative financial liabilities	12	213,652	1,699,142
Other liabilities	19	2,711,282	3,963,156
Provision for liabilities	20	4,881,234	5,220,425
Total liabilities		<u>731,583,411</u>	<u>588,639,150</u>
Net assets		<u>74,613,211</u>	<u>80,081,720</u>
Equity			
Called up share capital	21	45,000,000	45,000,000
Property revaluation reserve		13,326,168	13,646,702
Investment revaluation reserve		(13,936,218)	(3,862,585)
Profit and loss account		30,223,261	25,297,603
Total equity		<u>74,613,211</u>	<u>80,081,720</u>
Memorandum items			
Contingent liabilities	22	921,282	100,000
Commitments	23	6,395,127	44,611,900

These financial statements were approved and authorised for issue by the Board of Directors on 26 April 2023
Signed on behalf of the Board of Directors.



Brian Firth
Director

26 April 2023
Company Registration No 4146820

United National Bank Limited
Statement of changes in equity
For the year ended 31 December 2022

	Notes	Called up share capital £	Profit and Loss Account £	Investment revaluation reserve £	Property Revaluation reserve £	Total £
Balance at 1 January 2021		45,000,000	21,752,997	(3,102,990)	12,462,475	76,112,482
Loss for the year		-	2,918,006	-	-	2,918,006
Actuarial gain recognised relating to the pension scheme	25	-	617,000	-	-	617,000
Fair value movement on available for sale investment	24	-	-	(759,595)	-	(759,595)
Revaluation gain on freehold property	15	-	-	-	2,757,109	2,757,109
Movement on deferred tax relating to freehold property		-	-	-	(523,851)	(523,851)
Deferred tax adjustment due to change in tax rates		-	-	-	(1,039,431)	(1,039,431)
Total		45,000,000	25,288,003	(3,862,585)	13,656,302	80,081,720
Transfer of depreciation on revaluation surplus		-	9,600	-	(9,600)	-
Balance as at 31 December 2021		45,000,000	25,297,603	(3,862,585)	13,646,702	80,081,720
Balance as 1 January 2022		45,000,000	25,297,603	(3,862,585)	13,646,702	80,081,720
Profit for the year		-	4,541,768	-	-	4,541,768
Actuarial gain recognised relating to the pension scheme	25	-	889,850	-	-	889,850
Fair value movement on available for sale investment	24	-	-	(10,073,633)	-	(10,073,633)
Revaluation gain on freehold property	15	-	-	-	98,316	98,316
Movement on deferred tax relating to freehold property		-	-	-	90,190	90,190
Release of revaluation reserve on disposal of property	7	-	499,440	-	(499,440)	-
Dividend declared and paid	26	-	(1,015,000)	-	-	(1,015,000)
Deferred tax adjustment due to change in tax rates		-	-	-	-	-
Total		45,000,000	30,213,661	(13,936,218)	13,335,768	74,613,211
Transfer of depreciation on revaluation surplus		-	9,600	-	(9,600)	-
Balance as at 31 December 2022		45,000,000	30,223,261	(13,936,218)	13,326,168	74,613,211

United National Bank Limited
Statement of cash flows
For the year ended 31 December 2022

	Notes	2022 £	2021 £
Cash flows from operating activities			
Profit before tax on profit on ordinary activities for the year		5,296,311	3,225,686
Adjustments for:			
Depreciation and amortisation		755,530	721,946
Net charge in respect of defined benefit pension scheme	25	3,000	11,000
Recoveries on loans and advances and other items		(190,335)	(579,196)
Impairment of available for sale investments		5,081,559	
Accretion of discounts and amortisation of premiums on debt securities		472,140	(797,587)
Fair value movement on investment properties		-	(1,207,628)
Disposal of fixed assets – non cash		(950,000)	-
Effects of exchange rate changes on cash and cash equivalents		1,310,294	257,687
		<u>6,482,188</u>	<u>(1,593,778)</u>
Change in operating assets and liabilities:			
Change in loans to banks		253,159	(1,683,488)
Change in loans and advances		(132,158,374)	(133,538,654)
Change in other operating assets		(1,703,767)	3,793,897
Change in deposits from banks and customers		145,891,909	54,965,395
Change in other operating liabilities		(3,508,422)	1,767,218
Net cash from/(used in) operating activities		<u>20,553,004</u>	<u>(73,063,724)</u>
Cash flows from investing activities			
Purchase of tangible fixed and intangible assets		(216,696)	(265,723)
Proceeds from disposal of fixed assets		950,000	-
Purchase of debt securities		(572,112,956)	(291,404,230)
Sale and maturity of debt securities		526,168,675	347,286,633
Net cash (used in) from investing activities		<u>(45,210,977)</u>	<u>55,616,680</u>
Cash flows from financing activities			
Repayment of obligations under finance lease		(8,263)	(25,464)
Dividend paid	26	(1,015,000)	-
Net cash used in financing activities		<u>(1,023,263)</u>	<u>(25,464)</u>
Net decrease in cash and cash equivalents		(25,681,236)	(17,472,508)
Cash and cash equivalents at the beginning of the financial year		33,695,042	51,425,237
Effects of exchange rate changes on cash and cash equivalents		(1,310,294)	(257,687)
Cash and cash equivalents at the end of the financial year		<u><u>6,703,512</u></u>	<u><u>33,695,042</u></u>

Cash and cash equivalents includes cash in hand, deposits held at call with banks.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies

Reporting entity

United National Bank Limited ('the Company') is a company incorporated in the UK. The address of the registered office is given on page 3. 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, which 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 Pound Sterling ('£') which is the functional currency of the Company being the currency of the primary economic environment in which it operates

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income, investment properties, certain classes of tangible fixed assets and derivative financial instruments.

The preparation of the financial statements 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 or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under the critical accounting estimates and judgements note.

Going concern basis

The financial statements are prepared on a going concern basis and the Directors have a reasonable expectation that the Company has the resources to continue in business for the 12 months from the approval or signing of the financial statements and the foreseeable future. In making this assessment, the Directors have considered a wide range of information including all principal risks noted in this strategic report relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Company's capital and liquidity plans have been stress tested and have been reviewed by the Directors.

The impact of headwinds emanating from challenges facing the UK economy and Pakistan economy have been assessed and incorporated within the 2023-2025 financial and business plans. The Directors assessed the expected effect of Management actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the Internal Capital Adequacy Assessment Process (ICAAP) approved in 2022. This scenario was guided by the January 2022 Annual Cyclical Scenario ('ACS' or 'Anchor Scenario') specified by the Bank of England for use in preparing ICAAP stress tests. In addition, the Directors also assessed the impact of a Pakistan sovereign debt default scenario on the Company's business and operations. Having regard for the severe financial outcomes from these scenarios and the reverse stress tests also conducted as well as the internal Liquidity Adequacy Assessment (ILAAP), the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, over the going concern period. More details on ICAAP and ILAAP are on page 11 and 13.

After making enquiries, the Directors believe that the Company has sufficient resources to continue in operation for a period of 12 months from the date of approval and signing the financial statements and the Company has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the PRA. The Board concluded that there is no material uncertainty on going concern therefore it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

1. Significant accounting policies (continued)

Revenue recognition

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

Fees, commission, income, premiums and discounts are recognised in the EIR where they are an integral part of the instrument yield. Judgement is required to determine whether fees are recognised as EIR or recognised when a service is performed. Although, the systems do not automatically calculate the EIR, it is monitored manually and the resulting adjustment is made to the financial statements. The key assumptions in the EIR calculations is the expected life over which to measure the cash flows.

Interest income from debt securities relates to the interest income generated by the Company's AFS portfolio.

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

Profit from foreign exchange relates to foreign exchange income derived from customer facilitation and the unrealised gains and losses on revaluation of foreign currency assets and liabilities as well as foreign currency trading. See further details in Note 11 and 12.

Profit on realised debt securities relates to the gains arising from the sale of listed debt securities.

Other operating income relates to operating lease income generated by the Company's investment properties as well as government grants.

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

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.

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. In respect of the defined benefit plan, the Company recognises its obligations to the members of the plan at the period end, less the fair value of the plan assets.

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 're-measurement of net defined benefit asset/liability'. Under FRS102, a surplus can only be recognised as an asset to the extent that the Company is able to realise economic benefits, either in the form of future refunds or from reductions in future contributions. In accordance with the rules of the UNB Pension Scheme, the Company has an unconditional right to a refund of surplus assets assuming the full settlement of liabilities in the event of a plan wind-up. Based on these rights, the net surplus at the balance sheet date is recognised in full, and subject to a deduction of the 35% tax charge currently applicable to authorised surplus payments.

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

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

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

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:

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

Amortisation is charged so as to allocate the cost of intangibles less residual values over the estimated useful lives, using the straight-line method. The intangible assets are amortised over a 2 to 10 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.

Taxation

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

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

Contingent assets are not recognised as assets. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is recognised appropriately as an asset

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

Financial assets

Under the options available to it under FRS 102, the Company chose to apply the measurement and recognition provisions of IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets are classified as loans and receivables, 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. The Company includes its loans and advances to customers and to banks within this category.

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 are not designated as at fair value through profit or loss on initial recognition. Available-for-sale financial assets are initially recognised at cost including transaction costs and thereafter measured at fair value with fair value gains or losses recognised directly in equity through the statement of other comprehensive income.

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

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

Impairment of financial assets

Assets accounted for at amortised cost

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 and held-to-maturity.

Where such an event has had an impact on the estimated future cash flows of the financial asset or group of financial assets, an impairment allowance is recognised. The amount of impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the asset has a variable rate of interest, the discount rate used for measuring the impairment allowance is the current effective interest rate.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an EIR basis, on the asset's carrying value net of impairment provisions. Furthermore, in order to account for amortised costs interest income has to be recognised on an asset's carrying value net of impairment provisions for assets or group of assets that have been classified as impaired. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

Impairment allowances are assessed individually for financial assets that are individually significant. The Company treats all its financial assets as individually significant as its portfolio does not contain homogeneous loans such as personal and credit card balances. The Company's financial assets are reviewed on a regular basis and those showing potential or actual vulnerability are placed on a Watch-list where greater monitoring is undertaken. Specific examples of trigger events that would lead to the initial recognition of impairment allowances against an exposure (or the recognition of additional impairment allowances) include (i) trading losses, loss of business or major customer of a borrower; (ii) material breaches of the terms and conditions of a loan facility, including non-payment of interest or principal, or a fall in the value of security such that it is no longer considered adequate; (iii) disappearance of an active market because of financial difficulties; or (iv) restructuring a facility with preferential terms to aid recovery of the lending (such as a debt for equity swap). A review is undertaken of the expected future cash flows which requires significant management judgement as to the amount and timing of such cash flows. Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of costs to realise, whether or not foreclosure or realisation of the collateral is probable.

For impaired debt instruments which are held at amortised cost, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows. A reduction in fair value caused by general widening of credit spreads would not, of itself, result in additional impairment.

1. Significant accounting policies (continued)

Collective assessment

Incurring but not yet identified impairment

The collective provision also includes provision for inherent losses that is losses that have been incurred but have not been separately identified at the balance sheet date. The loans that are not currently recognised as impaired are assessed individually as follows:

Property based lending portfolio

All the property-based loans are analysed using the Moody's Mortgage Portfolio Analyser ('MPA') which provides the Probability of Defaults ('PDs') and Loss Given Defaults ('LGDs'). The analysis which is through a simulation based econometric model takes into consideration the purpose, occupancy type, employment status, delinquency status, indexed loan-to-value, region, original channel, interest rate type, interest rate, borrower credit status, forbearance history, repayment profile and age of the loan. The MPA separately assesses the credit implications of interest only exposures and assigns them the appropriate PDs and LGDs. The PDs and LGDs are point in time and are based on the economic conditions existing at the balance sheet date. In compliance with IAS39, only historical information has been used in the model to calculate the PDs and LGDs. The Company from time to time assesses the MPA generated PDs against historical experiences (actual portfolio PDs) and perform adjustments to align the PDs if necessary.

Other loan portfolio

The other loan portfolio is assessed individually and the respective parameters used to generate the provisions include:

- If the loan is externally rated the external credit rating is used to determine the PDs using the Moody's rating scale. For non-rated loans the converted scale is used to determine the proxy external credit rating which is subsequently used to derive the respective PDs.
- The LGDs are based on observed default rates for specific exposures such as corporate, individual, institution and sovereign. The observed default rates are sourced from reputable databases such as Moody, Fitch and S&P.
- The product of the PDs, LGDs and Exposure at Default ('EAD') will be subsequently used to derive the provision under this loan portfolio category.

Other matters that are considered in the derivation of the collective provision include:

- The emergence period, which is estimated to be in the period between impairment occurring and the loss being identified. The factors used to determine this include the period between the last credit review date, last interest or principal payment date, last missed payment date and the balance sheet date. The Company also considers the full repayment date for the exposure in the determination of the loss emergence period, particularly for those exposures whose maturity are close to the balance sheet date
- The Company's historical experience in portfolios of similar risk characteristics.
- The fact that an exposure had been restructured is taken into account through higher risk rating and hence higher PDs.
- Exposures that are in the Watchlist category are also assessed separately and attract higher ratings.

Loan renegotiations and forbearance

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that an adequate record has been established of the sustainability of the payments to be made are in accordance with the revised terms. Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

Write offs

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received and there is no realistic prospect of further recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that forbearance is no longer appropriate.

Available-for-sale financial assets

The Company assesses, at each balance sheet date, whether there is objective evidence that an available-for-sale financial asset is impaired. When the impairment is established, the impairment losses is recycled from investment reserve onto the profit or loss account. In addition to the impairment criteria for financial assets accounted for at amortised cost set out above, this assessment involves reviewing the current financial circumstances (including creditworthiness) and future prospects of the issuer, assessing the future cash flows expected to be realised. If an impairment loss has been incurred, the cumulative loss measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that asset previously recognised, is reclassified from other comprehensive income to profit or loss. For impaired debt instruments, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows; a reduction in fair value caused by general widening of credit spreads would not, of itself, result in additional impairment. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, an amount not greater than the original impairment loss is credited to the profit and loss account; any excess is taken to other comprehensive income.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

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. This however exclude derivative financial liabilities, which are measured at fair value.

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

Derecognition of financial assets and liabilities

Derecognition of financial assets

The derecognition criteria is applied to the transfer of part of an asset, rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired or the Company transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Company has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Company has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Company derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Company retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss statement.

Derecognition of financial liabilities

Financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the profit or loss statement.

Repurchase agreements and resale agreements

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

Derivative financial instruments

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

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

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

Geographical Analysis

The Company's primary focus is retail and wholesale / corporate banking in the United Kingdom.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

Investment properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the company. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit or loss. Deferred tax is recognised on any fair value movement at the rate expected to apply when the property is sold, however this rate would also need to be one substantively enacted at the balance sheet date.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to tangible assets are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to tangible assets are used as deemed cost for the subsequent accounting. The existing carrying amount of tangible assets is used for the subsequent accounting cost of investment properties on the date of change of use.

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 that fall under this category are freehold building and land. All other tangible fixed assets are stated at historical cost less depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of tangible fixed asset over their expected useful lives as follows:

Computer equipment	20-33% per annum
Office equipment	15-25% per annum
Leasehold property	10% per annum
Freehold and leasehold improvements	10%
Freehold buildings	2%
Freehold land	no depreciation charged

The value of each freehold property is assessed every five years by an independent member of the Royal Institution of Chartered Surveyors and is based on desktop valuations in the intermediate years. 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/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.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of tangible fixed assets is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

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.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

(a) 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 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 fixed assets and depreciated and assessed for impairment in the same way as other tangible assets.

(b) 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.

(c) 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.

Impairment of non-financial assets

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

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

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.

Government grants

Grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in "other operating income" within profit or loss in the same period as the related expenditure. This includes the Government Coronavirus Job Retention Scheme ('Furlough'). The Company has not directly benefited from any other forms of government assistance.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies (continued)

Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Board and are no longer at the discretion of the Company. These amounts are recognised in the statement of changes in equity.

Reserves

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

Profit and loss account – includes profit for the period and prior periods, actuarial gains or losses recognised relating to the defined benefit scheme 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 (AFS) since their initial recognition. Any impairment losses that arise on the AFS instruments are recycled from Investment revaluation reserve to Profit and Loss.

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

2. Critical accounting judgements, estimates and assumptions

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:

Allowance for impairment losses on loan and advances to customers (Note 8 & 10)

At 31 December 2022 gross loans and advances to customers totalled £639,618,003 (2021: £507,459,630) against which impairment allowances of £1,302,101 (2021:£1,492,436) had been made whereas the loans and advances to banks totalled £2,000,329 (2021: £2,253,488). 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 which makes up the collective provision. Individual impairment assessment is established across the Company's lending and wholesale portfolio. The determination of individual impairment allowance requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security, for which there may not be a readily accessible market. In particular, significant judgement is required by management in assessing the borrower's cash flows and debt servicing capability and realisable value of collateral. The actual amount of cash flows and their timing may differ significantly from the assumptions made for the purposes of determining impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clear.

Collective provision is made for loan losses that have been incurred but have not been separately identified at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is separately identified. This period is the emergence period.

Given the size of the Company's property lending portfolio, a key variable, which determines the collateral value supporting loans, is house prices. The value of this collateral is estimated by applying changes in house price indices to the original assessed value of the property. This provides another source of uncertainty in the derivation of impairment allowance. Estimating the collective provision requires significant judgement, including in deriving assumptions to be applied in the assessment.

Allowance for impairment losses on available for sale assets (Note 10 & 24)

The impairment assessment of available for sale assets and the calculation of the requisite impairment allowances requires a degree of estimation. In conducting this assessment including the calculation of the impairment allowances, all relevant considerations that have a bearing on the expected cash flows are taken into account (for example market and book values of the exposures, the business prospects and the Company's position relative to other claimants).

Revenue recognition

Fees, commission, income, premiums and discounts are recognised in the EIR where they are an integral part of the instrument yield. Judgement is required to determine whether fees are recognised as EIR or recognised when a service is performed. Although, the systems do not automatically calculate the EIR, it is monitored manually and adjusted when considered necessary based on materiality. The key assumptions in the EIR calculations are the projected loan amortisation schedules and if these turn out to be different from those projected, the resulting EIR results may differ from expectations.

Fair value of financial instruments (Note 24)

Where the fair value of financial instruments is not observable from a quoted price, the valuation is done using a discounted cash flow model using other observable inputs and information from the market. This valuation method has been applied in deriving the fair value of the Company's sovereign debt exposure that has been classified as an impaired asset. It was the Company's view that its fair value was not observable from its quoted price. The underlying assumptions used in calculating the carrying amount included the following: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the USD forward curve, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium and finally an adjustment to reflect execution risk.

Defined benefit pension scheme (Note 25)

The Company operates a defined benefit scheme. The value of the Company's defined benefit pension scheme's liabilities and assets requires management to make a number of assumptions. The key area of estimating uncertainty is the discount rate applied to future cash flows and the expected lifetime of the scheme's members. The discount rate is required to be set with reference to market yields at the end of the reporting period on high quality corporate bonds in the currency, with a term consistent with the defined benefit scheme's obligations. The average duration of the scheme is 13.5 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve to base the discount rate. The cost of the benefits payable by the scheme will also depend upon the life expectancy of the members. The Company considers latest market practice and actual experience in determining the appropriate assumptions for both current mortality expectations and the rate of future mortality improvement. Given advances in medical sciences in recent years, it is uncertain whether this rate of improvement will be sustained going forward; as a result, actual experience may differ from expectations. The details on the principal assumptions used in the valuation of the Company's defined benefit pension scheme's liability is in Note 25.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

2. Critical accounting judgements, estimates and assumptions (continued)

Revaluation of properties (Note 14 &15)

A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. The valuation was based on a desktop assessment by the Directors under the guidance of RICS valuation experts. The valuation assessed as of 31 December 2022 took into account current rental yields for similar properties in the same locality as well as recent comparable sale transactions.

3. Total Income

Total income, analysed geographically between markets, was as follows:

	2022	2021
	£	£
United Kingdom	18,860,428	11,765,208
Rest of the World	5,564,442	4,291,364
	<u>24,424,870</u>	<u>16,056,572</u>

4. Administrative expenses

	2022	2021
Average Number of Employees	<u>87</u>	<u>102</u>
	2022	2021
	£	£
Front Office	33	45
Back Office	54	57
	2022	2021
	£	£
Wages and salaries	6,250,006	6,316,170
Social security costs	741,922	721,722
Other pension costs	584,894	621,180
Other administrative expenses	5,175,944	5,029,064
	<u>12,752,766</u>	<u>12,688,136</u>

5. Profit on ordinary activities before taxation

	2022	2021
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditor's remuneration		
-fees payable for the audit of the Company's annual accounts	212,000	171,900
-fees payable for the audit of the Company's annual accounts for the previous year	-	17,675
Depreciation and amortisation	755,530	721,946
Interest payable on preference shares	98,304	-
Government grant*	-	(24,391)
Pension costs	584,894	621,180
Foreign exchange profits	(720,867)	(695,012)
Profit on realised debt securities	(344,705)	(221,247)
Rental of premises held under operating leases	34,919	33,790
Onerous lease costs	36,254	-
Profit on disposal of fixed assets	(372,270)	-

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

5. Profit on ordinary activities before taxation (continued)

The total audit remuneration for the year therefore amount to £212,000 (2021: £189,575).

*In 2022, the Company received a grant of £Nil (2021: £24,391) in respect of the Covid-19 related UK Government furlough scheme.

6. Directors and senior management emoluments

	2022	2021
	£	£
Directors' fees and emoluments	706,244	582,628
Pension contributions	43,085	41,830
National insurance	91,217	79,978
	<u>840,546</u>	<u>704,436</u>

The highest paid director received emoluments excluding pension contributions, totaling £312,419 (2021: £261,378) and the amount of pension contributions paid to the Company's defined contribution scheme was £26,605 (2021: £25,830). The two Executive Directors during the year were also members of the senior management of the Company, but the related emoluments have been included in the Directors emoluments and excluded from the senior management emoluments shown in the table below. The total emoluments for the two Executive Directors (fees and emoluments, pension and national insurance) were £655,716 (2021: £520,933).

	2022	2021
	£	£
Senior management emoluments	713,660	824,645
Pension contributions	61,825	78,947
National Insurance	96,287	112,397
	<u>871,772</u>	<u>1,015,989</u>

7. Taxation

	2022	2021
	£	£
(i) Analysis of tax charge on ordinary activities		
UK corporation tax on profits of the period	744,297	220,458
Adjustments in respect of prior periods	10,246	(213,789)
Foreign tax relief	(63,454)	(57,663)
	<u>691,089</u>	<u>(50,994)</u>
Foreign tax suffered	63,454	57,663
Current tax	<u>754,543</u>	<u>6,669</u>
	2022	2021
	£	£
Origination and reversal of timing differences	-	190,501
Impact of rate changes	-	110,510
Deferred Tax	<u>-</u>	<u>301,011</u>
Current Tax	754,543	6,669
Deferred Tax	-	301,011
Tax charge for the year	<u>754,543</u>	<u>307,680</u>
Profit for the period before tax	<u>5,296,311</u>	<u>3,225,686</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

7. Taxation (continued)

Tax at 19% (2021: 19.00%) thereon	1,006,299	612,880
Effects of:		
Income not taxable	(83,627)	(17,081)
Non-deductible expenses	29,068	4,078
Deferred tax due to utilisation of carried forward losses not provided	(232,785)	(188,918)
Tax rate differences	-	110,510
Gains/rollover relief	25,342	-
Adjustments from previous periods	10,246	(213,789)
	<u>754,543</u>	<u>307,680</u>
Total tax charge for the year	<u>754,543</u>	<u>307,680</u>

Deferred taxation

As of 31 December 2022, there were accumulated tax losses of £29.77m (2021: £31.02m) carried forward and a recognised deferred tax asset of £Nil (2021: £Nil). The full deferred tax breakdown is set out in the table below.

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £90,190 (2021: - £1,563,282).

The Finance Bill 2021, which was substantively enacted for UK GAAP tax accounting purposes on 24 May 2021, stipulated that the 19% corporation tax rate will continue to 31 March 2023 and will increase to 25% effective from 1 April 2023.

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

The table below shows movements on deferred tax liabilities during the year:

	2022 £	2021 £
As of 1 January	4,791,425	2,927,132
Income statement	-	190,501
Income statement rate change	-	110,510
OCI & Reserves	(90,190)	523,851
OCI rate change	-	1,039,431
	<u>4,701,235</u>	<u>4,791,425</u>
As of 31 December	<u>4,701,235</u>	<u>4,791,425</u>

Deferred tax liabilities relate to unrealised gains on property. See further details in Note 20.

Deferred tax asset of £11,757,881 (2021: £8,831,143) has not been recognised and is in relation to accelerated depreciation, trading losses carried forward and the revaluation movement on available for sale assets since 1 January 2016 when the new tax legislation came into force. The breakdown of the unrecognised deferred tax assets and is in relation to:

	1 January 2022 £	Movement £	31 December 2022 £
Tax losses	7,756,119	(313,703)	7,442,416
*Timing differences - trading	1,020,090	2,839,465	3,859,555
Accelerated depreciation	54,934	400,976	455,910
	<u>8,831,143</u>	<u>2,926,738</u>	<u>11,757,881</u>

*This relates to fair value movement of available for sale assets.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

8. Loans and advances to customers

	Impaired Loans	Non- Impaired loans	Total
	£	£	£
2022			
Remaining maturity:			
Three months or less	-	9,264,190	9,264,190
One year or less but over three months	-	24,333,641	24,333,641
Five years or less but over one year	-	260,485,896	260,485,896
Over five years	-	337,506,350	337,506,350
Overdue	8,027,926	-	8,027,926
	<u>8,027,926</u>	<u>631,590,077</u>	<u>639,618,003</u>
Impairment allowance on loans and advances	(933,571)	-	(933,571)
Collective provision		(368,530)	(368,530)
	<u>7,094,355</u>	<u>631,221,547</u>	<u>638,315,902</u>
Amount repayable on demand (included within three months or less above)	<u>-</u>	<u>1,218,574</u>	<u>1,218,574</u>
2021			
Remaining maturity:			
Three months or less	-	24,474,944	24,474,944
One year or less but over three months	-	22,885,625	22,885,625
Five years or less but over one year	-	408,911,869	408,911,869
Over five years	-	38,513,545	38,513,545
Overdue	12,673,647	-	12,673,647
	<u>12,673,647</u>	<u>494,785,983</u>	<u>507,459,630</u>
Impairment allowance on loans and advances	(1,080,552)	-	(1,080,552)
Collective provision	-	(411,884)	(411,884)
	<u>11,593,095</u>	<u>494,374,099</u>	<u>505,967,194</u>
Amount repayable on demand (included within three months or less above)	<u>-</u>	<u>727,576</u>	<u>727,576</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

9. Loans and advances to banks (continued)

The table below represents the movement of specific and collective provisions in respect of loan and advances to customers during the year:

	Specific £	Collective £	Total 2022 £	Total 2021 £
At 1 January	1,080,552	411,884	1,492,436	1,480,232
Charge (credit) to profit or loss	(146,981)	(43,354)	(190,335)	12,204
As of 31 December	<u>933,571</u>	<u>368,530</u>	<u>1,302,101</u>	<u>1,492,436</u>

Further details are in Note 10.

9. Loans and advances to banks

	2022 £	2021 £
Loans and advances to banks	<u>2,000,329</u>	<u>2,253,488</u>

The loan and advances amount of £2,000,329 (2021: £2,253,488) is repayable on demand.

During the year, there was no impairment charge (2021: £Nil) made against loans and advances to banks.

As of 31 December 2022, there were no loans and advances to banks that were either past due or impaired.

10. Impairment Losses

During 2022, the total impairment losses (reversals) were in respect of the following:

	2022 £	2021 £
(Recovery) charge to provisions	(190,335)	12,204
Impairment charges in respect of loan and advances write- offs	99,278	222,734
Net impairment (recovery) charge related to loans and advances to customers	<u>(91,057)</u>	<u>234,938</u>
Impairment charge (recovery) for debt securities*	<u>5,711,320</u>	<u>(814,134)</u>
Total impairment charge (recovery) in profit or loss	<u>5,620,263</u>	<u>(579,196)</u>

*The impairment charge for debt securities for the year ended 31 December 2022 include interest of £629,761 (2021:£Nil).

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

11. Derivatives financial assets

	2022	2021
	£	£
Fair value - forward foreign exchange contracts	2,221,022	414,198
Fair value - interest rate swap contracts	916,082	-
	<u>3,137,104</u>	<u>414,198</u>
Notional amount - forward foreign currency contracts	72,779,627	81,829,007
Notional amount - interest rate swap contracts	5,000,000	-
	<u>77,779,627</u>	<u>81,829,007</u>

The fair value of derivatives held for non-trading purposes is determined by using observable market data. The Company pledges cash as collateral for its derivative transactions. Collateral in respect of these derivatives is subject to the standard industry terms of ISDA Credit Support Annex. In 2022, the Company posted gains on interest rate swaps of £3,635,562 (2021:£Nil).

12. Derivative financial liabilities

	2022	2021
	£	£
Fair value- foreign currency swaps	213,652	1,699,142
Notional amount - foreign currency swaps	70,781,971	83,117,483
Notional amount - Interest rate swap contracts	5,000,000	-
	<u>75,781,971</u>	<u>83,117,483</u>

The fair value of derivatives held for non-trading purposes is determined by using observable market data. The Company pledges cash as collateral for its derivative transactions. Collateral in respect of these derivatives is subject to the standard industry terms of ISDA Credit Support Annex.

The derivative instruments reflected in notes 11 & 12 comprise foreign exchange forward swaps and interest rate swaps, which the company uses to hedge against foreign exchange risk and interest rate risk, respectively. Refer to note 24 for further information on financial instruments and risk management.

13. Intangibles

	Computer software	
	2022	2021
	£	£
Cost		
At 1 January	4,960,772	4,771,847
Additions	34,500	188,925
At 31 December	<u>4,995,272</u>	<u>4,960,772</u>
Amortisation		
At 1 January	(4,421,970)	(4,133,368)
Charge for the year	(318,673)	(288,602)
At 31 December	<u>(4,740,643)</u>	<u>(4,421,970)</u>
Carrying amount		
At 31 December	<u>254,629</u>	<u>538,802</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

13. Intangibles (continued)

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

14. Investment properties

	2022	2021
	£	£
Investment property (2 Brook Street London)	<u>9,446,895</u>	<u>9,446,895</u>

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

The carrying value of the investment property is based on a desktop valuation assessment conducted by the Directors under the guidance of RICS property valuation experts. The valuation was predicated on the following assumptions and factors: stability in the London property market conditions, prices for similar properties, projected rental yields, comparability of recent property sale transactions, void and rent-free periods and capitalisation rates. The valuation results are set out in the table below:

2022	Fair value	Cost	Accumulated Depreciation	Historical net book value
	£	£	£	£
Property				
2 Brook Street, London	<u>9,446,895</u>	<u>2,330,234</u>	<u>(219,127)</u>	<u>2,111,107</u>

Operating lease agreements where the Company is a lessor

The Company holds surplus office buildings as investment properties as previously disclosed, that are let to third parties. At the reporting date the 3rd floor was tenanted whilst the 4th floor was vacant.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

15. Tangible fixed assets

	Computer equipment £	Office equipment £	Leasehold property £	Property improvements £	*Freehold land and buildings £	Total £
Cost or valuation						
At 1 January 2022	2,386,461	1,063,058	515,545	1,343,902	21,783,925	27,092,891
Revaluation	-	-	-	-	98,316	98,316
Additions	164,197	18,002	-	-	-	182,199
Disposal/Adjustments/Transfers	(123,341)	(480,275)	-	(736,400)	(684,396)	(2,024,412)
At 31 December 2022	<u>2,427,317</u>	<u>600,785</u>	<u>515,545</u>	<u>607,502</u>	<u>21,197,845</u>	<u>25,348,994</u>
Depreciation						
At 1 January 2022	(1,921,444)	(1,016,258)	(515,545)	(1,269,682)	(515,820)	(5,238,749)
Charge for the year	(294,461)	(18,235)	-	(13,372)	(110,789)	(436,857)
Disposal/Adjustments/Transfers	123,341	480,275	-	702,419	143,509	1,449,544
At 31 December 2022	<u>(2,092,564)</u>	<u>(554,218)</u>	<u>(515,545)</u>	<u>(580,635)</u>	<u>(483,100)</u>	<u>(4,226,062)</u>
Carrying amount						
At 31 December 2022	<u>334,753</u>	<u>46,567</u>	<u>-</u>	<u>26,867</u>	<u>20,714,745</u>	<u>21,122,932</u>
Cost or valuation						
At 1 January 2021	2,310,467	1,062,252	515,545	1,343,902	19,026,817	24,258,983
Revaluation	-	-	-	-	2,757,108	2,757,108
Additions	75,994	806	-	-	-	76,800
At 31 December 2021	<u>2,386,461</u>	<u>1,063,058</u>	<u>515,545</u>	<u>1,343,902</u>	<u>21,783,925</u>	<u>27,092,891</u>
Depreciation						
At 1 January 2021	(1,663,235)	(978,634)	(515,539)	(1,246,911)	(401,084)	(4,805,403)
Charge for the year	(258,209)	(37,624)	(6)	(22,771)	(114,736)	(433,346)
At 31 December 2021	<u>(1,921,444)</u>	<u>(1,016,258)</u>	<u>(515,545)</u>	<u>(1,269,682)</u>	<u>(515,820)</u>	<u>(5,238,749)</u>
Carrying amount						
At 31 December 2021	<u>465,017</u>	<u>46,800</u>	<u>-</u>	<u>74,220</u>	<u>21,268,105</u>	<u>21,854,142</u>

*Freehold land and buildings only includes the tangible fixed asset element of the Brook Street property. Details of the investment property element of this asset are provided in Note 14.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

15. Tangible fixed assets (continued)

	Total £	Carrying value 31 Dec 2022 Freehold land and buildings £	Carrying value 31 Dec 2022 Investment property £	Historical cost NBV 31 Dec 2022 Freehold land and buildings £	Historical cost NBV 31 Dec 2022 Investment property £
Property					
2 Brook Street, London	30,000,000	20,553,105	9,446,895	4,593,024	2,111,107
3-5 Oakland Lane, Bradford	161,640	161,640	-	22,869	-
Total	<u>30,161,640</u>	<u>20,714,745</u>	<u>9,446,895</u>	<u>4,615,893</u>	<u>2,111,107</u>

The valuations on the above properties were based on desktop valuation assessment as of 31 December 2022 conducted by the Directors under the expert guidance of qualified RICS property valuation experts. The valuations were predicated on the following assumptions and factors: stable property market conditions in the respective locations, prices for similar properties, projected rental yields, comparability of recent property sale transactions, void and rent-free periods and capitalisation rates.

Assets under finance leases have a net book value of £43,530 (2021: £37,993) with minimum lease payments of £41,532 (2021: £50,957).

16. Other assets

	2022 £	2021 £
Remittance funds receivable	350,834	731,541
Capital work-in-progress	-	117,175
Security deposits	400,252	355,848
Rent deposits	31,084	-
Sundry debtors	35,584	11,792
Tax recoverable	-	127,956
Pension asset	759,850	-
Others	223,876	38,367
*Deferred costs	105,108	120,779
	<u>1,906,588</u>	<u>1,503,458</u>

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

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

17. Deposits by banks and credit unions

2022	Banks £	Credit Unions £	Total £
Repayable on demand	4,830,097	-	4,830,097
With agreed maturity dates or periods of notice by remaining maturity			
3 years or less but over 1 year	-	3,609,050	3,609,050
Over 3 years	4,613	12,944,124	12,948,737
			<hr/>
Total	4,834,710	16,553,174	21,387,884

2021	Banks £	Credit Unions £	Total £
Repayable on demand	3,765,788	-	3,765,788
With agreed maturity dates or periods of notice by remaining maturity:			
3 months or less	20,571,278	-	20,571,278
1 year or less but over 3 months	3,511,027	-	3,511,027
3 years or less but over 1 year	5,514	3,605,515	3,611,029
Over 3 years	28,587	9,829,869	9,858,456
			<hr/>
Total	27,882,194	13,435,384	41,317,578

18. Customer accounts

	2022 £	2021 £
Repayable on demand	173,169,739	91,040,276
Three months or less	78,342,919	40,554,895
One year or less but over three months	190,941,386	77,720,406
Three years or less but over one year	185,666,869	182,621,351
Over three years	71,968,877	142,331,258
	<hr/>	<hr/>
	700,089,790	534,268,186

19. Other liabilities

	2022 £	2021 £
Unclaimed credits	844,081	1,295,744
Finance lease	41,532	51,167
Amounts due to preference shareholders (see below)	4	4
Accrued expenses	1,016,340	956,005
Other	809,325	1,660,236
	<hr/>	<hr/>
	2,711,282	3,963,156

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

19. 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 and overleaf:

	UBL Total	NBP Total	Total
	£	£	£
2022			
Amounts due on 1 January 2022	2	2	4
Tax losses utilised during the year	98,404	-	98,404
Realised debt recoveries	-	-	-
Payable to preference shareholders	<u>98,406</u>	<u>2</u>	<u>98,408</u>
Dividends paid	<u>(98,404)</u>	<u>-</u>	<u>(98,404)</u>
Amounts due on 31 December 2022	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>4</u></u>
	UBL Total	NBP Total	Total
	£	£	£
2021			
Amounts due on 1 January 2021	1,459	2	1,461
Tax losses utilised during the year	-	-	-
Payable to preference shareholders	<u>1,459</u>	<u>2</u>	<u>1,461</u>
Dividends paid	<u>(1,457)</u>	<u>-</u>	<u>(1,457)</u>
Amounts due on 31 December 2021	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>4</u></u>

An estimated amount of £235k (2021:£95k) relating to utilisation of tax losses will be payable in the form of preference share dividend in 2023, when the tax losses are actually utilised.

Any recovery from written-off loans that were transferred upon merger will also be paid as preference share dividend.

20. Provision for liabilities

	Provision for	Pension	Provision for	Onerous	Total
	Deferred Tax	Liability	Compensated	Lease	
	£	£	Absences	£	£
2022					
1 January 2022	4,791,425	174,000	255,000	-	5,220,425
Additions	-	(174,000)	143,745	36,254	5,999
Utilised during the period	-	-	(255,000)	-	(255,000)
Adjustments	<u>(90,190)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(90,190)</u>
31 December 2022	<u><u>4,701,235</u></u>	<u><u>-</u></u>	<u><u>143,745</u></u>	<u><u>36,254</u></u>	<u><u>4,881,234</u></u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

20. Provision for liabilities (continued)

2021	Provision for Deferred tax £	Pension Liability £	Provision for Compensated Absences £	Total £
1 January 2021	2,927,132	780,000	214,029	3,921,161
Additions	714,352	(606,000)	255,000	363,352
Utilised during the period	-	-	(214,029)	(214,029)
Adjustments	1,149,941	-	-	1,149,941
31 December 2021	<u>4,791,425</u>	<u>174,000</u>	<u>255,000</u>	<u>5,220,425</u>

The deferred tax provided is the amount expected to be payable in future periods in accordance with the current tax legislation and it is in respect of revaluation and fair value movement of tangible fixed assets and investment properties, respectively. The reversal of any of this amount will only occur when some of the assets are sold. Deferred tax liabilities have been calculated at 25% (2021:25%) of the timing difference.

Provision for compensated absences represent holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The Company's stipulated rule state that the carry forward holiday balances must ordinarily be utilised by 31 March the following year and by this date this provision will be reversed. The provision is measured at salary cost payable for period of absence.

21. Called up share capital

	2022 Shares	2021 Shares	2022 £	2021 £
(Issued, allotted and fully paid) Ordinary shares of £1 each	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>

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

22. Contingent liabilities

The Company had £921,282 (2021: £100,000) contingent liabilities arising from guarantees issued. 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.

23. Commitments

Unutilised overdraft commitments

	2022 £	2021 £
Unutilised overdraft	<u>97,927</u>	<u>331,575</u>

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

Loan commitments

	2022 £	2021 £
Loan commitments	<u>6,297,200</u>	<u>44,611,900</u>

The loan commitments are amounts where the Company has approved credit and signed facility letters have been sent to the customers for signature or having been signed but the funds have not yet been drawn.

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the time bands overleaf. These are in respect to the Company standard lease agreements for the lease of the former branch premises in Manchester with remaining term of 7 years.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

23. Commitments (continued)

	2022	2021
	£	£
Within one year	32,927	36,000
Between one year and five years	61,747	144,000
Later than five years	7,000	109,400
	<u>101,674</u>	<u>289,400</u>
The Company had the following future minimum finance lease payments:		
Within one year	21,604	26,976
Between one year and five years	21,347	25,494
Total gross payments	42,951	52,470
Less: Finance charges	<u>(1,419)</u>	<u>(1,303)</u>
*Carrying amount of liability	<u>41,532</u>	<u>51,167</u>

*The carrying amount of the finance lease reflected in the balance sheet (see note 19) includes accrued interest charges of £257 (2021: £1,513) totalling £41,532 (2021: £51,167).

Certain items of office equipment (franking machines and photocopiers) are held under finance lease arrangements. The finance lease liabilities are secured by the assets held under finance lease (see notes 15 & 19 respectively). The lease arrangements include fixed lease payments and a purchase option at the end of the lease term. The lease term remaining is 1.0 and 1.8 years for the franking machines and photocopiers, respectively.

24. Financial instruments and risk management

Financial risk instruments and risk management

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

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
6. market price risk

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

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

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

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

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

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

Fair value

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

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

Financial assets and liabilities not carried at fair value

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

Deposits from banks and customers are both short term and long term in nature. In regards to long-term deposits there are no material factors, which indicate that the carrying value differs from the fair value.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

Financial assets and liabilities that are carried at fair value

The Company holds available for sale securities ('AFS') which are carried on a fair value basis at level 1 and level 3 as well as derivatives at level 2.

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

2022	AFS	FVTPL	Assets & Liabilities at amortised cost	Total
	£	£	£	£
Financial assets				
Cash and balances at banks	-	-	6,703,512	6,703,512
Loans and advances to banks	-	-	2,000,329	2,000,329
Loans and advances to customers	-	-	638,315,902	638,315,902
Debt securities	122,536,714	-	-	122,536,714
Derivatives at fair value	-	3,137,104	-	3,137,104
Other assets	-	-	1,546,520	1,546,520
	<u>122,536,714</u>	<u>3,137,104</u>	<u>648,566,263</u>	<u>774,240,081</u>
Financial liabilities				
Deposits by banks and credit unions	-	-	21,387,884	21,387,884
Customer accounts	-	-	638,315,902	638,315,902
Derivatives at fair value	-	213,652	-	213,652
Other liabilities	-	-	2,118,087	2,118,087
	<u>-</u>	<u>213,652</u>	<u>661,821,873</u>	<u>662,035,525</u>
2021				
	AFS	FVTPL	Assets & Liabilities at amortised cost	Total
	£	£	£	£
Financial assets				
Cash and balances at banks	-	-	33,695,043	33,695,043
Loans and advances to banks	-	-	2,253,488	2,253,488
Loans and advances to customers	-	-	505,967,194	505,967,194
Debt securities	92,219,766	-	-	92,219,766
Derivatives at fair value	-	414,198	-	414,198
Other assets	-	-	1,227,137	1,227,137
	<u>92,219,766</u>	<u>414,198</u>	<u>543,142,862</u>	<u>635,776,826</u>
Financial liabilities				
Deposits by banks and credit unions	-	-	41,317,578	41,317,578
Customer accounts	-	-	534,268,186	534,268,186
Derivatives at fair value	-	1,699,142	-	1,699,142
Other liabilities	-	-	3,614,785	3,614,785
	<u>-</u>	<u>1,699,142</u>	<u>579,200,549</u>	<u>580,899,691</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

	2022	2021
	£	£
Interest Income		
Available for sale	3,402,074	1,636,909
Loans and receivables	<u>26,689,748</u>	<u>19,545,384</u>
	<u><u>30,091,822</u></u>	<u><u>21,182,293</u></u>
Interest Expense		
Derivative financial instruments	1,554,842	593,663
Customer and bank deposits (includes preference share dividend)	<u>9,788,762</u>	<u>7,054,478</u>
	<u><u>11,343,604</u></u>	<u><u>7,648,141</u></u>

A total of £Nil relating to interest income on impaired debt securities and £435,941 relating to interest income on impaired loans and receivables have been recognised in the year (2021: £Nil and £772,030), 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 and interest rate risk, the Company takes exchange rate contract orders from customers and will cover these by entering into similar positions with third parties.

Fair value measurement

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

a) Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

All investment securities held by the Company at 31 December 2022 are rated. Prices used for fair value calculation are obtained from Bloomberg.

b) Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

The Company has forward derivative contracts and interest rate swaps, which are OTC derivatives and are not traded, therefore, cannot be measured using Category 1 input. Observable currency prices obtained from Bloomberg have been used to determine the fair value of forward derivative contracts. The interest rate swap fair values were obtained from London Clearing House ('LCH'). Availability of observable market prices reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

c) Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Company uses 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 £4,061,358 (2021: £Nil) exposure of this nature. The underlying assumptions normally used in calculating the appropriate carrying amount includes credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally adjustment to reflect execution risk.

The tables overleaf show a hierarchy that reflects the significance of observable market inputs for financial instruments measured at fair value:

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

2022	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Available for sale investments	118,475,356	-	4,061,358	122,536,714
Derivatives at fair value	-	3,137,104	-	3,137,104
	<u>118,475,356</u>	<u>3,137,104</u>	<u>4,061,358</u>	<u>125,673,818</u>
Financial liabilities				
Derivatives at fair value	-	213,652	-	213,652
	<u>-</u>	<u>213,652</u>	<u>-</u>	<u>213,652</u>
2021	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Available for sale investments	92,219,766	-	-	92,219,766
Derivatives at fair value	-	414,198	-	414,198
	<u>92,219,766</u>	<u>414,198</u>	<u>-</u>	<u>92,633,964</u>
Financial liabilities				
Derivatives at fair value	-	1,699,142	-	1,699,142
	<u>-</u>	<u>1,699,142</u>	<u>-</u>	<u>1,699,142</u>

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the Company, this arises principally from the Company's loans and advances to customers, other banks and the investment portfolio. However, the most significant 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 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 and Compliance Committee.

The Business 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 overleaf:

	2022	2022	2021	2021
	Carrying	Maximum	Carrying	Maximum
	Value	Exposure	Value	Exposure
	£	£	£	£
Cash and balances at banks	6,703,512	6,703,512	33,695,043	33,695,043
Loans and advances to banks	2,000,329	2,000,329	2,253,488	2,253,488
Loans and advances to customers	-	-	-	-
-Loans and receivables	638,315,902	638,315,902	505,967,194	505,967,194
Debt securities	-	-	-	-
- Available for sale	122,536,714	122,536,714	92,219,766	92,219,766
	-	-	-	-
	-	-	-	-
Commitments	-	6,395,127	-	44,611,900
	<u>769,556,457</u>	<u>775,951,584</u>	<u>634,135,491</u>	<u>678,747,391</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

The table below shows the breakdown of the Company's debt securities and loan advances portfolio, categorised by the degree of risk of financial loss

	Debt securities 2022 £	Debt securities 2021 £	*Loans & advances 2022 £	Loans & advances 2021 £
Carrying amount	122,536,714	92,219,766	640,316,231	508,220,683
Individually impaired				
Grade 12: Doubtful	9,142,917	-	7,195,679	11,780,145
Grade 14: Loss	-	-	832,247	893,502
Impairment allowance (specific)	(5,081,559)	-	(933,571)	(1,080,552)
Carrying amount	4,061,358	-	7,094,355	11,593,095
Past due but not impaired				
Grade 3-11				
- Up to 30 days	-	-	25,606,834	1,746,230
- 31 – 60 days	-	-	4,347,686	13,141,465
- 61 – 90 days	-	-	-	343,655
- 91 – 120 days	-	-	-	-
Carrying amount	-	-	29,954,520	15,231,350
Neither past due nor impaired				
Grade 1-8: Low – fair risk	109,468,118	88,037,672	560,342,123	481,808,122
Grade 9,10,11: Watchlist	9,007,238	4,182,094	43,293,763	-
Carrying amount	118,475,356	92,219,766	603,635,886	481,808,122
Impairment allowance				
Collective provision	-	-	(368,530)	(411,884)
	-	-	(368,530)	(411,884)

*Loan advance portfolio includes loans and advances to banks and to customers.

All other financial assets of the Company are neither past due nor impaired (2021: Nil)

The ratings for debt securities are set out in the table below:

	2022 £	2021 £
Fitch ratings		
AAA	35,740,222	64,978,226
AA	4,879,178	-
AA-	68,848,718	9,999,900
BB-	-	-
B+	-	-
B-	-	11,609,142
CCC+	9,007,238	4,182,094
Restricted Default (RD)	4,061,358	-
Non Rated (NR)	-	1,450,404
	122,536,714	92,219,766

During the year, a sovereign debt security with a carrying amount of £4,061,358 (2021: £Nil) was classified as an impaired asset resulting in a recycling of unrealised loss of £5,081,559 (2021: £Nil) from investment revaluation reserve to profit or loss.

The loans and advances portfolio is predominantly unrated.

24. Financial instruments and risk management (continued)

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 based on 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 components are a specific loss provision that relates to individual exposures and represents the amount remaining after deducting the expected discounted cash flows from the outstanding principal and accrued interest at the balance sheet date and a collective provision which is made for loan losses that have been incurred but have not been separately identified 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 means that this primary aim is not achievable, the secondary aim is to recover the customer into a 'sustainable terms' position on their 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 2022 all grade 9, 10 & 11 loans and advances had been considered for forbearance (2021: 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. During the year no collateral was possessed by the Company (2021: £Nil) (see note 14). The table below shows a breakdown of the credit exposure by collateral type:

	2022 £	2021 £
Carrying amount	<u>640,316,231</u>	<u>508,220,683</u>
Individually impaired		
Property	4,649,048	9,670,228
Unsecured	3,378,878	3,003,418
Impairment allowance (specific)	<u>(933,571)</u>	<u>(1,080,552)</u>
Carrying amount	<u>7,094,355</u>	<u>11,593,094</u>
Past due but not impaired		
Property	<u>29,954,520</u>	<u>15,231,350</u>
Carrying amount	<u>29,954,520</u>	<u>15,231,350</u>
Neither past due nor impaired		
Property	555,781,433	424,405,763
Unsecured	47,854,395	57,402,360
Other	58	-
Carrying amount	<u>603,635,886</u>	<u>481,808,123</u>
Impairment allowance		
Collective provision	<u>(368,530)</u>	<u>(411,884)</u>
	<u>(368,530)</u>	<u>(411,884)</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

The average loan to value ratio for customer loans secured by property is 62% (2021: 66%); calculated by dividing the balance owed to the Company by the latest valuation held for the property. Property values are updated half yearly by applying changes in property prices to the original assessed value of the property. The Company considers this appropriate as the original assessed value is based on a comprehensive red book valuation by FRICS registered surveyors which takes into account the specific characteristics of the property such as type, quality and location.

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 monitors credit risk concentration against limits daily. The Company places significant emphasis on loans and advances portfolio due to the diversity of sectors and location the portfolio is exposed to. The table below summarises the sector and location concentration risk for the Company's loans and advances portfolio at the year-end.

	Loans and advances to customers & banks 2022 £	Loans and advances to customers & banks 2021 £
Central and local government	1,879,876	3,927,248
Food, beverage, tobacco	3,830,445	28,323,577
Textiles, leather, clothes	343,503	3,464,258
Other manufacturing	1,134	1,004
Retail	380	1,248,741
Transport, storage, communication	-	12,802,191
Real estate - buy, sell, develop and letting	469,161,066	323,408,539
Financial	9,399,090	10,975,903
Others	28,819,589	31,179,856
Individuals	126,881,148	92,889,336
Total	<u>640,316,231</u>	<u>508,220,653</u>

Concentration by location

Great Britain	539,572,221	431,252,131
Europe	8,525,746	11,038,149
South Asia	85,067,816	62,802,223
Rest of world	7,150,448	3,128,180
Total	<u>640,316,231</u>	<u>508,220,683</u>

Investment Securities

Investment securities held by the Company at 31 December 2022 were all rated (2021: same).

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

	2022 £	2021 £
As at 1 January	92,219,766	148,064,178
Purchases	572,112,956	291,404,230
Sales/maturities	(526,168,675)	(347,286,633)
Interest/ amortisation	(472,141)	797,586
Unrealised (losses) gains	(10,073,633)	(759,595)
Impairment losses	(5,081,559)	-
Balance at 31 December	<u>122,536,714</u>	<u>92,219,766</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

During the year, a sovereign debt security with a carrying amount of £4,061,358 (2021: £Nil) was classified as an impaired asset resulting in a recycling of unrealised loss of £5,081,559 (2021: £Nil) from investment revaluation reserve to profit or loss.

The movement in unrealised losses during the year were as follows:

	2022	2021
	£	£
As at 1 January	(3,862,585)	(3,102,990)
Unrealised losses accounted for in the Statement of Comprehensive Income during the year, net of tax	<u>(10,073,632)</u>	<u>(759,595)</u>
Balance at 31 December	<u><u>(13,936,218)</u></u>	<u><u>(3,862,585)</u></u>

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

	2022	2021
	£	£
Analysis of sector concentration		
Central government	80,475,964	25,791,136
Financial institutions	40,619,400	54,297,596
Corporates	<u>1,441,350</u>	<u>12,131,034</u>
Balance at 31 December	<u><u>122,536,714</u></u>	<u><u>92,219,766</u></u>

Liquidity risk

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

The Company policy is to monitor the liquidity position daily, with regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions. The Company's Treasury Department is responsible for maintaining sufficient liquidity to meet the Company's obligations and to meet the specific liquidity requirements of the UK supervisory authorities.

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 tables overleaf 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.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

Residual contractual maturities of financial instruments as at 31 December 2022	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 £
Non-derivative assets							
Cash and balances at banks	6,703,512	-	-	-	-	6,703,512	6,703,512
Loan and advances to banks	2,002,795	-	-	-	-	2,002,795	2,000,329
Loans and advances to customers	11,139,026	11,468,621	43,557,721	620,585,017	36,473,621	723,224,006	638,315,902
Debt securities	25,152,098	45,248,082	1,258,278	40,246,594	17,177,762	129,082,814	122,536,714
	<u>44,997,431</u>	<u>56,716,703</u>	<u>44,815,999</u>	<u>660,831,611</u>	<u>53,651,383</u>	<u>861,013,127</u>	<u>769,556,457</u>
Non-derivative liabilities							
Deposits by banks and credit unions	4,852,618	31,252	140,633	17,019,892	-	22,044,395	21,387,884
Repurchase agreements	-	-	-	-	-	-	-
Customer accounts	190,266,370	63,783,083	194,751,914	262,446,108	548,046	711,795,521	700,089,790
Liabilities against assets subject to finance lease	41,532	-	-	-	-	41,532	41,532
	<u>195,160,520</u>	<u>63,814,335</u>	<u>194,892,547</u>	<u>279,466,000</u>	<u>548,046</u>	<u>733,881,448</u>	<u>721,519,206</u>
Derivative contracts							
Forward foreign exchange contracts inflow	(532,227)	(890,375)	(798,420)	-	-	(2,221,022)	(2,221,022)
Forward foreign exchange contracts outflow	1,055	46,695	165,902	-	-	213,652	213,652
	<u>(531,172)</u>	<u>(843,680)</u>	<u>(632,518)</u>	<u>-</u>	<u>-</u>	<u>(2,007,370)</u>	<u>(2,007,370)</u>
Loan commitments	-	(4,648,000)	(1,649,200)	-	-	(6,297,200)	-
	<u>194,629,348</u>	<u>58,322,655</u>	<u>192,610,829</u>	<u>279,466,000</u>	<u>548,046</u>	<u>725,576,878</u>	<u>719,511,836</u>
Net position	<u>(149,631,918)</u>	<u>(1,605,952)</u>	<u>(147,794,830)</u>	<u>381,365,611</u>	<u>53,103,338</u>	<u>135,436,249</u>	<u>-</u>
Cumulative gap	<u>(149,631,918)</u>	<u>(151,237,870)</u>	<u>(299,032,700)</u>	<u>82,332,911</u>	<u>135,436,249</u>	<u>-</u>	<u>-</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

Residual contractual maturities of financial instruments as at 31 December 2021	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 £
Non-derivative assets							
Cash and balances at banks	33,695,043	-	-	-	-	33,695,043	33,695,043
Loans and advances to banks	2,253,488	-	-	-	-	2,253,488	2,253,488
Loan and advances to customers	23,498,912	17,228,145	37,205,463	457,286,093	42,605,326	577,823,939	505,967,194
Debt securities	5,118,140	10,210,193	9,681,274	53,409,220	18,056,970	96,475,797	92,219,766
	<u>64,565,583</u>	<u>27,438,338</u>	<u>46,886,737</u>	<u>510,695,313</u>	<u>60,662,296</u>	<u>710,248,267</u>	<u>634,135,491</u>
Non-derivative liabilities							
Deposits by banks and credit unions	11,185,867	13,262,386	3,612,562	13,794,318	-	41,855,133	41,317,578
Customer accounts	97,022,297	36,045,740	81,372,941	330,819,480	1,926,248	547,186,706	534,268,186
Liabilities against assets subject to finance lease	51,167	-	-	-	-	51,167	51,167
	<u>108,259,331</u>	<u>49,308,126</u>	<u>84,985,503</u>	<u>344,613,798</u>	<u>1,926,248</u>	<u>589,093,006</u>	<u>575,636,931</u>
Derivative contracts							
Forward foreign exchange contracts inflow	(36,861)	(377,338)	-	-	-	(414,199)	(414,199)
Forward foreign exchange contracts outflow	985,927	624,661	88,554	-	-	1,699,142	1,699,142
	<u>949,066</u>	<u>247,323</u>	<u>88,554</u>	<u>-</u>	<u>-</u>	<u>1,284,943</u>	<u>1,284,943</u>
Loan commitments	6,365,500	12,748,800	25,497,600	-	-	44,611,900	-
	<u>115,573,897</u>	<u>62,304,249</u>	<u>110,571,657</u>	<u>344,613,798</u>	<u>1,926,248</u>	<u>634,989,849</u>	<u>576,921,874</u>
Net position	<u>(51,008,314)</u>	<u>(34,865,911)</u>	<u>(63,684,920)</u>	<u>166,081,516</u>	<u>58,736,048</u>	<u>75,258,418</u>	<u>-</u>
Cumulative gap	<u>(51,008,314)</u>	<u>(85,874,225)</u>	<u>(149,559,145)</u>	<u>16,522,370</u>	<u>75,258,418</u>	<u>-</u>	<u>-</u>

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 overleaf summarise the re-pricing mismatches on the Company's assets and liabilities as at 31 December 2022 and 31 December 2021. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

As at 31 December 2022	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 £
Assets							
Cash and balances at banks	6,592,003	-	-	-	-	111,509	6,703,512
Loans and advances to banks	2,000,329	-	-	-	-	-	2,000,329
Loans and advances to customers	137,410,902	21,675,582	26,377,224	448,006,612	-	4,845,582	638,315,902
Debt securities	96,071,502	-	-	15,706,378	6,697,476	4,061,358	122,536,714
Intangible assets	-	-	-	-	-	254,630	254,630
Investment property	-	-	-	-	-	9,446,895	9,446,895
Tangible fixed assets	-	-	-	-	-	21,122,931	21,122,931
Derivatives at fair value	3,556,283	680,733	-	(2,015,964)	-	916,052	3,137,104
Other assets	-	-	-	-	-	1,906,588	1,906,588
Prepayments and accrued income	-	-	-	-	-	772,017	772,017
Total Assets	245,631,019	22,356,315	26,377,224	461,697,026	6,697,476	43,437,562	806,196,622
Liabilities							
Deposit by banks and credit unions	4,830,097	-	-	16,553,174	-	4,613	21,387,884
Customer accounts	167,756,300	99,208,122	123,229,175	255,361,677	528,619	54,005,897	700,089,790
Derivatives at fair value	(1,121,579)	(680,733)	-	2,015,964	-	-	213,652
Other liabilities	-	-	-	-	-	7,592,516	7,592,516
Accruals and deferred income	-	-	-	-	-	2,299,569	2,299,569
Shareholders' funds	-	-	-	-	-	74,613,211	74,613,211
Total Liabilities	171,464,818	98,527,389	123,229,175	273,930,815	528,619	138,515,806	806,196,622
Interest rate sensitivity gap	74,166,201	(76,171,074)	(96,851,951)	187,766,211	6,168,857	(95,078,244)	-
Cumulative sensitivity gap	74,166,201	(2,004,873)	(98,856,824)	88,909,387	95,078,244	-	-

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

As at 31 December 2021	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 £
Assets							
Cash and balances at banks	33,276,106	-	-	-	-	418,937	33,695,043
Loans and advances to banks	2,253,488	-	-	-	-	-	2,253,488
Loans and advances to customers	82,927,189	50,336,981	41,487	374,090,962	-	(1,429,425)	505,967,194
Debt securities	15,003,100	1,495,480	3,974,876	52,468,508	19,277,802	-	92,219,766
Intangible assets	-	-	-	-	-	538,802	538,802
Investment property	-	-	-	-	-	9,446,895	9,446,895
Tangible fixed assets	-	-	-	-	-	21,854,142	21,854,142
Derivatives at fair value	457,388	(61,432)	18,242	-	-	-	414,198
Other assets	-	-	-	-	-	1,503,458	1,503,458
Prepayments and accrued income	-	-	-	-	-	827,884	827,884
Total Assets	133,917,271	51,771,029	4,034,605	426,559,470	19,277,802	33,160,693	668,720,870
Liabilities							
Deposits by banks and credit unions	24,376,681	3,505,513	-	13,435,384	-	-	41,317,578
Customer accounts	74,421,611	22,525,943	55,161,518	323,090,542	1,863,318	57,205,254	534,268,186
Derivatives at fair value	1,637,710	61,432	-	-	-	-	1,699,142
Other liabilities	-	-	-	-	-	9,009,581	9,009,581
Accruals and deferred income	-	-	-	-	-	2,170,663	2,170,663
Pension fund liability	-	-	-	-	-	174,000	174,000
Shareholders' funds	-	-	-	-	-	80,081,720	80,081,720
Total Liabilities	100,436,002	26,092,888	55,161,518	336,525,926	1,863,318	148,641,218	668,720,870
Interest rate sensitivity gap	33,481,269	25,678,141	(51,126,913)	90,033,544	17,414,484	(115,480,525)	-
Cumulative sensitivity gap	33,481,269	59,159,410	8,032,497	98,066,041	115,480,525	-	-

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.

	2022	2021
Financial assets		
Loans and advances to banks	3.00%	-
Loans and advances to customers	4.27%	4.25%
Debt securities	3.22%	1.56%
Financial liabilities		
Deposits by banks	1.15%	1.03%
Customer accounts	1.47%	1.35%

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 overleaf shows the impact on annual income of a 200 basis point rise or fall in the base rate of the main currencies traded by the Company, and assumes a constant balance sheet position:

24. Financial instruments and risk management (continued)

	2022 200 basis points increase £	2022 200 basis points decrease £	2021 200 basis points increase £	2021 200 basis points decrease £
GBP	(4,154,359)	4,390,912	(6,899,940)	7,863,940
USD	(1,805,779)	2,088,018	(1,871,248)	2,105,596
EUR	(993)	1,015	(1,268)	1,296

LIBOR replacement (IBOR Reforms)

The Bank has a LIBOR transition programme to manage the impact of Bank of England's plan to discontinue the use of LIBOR as a reference rate. Work to decommission LIBOR has involved ceasing the issuance and purchase of new LIBOR lending/investment, developing and delivering alternative reference rate products, and implementing a back -book migration strategy based on consensual counterparty agreement where possible. New floating rate loans are being benchmarked with the spread on BOE base rate. As of 31 December 2022, the Company had assets amounting to £28.6m (2021: £44.0m) that are still using the LIBOR as a reference rate. In regards to the residual exposure, the Company is having ongoing discussions with the agent banks who are handling the transition process with customers. The Company is still on target to fully transition the residual exposures to alternative benchmark rates by the final deadline date of 30 June 2023.

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 11 & 12 gives details of the notional principal amounts and fair values as at 31 December 2022 and 31 December 2021.

The Company has no significant structural currency exposures that are not covered by forward foreign exchange contracts. The tables shown overleaf give details of the Company's assets and liabilities as at 31 December 2022 and 31 December 2021, 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

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

As at 31 December 2022	Sterling £	US dollars £	Euro £	Other currencies £	Total £
Assets					
Cash and balances at banks	2,827,833	2,705,257	745,926	424,496	6,703,512
Loan and advances to banks	2,000,329	-	-	-	2,000,329
Loans and advances to customers	588,052,590	33,155,650	-	17,107,662	638,315,902
Debt securities	83,855,357	38,681,357	-	-	122,536,714
Derivatives at fair value	3,137,104	-	-	-	3,137,104
Intangible assets	254,630	-	-	-	254,630
Investment property	9,446,895	-	-	-	9,446,895
Tangible assets	21,122,931	-	-	-	21,122,931
Other assets	1,906,588	-	-	-	1,906,588
Prepayments and accrued income	772,017	-	-	-	772,017
Total assets	713,376,274	74,542,264	745,926	17,532,158	806,196,622
Liabilities					
Deposits by banks and credit unions	20,800,369	437,471	150,044	-	21,387,884
Customer accounts	660,149,105	38,989,227	938,883	12,576	700,089,791
Derivatives at fair value	213,652	-	-	-	213,652
Other liabilities	2,746,311	281,731	(345,861)	29,100	2,711,281
Accruals and deferred income	2,229,958	-	-	69,611	2,299,569
Provision for liabilities	4,881,234	-	-	-	4,881,234
Shareholders' funds	88,799,135	(14,190,366)	145	4,297	74,613,211
Total liabilities and capital	779,819,764	25,518,063	743,211	115,584	806,196,622
Net (liabilities)/assets	(66,443,490)	49,024,201	2,715	17,416,575	-
Net currency forwards	71,692,113	(52,297,626)	-	(17,306,228)	2,088,259
Net position	5,248,623	(3,273,425)	2,715	110,346	2,088,259

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

As at 31 December 2021	Sterling £	US dollars £	Euro £	Other currencies £	Total £
Assets					
Cash and balances at banks	12,406,482	18,285,942	1,045,095	1,957,524	33,695,043
Loans and advances to banks	650,000	1,603,488	-	-	2,253,488
Loans and advances to customers	452,363,812	34,117,248	-	19,486,135	505,967,195
Debt securities	48,970,044	43,249,722	-	-	92,219,766
Derivatives at fair value	414,199	-	-	-	414,199
Intangible assets	538,802	-	-	-	538,802
Investment property	9,446,895	-	-	-	9,446,895
Tangible assets	21,854,141	-	-	-	21,854,141
Other assets	1,503,458	-	-	-	1,503,458
Prepayments and accrued income	827,883	-	-	-	827,883
Total assets	548,975,716	97,256,400	1,045,095	21,443,659	668,720,870
Liabilities					
Deposits by banks and credit unions	29,744,562	11,389,160	183,858	-	41,317,580
Customer accounts	497,069,355	36,031,639	1,140,788	26,404	534,268,186
Derivatives at fair value	1,699,142	-	-	-	1,699,142
Pension fund liability	174,000	-	-	-	174,000
Other liabilities	8,090,519	502,563	225,823	190,676	9,009,581
Accruals and deferred income	1,871,122	-	-	299,540	2,170,662
Shareholders' funds	84,083,556	(4,002,977)	(827)	1,967	80,081,719
Total liabilities and capital	622,732,256	43,920,385	1,549,642	518,587	668,720,870
Net (liabilities)/assets	(73,756,540)	53,336,015	(504,547)	20,925,072	-
Net currency forwards	73,088,385	(53,221,417)	-	(21,072,612)	(1,205,644)
Net position	(668,155)	114,598	(504,547)	(147,540)	(1,205,644)

The carrying amounts of derivative assets and liabilities represent fair values and have been included in the heading of the various currencies in which they occur. Foreign exchange risk on these instruments has been reflected through currency swaps. The notional principal (note 9 & 10) are amounts in respect of forward foreign exchange derivatives which are utilised for managing the foreign exchange risk position of the Company.

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

	2022 10% increase £	2022 10% decrease £	2021 10% increase £	2021 10% decrease £
USD	(1,028,037)	1,028,037	409,457	(409,457)
EUR	(271)	271	(50,455)	50,455

The analysis table overleaf shows the impact on the Company's other comprehensive income of possible changes in significant currency exposures based on historical volatility and relevant assumptions regarding near term future volatility.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

24. Financial instruments and risk management (continued)

	2022 10% increase £	2022 10% decrease £	2021 10% increase £	2021 10% increase £
USD	(1,355,380)	1,355,380	(397,997)	397,997

Market Price Risk

The Sensitivity analysis below shows the impact on the Company's other comprehensive income of possible changes in market prices of the Company's AFS portfolio.

	2022 5% increase £	2022 5% decrease £	2021 5% increase £	2021 5% decrease £
Other comprehensive income	5,923,768	(5,923,768)	4,593,468	(4,593,468)

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.

25. 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 2022 by Premier Pensions Management, independent consulting actuaries.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

25. Post –employment benefits (continued)

	2022	2021
	£	£
The amounts recognised are as follows:		
Present value of funded obligations	(4,566,000)	(6,678,000)
Fair value of plan assets	5,735,000	6,504,000
Gross pension asset*/(liability)	1,169,000	(174,000)
Surplus refund charge	(409,150)	-
Net pension asset/(liability)	<u>759,850</u>	<u>(174,000)</u>

In accordance with the rules of the UNB Pension Scheme, the Company has an unconditional right to a refund of surplus assets assuming the full settlement of liabilities in the event of a plan wind-up. Based on these rights, the net surplus at the balance sheet date is recognised in full, and subject to a deduction of the 35% tax charge currently applicable to authorised surplus payments.

	2022	2021
	£	£
The amounts recognised in profit or loss is as follows:		
Interest income	122,000	87,000
Interest expense	(125,000)	(98,000)
Net interest expense	<u>(3,000)</u>	<u>(11,000)</u>

	2022	2021
	£	£
The amounts recognised in other comprehensive income are as follows:		
*Gain during the year	<u>889,850</u>	<u>617,000</u>

*The gain is an actuarial gain of £890k (2021: £617k). During the year the Company contributed £47k (2021: £4k) to the Defined Benefit Scheme.

	2022	2021
	£	£
Changes in the present value of the defined benefit obligation are as follows:		
As at 1 January	6,678,000	7,332,000
Interest expense	125,000	98,000
Remeasurement: actuarial losses (gains) from experience adjustments	40,000	-
Remeasurement: actuarial (gains) losses arising from changes in demographic assumptions	(11,000)	(584,000)
Remeasurement: actuarial (gains) losses arising from changes in financial assumptions	(2,093,000)	(1,000)
Benefits paid	(173,000)	(167,000)
Balance at 31 December	<u>4,566,000</u>	<u>6,678,000</u>

	2022	2021
	£	£
Changes in the fair value of plan assets are as follows:		
As at 1 January	6,504,000	6,552,000
Interest income	122,000	87,000
Remeasurement: the actuarial gain arising from experience adjustments	120,000	254,000
Remeasurement: the actuarial losses arising from changes in demographic assumptions	(5,000)	-
Remeasurement: the actuarial losses arising from changes in financial assumptions	(880,000)	(226,000)
Employer contribution	47,000	4,000
Benefits paid	(173,000)	(167,000)
Balance at 31 December	<u>5,735,000</u>	<u>6,504,000</u>

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

25. Post –employment benefits (continued)

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

	2022	2021
Insurance policies	64.73%	55.01%
Guaranteed Annuities Rates	0.12%	1.11%
Annuities	34.40%	43.57%
Cash	0.75%	0.31%

	2022	2021
	£	£
The fair values of plan assets were as follows:		
Insurance policies	3,712,000	3,578,000
Guaranteed Annuity Rates	7,000	72,000
Annuities	1,973,000	2,834,000
Cash	43,000	20,000
Total	<u>5,735,000</u>	<u>6,504,000</u>

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

The asset value supplied by the insurance company for 2022 is on an ongoing basis. If the policy had been surrendered at 31 December 2022, the surrender value would have been £3,712,000 (2021: £3,578,000). 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:

	2022	2021
Rate of increase of pensions in payment	3.70%	3.00%
Rate of revaluation of pensions in deferment	3.70%	3.00%
Discount rate	4.75%	1.90%
Price inflation (RPI)	3.20%	3.60%
Price inflation (CPI)	2.90%	3.00%
Expected return on assets	4.75%	1.90%

Post retirement mortality

Current pensioners at 65 - male	86.80	86.80
Current pensioners at 65 - female	89.20	89.10
Future pensioners at 65 - male	87.80	87.80
Future pensioners at 65 - female	90.30	90.30

25. Post –employment benefits (continued)

Sensitivity analysis on actuarial assumptions

The sensitivity analysis has been conducted by calculating the gross pension surplus using the amended assumptions shown in the table below and keeping the remaining assumptions the same as disclosed under principal assumptions above. The table below shows the difference between the recalculated gross pension surplus and the gross pension surplus reflected on page 71. The selection of these movements to illustrate the sensitivity of the pension surplus to key assumptions should not be interpreted as the Company expressing any specific view of the probability of such movements happening.

Change in key assumptions:

	2022 (Increase)/ Decrease in Pension deficit £	2021 (Increase)/ Decrease in Pension deficit £
1% increase in discount rate	311,000	567,000
1% decrease in discount rate	(376,000)	(732,000)
1% increase in inflation rate	(38,000)	(247,000)
1% decrease in inflation rate	45,000	27,000
1 year increase in life expectancy	(68,000)	(137,000)
1 year decrease in life expectancy	69,000	136,000

Total charge for the year (see note 4)

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 £584,894 (2021: £621,180). The charge (current service cost) for the defined benefit scheme was £47,000 (2021: £4,000).

Of the contributions paid in the year £43,085 (2021: £41,830) was made on behalf of directors. It is estimated that contributions of £572,178 would be made to the defined contribution scheme and £Nil to the defined benefit scheme in 2023.

26. Ordinary dividend paid

The ordinary dividends declared and paid in 2022 of £1.015m (2021: £Nil) were in respect of the year ended 31 December 2021. The directors, at their Board meeting held on 16 March 2023, declared an ordinary dividend amounting to £Nil for the financial year ended 31 December 2022.

27. Ultimate parent company and controlling party

Bestway Group Limited is the ultimate parent of United National Bank Limited. Bestway Group Limited is the largest group of accounts in which United National Bank Limited is consolidated. Copies of such accounts can be obtained from the Company Secretary, Bestway Group Limited, 2 Abbey Road, Park Royal, London NW10 7BW.

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

United National Bank Limited is also an associate company to National Bank of Pakistan Limited, a company incorporated in Pakistan.

The shareholding structure of the Company is set out in note 22.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2022

28. Related party transactions

During the year, two related companies undertook commercial arm's length transactions with the Company, mainly in the form of deposits placed with the Company. Below are details of amounts due to / from each party as at 31 December 2022 and 31 December 2021.

	United Bank Ltd 2022 £	United Bank Ltd 2021 £	National Bank of Pakistan 2022 £	National Bank of Pakistan 2021 £
Loans to	6,868,199	4,064,785	-	1,558,696
Deposits from	2,893,000	6,818,355	-	1,018,978
Deposits to	251,564	324,066	-	191,319
Interest receivable from	114,312	84,536	-	80,781
Interest payable to	119,655	47,068	-	6
Preference share dividend paid to	98,404	-	-	-

During 2022, the Company sold some of its assets worth £4.5m (2021: £Nil) to United Bank Limited. This was an arm's length transaction.

29. Events after the reporting period

In February 2023, the credit rating for Pakistan has been downgraded by major credit rating agencies. The Company has exposure to the country's sovereign debt and other assets. The Company assessment of the impact of future cash flows at the time of writing this report is not adverse as to warrant classifying any of the assets as impaired.