United Bank UK
Annual Report 2017

UBL
where you come first

Contents

Streamlined, Stronger, Smarter

2017 saw a significant programme of work to de-risk the business, which included the streamlining of products, services and offerings so that we move forward with a range that is profitable, efficient to operate, and which continues to meet customers' needs.

Our programme of modernisation and restructuring will help ensure that the Bank is stronger, more stable and better equipped for the future.

United Bank UK is committed to this progressive strategy and to becoming a smarter, more responsive organisation in order to better serve our customers, grow our business, and deliver value to our Shareholders.

Chairmans Review

"Transforming the Bank to better meet the needs of our customers"

2017 has been a period of transformation for the Bank; we have streamlined our business, strengthened our governance processes and placed far more emphasis on the communities in which we operate.

This transformation is required to better meet the needs of our customers over the coming years and to deliver growth in the markets where we choose to compete; paving the way to deliver our long-term strategic growth plan.

Customer Focus

During the course of 2017 there was a reduction in the underlying profitability of the Bank. This was caused primarily by an increase in USD funding; a reduction in interest income from de-risking our Investment Portfolio; a decrease in fees and commission from our Trade Finance Business as a result of reduced volumes of new business generation; and an increase in headcount costs as the Company strengthened its control functions and expanded its Retail sales force.

Adjusted profit before tax was £5.156million a reduction of £2.7million on the previous year.

Strong Governance

A great deal of focus has been placed on strengthening our governance processes to deliver a stronger, smarter and more robust set of measures across the entire Bank particularly on culture and conduct.

We have re-aligned our business links with certain jurisdictions where we felt the risk exposed the Bank to uncertainty and potential loses, and this de-risking has led to a reduction in the number of core territories we deal with. We have focused our products and propositions around our core competencies, whilst working to digitise the delivery of our products and services in order to have a more robust and auditable product set to respond to the increasing levels of regulatory oversight in the financial services sector.

We are particularly proud of our Islamic offering as the UK has emerged as a major centre for this product. Our comprehensive suite of Islamic products, deliver a range of Shariah compliant deposits and mortgages that meet the needs of our customers. We are looking to grow this part of our business; as well as develop and launch new offerings in partnership with the community, as this is a significant area of growth for the Bank.

The market for Islamic products and services is growing within the UK and we are well placed to benefit from that growth as we recognise that we are competing in a very crowded marketplace where we will never be the lender of first choice for conventional mortgages.

Our relatively small size when compared to the High Street banks is our strength, as we apply bespoke underwriting services to every mortgage deal and never rely entirely on technology to make our decisions.

During the course of 2017 we also spent a great deal of our time talking to our customers; through on line surveys, face to face conversations and Focus Groups. The insight that they gave to us will help us shape the Bank of the future.

Our long term growth and success will come from customers who have different needs and expectations from those customers who first banked with us when we began operating in the UK since the early sixties. It is important that we stay relevant to these next generations and by having a presence in the local communities and offering relationship banking as well as online services we are well equipped to compete in the years ahead.

Dedicated Staff

We have assembled a team of skilled management and staff to meet the challenges of our market place and regulatory environment we operate in and this gives immense satisfaction to the board that UBL UK will continue to comply with its business, regulatory and community obligations in letter and spirit.

Bande Hasan
Chairman

Interim CEO's Review

"Restructuring to provide a strong and stable future"

During the course of 2017 the Bank embarked on a fundamental restructuring program. This program was designed to digitise our entire business, de-risk the balance sheet, and increase our links to the communities that we serve. Playing an active role within those communities, and keeping our customers at the very heart of everything we do.

Our staff were central to this restructure and throughout the year a great deal of emphasis was put on driving forward the appropriate culture in our business; ensuring that the correct behaviours that underpin our Values of Fairness, Integrity, Respect, Stewardship and Teamwork were being demonstrated throughout our business.

Recognising Staff Achievements

We introduced our ‘FIRST Award’ initiative, where staff members could vote for staff from other departments who they felt had demonstrated a particular Value and each quarter, the Executive Committee Members of the Bank judged each nomination in the previous quarter in order to select a winner for the ‘First Quarterly Award’. At the end of the year they chose an overall winner based on the behaviours that the winning individual had demonstrated that in their view, best depicted the Bank’s cultural Values in action.

We also significantly increased our emphasis on the importance of delivering an exceptional customer experience throughout the Bank. This was underpinned by a drive to collect as much customer insight through online surveys, Focus Groups and perhaps even more important, mystery shopping initiatives so that we could test anonymously the actual experience that our customers were receiving in our branches and over the telephone.

This was the second year that mystery shopping had been undertaken and I am delighted to say that the benchmark scores that were established during 2016 were improved on throughout the Bank and we will continue to build on that momentum during the course of 2018.

Strengthening Community Relations

Another initiative was to introduce Community Relationship Managers into all of our branches. With so many banks focusing entirely on their online offering this proved a very popular move with our customers and the communities in which we operate.

The introduction of our Broker Channel saw a significant growth in the number of Islamic and conventional mortgages being submitted; and with more Brokers being signed up to our panel this will become an area of significant growth for us going forward and a very efficient use of our capital.

Growing Capabilities

We also strengthened our Wholesale Banking operation and going forward we will be growing our Corporate Banking capabilities, consolidating our Debt Capital Markets and growing our Corporate Real Estate team where we have the ability to provide a bespoke service, secured through UK Property Exposure focusing on prime London Residential and Commercial Assets through specialist niche originators.

Whilst 2017 has been a period of restructuring, the Bank has emerged more streamlined, stronger and smarter. The work we have done streamlining our Branch Network and focusing on the communities in which we operate will help us acquire new customers. By strengthening our Risk and Compliance teams we have a much stronger Governance process in place and all of that restructuring will enable us to work smarter in the years ahead.

I would like to thank our staff for the hard work and commitment that they have shown during the course of 2017 and I look forward to our undoubted achievements that lie ahead.

Brian Firth
Interim CEO

Our Bank and the Community

As a community bank we are very conscious that we have a responsibility to support the communities within which we operate.

That support comes in the form of volunteering, raising money for good causes, giving donations and sponsorships.

During the course of 2017 the Bank actively supported a number of organisations and charities. We started the year by providing support to our valued customer, the Pakistan High Commission (PHC) and their attendance at the London Mayor's New Year's Day Parade.

A Special Year

2017 was a very special year for our communities as Pakistan celebrated its 70th Anniversary of Independence. The London New Year's Day Parade route passed through Piccadilly, Piccadilly Circus, Lower Regent Street, Waterloo Place, Pall Mall, Cockspur Street, Trafalgar Square, Whitehall and Parliament Street. The Pakistan High Commission with our support, reserved a segment within the parade to showcase Pakistan's music, dance art and culture to help develop international awareness of Pakistan trade opportunities.

Several high profile dinners followed where the Bank sponsored a table to entertain its valued customers and demonstrate its support of the groups who were organising these events, such as the Institute of Chartered Accountants of Pakistan (ICAP) and the All Pakistani Women's Association (APWA) where the Bank sponsored an award for 'Women in the Community' at the Association's 68th Founding Dinner. This award recognised an individual for their outstanding commitment to the community and the winner was chosen by a panel of experts at the APWA.

One notable Gala Dinner was held by the Dil Trust who is dedicated to the cause of education, helping and empowering children and their communities. Their mission is to transform lives, building futures and giving girls an opportunity for greater economic empowerment and self-reliance in Pakistan. This event was a powerful reminder of the fantastic work that the Trust does. In just three years DIL has managed to positively impact 252,000 students in government and community schools as well as increase girls' enrolment in schools by 25%. Since its inception DIL has impacted over 394 DIL schools in some of the poorest and most remote areas of Pakistan.

Local Support

We also saw our local branches actively engaging in the community with our Birmingham Team, introducing a UBL Money Bank Workshop into their local Schools which ran throughout 2017.

The aim of this workshop was to establish our commitment and role as a Community Bank focusing on raising awareness of financial education amongst the younger generation. From the learning outcomes at the end of the workshop the students were able to complete a budget planner and understand the difference between Islamic vs conventional banking. A large part of the workshop was spent on raising fraud awareness where we interacted with the students through videos and case scenarios highlighting how to stay safe.

On the 14th August all of our branches along with our customers and communities, celebrated the 70th Anniversary of Pakistan's Independence. Every branch was decorated with bunting and our customers and community members were invited in to enjoy celebratory cakes and refreshments.

A further major sponsorship, in association with the Pakistan High Commission was the production of a Musical Ishq held at the Sadlers Wells Theatre between the 7th and 9th September where over 3000 people attended a celebration of Pakistani culture.

British Asian Trust

Towards the end of the year we began in-depth discussions with the British Asian Trust to determine the possibility of entering into a major sponsorship with them. The Trust is very active in a number of countries including Pakistan and their programmes resonated with the Values of our Bank. Their Women's Economic Empowerment programme, supported by the UK Government' Department for International Development, were training women in micro-entrepreneurship and financial literacy and as a result, over a thousand women have started micro-businesses.

Their Youth Entrepreneurship programme has also successfully graduated young micro-entrepreneurs in Lahore; and with support from various charitable foundations, has started to work in Baluchistan and Karachi to expand the outreach of this project.

Their Early Childhood Education work has been very well received in

“Their Youth Entrepreneurship programme has also successfully graduated young micro-entrepreneurs in Lahore”

government schools in Karachi where they support government teachers and principals set up new Early Childhood classes in 20 schools; directly improving the learning of children.

A great many activities are planned during the course of 2018 and we are delighted to be forming a close working relationship with the Trust over the coming years. This partnership will enable us to have a positive association with a charity that has a proven track record of undertaking projects in Pakistan, Bangladesh and other countries where the work of the Trust has had such a positive impact on those in most need.

Our relationship will also provide an opportunity for our people to expand their development skills by working on various joint activities that could include mentoring; volunteering and exposure to new experiences.

Positive Impact

2017 has been a very productive year and as we look forward to 2018 we intend to build on that work to ensure that we have an ongoing positive impact on the communities within which we operate.

Officers and Professional Advisers

Directors
Mr B Hasan
(Chairman and Independent Non-Executive Director)
Mr M Aminuddin* (resigned 24 January 2018)
Mr I Ashraf (resigned 20 January 2017)
Mr W Husain (resigned 31 May 2017)
Mr M Kamal (resigned 6 April 2017)
Ms S Kamil (appointed 4 August 2017)
Mr M M Khan
Mr R Mohyeddin (appointed 4 August 2017)
Mr R Wilton (Chairman of the Audit Committee and Senior Independent Non–Executive Director)
* Executive Director

Secretary
Mr B G Firth

Registered office
2 Brook Street
London
W1S 1BQ

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

Strategic Review

The Directors have pleasure in presenting the strategic report and the audited Financial Statements for the year to 31 December 2017 for United National Bank Limited (the ‘Company’).

Overview

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

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

The principal activities of the Company are to provide retail banking products through its branch network in major cities in the UK; wholesale banking, treasury and money transmission services to Financial Institutions, and trade finance facilities to businesses of all sizes. There have been no significant changes in the Company’s principal activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes to the Company’s activities in the next year, and expect the Company to continue as a going concern for the foreseeable future (page 33).

Strategic Review continued

Business Results

During 2017 there was a reduction in the underlying profitability of the Bank, caused primarily by an increase in USD funding cost (£0.2m), a reduction in interest income from de-risking the Investment Portfolio (£0.9m), a decrease in fees and commissions from the Trade Finance business as a result of reduced volumes of new business generation (£1.3m) and an increase in costs (£0.8m).

The increase in the cost of USD funding has been caused by the divergence of GBP and USD interest rates. In order to manage the interest rate risk the Company reduced the size and tenor of its Investment Portfolio during the year and in order to overcome the currency mismatch the Company has begun to raise USD deposits in its core markets.

Trade Finance income has reduced as a result of the Company narrowing its focus to just a few overseas markets following general increase in credit risk concerns in some jurisdictions in which we previously operated.

Costs have increased as a result of the increase in headcount, as the Company has strengthened its control functions and also expanded its retail sales force.

The 2017 performance was also adversely impacted by £3.7m impairment on a trade transaction. Although the loan losses arise from the normal course of business, the Board has judged this loss to be exceptional in the history of this Company as well as for a trade transaction. The Company has fully provided an exposure against a failed bank counterparty in an arrangement whereby certain senior creditors (which included the Company) were not beneficiaries of an arrangement put in place by the Central Bank.

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

The following financial measures referenced ‘adjusted’ are non-Generally Accepted Accounting Principles (GAAP) and should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. 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.

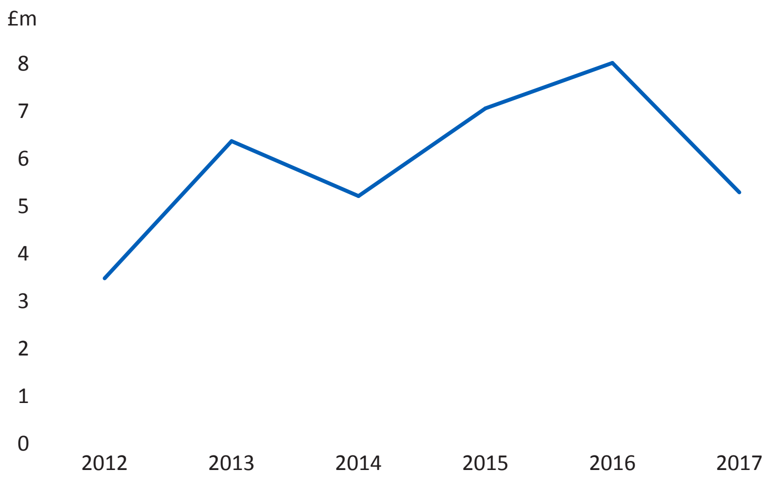
Summary of profit on ordinary activities before taxation

All figures in GBP 000s	2017	2016	2015	2014	2013	2012
Profit on ordinary activities before tax	**711**	**7,401**	**9,605**	**4,960**	**6,221**	**1,341**
Adjusting items:						
Interest payable on preference shares	778	479	2,254	118	13	2,006
Revaluation gain on Brook Street premises	-	-	(2,750)	-	-	-
Gain on disposal of repossessed property	-	-	(2,185)	-	-	-
Impairment provision on Trade Finance deal	3,667	-	-	-	-	-
Adjusted profit on ordinary activities before tax	**5,156**	**7,880**	**6,924**	**5,078**	**6,234**	**3,347**

The graph opposite shows the adjusted profit on ordinary activities before taxation since 2012.

Adjusted profit before tax has reduced by £2.7million during 2017.

Adjusted profit on ordinary activities before taxation - £m



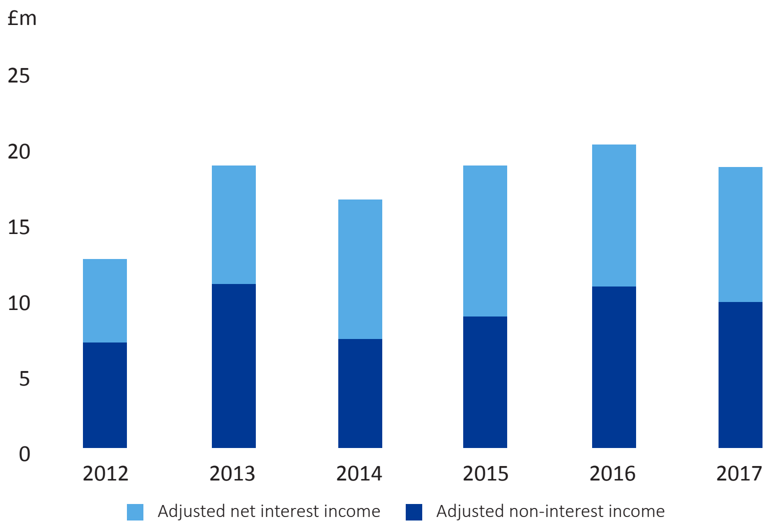
The graph opposite illustrates the movement in adjusted operating income since 2012, and shows the split between net interest income and non-interest income.

Adjusted operating income has reduced by £1.5million during 2017.

Adjusted non-interest income has decreased by £1million (10%) during 2017 due to a reduction in new business for the Trade Finance business line.

Adjusted net interest income has reduced by £0.4million (5%) due to the continued low interest rate environment and a reduction in investment yields following a de-risking of the Investment Portfolio.

Adjusted operating income - £m



Strategic Review continued

The graph opposite illustrates the growth in the balance sheet since 2012 and the movement in the net interest margin (net interest income divided by total assets) compared with the Bank of England base rate over the same period.

The balance sheet remained relatively flat during 2017 to end the year at £522million.

Net interest margin has been squeezed by 9 basis points primarily as a result of increasing swap costs from the divergence in the outlook for GBP and USD interest rates and the de-risking of the Investment Portfolio.

Key Performance Indicators

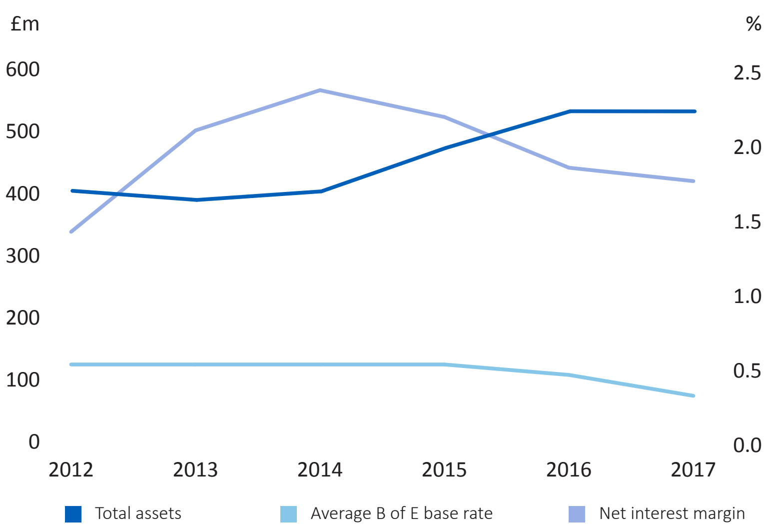
The Company uses 3 ratios in order to measure and to quantify the financial performance and progress against the strategic objective to become the leading UK-based financial solutions provider in the South Asian community:

Return on Equity

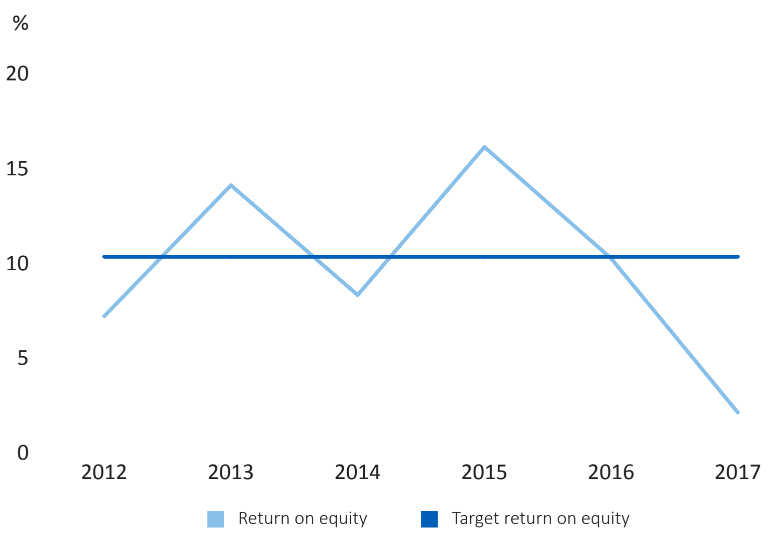
This is defined as the operating profit before taxation and preference dividend divided by Shareholders' funds. This measures the Shareholders' return on their investment. The graph opposite illustrates the return on equity since 2012.

This year, the return on equity ratio decreased to 1.8% (2016: 9.9%), which was below the Shareholders' expectations of 10%. If we exclude the impact of the impairment charges the ratio for 2017 would be 7.2% (2016: 10.4%).

Balance sheet - £m



Return on equity - %



Net interest income to cost ratio

This is defined as net interest income before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio indicates whether the net recurring income from the balance sheet is able to sustain the cost base of the Company. The graph opposite shows the net interest income to cost ratio since 2012.

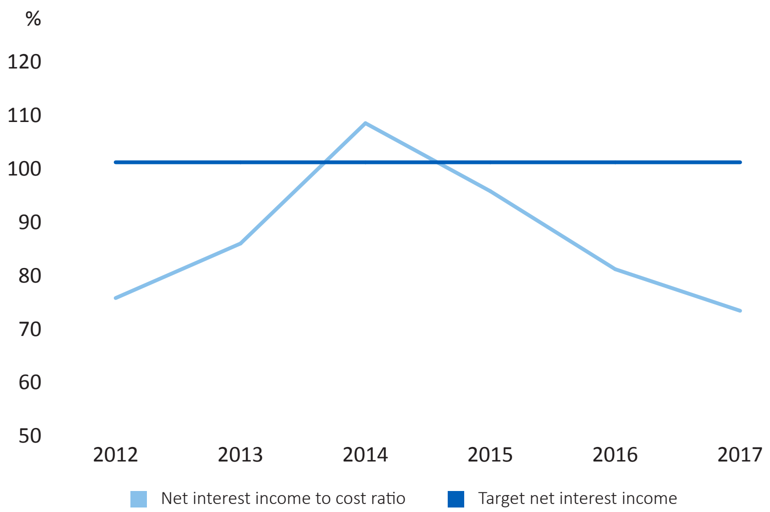
This ratio has been adversely affected by a contraction in net interest income and a 7% increase in costs. The increase in the swap cost for USD funding, and a higher proportion of liquid assets as a result of de-risking have combined to reduce net interest income (before preference dividend) by 5% during the year.

Cost to income ratio

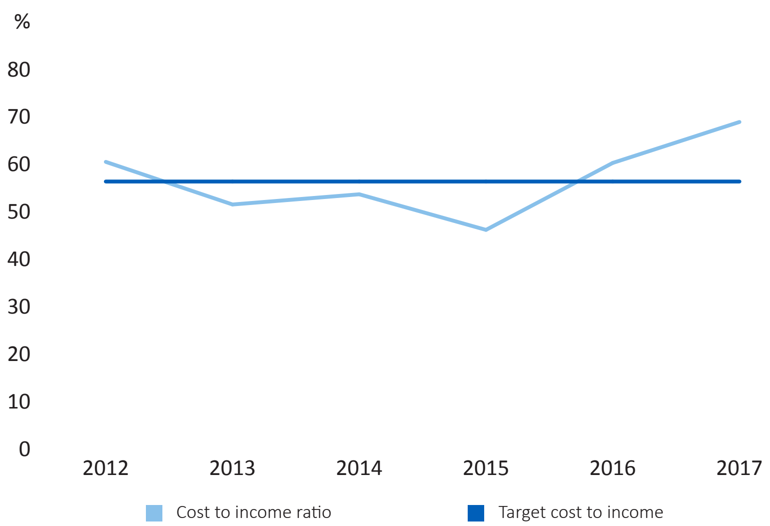
This is defined as operating income before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio measures the operating efficiency of the Company; the lower the ratio the less spent on operating expenses for every £1 earned in revenue. The graph opposite shows the cost to income ratio since 2012.

The cost to income ratio for 2017 is 68% (2016: 59%), which shows a deterioration from 2016 and remains above the target level of 55%. The main cause of the deterioration over the last year has been the £1.6million (8%) decrease in operating income. Expenses have also increased by £0.8million (7%) due mainly to £0.5million of additional costs for staff-related expenses.

Net interest income to cost ratio - %



Cost to income ratio - %



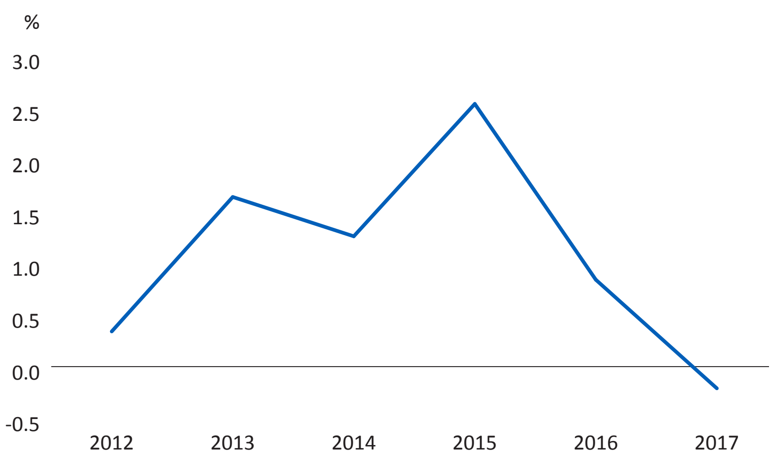
Strategic Review continued

Return on assets ratio

The fourth Capital Requirements Directive (CRD IV) came into effect at the start of 2014 and requires the Company to report on its return on assets. Return on assets is defined as profit on ordinary activities after taxation divided by total assets. The graph opposite shows the return on assets since 2012.

There was a negative return on assets for 2017 of -0.16% (2016: +0.84%).

Return on assets - %



Business Review

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

Retail Bank

The Company has a network of 6 branches that are located within the chosen target market and 6 booths situated at the Pakistan High Commission consulates. Additionally, the Company has developed an online presence for deposit-taking, which overcomes the limitations of the small branch network.

The main activity for the Retail Bank is deposit mobilisation and retention. Focus was placed upon increasing the CASA (Current Account and Savings Account) deposits in order to reduce the cost of deposits. During the last year CASA deposits increased by £11million (13%) whilst term deposits decreased by £16million (5%), resulting in total retail deposits being down by £4million (1%) year-on-year. As a result of this, the average deposit cost reduced by 12 basis points to 1.77% (2016: 1.99%).

The Company has taken a cautious approach to lending in the UK over the last few years due to the historically low interest rates and the volatility in property values outside of London. However, towards the end of 2017 the outlook for the UK economy was looking more optimistic and in November we saw the first increase in the Bank of England base rate for more than 10 years. As a result of these factors the Company has begun to focus on growing the Retail lending business and in 2017 added a net £13million (20%) to retail advances. During the year the Company launched its broker network, which has increased the geographical coverage for its mortgage products.

Money transmission services to Pakistan have always provided a regular revenue stream, but the Company's share of this $2billion a year market remains very small. The Company's online remittance product, UBL UK NetRemit, continues to expand through the addition of new customers, and now provides more than 61% of the Company's home remittances by volume.

Trade Finance

The Company has during the year provided Trade Finance services to businesses exporting to Pakistan, Bangladesh and Western African countries such as Nigeria and Ghana, and to a lesser extent from Central and Eastern European countries. However, as a result of insolvency of a counterparty bank in Kenya that led to a single loss of £3.7million during the year, the Company has decided to restrict its operations to a limited number of core territories. Consequently, Trade Finance fee income experienced a significant decrease in the year to £0.4million (2016: £1.7million).

Treasury

The poor credit conditions in Europe and a desire to diversify from the UK led the Board to take the decision at the end of 2011 to deploy most of the Company's new funds outside of Europe to minimise contagion risk. The investment has been in 2 asset classes; a Fixed Income Investment Portfolio and a Floating Rate Syndicated Loan Portfolio.

The return on the Investment Portfolio has reduced this year to 4.92% (2016: 5.88%), following a de-risking exercise to manage the interest rate risk arising from the divergence in Central Bank rates for GBP and USD. Both the size and tenor of the Portfolio have been reduced during the year, and the surplus funds have been parked in lower yielding high quality liquid assets, adversely affecting the Company's interest income. Whilst de-risking the Portfolio, the Treasury Department were able to realise capital gains during the year of £5.4million (2016: £5.0million).

Through the active management of the Investment Portfolio the fair value has also improved by £6.6million ending the year at an unrealised loss of £1.7million (2016: £8.3million loss).

Treasury also manages a Floating Rate Syndicated Loan Portfolio, which consists mainly of Collateralised Primary Issue Loans from rated counterparties in the Emerging Markets. The Syndicated Loan Portfolio was £77million at the end of 2017 (2016: £72million), and provides some resilience against increasing interest rates in the future.

Future Developments

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

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

Towards the end of 2017, the Management and Board devoted significant time to review the Company's future strategy. This culminated in a revised Business Plan that focuses initially on reducing the overall levels of risk in the business and building a firm foundation for business in future years. As a result the Company targets just a 1% growth in the Balance Sheet and a 3% return on capital for 2018. For subsequent years the Company will look to increase the balance sheet by 10% per annum. Going forward, the Company is also targeting a lower return on capital commensurate with the lower risk.

The emphasis during 2018 will be on improving the credit quality of the Investment Portfolio and narrowing the Company's geographical exposure to focus on investing in countries in which the Company has knowledge and expertise, or locations in which the parent banks have a presence. As a result of this de-risking exercise we anticipate a reduction in net yields on the Investment Portfolio, which is reflected in the reduced profit expectations for the year. The Company believes these actions will help to limit any potential downside volatility in the market value of our debt securities which could otherwise erode the Company's capital resources.

In respect of balance sheet growth the Company will continue to focus on lowering the cost of funding by raising more relationship based low cost deposits, in both GBP and USD. The Company intends to continue the recent growth trend in the Retail loan book by adding more brokers to its network, and will also actively seek opportunities to increase lending secured on Commercial Real Estate in select locations and sectors.

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

Going Concern

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

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

Strategic Review continued

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

The Company devised and ran a series of stress scenarios against its 31st December 2016 financials and core business plan, and identified the key vulnerabilities of the Company and the mitigants that can be employed by Management. The Company also conducted a reverse stress testing exercise (a stress scenario that makes the Business Model become unviable). The stress tests, which include various extreme scenarios over a prolonged period, received substantial input from the Senior Management Team.

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

Principal Risks and Uncertainties

Credit Risk

The Company is exposed to a variety of financial risks that arise in the course of its business. These risks include credit risk, market risk and operational risks such as conduct and financial crime. The Company has in place a Risk Management Framework that is designed to limit the adverse effects of these risks on the financial performance of the Company but as a bank it is not possible to eliminate credit risk. The risk management policies of the Company including the use of financial instruments are set out in Note 22. The total credit risk charge is 2.69% in the year increasing by 1.56% to a total of 4.25% due to the exceptional loss relating to the insolvency of a counterparty bank in Kenya.

Brexit

It is clear that the UK's intended exit from the European Union, due to be finalised in March 2019, has resulted in an ongoing volatility in the financial markets throughout 2017. Negotiations between the two parties will continue throughout 2018 and it is hoped that we will begin to get more clarity over the future relationship and this will aid a better understanding of the likely impact of the changes to businesses and individuals.

The Company's customer base and activities are primarily focused in the UK and Pakistan with negligible exposure to the EU, and therefore Management believe the potential impact on the Company should be minimal. However, due to the current uncertainties, it is difficult to make an accurate quantitative assessment at this time.

Materiality

As part of the process of producing the annual Financial Statements the Company is required to make an assessment of the level of materiality to ensure that the information reported within, both financial and non-financial, meets the needs of the Shareholders. Information is considered material if its omission or misrepresentation could influence the economic decisions Shareholders take. Conversely, the inclusion of immaterial information can obscure key messages and impair the understandability of information provided in the strategic report.

Income Recognition

The method of accounting for income recognition requires Management to make a number of assumptions and judgements, particularly with regard to the timing and classification of fees and commissions. In order to minimise the risk of a material misstatement in this area the Company has in place a robust financial control framework to give comfort that the revenue is reported on an appropriate basis, and in accordance with the applicable accounting standards. Although, the systems do not automatically calculate the Effective Interest Rate ('EIR'), the EIR is monitored manually and adjusted when considered necessary.

Deferred Tax Asset

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

A key estimate included within the year's financial results is the recognition of a £1.7million deferred tax asset for brought-forward tax losses. The Company has demonstrated solid underlying profitability for a number of years which has largely followed the business plan growth trajectory. However, this year's results have been significantly adversely affected by the impairment of a £3.7m trade transaction. The profits for the next 3 years contained within the revised business plan are considered by the Board to be achievable and have been used as the basis for calculating the deferred tax asset. For the purpose of this assessment the Company has assumed no further growth in profits from year 4 onwards. The Company believe this to be a prudent assumption which allows for an element of volatility in the projected performance. Allowance has been made in the deferred tax asset calculation for the restriction to 25% of taxable profits that can be set-off against brought-forward tax losses. The Board believe that the calculation is a fair assessment of future taxable profits.

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

Capital Resources

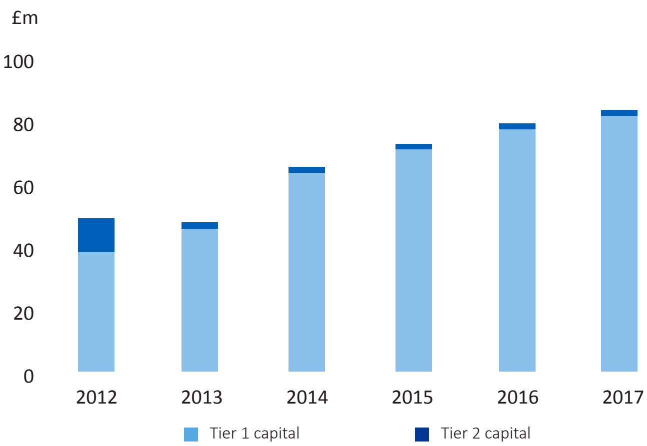
United National Bank Limited is 55% owned by United Bank Limited and 45% owned by National Bank of Pakistan. Both parent banks are established and profitable banks in Pakistan, and committed to the future growth of the Company. This is confirmed by their injection of £15million of additional funding in October 2014, taking their total investment in the Company to £45million. A breakdown of the capital resources of the Company at the balance sheet date is set out in the Statement of Changes in Equity.

The Company has not reported any breaches of its capital requirements during the year and the eligible capital resources (using CRD IV definitions) did not fall below £76million during the year.

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

The graph opposite shows the growth in capital resources since 2012. Tier 1 capital has increased by £4.70million (6.1%) over the year as a result of the retained profits and the reduction in the unrealised loss on revaluation of the available-for-sale debt securities. The Company also paid an ordinary dividend of £2.2million during the year. Tier 2 capital has decreased by £0.04million (2%) due to the amortisation of the amount of the subordinated loan qualifying as capital resources although this was partially offset by the increase in the collective provision.

Capital - £m



Defined Benefit Pension Scheme

The Company's Defined Benefit Pension Scheme had its last triennial valuation carried out in 2017. The valuation showed a £0.3million deficit as at 1 January 2017. The Bank has recently agreed to make regular monthly contributions of £9,030 in order to reduce the deficit. These payments began in February 2018 and are scheduled to continue until December 2020.

The Financial Reporting Standards (FRS 102) valuation of the Pension Scheme's assets and liabilities for the 2017 year-end has shown a £0.2million deficit which is an improvement of £0.8million from 2016 and has been recognised in the Statement of Comprehensive Income for the year. The movement is mainly due to an increase in the value of insurance policies which were up £0.7million from last year.

Preference Shares

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

The preference share liability arises in the accounting year following the year when the tax losses are actually utilised. Therefore the preference share interest of £0.85million recognised in the Financial Statements relates to the tax losses utilised in the 2016 tax computation and submitted to HMRC during 2017 as well as debt recoveries.

Strategic Review continued

Subordinated Loan

During 2013 the Company issued a 5 year subordinated loan of £2million payable to the parent bank, United Bank Limited upon maturity. In accordance with regulatory rules, the extent of the loan that qualifies as tier 2 capital is calculated by amortising the loan equally over its term. Full disclosure of the loan's terms and conditions can be found in Note 26.

Liquidity Resources

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

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

Human Resources

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

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

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

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

The Company recognises the importance of having an identity that distinguishes it from its competitors. This identity is translated into Values that govern the behaviour of all staff. During the year the Company has used the annual staff training weekend to communicate to staff the chosen Values and the expected behaviours.
The Company's workforce is one asset that is not recognised on its balance sheet but contributes significantly to the value of the Company. The Board would like to thank the members of staff for their efforts and the contribution they have made to the Company during the year.

Shortly after the end of the financial year the Company's Chief Executive Officer tended his resignation.
The Board has begun a search for a replacement CEO and hopes to complete the process in early 2018.

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

B G Firth
Company Secretary
20 April 2018

Directors Report

The Directors have pleasure in presenting the Annual Report and Financial Statements for the year to 31 December 2017 for United National Bank Limited (‘the Company’). A number of disclosures previously incorporated in the Directors Report are now included in the Strategic Report.

These include:

a. A review of the Company’s results;

b. Definition of the Company’s Key Performance Indicators and Objectives;

c. A description of the Company’s future developments;

d. Principal risks and uncertainties facing the Company including exposure to credit risk, price risk, and liquidity risk and financial risk management objectives and policies; and

e. Details of the Company’s capital, liquidity and human resources and requirements.

Directors Report continued

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 FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and Companies Act 2006. Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

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

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

Organisation and Governance

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

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

Mr B Hasan (Chairman)
Mr M Aminuddin (Chief Executive Officer - resigned 24 January 2018)
Mr I Ashraf (resigned 20 January 2017)
Mr W Husain (resigned 31 May 2017)
Mr M Kamal (resigned 6 April 2017)
Ms S Kamil (appointed 4 August 2017)
Mr M M Khan
Mr R Mohyeddin (appointed 4 August 2017)
Mr R Wilton

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

The Board last engaged an independent company to undertake a review of its effectiveness in 2016. The recommendations arising from this review are being implemented. The Board plan in 2018 to engage a firm to review its governance arrangements against legislation, regulation, and industry best practice.

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

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

- Board Audit Committee

  Mr R Wilton (Chairman), Mr B Hasan, Mr M M Khan, Mr R Mohyeddin (appointed 4 August 2017)
  - Oversight of financial reporting
  - Oversight of external audit
  - Oversight of internal control
  - Oversight of internal audit
  - Oversight of corporate governance and regulatory compliance

- Board Risk and Compliance Committee

  Mr M M Khan (Chairman), Mr B Hasan, Mr R Mohyeddin (appointed 4 August 2017), Mr R Wilton
  - Determine the policies and principles that govern the identification and evaluation of risks
  - Ensure that systems, policies and procedures for the management and monitoring of risks are carried-out
  - To ensure that the risk profile of the Company is in line with the risk appetite set by the Board
  - To ensure that capital and liquidity resources are maintained to meet current and future business requirements under normal and stressed conditions
  - Approval of credits and credit provisioning
  - Approval of credit policy and all amendments
  - Review and recommendation to the Board of all lending policies
  - The delegation of credit approval and provisioning limits to the Credit Committee. Oversight of financial crime including anti-money laundering. Oversight of compliance.

- HR Remuneration and Appointments Committee

  Mr B Hasan (Chairman), Mr M M Khan, Mr R Mohyeddin (appointed 10 January 2018), Mr R Wilton
  - Ensure that the Company is in compliance with all relevant employment law
  - Decide on total remuneration and benefits for senior staff and Executive Directors.
  - Oversee compliance with the Remuneration Code

- Board Nomination Committee

  Mr B Hasan (Chairman), Mr R Mohyeddin (appointed 4 August 2017), Mr R Wilton
  - To make recommendations to the Board on the Board composition and succession planning
  - To identify and nominate candidates for Board vacancies
  - To evaluate candidates for Board and Board Committee positions

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

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

Mr M Aminuddin - Chief Executive Officer
(resigned January 2018)
Mr T Afzal - Head of Retail and Commercial Products
(appointed 2017, resigned February 2018)
Mr R Bates - Chief Risk Officer
(appointed 2017, resigned December 2017)
Mr W Brown - Head of Retail and Commercial Products
(resigned January 2017)
Mr C Durham - Head of Compliance
(resigned December 2017)
Ms B Dyson - Head of Human Resources
Mr B G Firth - Chief Financial Officer, Chief Operating Officer and Company Secretary
Mr Z Haider - Head of Treasury and Investments
Ms S Mandeville - Head of Retail Strategy and Marketing
Mr P Murphy - Head of IT
Mr E O'Hara - Chief Risk Officer
(resigned February 2017)
Mr N Stefanou - Head of Financial Institutions
(resigned October 2017)
Mr A Ul-Hasan - Head of Operations and Strategic Initiatives
Mr T Varkey - Head of Internal Audit

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.
- Controls Committee – responsible for the oversight of the timely implementation of internal audit and compliance recommendations.
- Conduct Risk Committee – responsible for the monitoring and management of conduct risk including the fair treatment of customers.
- Credit Committee – responsible for the oversight of credit risk, the implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits as delegated by the Board Risk Committee.
- Enhanced Due Diligence Committee – responsible for reviewing and approving the Company's high risk clients including correspondent relationships and the monitoring of all transactions with respect to financial crime risk.
- Investment Committee – responsible for managing and monitoring the Investment and Syndicated Loan Portfolios.
- Risk Committee – responsible for the oversight of risk management.

Directors Report continued

- Security Committee – responsible for the management of data security and business continuity.
- Steering Committee – responsible for the oversight of the implementation of strategic change within the Company.

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

Directors' Indemnification
The Company has arranged qualifying third-party indemnity insurance for all of its Directors.

Share Capital and Dividends
The Shareholders' Agreement signed by the shareholder banks in 2001 stipulated that ordinary dividends will not be paid for the first five years after the merger to enable the Company to build its capital resources. Since incorporation, the Company's Shareholders' funds have grown from £30million to £84million at the end of 2017. Now that the Company has sufficient capital resources and is generating a stable and commensurate profit the Directors agreed to implement a dividend policy in 2015 to return 35% of the net annual distributable profits to the Shareholders. As a result of the reduction in profit for the year, the Board of Directors has taken the decision not to declare a dividend for the financial year ended 31 December 2017 (2016: £2.2million).

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

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

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

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

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

Auditor
Mazars LLP has expressed its willingness to continue in office. Under the Companies Act 2006 section 487(2) they will be automatically re-appointed as Auditor 28 days after these accounts are sent to the Shareholders, unless the Shareholders exercise their rights under the Companies Act 2006 to prevent their re-appointment.
Each Director at the date of approval of this report confirms that:
(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
(2) the Director has taken all the steps that they ought to have taken as a Director in order to make themself 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 G Firth
Company Secretary
20 April 2018

Independent Auditor's Report

to the members of United National Bank Limited

Opinion

We have audited the Financial Statements of United National Bank Limited ('the Company') for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and 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 2017 and of its loss for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

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

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.

Conclusions Relating to Going Concern

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period, and include the most significant assessed risks of material misstatement. These matters, described below, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. They were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and therefore we do not provide a separate opinion on these matters.

Independent Auditor's Report continued

Area of Focus

Impairment of loans and advances to customers

Provision for loan impairments is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation.

Note 1(o) of the Financial Statements sets out the relevant accounting policy for impairment of financial assets.

Note 1(t)(i) sets out the critical estimates and judgments in respect of impairment loss allowances on loans and advances.

How our Audit Addressed the Area of Focus

We have assessed the design, and tested the operating effectiveness, of the key controls operating at the Company in relation to credit processes (including underwriting, monitoring, collections and provisioning). In performing the tests of control, we assessed Senior Management's ability to identify impairment triggers on a timely basis and, in consideration of the value of collateral where relevant, determined whether the exposure will be repaid as originally intended.

- In relation to specific provisions, the appropriateness of provisions was assessed by reviewing all non-performing loans plus a sample of loans across the performing portfolio. We independently assessed the level of provision, having considered valuation of collateral or other sources of repayment.
- In relation to collective provision, we assessed the methodology and assumptions applied in the model to consider whether they are consistent with our understanding of the Company's portfolio. We also re-performed the calculation of the provision and verified inputs to source information.

We found the approach taken in respect of loan loss provisions to be consistent with the requirements of FRS 102. Judgements made were reasonable.

Area of Focus

Risk of fraud in revenue recognition

The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effective interest method ('EIR').

As set out in Note 1 (c) the EIR takes into account fees that are an integral part of the instrument's yield, premiums, discounts and acquisition costs. As set out in Note 1 (t) (ii), Management monitor EIR manually and adjust where necessary.

Judgment is required to determine whether fees are recognised as EIR or recognised when a service has been performed.

How our Audit Addressed the Area of Focus

We assessed the design and tested the operation of the controls in place at the Company relating to revenue recognition.

With respect to EIR calculations, over a sample of instruments we:

- Re-performed the EIR calculations;
- Verified details to underlying agreements;
- Assessed the period over which yield adjustments were applied; and
- Considered the appropriateness of judgement applied in determining the basis of revenue recognition.

Judgements applied in determining the basis for revenue recognition were appropriate and Management's assessment of EIR calculations, in accordance with FRS 102, were reasonable.

Area of Focus

Recognition of Deferred Tax Asset ('DTA')

DTA's are recognised on the balance sheet in respect of tax losses carried forward. Whilst United National Bank Limited has a profitable track record, there remains subjectivity in assessing reliably, the amount of future taxable income that will be available for offset.

Note 1 (t) (iii) describes the key judgement applied in respect of the time period of which profits can be reliably estimated reflecting the loss restrictions applicable to banks.

How our Audit Addressed the Area of Focus

- As part of our audit procedures over tax balances, we reviewed Management's assessment of the recoverability of Deferred Tax Assets.
- We assessed the estimate of future taxable profits, the time period over which they are forecast and considered the appropriateness of tax rates used.
- We tested how previous forecasts compared to actual results to evaluate the accuracy of Management's forecasting.

Judgements applied in determining recoverability of Deferred Tax Assets were reasonable.

Independent Auditor's Report continued

Our Application of Materiality

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

Overall materiality	£218,000
How we determined it	5% of adjusted Profit Before Tax, excluding the adjustment for Preference Share Dividends.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant. We concluded that Adjusted Profit Before Tax was the most relevant benchmark on the basis that, as discussed in the Strategic Report on page 9, Management believe adjusting for the impairment of the trade transaction best reflects the underlying profitability of the Company. We exclude the impact of interest on Preference Shares given its recurring nature.
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. Performance materiality of £164,000 was applied in the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An Overview of the Scope of our Audit

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, taking into account the Company's accounting processes and controls, and the industry in which it operates. We used the outputs of a risk assessment, our understanding of the Company, and we also considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit involved obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under 'Key audit matters' within this report.

Other Information

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

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

We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

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

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements;
- 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 Financial Statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specific by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors'

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the Directors' are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors' determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Other Matters Which we are Required to Address

Following the recommendation of the Audit Committee, we were appointed by the Board Audit Committee on 6 November 2017 to audit the Financial Statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ending 31 December 2014 to 31 December 2017.

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

Our audit opinion is consistent with the additional report to the Board Audit Committee.

Signed:

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and
Statutory Auditor
Tower Bridge House,
St Katharine's Way,
London, E1W 1DD
Date: 24 April 2018

Profit and Loss Account

Year ended 31 December 2017

	Notes	2017 £	2016 £
Interest receivable from debt securities		8,620,957	10,087,595
Interest receivable from group undertakings		237,693	65,142
Other interest receivable and similar income		9,972,557	9,140,372
		18,831,207	**19,293,109**
Interest payable to group undertakings		(830,698)	(558,126)
Interest payable		(9,850,892)	(9,854,830)
Net interest income		**8,149,617**	**8,880,153**
Fees and commissions receivable		2,334,474	3,475,840
Loss from foreign exchange	3	(8,672)	(2,084,527)
Fair value gain on derivatives	9	1,650,504	3,744,814
Profit on realised debt securities	3	5,358,117	5,043,480
Other operating income		291,796	486,075
Operating income		**17,775,836**	**19,545,835**
Administrative expenses	2	(11,642,444)	(10,854,031)
Depreciation and amortisation	10 & 12	(890,889)	(883,599)
Impairment losses	7 & 8	(4,798,824)	(557,756)
Other debt recoveries		267,203	150,000
Total operating expenses		**(17,064,954)**	**(12,145,386)**
Profit on ordinary activities before taxation	3	**710,882**	**7,400,449**
Tax on profit on ordinary activities	5	(1,539,350)	(3,003,823)
(Loss)/profit for the financial year		**(828,468)**	**4,396,626**

The loss for the current year and the profit for the preceding year are derived from continuing operations. The notes on pages 33 to 72 form part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 December 2017

	Notes	2017 £	2016 £
(Loss)/profit for the year		**(828,468)**	**4,396,626**
Actuarial gain/(loss) on defined benefit pension schemes	23	836,000	(682,000)
Movement on deferred tax relating to pension liability		(137,870)	117,640
Revaluation of available for sale debt securities		5,636,046	3,234,823
*Tax related to revaluation of available for sale debt securities		984,224	(645,382)
Deferred tax adjustment due to tax reduction		-	518,193
Total other comprehensive income		**7,318,400**	**2,543,274**
Total comprehensive income for the year		**6,489,932**	**6,939,900**

*This relates to an adjustment arising from the change in tax legislation which was effective from 1 January 2016. The Fair Value Movement of Available for Sale Debt Securities, which were deductible for tax purposes, are no longer deductible. As such, the total tax benefit accrued up to 1 January 2016 associated with these Fair Value Movements will be payable to HMRC. However, HMRC has made concessionary arrangements to allow this tax to be paid over a 5 year period.

The notes on pages 33 to 72 form part of these Financial Statements.

Balance Sheet

Year ended 31 December 2017

	Notes	2017 £	2016 £
Assets			
Cash and balances at central banks		53,211,996	75,380,334
Loans and advances to banks	6	3,500,173	-
Loans and advances to customers	7	224,061,810	180,722,026
Debt securities		207,095,990	234,153,205
Derivatives at fair value	9	2,868,194	930,058
Intangible assets	10	587,124	656,451
Investment properties	11	7,970,068	7,970,068
Tangible assets	12	17,616,883	17,881,812
Other assets	13	4,856,662	3,924,840
Prepayments and accrued income		293,327	643,737
Total assets		**522,062,227**	**522,262,531**
Liabilities			
Deposits by banks	14	9,638,462	12,841,595
Repurchase agreements	15	18,343,054	10,298,714
Customer accounts	16	399,838,771	404,285,205
Derivatives at fair value	9	8,672	2,801,297
Other liabilities	17	4,487,164	5,984,752
Accruals and deferred income		821,209	606,853
Provisions for liabilities	18	3,097,429	3,908,429
Subordinated debt	26	2,014,857	2,013,009
		438,249,618	**442,739,854**
Called up share capital	19	45,000,000	45,000,000
Investment revaluation reserve	22	(1,654,351)	(8,274,621)
Revaluation reserve		10,472,966	10,482,684
Profit and Loss Account		29,993,994	32,314,614
Shareholders' funds		**83,812,609**	**79,522,677**
Total liabilities and capital		**522,062,227**	**522,262,531**
Memorandum items			
Contingent liabilities (contract amount):	20		
Letters of credit		1,248,181	2,402,120
Guarantees		302,216	524,327
		1,550,397	**2,926,447**
Commitments	**21**	**554,625**	**705,548**

The notes on pages 33 to 72 form part of these Financial Statements.
These Financial Statements were approved and authorised for issue by the Board of Directors' on 20 April 2018.
Signed on behalf of the Board of Directors'.

R Wilton
Director
Company Registration No 4146820

Statement of Changes in Equity

Year ended 31 December 2017

	Notes	Called up share capital £	Profit and loss account £	Investment revaluation reserve £	Revaluation reserve £	Total £
As at 1 January 2016		45,000,000	30,972,630	(10,864,062)	9,974,209	75,082,777
Profit for the year		-	4,396,626	-	-	4,396,626
Actuarial loss recognised relating to the pension scheme	23	-	(682,000)	-	-	(682,000)
Movement on deferred tax relating to pension liability		-	117,640	-	-	117,640
Fair value movement on available for sale investments		-	-	3,234,823	-	3,234,823
Current tax related to available for sale debt securities		-	-	(645,382)	-	(645,382)
Deferred tax adjustment due to rate reduction		-	-	-	518,193	518,193
Total comprehensive income for the year		**-**	**3,832,266**	**2,589,441**	**518,193**	**6,939,900**
Transfer of depreciation on revaluation surplus		-	9,718	-	(9,718)	-
Dividend paid		-	(2,500,000)	-	-	(2,500,000)
Balance at 31 December 2016		**45,000,000**	**32,314,614**	**(8,274,621)**	**10,482,684**	**79,522,677**
(Loss)/profit for the year		-	(828,468)	-	-	(828,468)
Actuarial loss recognised relating to the pension scheme	23	-	836,000	-	-	836,000
Movement on deferred tax relating to pension liability		-	(137,870)	-	-	(137,870)
Fair value movement on available for sale investment		-	-	5,636,046	-	5,636,046
Tax related to available for sale investment		-	-	984,224	-	984,224
Total comprehensive income for the year		**-**	**(130,338)**	**6,620,270**	**-**	**6,489,932**
Transfer of depreciation on revaluation surplus		-	9,718	-	(9,719)	-
Dividend paid		-	(2,200,000)	-	-	(2,200,000)
Balance at 31 December 2017		**45,000,000**	**29,993,994**	**(1,654,351)**	**10,472,966**	**83,812,609**

The notes on pages 33 to 72 form part of these Financial Statements.

Description of Reserves

Called up share capital – represents the nominal value of shares that have been issued.
Profit and Loss Account – includes accumulated comprehensive income for the year and prior periods plus any transfers from revaluation relating to depreciation realised on revaluations less dividend paid.
Investment revaluation reserve – represents the cumulative after tax unrealised change in fair value of financial assets classified as available for sale since their initial recognition.
Revaluation reserve – represents accumulated surplus on annual revaluations of the Company's freehold properties.

Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 £	2016 £
OPERATING ACTIVITIES			
Profit before tax	5	710,882	7,400,449
Adjustments:			
Depreciation and amortisation	3	890,889	883,599
Net charge in respect of defined benefit pension scheme	23	25,000	10,000
Impairment losses on loans and advances and other items		4,531,621	407,757
Interest payable on preference shares	17	777,910	479,110
Effects of exchange rate changes on cash and cash equivalents		(198,765)	(8,328,960)
		6,737,537	**851,955**
Decrease/(increase) in operating assets			
Change in loans to banks		(3,500,173)	-
Change in loans and advances		(47,871,405)	5,932,316
Change in derivative financial instruments		(1,938,136)	(923,632)
Change in other operating assets		(581,412)	1,697,341
		(53,891,126)	**6,706,025**
(Decrease)/increase in operating liabilities			
Change in deposits from banks and customers		(7,649,567)	46,884,102
Change in derivative financial instruments		(2,792,625)	(2,986,274)
Change in other operating liabilities		(2,948,344)	(891,069)
		(13,390,536)	**43,006,759**
Net cash inflow from operating activities		**(60,544,125)**	**50,564,739**
INVESTING ACTIVITIES			
Purchase of fixed assets	10 & 12	(556,633)	(907,238)
Purchase of debt securities		(3,130,458,713)	(197,319,973)
Accretion of discounts and amortisation of premiums		172,967,224	(7,681,412)
Proceeds on sale of debt securities		2,991,168,974	180,548,002
Net cash inflow from investing activities		**33,120,852**	**(25,360,621)**
FINANCING ACTIVITIES			
Repayment of obligations under finance lease		(12,107)	(12,108)
Payment to preference Shareholders	17	(777,910)	(2,118,294)
Net increase/(decrease) in subordinated debt		1,848	(3,252)
Repurchase agreements	15	8,044,340	10,298,714
Dividends paid	24	(2,200,000)	(2,500,000)
Net cash flow from financing activities		**5,056,170**	**5,665,061**
Change in cash and cash equivalents		(22,367,103)	30,869,179
Cash and cash equivalents at the beginning of the year		75,380,334	36,182,195
Effects of exchange rate changes on cash and cash equivalents		198,765	8,328,960
Cash and cash equivalent at the end of year		**53,211,996**	**75,380,334**

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

Notes to the Accounts

Year ended 31 December 2017

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

Statement of Compliance

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

Accounting Policies

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

(a) Basis of preparation

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

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

(b) Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic and Directors Reports on pages 9 to 22. The Company has a record of profitability which is sustainable in the foreseeable future. The Company has considerable financial resources together with a diversified and stable funding base. As a consequence, the Directors' believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors' have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Exemptions Under FRS 102

FRS 102 allows certain disclosure exemptions. The Company, having notified its Shareholders which have not objected, has taken advantage of the exemption from disclosing the key management compensation, as required by FRS 102 paragraph 33.7.

(c) Revenue recognition

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

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

Notes to the Accounts
Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commitment and utilisation fees are determined as a percentage of the outstanding facility and such fees are included in the Effective Interest Rate on the advance. If the loan agreement is not entered into, those fees are immediately recognised in the Profit and Loss Account.

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

Income from foreign exchange relates to foreign exchange income derived from customer facilitation and the unrealised gain/(loss) on revaluation of foreign currency assets and liabilities as well as foreign currency trading.

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

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

(d) Foreign currency

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

(e) Pensions

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

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

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

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

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

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

For defined contribution schemes the amount charged to the Profit and Loss Account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

(f) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Software development costs are recognised as an intangible asset when all of the criteria below are demonstrated:

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(g) Investment property

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

(h) Tangible assets and depreciation

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

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

Computer equipment	20-30% per annum
Office equipment	15-25% per annum
Leasehold property	10% per annum
Freehold buildings	over 50 years
Freehold land	no depreciation charged

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

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

(i) Leases

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

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Finance leased assets

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

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

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

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

(ii) Operating leased assets

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

(iii) Lease incentives

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

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

(j) Impairment of non-financial assets

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

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

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

(k) Taxation

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

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

(l) Cash and cash equivalents

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

(m) Provisions and contingencies

(i) Provisions

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

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

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

(ii) Contingencies

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

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

(n) Financial assets

Under the options available to it under FRS 102, the Company has chosen to apply the measurement and recognition provisions of IAS 39 Financial Instruments: Recognition and Measurement. As a result of this, the Company will not be

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

required to undertake a transition to IFRS 9 when it is implemented from 1 January 2018, for those companies which report under the International Financial Reporting Standards framework.

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

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

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

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

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

Exchange differences on available-for-sale financial assets are recognised in the Profit and Loss Account. The Company has listed investments that are included within this category.

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

(o) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables, held-to-maturity, or available-for-sale is impaired.
A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or held-to-maturity investments has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the Effective Interest Rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant.

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets classified as available for sale - if there is objective evidence that an available for sale financial asset is impaired and the previous decline in the Fair Value of the asset has been recognised in equity, the cumulative loss that has been recognised in equity is transferred to impairment of investment securities in the Profit and Loss Account.

The cumulative loss transferred is the difference between the cost of acquisition and the current Fair Value of the asset. A subsequent reduction in the impairment provision is reversed through the impairment of investment securities in the Profit and Loss Account.

(p) Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities are initially measured at their Fair Value and subsequently at amortised cost using the Effective Interest Rate method.

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

(q) Repurchase agreements and resale agreements

Repurchase and resale agreements, which are treated as collaterised financing transactions (securities which have been sold with an agreement to repurchase), continue to be shown on the balance sheet and the sale proceeds are recorded as collaterised financing transactions with creditors ('Repos'). Assets and liabilities recognised under collaterised financing transactions are classified as 'held for trading' and are recorded at Fair Value with changes in Fair Value recorded in the Profit and Loss Account.

(r) Derivative financial instruments

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

Derivative financial instruments are measured at Fair Value with gains and losses arising from changes in their Fair Value being recognised in 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 a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is carried at Fair Value through profit and loss. There were no contracts with embedded derivatives as at the year end.

(s) Geographical analysis

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

(t) Critical accounting estimates and judgements

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

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

Notes to the Accounts

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At 31 December 2017 gross loans and advances totalled £234,018,366 (2016: £186,846,508) against which impairment allowances of £9,956,556 (2016: £6,124,482) had been made.

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

(ii) Revenue recognition

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

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

The Company has a £1.7million (2016: £2.0million) deferred tax asset for brought-forward tax losses. This is based on the Company's projected earnings over an 8 year period. The projected earnings were derived after taking into consideration the three year business plan highlighted in the Strategic Report that will focus initially on reducing the overall levels of risk in the business and building a firm foundation for business in future years. For the purpose of this assessment the Company has assumed no further growth in profits from year 4 onwards. The Company believe this to be a prudent assumption which allows for an element of volatility in the projected performance. Sensitivity analysis performed by reducing/increasing the projected earnings growth by 10% would increase/decrease the recovery period of the tax losses by 1 year.

Allowance has been made in the deferred tax asset calculation for the restriction to 25% of taxable profits that can be set-off against brought-forward tax losses.

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

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

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

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

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

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

(vii) Revaluation of properties (Note: 12)

A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. The valuation was based on a 2017 desktop valuation assessment conducted by Roger Meads, FRICS from Jones Lang LaSalle.

Notes to the Accounts

Year ended 31 December 2017

2. ADMINISTRATIVE EXPENSES

	2017 Number	2016 Number
Average number of employees	119	111
Front Office	49	48
Back Office	70	63

	£	£
Wages and salaries	6,290,368	5,876,469
Social security costs	810,380	736,420
Other pension costs	524,014	512,426
Total staff costs	7,624,762	7,125,315
Other administrative expenses	4,017,682	3,728,716
	11,642,444	**10,854,031**

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2017 £	2016 £
Profit on ordinary activities before tax is stated after charging/(crediting)		
Auditor's remuneration		
- Fees payable for the audit of the Company's annual accounts	58,000	50,000
- Tax compliance services	-	6,500
- Tax advisory services	-	11,040
- Other assurance services	-	20,000
Depreciation and amortisation	890,889	883,599
Interest payable on preference shares	777,909	479,111
Pension costs	524,014	512,426
Foreign exchange losses	8,672	2,084,527
Profit on realised debt securities	(5,358,117)	(5,043,480)
Changes in the fair value of derivatives	(1,650,504)	(3,744,815)
Rental of premises held under operating leases	73,500	104,490

During the year £40,000 (2016: £38,000) was paid to the Auditor in relation to audit services for the parent Company's 30 June 2017 Group accounts. In total, the amount paid to the Auditors in respect to audit fees was £98,000 (2016: £88,000).

4. DIRECTORS' EMOLUMENTS

	2017 £	2016 £
Directors' fees and emoluments	419,936	545,451
Fees payable to Independent Non-Executive Directors	77,409	70,000
Pension contributions	25,100	24,056
	522,445	**639,507**

The highest paid Director received emoluments excluding pension contributions, totalling £419,936 (2016: £274,720) and the amount of pension contributions paid to the Company's defined contribution scheme was £25,100 (2016: £24,056).

Notes to the Accounts

Year ended 31 December 2017

5. TAXATION

	2017 £	2016 £
(i) Analysis of tax charge on ordinary activities		
UK Corporation Tax on profits of the current year	671,958	1,003,823
Adjustments in respect of prior periods	867,392	-
Current tax	**1,539,350**	**1,003,823**
Deferred tax current year	-	1,400,000
Impact of rate changes	-	600,000
Deferred tax	**-**	**2,000,000**
Tax charge for the year	**1,539,350**	**3,003,823**

(ii) Factors affecting tax charge for the current year		
Profit on ordinary activities before tax	**710,882**	**7,400,449**
Tax at 19.25% (2016: 20.00%) thereon	136,845	1,480,090
Effects of:		
Preference share dividend	149,747	95,822
Non-deductible expenses	54,593	5,261
(Decrease)/Increase in unrecognised losses	(214,814)	803,562
Tax rate differences	38,556	600,000
Current year impact of AFS transitional adjustment	507,031	-
Prior year adjustments	867,392	19,088
Total (credit) tax charge for the year	**1,539,350**	**3,003,823**

Deferred Taxation

As at 31 December 2017 there were accumulated tax losses of £31.7million (2016: £32.7million) carried forward. A deferred tax asset of £2million (2016: £2million) has been recognised of which, £1,661,158 relate to tax losses and £338,842 relating to AFS revaluations. The full deferred tax breakdown is shown overleaf.

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £846,354 (2016: (£9,549)).

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

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

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

	2017 £	2016 £
Tax losses	1,661,158	2,000,000
AFS revaluations	338,842	-
Unrealised gain on properties	(2,936,429)	(2,936,429)
Pension scheme deficit	27,370	165,240
Total	**(909,059)**	**(771,189)**

Notes to the Accounts

Year ended 31 December 2017

5. TAXATION (CONTINUED)

A deferred tax asset of £3,806,146 (2016: £3,942,254) has not been recognised in relation to accelerated depreciation, trading losses carried forward and the revaluation movement on assets held for sale since 1 January 2016 when the new tax legislation came into force. The asset will be recognised when further future taxable profits are available against which the unused tax losses and unused tax credits can be utilised. The unrecognised deferred tax assets are:

	1 January 2017 £	Movement £	31 December 2017 £
Tax losses	3,620,298	99,188	3,719,486
Accelerated depreciation	204,905	(118,245)	86,660
Provisions	117,051	(117,051)	-
Total	**3,942,254**	**(136,108)**	**3,806,146**

6. LOANS AND ADVANCES TO BANKS

	2017	2016
	£	£
Loans and advances to banks	3,500,173	-
Total	**3,500,173**	**-**

7. LOANS AND ADVANCES TO CUSTOMERS

2017	Notes	Non-performing loans £	Performing loans £	Total £
Remaining maturity:				
Over five years		-	12,125,817	12,125,817
Five years or less but over one year		-	128,542,511	128,542,511
One year or less but over three months		-	36,358,717	36,358,717
Three months or less		-	47,472,283	47,472,283
Overdue		9,519,038	-	9,519,038
Total		**9,519,038**	**224,499,328**	**234,018,366**
Impairment losses on loans and advances	8	(8,321,651)	-	(8,321,651)
Collective provision	8	-	(1,634,905)	(1,634,905)
		1,197,387	222,864,423	224,061,810
Amount repayable on demand (included within three months or less above)		-	1,390,946	1,390,946

Notes to the Accounts

Year ended 31 December 2017

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

2016	Notes	Non-performing loans £	Performing loans £	Total £
Remaining maturity:				
Over five years		-	16,763,987	16,763,987
Five years or less but over one year		-	73,348,534	73,348,534
One year or less but over three months		-	42,418,031	42,418,031
Three months or less		-	43,905,561	43,905,561
Overdue		10,410,395	-	10,410,395
Total		**10,410,395**	**176,436,113**	**186,846,508**
Impairment losses on loans and advances	8	(4,848,413)	-	(4,848,413)
Collective provision	8	**-**	(1,276,069)	(1,276,069)
Total		**5,561,982**	**175,160,044**	**180,722,026**
Amount repayable on demand (included within three months or less above)		**-**	**1,608,606**	**1,608,606**

Description of loans

Performing loans - loans which are neither past due nor impaired.

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

8. IMPAIRMENT LOSSES

Loans and advances	Specific £	Collective £	2017 Total £	2016 Total £
At 1 January 2017	4,848,413	1,276,069	6,124,482	6,779,415
Charge to Profit and Loss Account	3,744,809	358,836	4,103,645	621,025
Release to profit and loss	(267,203)	-	(267,203)	(150,000)
Amounts written off	(4,368)	-	(4,368)	(1,125,958)
At 31 December 2017	**8,321,651**	**1,634,905**	**9,956,556**	**6,124,482**

Debt securities	2017 £	2016 £
At 1 January 2017	-	2,689,594
Charge to Profit and Loss Account	-	-
Released on disposal of the related debt security	-	(2,689,594)
At 31 December 2017	**-**	**-**

Notes to the Accounts

Year ended 31 December 2017

9. DERIVATIVES AT FAIR VALUE

		Fair Value	
2017	Notional amounts £	Assets £	Liabilities £
Exchange rate-related contracts			
Forward foreign exchange	227,717,569	2,868,194	8,672
2016			
Exchange rate-related contracts			
Forward foreign exchange	278,984,147	930,058	2,801,297

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

The Fair Value gain on derivatives of £1,650,504 (2016: £3,744,814) recognised in the Profit and Loss Account is the difference between the Fair Value of forward foreign exchange contracts at the start and end of the year.

10. INTANGIBLE ASSETS

	Computer software £
Cost	
At 1 January 2017	3,454,473
Additions	329,438
At 31 December 2017	**3,783,911**
Amortisation	
At 1 January 2017	2,798,022
Charge for the year	398,765
At 31 December 2017	**3,196,787**
Carrying amount	
At 1 January 2017	587,124
At 31 December 2017	**656,451**

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

11. INVESTMENT PROPERTY

Carrying amount	Property at Brook Street London £	Property at Thomas Street Manchester £	Total £
At 1 January 2017	7,400,068	570,000	7,970,068
At 31 December 2017	7,400,068	570,000	7,970,068

Notes to the Accounts
Year ended 31 December 2017

11. INVESTMENT PROPERTY (CONTINUED)

The carrying value of the investment properties are based on market based desktop valuations conducted by Roger Meads, FRICS from Jones Lang LaSalle in December 2017 and Tim Smee, FRICS from Quantum Valuation LLP in December 2015 as set out in the table below. The desktop valuation was based on an analysis of rental yields and sales values of similar properties and location as the Brook Street premises since the last 2015 comprehensive valuation. It was concluded that there has not been significant property market value movements since the 2015 valuation.

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

Operating lease agreements where the Company is a lessor

The Company holds surplus office buildings as investment properties as disclosed above that are let to third- parties. These are non-cancellable leases with remaining terms of between 1 and 9 years.

At 31 December 2017, the future minimum leases rentals receivable under non-cancellable leases for the investment properties were as follows:

	2017 £	2016 £
Not later than one year	324,407	109,899
Later than one year and not later than five years	155,600	99,572
Later than five years	4,519	23,922
Total	**484,526**	**233,393**

12. TANGIBLE FIXED ASSETS

	Computer equipment £	Office equipment £	Leasehold property £	Freehold land and buildings £	Total £
Cost or valuation					
At 1 January 2017	1,421,598	844,760	511,695	18,682,310	21,460,363
Additions	131,077	62,851	3,850	29,417	227,195
At 31 December 2017	**1,552,675**	**907,611**	**515,545**	**18,711,727**	**21,687,558**
Depreciation					
At 1 January 2017	1,132,833	706,894	379,877	1,358,947	3,578,551
Charge for the year	162,102	76,425	51,384	202,213	492,124
At 31 December 2017	**1,294,935**	**783,319**	**431,261**	**1,561,160**	**4,070,675**
Carrying amount					
At 1 January 2017	257,740	124,292	84,284	17,150,567	17,616,883
At 31 December 2017	**288,765**	**137,866**	**131,818**	**17,323,363**	**17,881,812**

Notes to the Accounts

Year ended 31 December 2017

12. TANGIBLE FIXED ASSETS (CONTINUED)

	Total £	Tangible fixed assets £	Investment property £	Tangible fixed assets £	Investment property £
Property					
2 Brook Street, London	23,657,471	16,257,403	7,400,068	4,762,788	2,251,141
3-5 Oak Lane, Bradford	321,995	321,995	-	37,367	-
391-393 Stratford Road, Birmingham	571,164	571,164	-	45,330	-
79 Thomas Street, Manchester	570,000	-	570,000	-	136,345

The valuation amount relating to 2 Brook Street London property was based on a 2017 desktop valuation assessment conducted by Roger Meads, FRICS from Jones Lang LaSalle. The other property valuation amounts were based on a 2015 valuation assessment conducted by Tim Smee, FRICS from Quantum Valuation LLP.

Included within freehold property is land £13,444,518 (2016: £13,444,518), which is not depreciated.

Assets under finance leases have a net book value of £11,477 (2016: £25,716) with minimum lease payments of £30,593 (2016: £45,889).

13. OTHER ASSETS

	2017 £	2016 £
Deferred tax	2,027,370	2,165,240
Remittance funds receivable	354,405	852,588
Capital work-in-progress	284,740	45,368
Security deposit	346,282	380,302
Advance payments	29,904	50,803
Rent deposits	285,835	302,779
Sundry debtors	250,328	127,760
Repossessed properties	1,040,000	-
*Deferred costs	237,798	-
Total	**4,856,662**	**3,924,840**

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

14. DEPOSITS BY BANKS

	2017 £	2016 £
Repayable on demand	9,223,324	12,579,622
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	415,138	261,973
Total	**9,638,462**	**12,841,595**

Notes to the Accounts

Year ended 31 December 2017

15. REPURCHASE AGREEMENTS

	2017 £	2016 £
Repurchase agreements	18,343,054	10,298,714
Total	**18,343,054**	**10,298,714**

These include 4.5 year repurchase agreement GBP borrowings of £10,294,376 secured against UK Gilts. The repurchase date is 22 July 2020 and the borrowings carry a coupon rate of 3 month GBP Libor plus 53bps payable quarterly. The remainder are repurchase agreement USD borrowings with an average rate of 2.8% whose tenure is between one and three months.

16. CUSTOMER ACCOUNTS

	2017 £	2016 £
Repayable on demand	95,626,916	82,936,112
With agreed maturity dates or periods of notice by remaining maturity:		
Over three years	3,176,243	119,135,447
Three years or less but over one year	217,569,071	90,555,995
One year or less but over three months	52,007,684	73,513,981
Three months or less	31,458,857	38,143,670
Total	**399,838,771**	**404,285,205**

17. OTHER LIABILITIES

	2017 £	2016 £
*Taxation and social security	987,610	2,476,695
**Unapplied Vostro accounts	1,272,651	680,397
Finance lease	29,347	27,674
Amounts due to preference Shareholders (see below)	72,512	4
Accrued expenses	1,710,964	2,116,135
Other liabilities	414,080	683,847
Total	**4,487,164**	**5,984,752**

*The amount of £987,610 includes amounts of £709,843 for 2017 (2016: £Nil) which are payable after more than one year.
**The amount of £1,272,651 includes £530,880 for a correspondent bank whose account was closed on the 29th of December 2017. Transfer instructions were being awaited from the correspondent bank.

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 UBL or NBP as appropriate. Dividends payable on the ‘C’ and ‘D’ preference shares are related to loans transferred to the Company from UBL or NBP, 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 opposite:

Notes to the Accounts

Year ended 31 December 2017

17. OTHER LIABILITIES (CONTINUED)

	UBL Total £	NBP Total £	Total £
Amounts due on 1 January 2016	**1,639,185**	**2**	**1,639,187**
Tax losses utilised during the year	479,111	-	479,111
Payable to preference Shareholders	2,118,296	2	2,118,298
Dividends paid	(2,118,294)	-	(2,118,294)
Amounts due on 31 December 2016	**2**	**2**	**4**
Tax losses utilised during the year	777,909	-	777,909
Realised debt recoveries	72,508	-	72,508
Payable to preference Shareholders	850,419	2	850,421
Dividend Paid	(777,909)	-	(777,909)
Amounts due on 31 December 2017	**72,510**	**2**	**72,512**
Amounts due to preference Shareholders comprise:			
- Share capital	2	2	4
- Realised debt recoveries	72,508	-	72,508

An estimated amount of £210,378 relating to utilisation of tax losses will be payable in the form of preference share dividend in 2018, when the tax losses are actually utilised. Any recovery from written-off loans that were transferred upon merger will increase the 2018 preference share dividend.

18. PROVISION FOR OTHER LIABILITIES

	Notes	2017 £	2016 £
Provision for deferred tax		2,936,429	2,936,429
Pension liability	23	161,000	972,000
Total		**3,097,429**	**3,908,429**

19. CALLED UP SHARE CAPITAL

	2017 No. of shares	2017 Amount £	2016 No. of shares	2016 Amount £
Issued, allotted and fully paid				
Ordinary shares of £1 each	45,000,000	45,000,000	45,000,000	45,000,000

20. CONTINGENT LIABILITIES

The Company has contingent liabilities arising from letters of credit opened and confirmed and guarantees issued, which are disclosed at the foot of the balance sheet. Of the total value £588,081 is cash collateralised (2016: £520,507). The Company in the normal course of business issues guarantees on behalf of its customers for non-performance or non-delivery of goods and services. Cash collateral is held against these guarantee arrangements.

Notes to the Accounts

Year ended 31 December 2017

21. COMMITMENTS

	2017 £	2016 £
*Unutilised overdraft commitments	548,904	514,982
Other commitments (less than one year)	5,721	190,566
Total	**554,625**	**705,548**

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

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following time bands below. These are in regard to the Company standard lease agreements for the lease of the branches in Ilford, Glasgow and Manchester with remaining terms between 0.5 and 11 years.

	2017 £	2016 £
Within one year	94,500	94,500
Between one year and five years	205,249	277,249
Later than five years	255,000	300,000
Total	**554,749**	**671,749**

The Company had the following future minimum finance lease payments:

	2017 £	2016 £
Within one year	15,296	15,296
Between one year and five years	15,296	15,296
Total gross payments	30,592	30,592
Less finance charges	(1,671)	(4,877)
***Carrying amount of liability**	**28,921**	**25,715**

*The carrying amount of the finance lease reflected in the Balance Sheet (see Note 17) includes accrued interest charges of £425 (2016: £1,958) totalling £29,347 (2016: £27,674).

Certain office equipment ('franking machines') is held under finance lease arrangements. The finance lease liabilities are secured by the assets held under finance lease (see Note 12). The lease arrangements include fixed lease payments and a purchase option at the end of the lease term. The lease term remaining is 1.5 years.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

1. Credit risk
2. Liquidity risk
3. Interest rate risk
4. Foreign currency risk
5. Regulatory risk

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Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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

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

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

The Company holds and issues financial instruments for three main purposes:
- To earn an interest margin or a fee;
- To finance its operations; and
- To manage the interest rate and currency risks arising from its operations and from its sources of finance.

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

Financial assets and liabilities not carried at fair value
Loans and advances to banks and customers are considered to be short term in nature and where these relationships are longer term there are considered to be no material factors in terms of impairment, credit or market risk which would indicate that the carrying value differs from the Fair Value.

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

The Company also holds preference shares and the Fair Value of these instruments can be approximated to the realisation of future tax losses, which is £1.7million (2016: £2million).

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

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

2016	AFS £'000	HTM £'000	FVTPL £'000	Loans & receivables £'000	Total £'000
Financial assets					
Cash and balances with central banks	-	-	-	75,380	75,380
Loans and advances to customers	-	-	-	180,722	180,722
Debt securities	180,624	53,529	-	-	234,153
Derivatives at fair value	-	-	930	-	930
Other assets	-	-	-	1,714	1,714
Total	**180,624**	**53,529**	**930**	**257,816**	**492,899**
Financial liabilities					
Deposits by banks	-	-	-	12,842	12,842
Borrowings from financial institutions	-	-	-	10,299	10,299
Customer accounts	-	-	-	404,285	404,285
Preference shares	-	-	-	4	4
Subordinated debt	-	-	-	2,013	2,013
Derivatives at fair value	-	-	2,801	-	2,801
Other liabilities	-	-	-	708	708
Total	**-**	**-**	**2,801**	**430,151**	**432,952**

Notes to the Accounts
Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2017 £'000	2016 £'000
Interest income		
Available for sale	5,738	8,702
Held to maturity	2,883	1,386
Loans and receivables	10,210	9,205
Total	**18,831**	**19,293**
Interest expense		
Derivative financial instruments	2,097	1,897
Loans and receivables (includes preference share dividend)	8,585	8,377
Total	**10,682**	**10,274**

A total of £Nil relating to interest income on impaired debt securities and £19,000 relating to interest income on impaired loans and receivables have been recognised in the year (2016: £Nil and £Nil respectively).

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

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

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

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

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

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

The table overleaf shows a hierarchy that reflects the significance of observable market inputs for financial instruments measured at Fair Value.

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value measurement continued

2017	(a) £'000	(b) £'000	(c) £'000	Total £'000
Financial assets				
Available for sale investments	149,912	-	-	149,912
Derivatives at fair value	-	2,868	-	2,868
Total	**149,912**	**2,868**	**-**	**152,780**
Financial liabilities				
Derivatives at fair value	-	9	-	9
Total	**-**	**9**	**-**	**9**

2016				
Financial assets				
Available for sale investments	180,624	-	-	180,624
Derivatives at fair value	-	930	-	930
Total	**180,624**	**930**	**-**	**181,554**
Financial liabilities				
Derivatives at fair value	-	2,801	-	2,801
Total	**-**	**2,801**	**-**	**2,801**

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

(a) All investment securities held by the Company at 31 December 2017 are rated. Prices used for Fair Value calculations are obtained from Bloomberg.

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

(c) The Company uses the discounted cash flow model for determining the Fair Value of financial instruments where the Fair Value cannot be reasonably determined. During the year, there was Nil (2016: Nil) exposure of this nature. The underlying assumptions normally used in calculating the appropriate carrying amount includes: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally an adjustment to reflect execution risk.

Credit risk

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk continued

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

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

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

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

	2017		2016	
	Carrying Value £'000	Maximum Exposure £'000	Carrying Value £'000	Maximum Exposure £'000
Cash and balances with central banks	53,212	53,212	75,380	75,380
Loans and advances to banks	3,500	3,500	-	-
Loans and advances to customers				
Loans and receivables	224,062	224,062	180,722	180,722
Debt securities				
Available for sale	149,912	149,912	180,624	180,624
Held to maturity				
Derivative financial assets	57,184	57,184	53,529	53,529
Currency forwards	2,868	2,868	930	930
Unutilised overdraft commitments	-	549	-	514
Total	**490,738**	**491,287**	**491,185**	**491,699**

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk continued

	Debt securities		Loans and advances to customers	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Carrying amount	207,096	234,153	224,062	180,722
Individually impaired				
Grade 5b: Substandard	-	-	-	4,024
Grade 6: Doubtful	-	-	2,751	3,528
Grade 7: Loss	-	-	6,768	2,858
Impairment allowance (specific)	-	-	(8,322)	(4,848)
Carrying amount	-	-	1,197	5,562
Past due but not impaired				
Grade 4b: Watchlist				
Up to 30 days	10,139	-	-	-
30 – 90 days	-	5,856	10,988	6,248
Grade 5a: Substandard				
Up to 30 days	-	-	-	-
30 – 90 days	-	-	-	-
90 – 180 days	-	-	-	-
180 days +	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	10,139	5,856	10,988	6,248
Neither past due nor impaired				
Grade 1-3: Low – fair risk	196,957	228,297	213,512	170,188
Grade 4a: Watchlist	-	-	-	-
Carrying amount	196,957	228,297	213,512	170,188
Impairment allowance				
Collective provision	-	-	(1,635)	(1,276)
Carrying amount	-	-	(1,635)	(1,276)

All other assets of the Company are neither past due or impaired (2016: Same).

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk continued

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

Fitch ratings	2017 £'000	2016 £'000
AAA	9,185	6,131
AA+	5,919	-
AA	64,615	67,693
AA-	2,159	-
BBB+	4,220	7,710
BBB	-	8,235
BBB-	6,008	26,549
BB+	8,793	5,163
BB	18,279	11,050
BB-	11,752	30,546
B+	11,818	42,410
B	36,508	18,545
B-	19,827	10,121
CC	4,023	-
CCC+	3,990	-
Total	**207,096**	**234,153**

The loans and advances portfolio is predominantly unrated.

Impaired loans

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

Past due but not impaired

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

Allowances of impairment

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

Forbearance policy

The Company periodically assesses whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. In conducting this assessment, Management takes account of any forbearance arrangements it has with its customers. The Company has a detailed forbearance policy and as part of the arrears management process, the Company will consider providing a forbearance facility to the borrower after considering each case and analysing it based on its own merits and the specific circumstances of the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of arrears. Where the circumstances of the borrower 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.

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk continued

As at 31 December 2017, all grade 5b, 6 and 7 loans and advances had been considered for forbearance (2016: Same).

Write off policy

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

Collateral

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

	Loans and advances to customers	
	2017 £'000	2016 £'000
Carrying amount	224,062	180,722
Individually impaired		
Property	1,197	1,299
Unsecured	-	4,263
Carrying amount	1,197	5,562
Past due but not impaired		
Property	10,987	5,467
Unsecured	1	781
Carrying amount	10,988	6,248
Neither past due nor impaired		
Property	44,409	54,211
Unsecured	145,318	110,967
Other	23,785	5,010
Carrying amount	213,512	170,188
Impairment allowance – (collective provision)		
Other	(1,635)	(1,276)
Carrying amount	(1,635)	(1,276)

The average loan to value ratio for customer loans secured by property is 56% (2016: 49%); calculated by dividing the balance owed to the Company by the latest valuation held for the property. Independent professional property valuations are undertaken every three years for commercial and buy to let mortgages or earlier if market conditions warrant, at the discretion of the Company. Other valuations are undertaken as stated by UK Regulations. The Company will seek to dispose of property and other assets obtained by taking possession of collateral and converting into cash as rapidly as the market for the individual asset permits.

Credit risk concentration

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

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk concentration continued

	Loans and advances to customers 2017 £'000	2016 £'000
Central and local government	26,852	26,572
Food, beverage, tobacco	425	479
Textiles, leather, clothes	1,152	1,057
Other manufacturing	1,115	8
Retail	21	4,131
Wholesale including import and export	2	2
Transport, storage, communication	11,439	-
Construction	11,139	6,339
Real estate - buy, sell, develop and letting	43,137	24,547
Financial	48,083	46,690
Others	4,614	5,284
Individuals	76,083	65,613
Total	**224,062**	**180,722**

Concentration by location		
Great Britain	84,775	67,256
Europe	15,930	26,125
South Asia	52,304	36,405
Africa	31,96	23,434
Rest of world	39,090	27,502
Total	**224,062**	**180,722**

Investment Securities

Investment securities held by the Company at 31 December 2017 were all rated (2016: all were rated).

In 2017, £2,826,242 (2016: £6,026,467) was reclassified from investment revaluation reserves to profit and loss on de-recognition of available-for-sale securities. Total losses taken as impairment to the profit and loss were £Nil.

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Investment Securities continued

	2017 £'000	2016 £'000
As at 1 January	**234,153**	**206,465**
Purchases	3,130,459	197,320
Sales	(2,991,169)	(180,548)
Interest/amortisation	(171,983)	7,681
Unrealised gains	5,636	3,235
Balance at 31 December	**207,096**	**234,153**

The movement in unrealised losses during the year were as follows

	2017 £'000	2016 £'000
As at 1 January	(8,274)	(10,864)
Unrealised gains accounted for in the Statement of Comprehensive Income during the year, net of tax	6,620	2,590
Balance at 31 December	**(1,654)**	**(8,274)**

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

Analysis of sector concentration

	2017 £'000	2016 £'000
Central government	126,189	131,778
Financial institutions	43,185	63,634
Corporates	37,722	38,741
Balance at 31 December	**207,096**	**234,153**

Liquidity risk

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

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

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

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk continued

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk continued

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

Interest rate risk

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

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as Shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business. The policy of the Company is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

The tables below and overleaf summarise the re-pricing mismatches on the Company's assets and liabilities as at 31 December 2017 and 31 December 2016. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk continued

As at 31 December 2017	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances with central banks	5,060	-	-	-	-	48,152	53,212
Loans and advances to banks	3,500	-	-	-	-	-	3,500
Loans and advances to customers	126,312	31,473	7,126	50,073	1,115	7,963	224,062
Debt securities	19,303	8,024	38,952	80,733	60,084	-	207,096
Intangible assets	-	-	-	-	-	587	587
Investment property	-	-	-	-	-	7,970	7,970
Tangible fixed assets	-	-	-	-	-	17,617	17,617
Derivatives at fair value	2,868	-	-	-	-	-	2,868
Other assets	-	-	-	-	-	4,857	4,857
Prepayments and accrued income	-	-	-	-	-	293	293
Total assets	**157,043**	**39,497**	**46,078**	**130,806**	**61,199**	**87,439**	**522,062**
Liabilities							
Deposits by banks	434	-	-	-	-	9,204	9,638
Repurchase agreements	8,049	-	-	10,294	-	-	18,343
Customer accounts	49,366	19,765	32,243	217,569	3,176	77,720	399,839
Derivatives at fair value	9	-	-	-	-	-	9
Subordinated debt	-	2,015	-	-	-	-	2,015
Pension fund liability	-	-	-	-	-	161	161
Other liabilities	-	-	-	-	-	4,487	4,487
Accruals and deferred income	-	-	-	-	-	821	821
Provisions for liabilities	-	-	-	-	-	2,936	2,936
Shareholders' funds	-	-	-	-	-	83,813	83,813
Total liabilities	**57,858**	**21,780**	**32,243**	**227,863**	**3,176**	**179,142**	**522,062**
Interest rate sensitivity gap	**99,185**	**17,717**	**13,835**	**(97,057)**	**58,023**	**(91,703)**	**-**
Cumulative sensitivity gap	**99,185**	**116,902**	**130,737**	**33,680**	**91,703**	**-**	**-**

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk continued

As at 31 December 2016	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances with central banks	4,608	-	-	-	-	70,772	75,380
Loans and advances to customers	83,177	27,164	13,928	48,305	7,685	463	180,722
Debt securities	16,888	7,809	6,383	115,789	87,284	-	234,153
Intangible assets	-	-	-	-	-	656	656
Investment property	-	-	-	-	-	7,970	7,970
Tangible fixed assets	-	-	-	-	-	17,882	17,882
Derivatives at fair value	-	-	-	-	-	930	930
Other assets	-	-	-	-	-	3,925	3,925
Prepayments and accrued income	-	-	-	-	-	645	645
Total assets	**104,673**	**34,973**	**20,311**	**164,094**	**94,969**	**103,243**	**522,263**
Liabilities							
Deposits by banks	4,751	-	-	-	-	8,091	12,842
Repurchase agreements	10,299	-	-	-	-	-	10,299
Customer accounts	57,134	24,891	47,637	205,409	4,282	64,932	404,285
Derivatives at fair value	-	-	-	-	-	2,801	2,801
Subordinated debt	-	-	-	2,013	-	-	2,013
Pension fund liability	-	-	-	-	-	972	972
Other liabilities	-	-	-	-	-	5,985	5,985
Accruals and deferred income	-	-	-	-	-	607	607
Provisions for liabilities	-	-	-	-	-	2,936	2,936
Shareholders' funds	-	-	-	-	-	79,523	79,523
Total liabilities	**72,184**	**24,891**	**47,637**	**207,422**	**4,282**	**165,847**	**522,263**
Interest rate sensitivity gap	**32,489**	**10,082**	**(27,326)**	**(43,328)**	**90,687**	**(62,604)**	**-**
Cumulative sensitivity gap	**32,489**	**42,571**	**15,245**	**(28,083)**	**62,604**	**-**	**-**

Notes to the Accounts
Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

	2017	2016
Financial assets		
Loans and advances to banks	-	-
Loans and advances to customers	4.81%	4.47%
Debt securities	3.18%	4.51%
Financial liabilities		
Deposits by banks	0.03%	0.31%
Repurchase agreements	1.71%	1.09%
Customer accounts	1.77%	1.99%
Subordinated debt	2.61%	2.62%

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

	2017		2016	
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
GBP	3,964	(4,106)	2,751	(2,753)
USD	(6,106)	6,551	(7,295)	7,813
EUR	(220)	228	(654)	690

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 9 gives details of the notional principal amounts and Fair Values as at 31 December 2017 and 31 December 2016.

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 2017 and 31 December 2016, 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.

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk continued

	Sterling £'000	US Dollars £'000	Euro £'000	Other currencies £'000	Total £'000
As at 31 December 2017					
Assets					
Cash and balances with central banks	26,123	24,783	1,593	713	53,212
Loan and advances to banks	3,500	-	-	-	3,500
Loans and advances to customers	85,430	122,361	16,271	-	224,062
Debt securities	106,663	100,433	-	-	207,096
Derivatives at fair value	2,868	-	-	-	2,868
Intangible assets	587	-	-	-	587
Investment property	7,970	-	-	-	7,970
Tangible assets	17,617	-	-	-	17,617
Other assets	4,294	563	-	-	4,857
Prepayments and accrued income	293	-	-	-	293
Total assets	**255,345**	**248,140**	**17,864**	**713**	**522,062**
Liabilities					
Deposits by banks	4,536	244	4,855	3	9,638
Repurchase agreements	10,294	8,049	-	-	18,343
Customer accounts	368,019	29,809	2,004	7	399,839
Derivatives at fair value	9	-	-	-	9
Pension fund liability	161	-	-	-	161
Other liabilities	3,328	807	310	42	4,487
Accruals and deferred income	2	819	-	-	821
Provision for liabilities	2,936	-	-	-	2,936
Subordinated debt	2,015	-	-	-	2,015
Shareholders' funds	85,335	(1,566)	44	-	83,813
Total liabilities and capital	**476,635**	**38,162**	**7,213**	**52**	**522,062**
Net (liabilities)/assets	**(221,290)**	**209,978**	**10,651**	**661**	**-**
Net currency forwards	**225,559**	**211,979**	**(10,637)**	**-**	**2,943**
Net position	**4,269**	**(2,001)**	**14**	**661**	**2,943**

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk continued

	Sterling £'000	US Dollars £'000	Euro £'000	Other currencies £'000	Total £'000
As at 31 December 2016					
Assets					
Cash and balances with central banks	50,295	22,100	1,839	1,146	75,380
Loans and advances to customers	71,826	91,611	17,285	-	180,722
Debt securities	103,934	130,219	-	-	234,154
Derivatives at fair value	930	-	-	-	930
Intangible assets	656	-	-	-	656
Investment property	7,970	-	-	-	7,970
Tangible assets	17,882	-	-	-	17,882
Other assets	3,392	533	-	-	3,925
Prepayments and accrued income	644	-	-	-	644
Total assets	**257,529**	**244,463**	**19,124**	**1,146**	**522,263**
Liabilities					
Deposits by banks	12,420	119	303	-	12,842
Repurchase agreements	10,299	-	-	-	10,299
Customer accounts	378,810	23,545	1,875	54	404,285
Derivatives at fair value	2,801	-	-	-	2,801
Pension fund liability	972	-	-	-	972
Other liabilities	4,782	769	388	46	5,985
Accruals and deferred income	607	-	-	-	607
Provision for liabilities	2,936	-	-	-	2,936
Subordinated debt	2,103	-	-	-	2,013
Shareholders' funds	86,612	(7,023)	(66)	-	79,523
Total liabilities and capital	**502,252**	**17,410**	**2,500**	**100**	**522,263**
Net (liabilities)/assets	**(244,723)**	**227,053**	**16,624**	**1,046**	**-**
Net currency forwards	**243,541**	**(229,007)**	**(16,587)**	**4,106**	**2,053**
Net position	**(1,182)**	**(1,954)**	**37**	**5,152**	**2,053**

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

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

Notes to the Accounts

Year ended 31 December 2017

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk continued

	2017		2016	
	10% increase £'000	10% decrease £'000	10% increase £'000	10% decrease £'000
USD	(200)	200	(195)	195
EUR	1	(1)	4	(4)

Regulatory risk

Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with an increasing array of regulatory requirements and expectations from banking regulators. Regulatory risk governance begins at the Board level and cascades throughout the organisation. The Company, through its compliance and audit functions, ensures there is adherence to the applicable regulatory requirements, and the resources required for effective compliance are adequate and competent. This ensures regulatory risk is minimised without jeopardising Shareholders expectations. The Company is regulated by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') and is subject to European Banking Authority ('EBA') reporting requirements as implemented by the approved authorities. Details of the Company's risk management policy can be found in the unaudited Pillar III disclosures on the Company's website www.ubluk.com.

Capital management policy

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

	2017 £	2016 £
Tier 1 capital		
Share capital	45,000,000	45,000,000
Retained earnings	29,993,994	32,314,614
Revaluation reserve	8,818,615	2,208,063
Deferred tax asset arising from tax losses	(1,661,158)	(2,000,000)
Intangible assets	(587,124)	(656,451)
Total – Tier 1 capital	**81,564,327**	**76,866,226**
Tier 2 capital		
Subordinated debt	332,869	733,849
Collective provision	1,634,903	1,276,069
Total – Tier 2 capital	**1,967,772**	**2,009,918**
Total capital	**83,532,099**	**78,876,144**

The Company has not reported any breaches of its capital requirements during the year (2016: no reported breaches).

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Year ended 31 December 2017

23. POST–EMPLOYMENT BENEFITS

United National Bank Limited Pension and Life Assurance Scheme

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

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

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

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 2017 by Premier Pensions Management, independent consulting actuaries.

The amounts recognised are as follows:

	2017 £'000	2016 £'000
Present value of funded obligations	(6,130)	(6,350)
Fair value of plan assets	5,969	5,378
Gross pension liability	**(161)**	**(972)**
Deferred tax asset	27	165
Net pension liability	**(134)**	**(807)**

The amounts recognised in profit or loss is as follows:

	2017 £'000	2016 £'000
Interest income	138	178
Interest expense	(163)	(188)
Net interest expense	**(25)**	**(10)**

The amounts recognised in other comprehensive income are as follows:

	2017 £'000	2016 £'000
Return on plan assets less interest income	(25)	(10)
Experience gains and losses on liabilities and assets	861	(672)
Actuarial gain and losses during the year	**836**	**(682)**
Movement in related deferred tax asset	**(138)**	**118**
Actuarial gain/(loss) recognised in statement of comprehensive income	**698**	**(564)**

Notes to the Accounts

Year ended 31 December 2017

23. POST–EMPLOYMENT BENEFITS (CONTINUED)

United National Bank Limited Pension and Life Assurance Scheme continued
Changes in the present value of the defined benefit obligation are as follows:

	2017 £'000	2016 £'000
As at 1 January	6,350	5,162
Interest expense	163	188
Actuarial gain/(loss)	(188)	1,141
Benefits paid	(195)	(141)
Balance at 31 December	**6,130**	**6,350**

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

	2017 £'000	2016 £'000
As at 1 January	5,378	4,882
Interest income	138	178
Actuarial gain	648	459
Benefits paid	(195)	(141)
Balance at 31 December	**5,969**	**5,378**

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

	2017	2016
Insurance policies	64.68%	57.51%
Guaranteed annuities rates	7.90%	9.26%
Annuities	27.42%	33.23%
Total	**100.00%**	**100.00%**

The fair values of plan assets were as follows:

	2017 £'000	2016 £'000
Insurance policies	3,821	3,093
Guaranteed annuity rates	472	498
Cash	-	1
Annuities	1,676	1,786
Total	**5,969**	**5,378**

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 2017 is on an ongoing basis. If the policy had been surrendered at 31 December 2017 the surrender value would have been £3,821,000 (31 December 2016: £3,093,000). It is not the Company's intention to surrender the policy.

Principal assumptions are set out opposite:
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 opposite:

Notes to the Accounts
Year ended 31 December 2017

23. POST–EMPLOYMENT BENEFITS (CONTINUED)

United National Bank Limited Pension and Life Assurance Scheme continued

	2017	2016
Rate of increase of pensions in payment	3.00%	3.40%
Rate of revaluation of pensions in deferment	2.50%	2.50%
Discount rate	2.40%	2.60%
Price inflation (RPI)	3.40%	3.40%
Price inflation (CPI)	2.60%	2.60%
Expected return on assets	2.40%	2.60%
Post retirement mortality		
Current pensioners at 65 - male	86.9	87.1
Current pensioners at 65 - female	88.8	89.4
Future pensioners at 65 - male	88.1	88.6
Future pensioners at 65 - female	90.0	90.9

United Bank UK – Group Personal Pension Plan
Total charge for the year (see Note 3)
The total amount charged (excluding amounts debited to net interest income) during the year in respect of the defined benefit contribution scheme and other money purchase schemes amounted to £524,014 (2016: £512,426). The charge (current service cost) for the defined benefit scheme was £Nil (2016: £Nil) and there was a further charge of £Nil (2016: £Nil) for past service cost.

Of the contributions paid in the year, £25,100 (2016: £24,056) was made on behalf of Directors. It is estimated that contributions of £521,345 would be made to the defined contribution scheme in 2018 and £99,000 to the defined benefit scheme. The Company also paid £Nil (2016: £22,362) to provide death in service benefits.

24. ORDINARY DIVIDEND PAID

Ordinary dividends amounting to £2.2million were paid in 2017 (2016: £2.5million). The Directors, at their Board meeting held on 6 March 2018, did not declare an ordinary dividend for the financial year ended 31 December 2017.

25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

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

Notes to the Accounts

Year ended 31 December 2017

26. RELATED PARTY TRANSACTIONS

During the year, two related companies undertook commercial arm's length transactions with the Company, mainly in the form of deposits placed with the Company. Below are details of amounts due to / from each party as at 31 December 2017 and 31 December 2016.

	United Bank Limited		National Bank of Pakistan	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans to	7,370	5,198	590	386
Deposits from	3,923	8,648	4,542	193
Subordinated loan issued to	2,015	2,013	-	-
Contingent letter of credit liabilities	-	138	-	-
Forward FX purchases	-	14,000	-	12,500
Forward FX sales	-	14,230	-	12,696
Interest receivable from	164	65	10	1
Interest payable to	51	70	-	9
Preference share dividend paid to	778	479	-	-

During 2013, United Bank Limited converted their preference share dividend in respect of 2012 into a subordinated loan of £2,006,000. The loan was for a term of 5 years and is subordinated to the claims of depositors and other creditors. The Prudential Regulation Authority classifies this loan as Tier 2 capital, and approval from them is required prior to early redemption. Interest is payable on a six-monthly basis at the rate of 2% per annum plus six-month GBP LIBOR. The outstanding loan including accrued interest at the 31 December 2017 was £2,014,857 (2016: £2,013,009).

In 2011, the Company issued a mortgage to Mr M.M. Khan, a Director. The total outstanding balance on the mortgage as at 31 December 2017 was £Nil (2016: £1,206,570). In 2017, an amount of £5,985 (2016: £29,225) was charged as interest in respect of this loan. As at 31 December 2017, Mr M.M. Khan had deposits of £25,919 (2016: £12,002). An amount of £62 (2016: £484) was paid as interest in respect of these deposits.

In 2015, the Company issued a secured term loan to Mr I Ashraf, a Director. The outstanding balance on the loan as at 31 December 2017 was £366,095 (2016: £366,095). An amount of £14,150 (2016: £14,150) was charged as interest during the year. As at 31 December 2017, Mr Ashraf had deposits of £125,967 (2016: £125,967). An amount of £49 (2016: £60) was paid as interest in respect of these deposits.

In 2016, the Company issued a personal loan to Mr M Aminuddin, a Director. As at 31 December 2017, the outstanding balance on the loan was £23,982 (2016: £43,889). An amount of £1,036 (2016: £1,323) was charged as interest during the year. As at 31 December 2017, Mr M Aminuddin had deposits of £65 (2016: £92). An amount of £Nil (2016: £Nil) was paid as interest in respect of these deposits.

27. EVENTS AFTER THE BALANCE SHEET DATE

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

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