United Bank UK

Pillar 3 and Remuneration Code Disclosures

Year ended 31 December 2017

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1 Introduction

United National Bank Limited trading as United Bank UK ("UBL UK" or "the Bank") is a United Kingdom (UK) bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

United Bank UK (UBL) was formed in 2001 from the merger of the UK branches of two Pakistani banks, United Bank Limited and National Bank of Pakistan, which had been operating in the UK since the mid-1960s. UBL UK trades as a single entity; it has no subsidiaries or associates, and does not have a credit rating.

Purpose

This document comprises UBL UK's Pillar 3 disclosures on capital and risk management, and remuneration code as at 31 December 2017. It has two principal purposes:

- To meet the regulatory disclosure requirements under Capital Requirement Regulations and Directive, Part 8 – Disclosure by Institutions, and the rules the PRA set out in the PRA Rulebook, Part PB – Public Disclosure and as the PRA has otherwise directed, and including Remuneration Code disclosures; and
- To provide further useful information on the capital and risk profile of UBL UK.

Additional relevant information may be found in UBL UK's Annual Report and Financial Statements 2017.

Key metrics

Common equity tier 1 ratio
18.6%
2016: 17.7%
(Minimum Pillar 1 requirement: 4.5%)

Tier-1 capital ratio
18.6%
2016: 17.7%
(Minimum Pillar 1 requirement: 6%)

Total capital ratio
19.0%
2016: 18.2%
(Minimum Pillar 1 requirement: 8%)

Common equity tier 1 capital
£81.6 m
Up 6.1%,
2016: £76.9 m

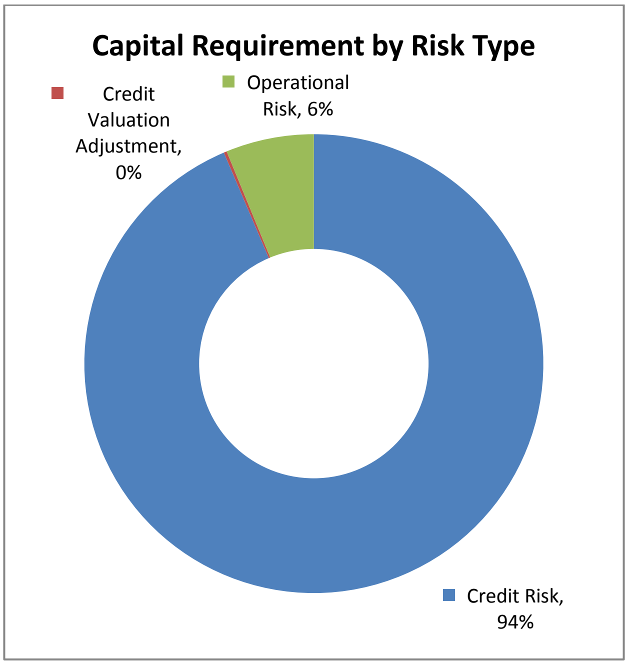
Tier-1 capital
£81.6 m
Up 6.1%,
2016: £76.9 m

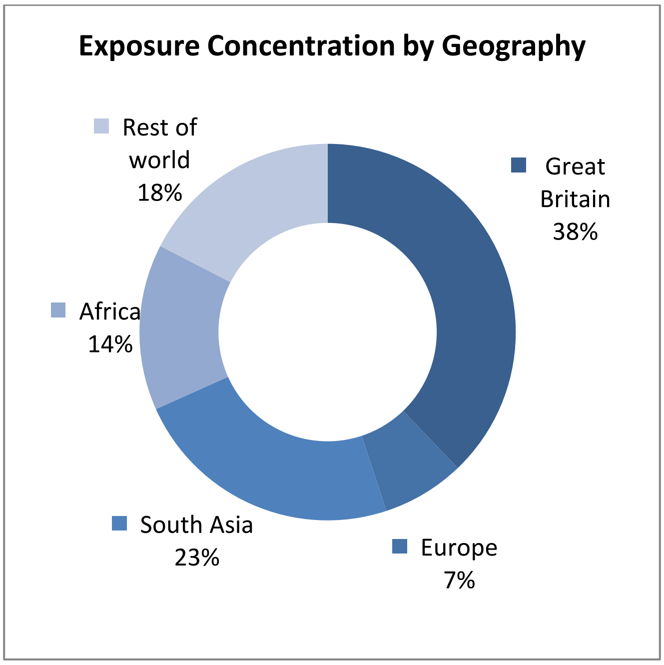
Total capital
£83.5 m
Up 5.9%,
2016: £78.9 m

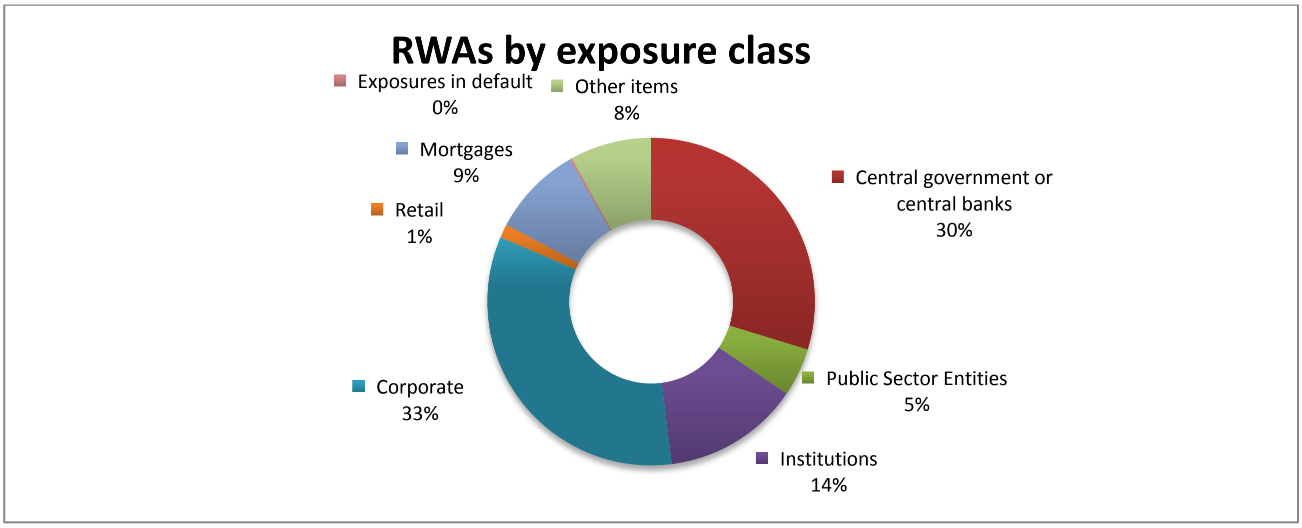
Total Risk Weighted Assets (RWAs)
£439.0 m
Up 1.1%
2016: £434.3 m

Total Assets
£522 m
No change
2016: £522 m

Profit/(Loss) after taxation
£(0.8) m loss
Down 118.8%
2016: £4.4 m profit


Capital Requirement by Risk Type
Credit Valuation Adjustment, 0%
Operational Risk, 6%
Credit Risk, 94%


Exposure Concentration by Geography
Rest of world 18%
Great Britain 38%
Africa 14%
South Asia 23%
Europe 7%


RWAs by exposure class
Exposures in default 0%
Other items 8%
Mortgages 9%
Retail 1%
Central government or central banks 30%
Public Sector Entities 5%
Institutions 14%
Corporate 33%

1.2 Background

The European Union (EU) Capital Requirements Directive ("the Directive") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord.

On 1 January 2014, Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

The Basel framework comprises of three "pillars" which are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

• **Pillar 1** set out the minimum capital requirements that firms are required to meet for credit and counterparty credit, market, operational and credit valuation adjustment risks.

• **Pillar 2** of the supervisory review process requires firms and supervisors to take a view on whether the firm should hold additional capital against those factors not taken into account by the Pillar 1 process (e.g. interest rate risk in the banking book, concentration, business and strategic risk); and factors external to the firm (e.g. business cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital requirements.

• **Pillar 3** aims to promote market discipline by developing a set of disclosure requirements which will provide market participants with key information on a firm's capital, risk exposures, risk assessment processes and the capital adequacy of the firm.

Basel III requirements were formally introduced in Part Eight of the EU Capital Requirements Regulation (CRR) No 575/2013 of the European Parliament, which along with Directive 2013/36/EU of the European Parliament (CRD) are known as the Capital Requirements Directive IV (CRD IV). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the CRR. The Directives are enforced in the UK by the Prudential Regulation Authority ("PRA").

1.3 Disclosure Policy: verification, medium, location and principal activities

This document represents the Pillar 3 disclosures of United Bank UK for the year ending 31 December 2017. These disclosures have been prepared purely for the purpose of explaining the basis on which the Bank has prepared and disclosed certain capital requirements; providing information about the management of risks relating to those requirements. The Bank is a single entity and no consolidation is performed.

This report has not been prepared for any other purpose. Therefore, it does not constitute any form of financial statement of the Bank nor does it constitute a forward looking projection of the Bank.

This document has been prepared to satisfy the Pillar 3 disclosure requirements set out in the CRR. The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

The following sets out the Bank's Pillar 3 Disclosure Policy as applied by Basel III including the location of this information, verification, frequency and the Bank's principal activities.

1.3.1 Location

This report will be published via the UBL UK corporate website as part of the Bank's annual report (http://www.ubluk.com/reports).

1.3.2 Verification

The Bank's Pillar 3 disclosures have been primarily prepared to explain the capital requirements as well as the management's strategies on risks. This is not a financial statement and hence, has not been audited.

These disclosures have been subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the Bank's Executive Committee (ExCom) and Management Risk Committee (MRC), members of which include the Bank's Chief Executive Officer (CEO).

The Bank's Pillar 3 and Remuneration Code disclosures have been approved by the Board. In addition, the Remuneration disclosures detailed in Section 9 of this document have been reviewed by the HR Appointment and Remuneration Committee of the Board.

1.3.3 Frequency

These disclosures are updated at least annually and in line with the publication of the financial statements, or more frequently in the event that significant changes are made to the risk profile or governance structure of the Bank.

1.3.4 Principal activities

The principal activities of the Bank are to provide conventional and Sharia compliant retail banking products through its UK branch network and online; wholesale banking, treasury, investment in securities, and money transmission services to individuals, companies and Financial Institutions, and trade finance facilities to businesses of all sizes.

2 Governance – Board and Committees

2.1 The Board

The Board of Directors has responsibility for the overall governance and risk management of the Bank. There is a maximum of 6 non-executive directors and 1 executive director on the Board. Directors are appointed by the shareholders and selected according to their knowledge and experience and the needs of the Bank. The directors at time of publishing were:

Name	Appointed	Membership	Skill/Experience	Directorship Executive	Directorship Non Executive[1]
Mr B Hasan* (Chairman)	1st October 2015	BAC BNC BRCC HRARC	More than 40 years' global banking experience and previously the CEO of a UK bank.	Nil	2
Ms S Kamil	4th August 2017		CEO of UBL Pakistan with more than 30 years' experience in banking.	1	1
Mr M. Khan	3rd May, 2016	BAC BRCC HRARC	Former CEO of UBL UK and currently Group Executive CIIBG at UBL, with over 30 years of banking experience	Nil	1
Mr R.A Mohyeddin	4th August 2017	BAC BNC BRCC HRARC	Group Chief Treasury & Capital Markets at NBP with more than 20 years' MENA & Asia banking experience.	Nil	0
Mr R Wilton*	30th September 2011	BAC BNC BRCC HRARC	Career banker with HSBC plus extensive experience in Structured Banking	Nil	1

[1] = the number of other directorships excludes group companies
*** = independent non-executive director**
BAC = Board Audit Committee
BNC = Board Nomination Committee
BRCC = Board Risk and Compliance Committee
HRARC = HR Appointments and Remuneration Committee

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

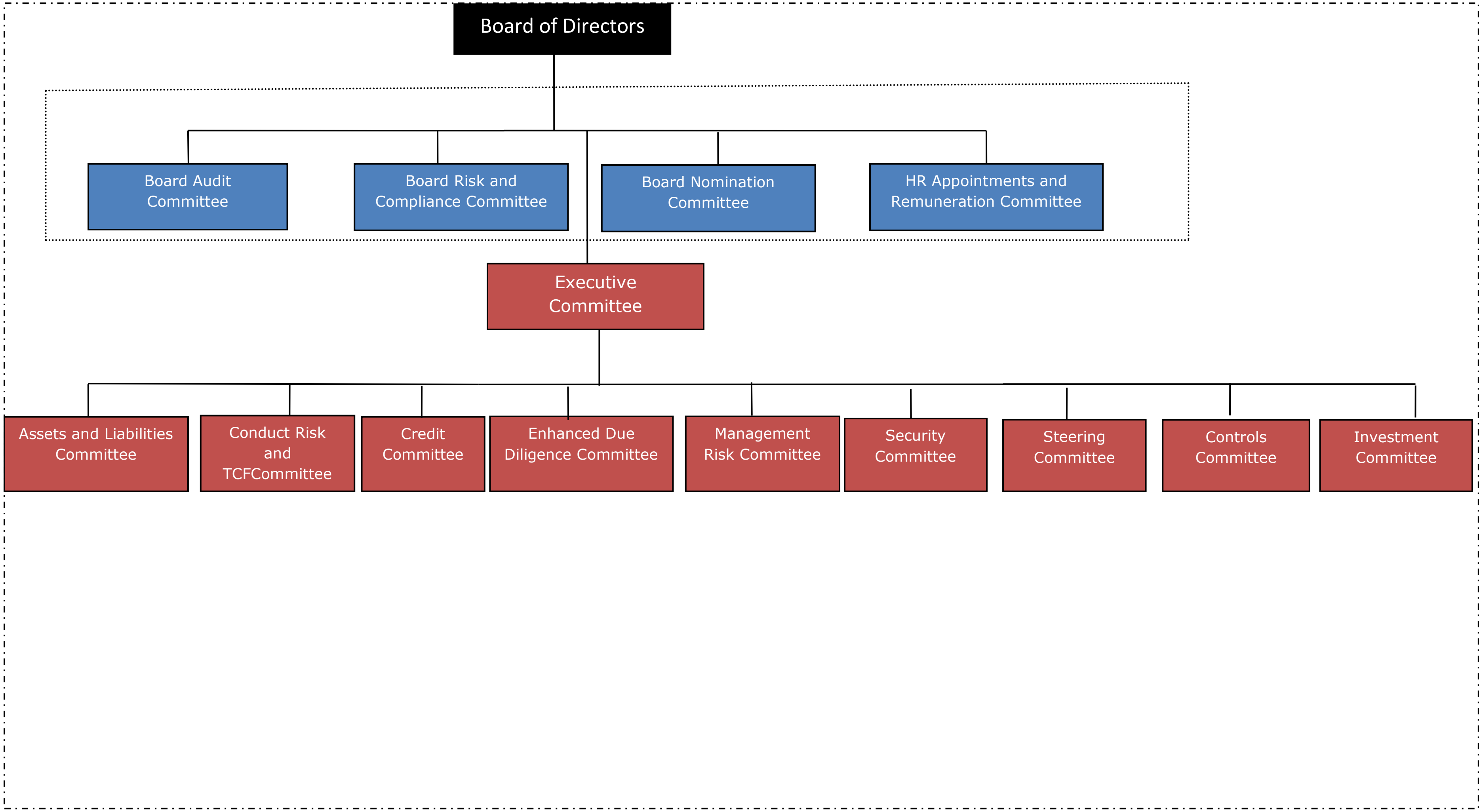
The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, 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 a Board Audit Committee and Board Risk and Compliance Committee to monitor compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board 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 Bank also has a Chief Risk Officer who reports to the CEO and has a dotted line to the Chair of the Board Risk and Compliance Committee. The Chief Risk Officer is responsible for overseeing all aspects of risk management within the Bank including the implementation and effectiveness of the risk management framework.

The diagram below shows the various Board and Management Committees and their reporting lines:

2.2 Board and Executive Committees



2.3 Diversity policy

UBL UK is committed to the principle of equal opportunity in employment.

Accordingly, management will ensure that recruitment, selection, training, development and promotion procedures result in no job applicant or a member of staff receiving less favourable treatment because of a protected characteristic i.e. race, colour, nationality, ethnic or national origin, religion or belief, disability, trade union membership or non-membership, gender, sexual orientation, pregnancy and maternity, gender reassignment, marriage/civil partnership, age, or on the basis of being a part-time or fixed term worker. The Bank's objective is to ensure that individuals are selected, promoted and otherwise treated solely on the basis of their relevant aptitudes, skills, abilities and the needs of the organisation.

Management has the primary responsibility for successfully meeting these objectives by:

- not discriminating in the course of employment against a member of staff or job applicants
- not inducing or attempting to induce others to practise unlawful discrimination
- bringing to the attention of staff that they may be subject to action under the Disciplinary Procedure for unlawful discrimination of any kind.

2.4 Board Recruitment policy

Directors are nominated by the shareholder banks and their appointment is reviewed and approved by the Board Nomination Committee. The Committee considers each nomination on the basis of the individual competence, skill and experience measured against identified objective criteria. The Board is keen to promote diversity when recruiting new directors. Regulatory approval is co-ordinated through the Company Secretary.

3 Risk Management

The management of risk is a key element of the overall management of the Bank's operations and the Board's policy is that all risks should be identified, evaluated and managed appropriately. This will form the basis for better decision-making and will enable management to focus on its activities appropriately.

A risk management culture should be embedded in all business operations. This means that:

- an appropriate and effective risk management system should permeate the fabric of the Bank as a whole;
- there will be an open and receptive approach to mitigating risks effectively;
- all staff are responsible for encouraging good risk management practice in their areas of work;
- everyone in the Bank must contribute to the implementation of this policy and the Risk Management Framework.

Specific risk appetite thresholds must be approved by the Board in relation to each business activity and in aggregate for the whole Bank. Each business unit is responsible for managing the risks arising from its activities, and for ensuring that these risks are within the risk appetite parameters defined by the Board.

Risks will be:

- Identified;
- Evaluated in accordance to the risk appetite set by the Board;
- Mitigated where needed;
- Monitored;
- Reported; and
- Reviewed.

3.1 Risk management objectives

The Bank operates risk management policies designed to achieve the following objectives:

- Use appropriate risk management procedures and methods for the identification, assessment, management, control/mitigation/reduction, monitoring and reporting of risks;
- Propose updates to risk policies and update risk management procedures in coordination with senior management, and that follow best industry practice;
- Define limits and parameters for accepting risks and seek to continuously upgrade criteria for the early identification of risks;
- Evaluate on a continuous basis the material risks in new and existing business activities;
- Report regularly to the CEO and the Board of Directors, through the Board Risk and Compliance Committee, on risk management issues, including credit and market risk limits, limits of authority and the result of stress tests;
- Perform the Internal Capital Adequacy Assessment Process (ICAAP) and compare results with regulatory capital assessments in cooperation with Finance.
- Develop and recommend to the Board Risk and Compliance Committee, the Risk Appetite statement and the risk strategy which should be aligned with business targets;

- Perform stress tests for material risks;
- Develop the guidelines for the appropriate incorporation of risk management principles in business activities; and
- Evaluate the Liquidity position of the Bank and perform the annual Internal Liquidity Adequacy Assessment Process (ILAAP) in line with regulatory requirements
- Develop a recovery and resolution plan to manage the business should the Bank begin to fail.

3.2 Risk assessment process

The Bank maintains a Risk Register for assessing risks, which is populated with risks from previous risk reviews and risk analysis exercises. Also, all employees of the Bank are responsible for notifying risk events to their line managers. These risk events are collated and analysed by the Management Risk Committee on a quarterly basis. Those risk events that represent a new risk are added to the Risk Register. The risks contained in the Risk Register are quantified by estimating the probability and likelihood of occurrence, which are then weighted for volatility and risk aggregation as explained below.

The Risk Register is subject to regular review at a frequency reflecting the nature of the risk and the degree of threat to the Bank's business.

There are a number of ways in which a risk is quantified in terms of capital allocation:

Standardised Approach Risk Weightings: For credit and counterparty credit risk, capital is allocated according to the risk weightings used to calculate regulatory capital under The Standardised Approach.

Position Risk Requirement: For market risk, capital is allocated based on any open foreign exchange positions taken by the Bank.

Basic Indicator Approach: For operational risk, capital is allocated based on fixed percentage of the average of the previous three year positive annual gross income.

Capital Planning Models: Capital Planning models are used to determine future capital requirements taking into account, the business plans as well as stress tests outcomes.

Scorecard Assessment: Here, probability of the threat and the estimated impact is assessed as outlined under Risk Quantification below.

Stress Test: This approach is used for assessing the impact of concentration risk, collateral valuation risk, credit spread – price shock risk, interest rate risk and strategic risk. Stress test models have been used to determine outcomes of severe and plausible stress scenarios, which form the basis for the capital assessment.

Immaterial: A risk is deemed immaterial if it is assessed to have an impact of £10,000 or less or has been assessed in conjunction with another risk and has been discounted to avoid duplication and double counting.

3.3 Risk management structure and organisation

The Board will retain overall responsibility for the oversight of risk and risk management within the Bank and determine what types of risk are acceptable. The Board will approve specific Risk Appetites and Risk Tolerances taking recommendations from the Management Risk Committee, ALCO, Line Credit Committee via Executive Committee as appropriate.

The various Board and Management committees constituting the formal structure for Risk Management are:

a) Board Risk and Compliance Committee (BRCC)

The BRCC is responsible for:

- reviewing the risk appetite statements proposed by the Management Risk Committee;
- ensuring that they are appropriate for the effective operation of the Bank;
- recommending risk appetite statements to the Board for approval;
- reviewing the firm's overall risk framework and ensuring that it is appropriate for the Bank's activities; and
- considering and approving exposures over the limits delegated to the firm's management team.

The BRCC meets a minimum of 4 times per year.

b) Board Audit Committee (BAC)

The BAC is responsible for ensuring the quality and effectiveness of the Bank's internal controls by receiving assurance reports from Internal Audit and the external auditors.

The BAC meets a minimum of 4 times per year.

c) Board HR Appointment and Remuneration Committee (HRARC)

The HRARC is responsible for ensuring the Bank complies with all relevant employment law and regulations including the remuneration code.

The HRARC meets a minimum of 3 times per year.

d) Board Nominations Committee (BNC)

The BNC is responsible for recommendation, identification and evaluation of new and existing Board members.

The BNC meets a minimum of 3 times per year.

e) Executive Committee (ExCom)

ExCom is responsible for the day to day management of the Bank and therefore will ensure that risks are identified, controlled, and reported. ExCom will also facilitate the desired risk culture across the Bank's staff and operations.

The ExCom meets a minimum of twice per month.

f) Management Risk Committee (MRC)

The MRC will undertake the day to day design, implementation and oversight of a risk management framework which will enable the risks to be controlled within the risk appetite and reported upon to the Board. The MRC will satisfy itself that risks are being actively managed, with the appropriate controls in place and working effectively.

The MRC will:

- Determine, regularly review and implement the Risk Management Framework;
- determine the resources to be applied to risk management;
- embed a positive approach to risk management throughout the Bank;
- routinely review risk management information and reports;
- ensure that the Board remains appropriately informed;
- arrange for independent reviews of the Bank's risk management; and
- review and make recommendations to the Board for any changes in policies.

The MRC meets a minimum of 4 times per year.

g) Credit Committee (CC)

The CC is responsible for the implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits, as delegated by the BRCC.

The CC meets a minimum of 2 times per month.

h) Assets and Liabilities Committee (ALCO)

ALCO will manage and monitor the assets and the liabilities and the capital and liquidity of the Bank to ensure that they are within the Bank's risk appetite and consistent with the approved ICAAP and ILAAP where appropriate. ALCO will also consider review and alter key interest rates for the Bank's assets and liabilities.

The ALCO meets a minimum of once per month.

i) Enhanced Due Diligence Committee (EDDC)

The EDDC is responsible for reviewing and approving the Bank's high risk clients including respondent relationships and overseeing the monitoring of all transactions through the Bank with respect to financial crime risk.

The EDDC meets a minimum of once per month.

j) Steering Committee

The Steering Committee is responsible for the oversight of strategic change within the Bank, including the development and launch of new products as well as the prioritisation of those strategic changes.

The Steering Committee meets a minimum of once per month.

k) Security Committee

The Security Committee is responsible for the management of physical and data security including the oversight of cyber security risk, and the development, communication and testing of business continuity plans.

The Security Committee meets a minimum of 4 times per year.

l) Conduct Risk and TCF Committee

The Conduct Risk and TCF Committee is responsible for ensuring that the Bank operates in a manner which is not detrimental to customers and accords with all relevant laws and best practices; with the culture of the organisation designed to reflect the spirit of best practice and correct customer outcomes.

The Conduct Risk and TCF Committee meets a minimum of 4 times per year.

m) Controls Committee

The Controls Committee is responsible for the oversight of audit and compliance recommendations and ensuring they are implemented within agreed deadlines.

The Controls Committee meets a minimum of 4 times per year.

n) Investment Committee (IC)

The Investment Committee is responsible for analysing, reviewing and approving investment proposals within the appropriate authority granted by the Board.

The Investment Committee meets twice a month.

3.4 Risk reporting

3.4.1 General

Actual risk exposure will be monitored against the defined appetite/tolerance. New risks and changes in risks are reported at the appropriate management committee with explanations and reasons. The results of this monitoring will be reported to the Board.

This will permit the Board to gain assurance that risks within UBL UK are being properly managed and reported. The reports will also allow the Board to review and assess whether the defined risk appetite/tolerance remains appropriate, particularly as strategic objectives are progressed and the Bank's risk profile changes.

External audits twice a year also provide assurance to the Board that risks material to the financial statements are managed and reported upon.

3.4.2 Incident reporting

All staff are responsible for reporting any incidents / potential incidents that could result in a loss for the Bank.

Managers review the incidents that occurred within their operational area and consider if it is a risk on the register that has crystallised or if the risk is Moderate. Such a risk will be escalated to the CRO immediately.

Otherwise the Manager will consider if the incident could recur and if mitigating action is appropriate. A report is submitted to the CRO quarterly. The incident log is reviewed by the CRO every month.

All staff are required every 6 months to confirm that all incidents that they are aware of have been reported.

3.4.3 Business area risks

Managers monitor the risks within their business area. Where a risk crystalizes or becomes moderate it should be immediately escalated to the CRO. Business Area Managers are also required to review their environment and report immediately to the CRO any potential threats or changes to the risks to their business area or the Bank.

Managers make a report on the risks for their area to the CRO at least every quarter. At the end of each quarter they are required to review all of the risks on their risk register, comment on the changes and confirm that no further risks in their area have come to their attention. All reports are to be submitted to the CRO.

3.4.4 Key business risks

Senior management monitor the key risks and report on any changes to CRO immediately. All the Key Risks are reviewed by the senior management team and the results of that review reported to the CRO quarterly. Senior Managers are also required to review their environment and report immediately to the CRO any potential threats or changes to the risks to their business area or the Bank.

3.5 Risk crystallisation / New risks

Any new risk or a risk that has crystallised or through changes has become Moderate will be reviewed by the CRO in consultation with the CEO and the relevant member of the ExCom as they arise. Immediate remedial action and / or mitigating action will be considered and implemented. Any new risks will be added to the relevant risk register.

3.6 Reports to the Board

The CRO will:

- Consolidate and update the risk registers;
- Review and consolidate all risk reports;
- Review and investigate the incident log; and
- Write a risk report to include:
    - all items of significance

- highlight risks that have changed in the intervening period
- highlight any new risks
- report on the risk monitoring and reporting throughout the Bank.

The Board Risk and Compliance Committee and Board will receive an update on:

- The Key Risk register;
- The incident log;
- Risk report.

3.7 Risk quantification (excluding stress tests)

Risk is first assessed on its probability (likelihood) and impact using a scorecard method. The purpose of this initial assessment is to shortlist those threats which are significant. In some instances, threats of a similar nature are combined. During this analysis, previous loss events are discussed and noted.

The probability (likelihood) of a threat materialising is assessed on the basis of its expected frequency expressed in years:

Code	Expected to occur:
6	At least once a year.
5	In the next year or two
4	In next five years
3	In next ten years
2	In next twenty years
1	Very unlikely (not for thirty or more years)

For assessing internal capital requirements, the residual impact is estimated i.e. the impact of the event taking into account existing controls. The loss assessment is made in terms of the impact on anticipated earnings (profit) and capital (reserves).

The estimated loss is based on the total cost for the 'loss event', except in the case of events occurring once a year or more, in which case the annual cost is estimated, net of any accounting provisions. Estimates cover costs for both remedial work and preventative measures against re-occurrence.

The greatest possible impact on earnings and capital, regardless of controls in place, is entered under Maximum Value. This provides an indication of potential volatility - see below.

3.8 Risk aggregation and capital allocation method

Capital is allocated according to estimates which are assessed by the relevant risk owners.

Although estimates are based on current and past experience, these are further weighted according to their potential volatility i.e. the margin of possible error. For example, if the maximum possible impact of a threat is £100,000 and it is estimated to be £90,000, the margin of possible error is small. On the other hand, an estimate of £20,000 could be out by 500%, and is therefore weighted to reflect the higher volatility.

In arriving at an overall capital allocation, capital assessments are aggregated for all risks. It is reasonable to assume that in any one year, not all threats will materialise (although care must be taken to recognise any risks that are interrelated i.e. may trigger one another).

As noted above, in the risk assessment process the likelihood of a threat is expressed in terms of its expected frequency. An event may have a £100,000 impact, but if it is expected to occur once in 10 years, the 'average impact' spread over the 10 years is only £10,000.

Of course, in reality, the risk either does or does not materialise in any one year. Furthermore, some years may well suffer a higher than average number of occurrences than would be expected according to the statistical averages. For this reason, the 'average impact' must be further weighted to take these factors into account.

Low probability risks are given the highest weightings, since their unexpected occurrence will be far greater than the average. Any estimated costs that are expected to occur in the year will require no additional weighting, since their 'average impact' is in fact the same as the full assessment.

3.9 Stress testing

Not all risks can be readily assessed as described above. For assessing the impact of concentration risk, collateral valuation risk, credit spread – price shock risk, interest rate risk, market risk and strategic risk, stress test models have been used incorporating a set of assumptions on the basis of severe and plausible scenarios.

Stress tests are also used to consider the impact of stressed conditions on meeting future capital requirements.

3.10 Internal Audit

The primary role of Internal Audit is to help the Board to protect the assets, reputation and sustainability of the organisation by:

- assessing whether controls are in place to identify significant risks;
- assessing whether the risks are appropriately reported by management to the Board;
- assessing whether the risks are adequately controlled; and
- challenging the ExCom on the effectiveness of governance, risk management and internal controls.

The Bank's Internal Audit function will achieve this through the following core responsibilities:

- to propose to the BAC, an annual audit plan based on its understanding (after discussion with management) of the significant potential risks to which the organisation could be exposed;
- to carry out audits of functions and processes in accordance with the annual audit plan and any additional special investigations requested by management, the Board, the BAC or the regulators;
- to assess the adequacy and effectiveness of the controls in the functions and processes audited and to issue recommendations for where and why improvement is required (where appropriate) based on the result of work carried out;

- to verify compliance with those recommendations; and
- to report to the BAC in relation to Internal Audit matters.

In addition to the above, Internal Audit also provide feedback and challenge on the effectiveness of the Bank's control framework through attendance at relevant governance committees and through management meetings.

3.11 Risk statement

The Bank's Risk Appetite Statement is provided in Appendix II. This has been approved by the Board and it describes the Risk Appetite and how this feeds into the Bank's overall strategy. The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process.

3.12 Key risks

The Bank sees its key risks as being:

- **Credit and Counterparty Credit Risk** - the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due. The ExCom has formed the Credit Committee which is responsible for the oversight of credit risk. The members of this are the CEO, CFO, CRO and Head of Credit Risk. For facilities in excess of its mandate the approval of the Board Risk and Compliance Committee is sought. Exposures are monitored daily and appropriate action taken should a credit limit be breached.
- **Anti Money Laundering and Counter Terrorist Finance** - Ensuring that the Bank is not used for the purposes of money laundering or funding terrorism with the ensuing risk of regulatory censure, fine or personal prosecution. The Bank has set-up an Enhanced Due Diligence committee to cover issues arising from these risks, under the chairmanship of the Head of Compliance. This committee meets fortnightly and includes business heads and the MLRO.
- **Operational Risk** - the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. The risk is managed by individual business areas that have responsibility for putting in place appropriate controls for their business.

  Each business area has an appointed risk owner and accountable executive who co-ordinate control and risk assessments on a regular basis. This process is led by the CRO.

  In order to ensure the Bank has sufficient capital to cover these operational risks the Bank also maintains a range of insurance policies to cover eventualities such as business interruption, loss of computer systems, crime etc.

- **Market Risk** - the risk that the value of, or income arising from, the Bank's assets and liabilities varies as a result of changes in interest rates or exchange rates. This incorporates a range of risks but the principal element is interest rate risk.
- **Interest rate risk** - arises from imperfect matching of different interest rate features, re-pricing dates and maturities of mortgages, savings and wholesale products. The Bank manages this exposure on a continuing basis, within limits set by the Assets and Liabilities committee using a combination of on and off-balance sheet instruments.

The sensitivity to changes in interest rates impacts the following activities:

a) management of the investment of reserves and other net non-interest bearing liabilities;
b) fixed rate savings products and fixed rate funding;
c) fixed and capped rate lending and fixed rate treasury lending.

Interest rate swaps and caps are used to manage the above risks. In addition swaps are used to manage the risk arising from a net exposure to an interest rate basis type. For example, base rate or LIBOR.

The Bank uses a parallel shift in interest rates of 200 basis points to assess the impact of an interest rate shock and to establish risk appetite. In addition, internal scenario and stress tests are run for non-parallel interest rate movements and limits based upon the Bank's forecast profitability.

- **Liquidity Risk** – the risk that the Bank will encounter difficulty in meeting its obligations arising from its financial liabilities. The Bank's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to maintain the solvency of the Bank and to enable the Bank to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through moderate wholesale funding, and through management control of the growth of the business.

  The Bank principally funds its lending through its retail deposits.

  The Bank maintains assets in liquid form in such proportion and composition as will (at all times) enable it to meet its liabilities as they fall due (including any unexpected adverse cash flow). To this end the Bank monitors its liquidity position against a series of stress tests which apply potential outflows based on a series of idiosyncratic and/or market wide stressed positions. The Bank's stated liquidity risk appetite is to maintain sufficient liquid resources that it can meet all stressed outflows over a 91 day period.

  In accordance with CRD IV, the Bank maintains a significant level of high quality, UK and US Government Debt, which is classed as Eligible Buffer Assets. As at 31 December 2017 the Bank held Eligible Buffer Assets amounting to £67.1m.

- **Reputational Risk -** Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion. Management has considered how this might arise and what the impact could be. The consequences would adversely impact the future prospects of the Bank and could expose the Bank to litigation and financial loss. Reputational risk is inherent across the Bank. Senior Management manage this risk in the following ways:
  - by maintaining and investing in its control structures;
  - by a continued focus on customer outcomes;
  - by promoting the Bank through marketing and external communications; and
  - through the risk management framework which has reputational risk as a key consideration.

Further detail is contained in Section 6 onwards with an expanded list of the risks faced by the Bank is shown in Appendix IV.

4 Own Funds

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 Bank. This is confirmed by their injection of £15million of additional funding in October 2014, taking their total investment in the Bank to £45million.

Below are figures extracted from the 31 December 2017 consolidated accounts for each parent:

Category	UBL	NBP
Total assets	£14,253m	£16,085m
Shareholders' funds	£925m	£875m
Profit before tax	£278m	£245m
Tier 1 Capital Adequacy Ratio	11.04%	15.95%

The table below shows the breakdown of UBL UK's capital resources:

Type of Capital	31-12-2017	31-12-2016
Common Equity Tier one capital		
Paid up capital instruments	£45,000,000	£45,000,000
Retained Earnings	£29,993,994	£32,314,614
Accumulated other comprehensive income	£8,818,615	£2,208,063
Sub-Total	***£83,812,609***	***£79,522,677***
Deductions for non-qualifying items		
Intangible assets	£(587,124)	£(656,451)
Deferred Tax	£(1,661,158)	£(2,000,000)
Common Equity Tier one capital	**£81,564,327**	**£76,866,226**
Additional Tier One capital	-	-
Tier two capital		
Subordinated Loan [1]	£332,869	£733,849
General credit risk adjustments [2]	£1,634,903	£1,276,069
Total Tier two capital	**£1,967,772**	**£2,009,918**
Total regulatory capital [3]	**£83,532,099**	**£78,876,144**

Common Equity Tier one capital comprises of the permanent paid up capital instruments, retained earnings and the fair value reserve resulting from the revaluation of property and investments. This is the core capital of the Bank and acts as a buffer to absorb losses to protect depositors and other creditors of the Bank.

Tier two capital is the supplementary capital and in UBL UK's case it comprises of a Subordinated Loan amortised over the life of the loan and collective impairment provision for the known but individually unidentified impairment of its loan portfolio.

[1] Subordinated Loan amount qualifying for Tier 2 capital is amortised over the life of the loan.
[2] The total collective credit provision recognised in the balance sheet is permitted to be included as Tier 2 capital.
[3] A reconciliation of the regulatory capital to the balance sheet is shown in Appendix III.

5 Compliance with CRD IV and Capital Adequacy

5.1 Capital requirements framework

In order to protect the solvency of the Bank, the Bank holds internal capital resources to absorb unexpected losses. The capital held is determined by the regulators guidance.

The Capital Framework as applicable to the Bank business model is described below.

Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk.

Pillar 2A / Individual Capital Guidance (ICG) sets out requirements on firms with regard to their internal capital adequacy assessment processes (ICAAPs), internal procedures and control mechanisms. The PRA requires that firms should meet Pillar 2A with at least 56% Common Equity Tier 1 (CET1).

Pillar 2B/PRA Buffer is designed to be available to absorb losses and/or to cover increased capital requirements in adverse circumstances that are outside the firm's normal and direct control. The Pillar 2B is set at a level that enables a firm to meet all relevant capital ratios specified in the supervisory framework at all points in the economic cycle. The earlier Capital Planning Buffer (CPB) has been replaced by the combination of Capital Conservation Buffer (CCB) and the PRA buffer from 1 January 2016.

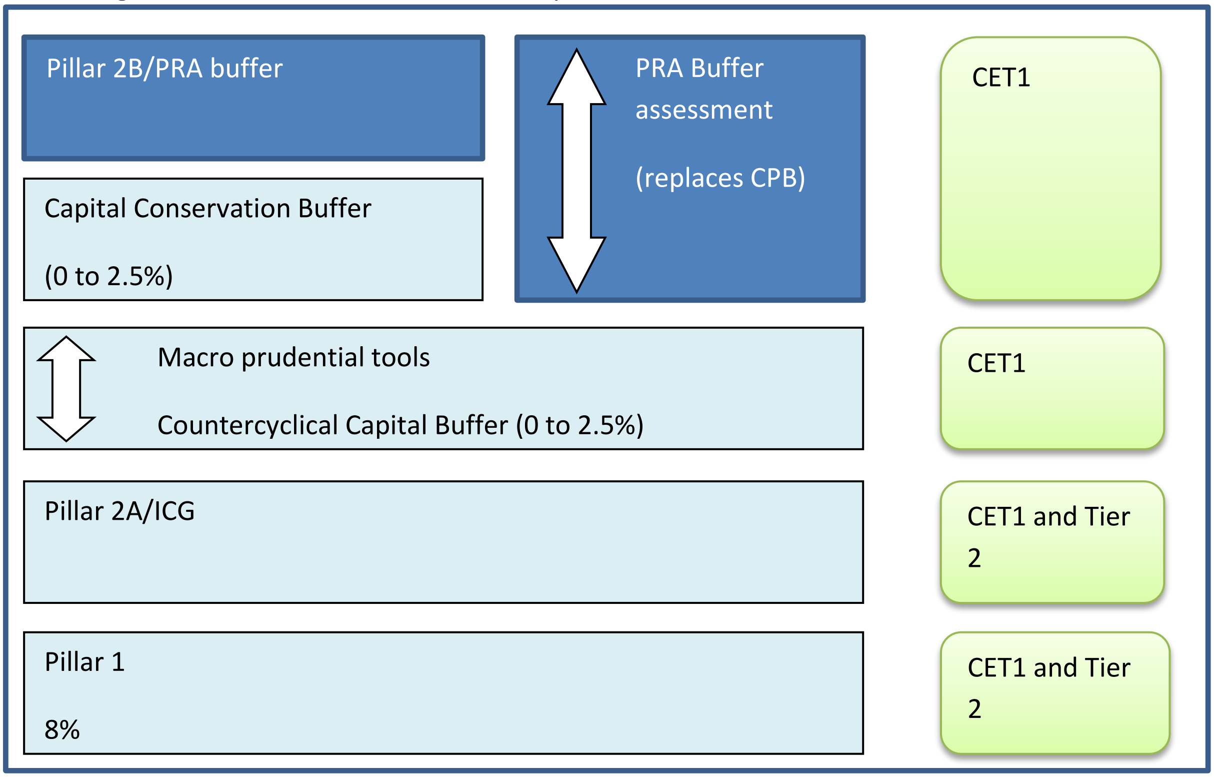
Countercyclical buffer (CCyB) is intended to protect the banking sector against losses that could be caused by cyclical systemic risks. The CCyB requirement requires banks to add capital at times when credit is growing rapidly so that the buffer can be reduced when the financial cycle turns. Banks can use the additional capital buffers they have built up during the growth phase of the financial cycle to cover losses that may arise during periods of stress and to continue supplying credit to the real economy. The amount of buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which banks have a credit exposure. The Financial Policy Committee (FPC) is responsible for setting the CCyB rate that applies to UK exposures.

Capital conservation buffer (CCB) - the purpose of this buffer is to enable firms to absorb losses in stressed periods. A capital conservation buffer of 2.5 per cent, comprised of Common Equity Tier 1 capital, is required to be maintained above the regulatory minimum capital requirement. The PRA had introduced this buffer using a phased approach from 1 January 2016, in line with the transition timetable set out in the Capital Requirements Directive, which is recreated below.

CCB glide path	2016	2017	2018	2019
Applicable buffer	0.625%	1.25%	1.875%	2.5%

Buffer for Global Systemically Important Banks (G-SIBs) - the PRA is responsible for setting this buffer and also for identifying UK institutions which meet the definition of a G-SIB. Due to its size UBL is not considered to be of global systemic importance and is therefore outside the scope of this buffer.

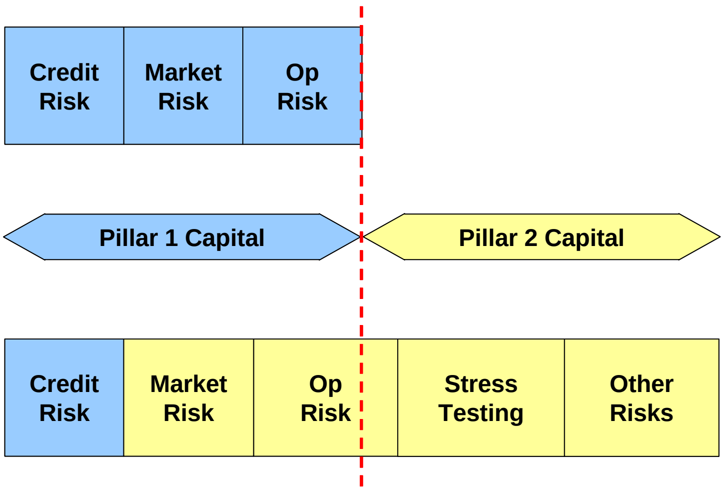
The diagram below illustrates the revised capital framework:



* The Systemic buffer (O-SII) is not shown above, as it is not applicable to UBL UK and is only applicable to systemically important institutions.

5.2 Assessment of Pillar I and Pillar 2 capital requirement

The diagram below illustrates the approach taken to formulate the Bank's internal Pillar 1 and Pillar 2 capital requirements:



The boxes in blue represent the minimum regulatory allocations of capital for credit and counterparty credit risk, market risk and operational risk i.e. Pillar 1 Capital. The boxes in yellow represent the Bank's own capital assessments for market risk, operational risk, stress testing and other risks.

- **Credit and Counterparty Credit Risk:** The Pillar 1 minimum capital requirement for credit risk, based on the Basel III framework under the Standardised Approach, is taken as the starting point in considering what internal capital may be required. The internal capital assessment includes consideration as to whether the Pillar 1 capital calculation fully captures the credit risk faced by the Bank.
- **Market Risk:** UBL UK operates only a small trading book (defined as normally less than 5% of total assets and EUR 15 million) but in terms of the regulatory framework, is required to hold capital against market risk in the banking book for foreign currency risk. The Bank's own assessment of market risk covers foreign exchange rate risk and interest rate risk.
- **Operational Risk:** Basel III sets out a simple means to calculate Pillar 1 capital required to meet operational risk requirements. Under the Basic Indicator approach (followed by the Bank) this is 15% of the Bank's average operating income taken over the last 3 years. The Bank's own assessment of operational risk covers all material risks that do not fall into the other elements shown in the diagram.
- **Stress Testing:** This element covers risks that have been assessed from stress tests and for which the Bank believes that Pillar 1 has not adequately captured their potential capital requirements. These are: concentration risk, strategic risk, interest rate risk in the banking book, collateral valuation risk, market risk for the price movement in the investment portfolio and other business risk.
- **Other Risks:** This element refers to the Bank's own assessment of pension obligation risk.
- **Pillar 2 Capital** is the Bank's internal capital assessment over and above Pillar 1 credit, market and operational risk capital requirements. This is arrived at by simply deducting the regulatory Pillar 1 capital requirement (shown in blue in the above diagram) from the Bank's overall internal assessment (shown in yellow above).

5.3 Pillar 1 capital requirements

The table below shows the overall exposures, capital requirement and risk weighted assets of the Bank under the adopted Standardised Approach.

The Bank’s Pillar 1 capital requirement is based on 8% of its risk-weighted assets. The Bank uses Fitch credit ratings in order to arrive at the risk weights necessary to calculate the risk-weighted values for its exposures to rated institutions. Where an institution is not rated by Fitch, the Bank uses its internal assessment to rate the institution. The Bank’s other exposures are to unrated entities. The exposures, capital requirements and risk weighted assets within each exposure class at 31 December 2017 were:

Minimum Capital Requirement (8%)	Exposure £000s	RWA £000s	Capital Requirement £000s
Central government or central banks	161,009	80,505	6,440
Regional Governments or local authorities	-	-	-
Public Sector Entities	25,724	17,736	1,419
Multilateral development banks	-	-	-
International organisations	-	-	-
Institutions	73,070	30,498	2,440

Minimum Capital Requirement (8%)	Exposure £000s	RWA £000s	Capital Requirement £000s
Corporate	181,049	214,003	17,120
Retail	7,322	3,924	314
Secured by mortgages on immovable property	48,525	19,859	1,589
Exposures in default	1,220	1,220	98
Items associated with particular high risk	-	-	-
Covered bond	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-
Collective Investments undertakings	-	-	-
Equity	-	-	-
Other items	43,571	43,050	3,444
Credit and Counterparty Credit Risk Minimum Capital Requirement	**541,490**	**410,796**	**32,864**
Credit and Counterparty Credit Risk (Standardised)	541,490	410,796	32,864
Market Risk (Position Risk Requirement) [1]	-	-	-
Credit Valuation Adjustment Risk (Simplified Method)	5,145	931	74
Operational Risk (Basic Indicator Approach)	-	27,243	2,179
Pillar 1 Capital Resources Requirement	**546,635**	**438,970**	**35,117**

[1] The sum of the Bank's overall net foreign exchange position was below the de minimis limit of 2% of the total own funds resulting in nil own funds requirement for market risk. As at 31 December 2017, the Bank had surplus capital over and above its minimum capital resources requirement of £24.6 million.

The Bank has assessed the required Capital Planning Buffer (CPB) going forward. The CPB is identified so that it can be used to absorb losses and/or to cover increasing capital requirements in adverse circumstances that are outside the Bank's normal and direct control. The Bank has projected its capital resources and capital requirements over a four year horizon, incorporating the impacts of stressed conditions to assess movements in capital resources and capital requirements in adverse circumstances. On the basis of these stressed capital projections, the Bank has not identified a need to raise capital to cover both the planned growth over the next four years and to meet the additional requirement arising should adverse circumstances materialise that are outside the Bank's normal and direct control.

The Bank will ensure that it will continue to comply with the PRA and other regulatory capital requirements. On an annual basis the Bank will ensure that growth is limited to the level supported by the existing capital.

5.4 Internal Capital Adequacy Assessment Process (ICAAP)

The Board has ultimate responsibility for the Bank's capital management and capital allocation. Ongoing monitoring of compliance with its regulatory requirements also takes place via the ALCO, which considers the adequacy of the Bank's capital position.

The Bank undertakes a comprehensive formal assessment of its capital adequacy at least on an annual basis, and additionally when considered necessary in the light of changes in market or specific UBL UK circumstances, including strategic decisions in respect of the product set offered by the Bank.

The ICAAP is an assessment by the Bank, approved by the Board, of the level of capital that it believes is required in respect of the principal risks to which it is exposed in the execution of its business plan. The Bank uses a range of modelling, scenario analysis and stress testing techniques which it considers appropriate to the scale and nature of the Bank's activities in order to identify the capital levels required and compares these to the Pillar 1 minimum amounts. These techniques include an evaluation over the medium term planning horizon of the adequacy of the Bank's capital position even under a range of relevant extreme but plausible stressed conditions.

The ICAAP is subject to rigorous review and challenge by both the executive management team and the Board. The report is submitted to the Bank's prudential regulator, which will periodically revisit the Individual Capital Guidance requirements for the Bank in the light of the most recent ICAAP and the regulator's own supervisory processes.

5.5 Capital adequacy

In accordance with CRD IV rules for determining capital requirements as promulgated by the EU, the Bank has at all times complied with the revised rules. Under CRD IV the Bank continues to adopt Standardised approach to credit and counterparty credit risk, the Basic Indicator approach to operational risk and position risk requirement for market risk to calculate the Pillar 1 minimum capital requirement.

The PRA in their capacity as supervisors set targets for, and monitor, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulators.

As at 31 December 2017, and throughout the year, the Bank's capital (or "Own Funds") comfortably exceeded its minimum regulatory requirement.

6 Principal Risks

The principal risks that the Bank is exposed to are as follows:

- Credit and Counterparty Credit Risk
- Market Risk
- Liquidity Risk
- Regulatory and Compliance Risk
- Operational Risk
- Other Risks

Details on each principal risk are provided below.

6.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector and country concentration risk).

The Board of Directors has delegated responsibility for the management of credit risk as well as other risks to the Board Risk and Compliance Committee. The main duties of the Board Risk and Compliance Committee are:

- To ensure that the systems, policies and procedures for the identification, evaluation, management and monitoring of risks are carried out;
- To determine the policies and principles that govern the identification and evaluation of risks as well as the procedure for their management;
- To ensure that the Senior Management fully understands and applies the desired levels of risk taking, as specified by the Board of Directors in the Risk Appetite Statement and also that the personnel understands and applies the risk taking and management policy and that excessive risk taking is not encouraged;
- To review the Capital Management Policy and recommend it to the Board of Directors;
- To ensure that the internal risk management framework and the procedures for risk management in the decision-making process are carried out for all the activities of the Bank;
- To evaluate annually, based on the report of the Risk Department, the adequacy and effectiveness of the risk management policy and the appropriateness of risk limits, the adequacy of provisions, and in general the adequacy of own funds in relation to the level of undertaken risks;
- To review and propose to the Board, the Bank's liquidity, capital and other risk appetite statements;
- To ensure that stress tests and related procedures are carried out as appropriate on all major risks, at least on an annual basis and, where necessary to challenge the appropriateness of limits and the adequacy of capital in relation to budgets; and to communicate the results to the Board;

- To review, evaluate and recommend to the Board for approval the Internal Capital Adequacy Assessment Process report (ICAAP), which aims to evaluate the important risks undertaken by the Bank;
- To review, evaluate and recommend to the Board for approval the Internal Liquidity Adequacy Assessment Process report (ILAAP), which aims to evaluate the important liquidity risks undertaken by the Bank;
- To ensure that the risk profile of the Bank is in line with the risk appetite, and capital planning and to make any relevant recommendations to the Board;
- The approval of credits and credit provisioning up to a level set by the Board, the approval of credit policy, amendments and deviations thereto. To consider and recommend to the full Board for approval credits and credit provisioning in excess of its limit;
- The approval of the Credit Policy Handbook and all amendments thereto; and
- The review and recommendation to the Board where required of all lending policies.

The Bank mitigates credit risk by:

- Focusing on business sectors it knows well or has an established connection.
- Limiting the size of exposures to any particular entity / group.
- Limiting the aggregate size of exposures to any particular sector and country.
- Obtaining security cover and where appropriate personal guarantees for the exposure.
- Regularly reviewing the credit risk grading of each exposure.

The table below shows the Bank's maximum exposure to credit risk, by class of financial instrument:

	31-12-2017		31-12-2016	
	Carrying Value £000s	Maximum Exposure £000s	Carrying Value £000s	Maximum Exposure £000s
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	224,062	224,062	180,722	180,722
Investments:				
Held-to-maturity	57,184	57,184	53,529	53,529
Available for sale	149,912	149,912	180,624	180,624
Derivative financial assets:				
Currency forwards	2,868	2,868	930	930
Unutilised Overdraft Commitment	-	549	-	514
Total	**490,738**	**491,287**	**491,185**	**491,699**

The table below shows the undiscounted cash flows on the Company's financial assets on the basis of their earliest possible contractual maturity:

Residual contractual maturities of financial instruments as at 31 December 2017	Less than 1 month £'000	More than one month but less than three months £'000	More than three months but less than one year £'000	More than one year but less than five years £'000	More than five years £'000	Total £'000
Cash and balance with central banks	53,212	-	-	-	-	53,212
Loans and advances to banks	3,500	-	-	-	-	3,500

Loans and advances to customers	4,823	44,356	41,586	143,097	14,174	248,036
Debt securities	18,304	25,251	30,009	92,767	64,539	230,870
Total	**79,839**	**69,607**	**71,595**	**235,864**	**78,713**	**535,618**

Residual contractual maturities of financial instruments as at 31 December 2016	Less than 1 month £'000	More than one month but less than three months £'000	More than three months but less than one year £'000	More than one year but less than five years £'000	More than five years £'000	Total £'000
Cash and balances with central banks	75,380	-	-	-	-	75,380
Loans and advances to customers	13,491	36,239	46,460	83,190	19,085	198,465
Debt securities	6,786	13,361	21,154	139,032	97,125	277,458
Total	**95,657**	**49,600**	**67,614**	**222,222**	**116,210**	**551,303**

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

	Debt Securities		**Loans and advances to customers**		**Loans and advances to banks**	
.	**2017 £'000**	**2016 £'000**	**2017 £000's**	**2016 £000's**	**2017 £000's**	**2016 £000's**
Carrying amount	207,096	234,153	224,062	180,722	3,500	-
Individually impaired:						
Grade 5b: Substandard	-	-	-	4,024	-	-
Grade 6: Doubtful	-	-	2,751	3,528	-	-
Grade 7: Loss	-	-	6,768	2,858	-	-
Impairment - specific	-	-	(8,322)	(4,848)	-	-
Impairment - collective			(1,635)	(1,276)		
Carrying Amount	**-**	**-**	**(438)**	**4,286**	**-**	**-**
Past due but not impaired:						
Grade 4b: Watch list						
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 +	-	-	-	-	-	-
Carrying amount	**10,139**	**5,856**	**10,988**	**6,228**	**-**	**-**
Neither past due nor impaired:						
Grade 1- 3: Low to fair	196,957	228,297	213,512	170,188	3,500	-

risk						
Grade 4a: Watch list	-	-	-	-	-	-
Carrying amount	**196,597**	**228,297**	**213,512**	**170,188**	**3,500**	**-**

6.1.1 Impaired loans

Impaired loans are loans for which the Bank 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.

The table below shows the impaired exposures by sector as at December 2017.

	Impaired Exposures 2017 £'000	Specific Provisions 2017 £'000	Impaired Exposures 2016 £'000	Specific Provisions 2016 £'000
Real estate - buy, sell, develop and letting	5,215	(4,017)	5,314	(4,090)
Financial	3,667	(3,667)	4,024	-
Others	48	(48)	54	(41)
Individuals	589	(590)	1,018	(717)
Total	**9,519**	**(8,322)**	**10,410**	**(4,848)**

The table below shows the impaired exposures by geography as at December 2017.

	Impaired Exposures 2017 £'000	Specific Provisions 2017 £'000	Impaired Exposures 2016 £'000	Specific Provisions 2016 £'000
Great Britain	5,852	(4,655)	6,386	(4,848)
Europe	-	-	-	-
Africa	3,667	(3,667)	4,024	0
Asia	-	-	-	-
Total	**9,519**	**(8,322)**	**10,410**	**(4,848)**

6.1.2 Past due but not impaired

Loans where contractual interest or principal payments are past due, but the Bank 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 Bank.

6.1.3 Allowances of impairment

The Bank 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.

6.1.4 Write-off policy

The Bank 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.

The Bank 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		Loans and advances to banks	
	31-12-2017 £000's	**31-12-2016 £000's**	**31-12-2017 £000's**	**31-12-2016 £000's**
Individually impaired				
Property	(438)	23	-	-
Cash	-	-	-	-
Unsecured	-	4,263		
Other	-	-	-	-
Past due but not impaired				
Property	10,987	5,467	-	-
Cash	-	-	-	-
Unsecured	1	781	-	-
Neither past due nor impaired				
Property	44,409	54,211	-	-
Cash	-	-	-	-
Unsecured	145,318	110,967	3,500	-
Other	23,785	5,010	-	-
Carrying amount	**224,062**	**180,722**	**3,500**	-

The average loan to value ratio for customer loans secured by property is 56% (2016: 49%); calculated by dividing the balance owed to the Bank by the latest valuation held for the property. Independent property valuations are undertaken regularly where the loan to value ratio is greater than 50%, and more frequently where it is likely that there has been a material change in value. The Bank 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.

6.1.5 Forbearance policy

The Bank 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 Bank has a detailed forbearance policy and as part of the arrears management process, the Bank will consider providing a forbearance facility to the borrower after considering each case and analysing it based on its own merits and the specific circumstances of the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of arrears. Where the circumstances of the borrower mean that this primary aim is not achievable, the secondary aim is to recover the customer into a "sustainable terms" position on their debt. In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and losing their security.

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

6.1.6 Movement in the bad debt provision

The table below shows the movement in the bad debt provision:

	31-12- 2017 Specific	31-12-2017 Collective	31-12-2017 Total	31-12-2016 Total
At 1st January	**4,848,413**	**1,276,069**	**6,124,482**	**6,779,415**
Amounts written-off	(4,368)	-	(4,368)	(1,125,958)
Charge to Profit and Loss	3,477,606	358,836	3,836,442	471,025
At 31st December	**8,321,651**	**1,634,905**	**9,956,556**	**6,124,482**

Collective impairment provisions reflect the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The evaluation process is subject to a series of estimates and judgements.

The calculation of the collective impairment provision requires model estimates of probability of default, exposure at default and loss given default. The calculation occurs at account level and is aggregated to portfolio level for reporting purposes.

Collective impairment provisions are raised when the probability of default of a counterparty has increased relative to the probability of default at origination. The size of the collective impairment provision is a function of the model estimates, and gives an indication of the likely credit loss over the following 12 months.

6.1.7 Wrong way risk

Wrong way risk is defined as the risk that occurs when exposure to counterparty is adversely correlated with the credit quality of that counterparty. The Bank has no exposure to wrong-way risk.

6.1.8 Investments

All investment securities held by the Company at 31 December 2017 were rated (2016: Same).

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.

Below is a table showing the credit quality of debt securities that are neither past due nor impaired:

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**

6.1.9 Credit risk concentration

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

The Bank monitors credit risk concentration against limits daily. Any excesses, actual or potential, are notified to the Line Credit Committee for ratification, approval and /or recommendation to the Board Risk and Compliance Committee / Board for direction as to remedial action.

The table below summarises the sector and location concentration risk for the Bank:

Concentration by sector	Loans and advances to customers 31-12-2017 £000's	Loans and advances to banks 31-12-2017 £000's	Loans and advances to customers 31-12-2016 £000's	Loans and advances to banks 31-12-2016 £000's
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	3,500	46,690	-
Other service industry	4,614	-	5,284	-
Individuals	76,083	-	65,613	-
Total	**224,062**	**3,500**	**180,722**	-

Concentration by location	Loans and advances to customers 31-12-2017 £000's	Loans and advances to banks 31-12-2017 £000's	Loans and advances to customers 31-12-2016 £000's	Loans and advances to banks 31-12-2016 £000's
Great Britain	84,775	3,500	67,256	-
Europe	15,930	-	26,125	-
South Asia	52,304	-	36,405	-
Africa	31,963	-	23,434	-
Rest of world	39,090	-	27,502	-
Total	**224,062**	**3,500**	**180,722**	-

6.1.10 Counterparty credit risk

Counterparty Credit Risk can be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Bank uses over the counter (OTC) derivative (forward foreign exchange) transactions to hedge exposures on foreign exchange risk. The CCR mark to market method is used to measure exposure value and details of exposure are provided in the tables below:

Measure for exposure value under the CCR Mark to Market Method

Counterparty Credit Risk Exposures: CCR Mark to Market Method	**December 2017 £'000**
Interest rate contracts	-
Contracts concerning foreign currency rates and gold	5,145.5
Contracts concerning equities	-
Contracts concerning precious metals except gold	-
Contracts concerning commodities other than precious metals	-
Total	**5,145.5**

Net Derivative Credit Exposure

Net Derivative Credit Exposure	**December 2017 £'000**	**December 2016 £'000**
Gross positive fair value	2,868	930
Less: Netting benefits	-	-
Netted current credit exposure	-	-
Less: Collateral Held	-	-
Net Derivatives Credit Exposure	**2,868**	**930**

The Bank does not currently net or hold collateral, or maintain credit reserves, for the purposes of mitigating counterparty credit risk. Hence, gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivative credit exposure are not applicable to the Bank.

6.1.11 Credit risk mitigation

The Bank has put policies in place which allows the use of credit mitigation to reduce Counterparty Credit Risk. As at December 2017, the Bank has not made use of collateral.

6.1.12 Credit valuation adjustment

The Bank has exposure to OTC derivatives, in the form of foreign exchange forwards and swaps, which requires us to make a credit valuation adjustment (CVA). This is defined as the difference between the risk-free portfolio value and the true portfolio value which takes into account the possibility of a counterparty's default. As of 31 December 2017 the capital requirement due to CVA was £116,176 (2016: £128,913).

6.2 Market risk

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in asset prices, foreign exchange rates as well as interest rates in both the trading and banking book.

In relation to the Bank, market risk arises predominantly from the overnight foreign exchange positions that the Bank maintains as part of its regular banking operations and from the interest rate risk in the banking book which includes the investment portfolio.

The monitoring and management of market risk is the responsibility of the Treasury department, while the monitoring of market risk exposures is the responsibility of the Risk Department. The Board, the Board Risk and Compliance Committee, as well as the ALCO committee assume a supervisory and monitoring role in the process.

The Risk Department defines and reviews the implementation of risk policies and procedures regarding market risk. Specifically the Risk Department monitors FX, interest rate risk, and overall risk analysis of market risk exposures. Stress tests are periodically performed for the major risk factors. Major market developments, new risks undertaken, and major risk limit breaches are also analysed.

The objective of the ALCO is to derive the most appropriate strategy for the Bank, in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy.

The Risk Department is responsible for reviewing / developing and enhancing a) the market risk department policies and procedures manual and b) the market risk management methodologies manual. The manual describes the principles of managing market risk, the responsibilities of the Risk Department, the procedures for setting/approving limits and limit excesses and other relevant procedures as well as the methodologies and assumptions used in measuring the market risk exposures for limit monitoring and reporting purposes.

The Bank's policy is that the Treasury department may take small "trading" positions in either the foreign exchange market, and/or the UK gilt market only (provided the trading book is within the de-minimis limit as expressed in the CRR).

As such the role of the Treasury department is limited to managing the structure of the balance sheet, hedging foreign exchange and interest rate risk, and providing specific products to meet customer needs as required. As such the Bank's market risk under Pillar 1 is limited to foreign exchange risk.

The Bank's policy regarding trading is not expected to change going forward. The Bank is in the process of automating and streamlining a number of monitoring processes within the Treasury department as well as within the Risk Department in order to improve the efficiency of the monitoring process.

Interest rate risk in the banking book which includes the investment portfolio is examined and quantified under Pillar 2 where a stress test is used to quantify the impact of interest rate movements in the Banking Book.

The Risk Department is responsible for reviewing annually and setting appropriate limits in line with the defined risk appetite of the Bank, covering foreign exchange limits (spot, forward, and swap), intra-day and overnight open position limits by currency, gross forward limit, total net short position limit, permissible currencies, and permissible foreign exchange products.

Under the requirements of CRD IV, the Bank has a Liquid Assets Buffer containing qualifying securities that are readily realisable. This portfolio is designated AFS, and is therefore marked-to-market with movements in value accounted for within the investment revaluation reserve. During the last year the Bank has added other securities to its investment portfolio that do not qualify for the Liquid Assets Buffer but do provide an additional source of liquidity.

6.2.1 Interest rate risk

Interest rate risk is the exposure of the Bank to adverse movements in interest rates; Interest rate risk arises from holding assets and liabilities, on and off-balance sheet exposures, with different maturity dates, for fixed rated products or re-pricing dates for floating rate products.

Three sources of interest rate risk to earnings and economic value are considered:

(a) mismatches in the re-pricing characteristics of assets and liabilities;
(b) yield curve risk; and
(c) basis risk.

The stress test on interest rate risk is analysed based on the FSA017 return which calculates the Net Present Value (NPV) sensitivities by re-pricing gap for +/-200bp parallel movements in the yield curve.

The analysis calculates assets and liabilities re-pricing in specific time buckets. When fixed rate liabilities in a time bucket exceed fixed rate assets in the same bucket, a “negative gap” exists for that period, indicating that a rise in interest rates for that period would result in an increase in net interest income, while a fall in interest rates would result in a decrease in net interest income.

The table below shows the impact on income of a 200 basis point rise or fall in the yield curve for all the main currencies held by the Bank:

2017			
200 basis points increase £’000	**% of total capital resources**	**200 basis points decrease £’000**	**% of total capital resources**
(5,850)	(7.0%)	7,284	8.0%

The analysis presented includes all assets and liabilities in the banking book which also includes the assets held under the investment portfolio.

The Bank recognises that under the Pillar 2A assessment the capital impact over a 12 month period is calculated. In the case of the Interest Rate Risk, the Bank also recognises that even though the bonds (fixed rate) mature / re-price in periods over 12 months, any movement in interest rates will have an immediate impact on the value of the holdings, and for this reason the Bank considers the impact of an interest rate movement over the whole horizon.

Basis risk arises from the fact that financial products may use different indices for pricing purposes and those indices may move differently and thus expose the Bank to a potential loss of income. An example is the assets earning interest based on the Bank’s own Base Rate, while customer deposits receiving interest based on Libor Rates. An increase in Libor rates without a corresponding increase in Base rates would result in a “squeeze” to the Bank’s profitability.

Yield curve risk relates to changes in the shape of the yield curve and their impact on the Bank’s profitability.

The policy of the Bank is to price all retail/commercial placements/exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates. The Bank is currently in the process of reviewing various Asset and Liability systems so as to monitor and manage the structure of the Bank’s balance sheet and monitor the impact on Net Interest Income from changes in interest rates.

In the meantime the Bank is monitoring the average duration of the portfolio, on a day to day basis and the funding profile of the Bank. The Bank has a material exposure arising from movements in UK and US interest rates and as such it is monitoring market expectations on interest rates, and their impact on the Net Interest Income of the Bank.

6.2.2 Foreign exchange risk

Foreign exchange risk is that arising from:

(i) Foreign exchange deals made on behalf of customers, where significant rate movements occur before currency positions are successfully matched; and

(ii) The effect of exchange rate movements on the valuation of the Bank's balance sheet.

Valuation risk arises from the US dollar profit and loss that is converted to sterling on a weekly basis. The potential impact is not considered material.

The policy for the management of foreign exchange risk is set out in the Bank's Policy Statement for Foreign Exchange, approved by the Asset and Liability Committee (ALCO) and ratified by the Board. It is submitted to the Board annually, or more frequently if required, for re-approval and/or amendment.

Treasury constantly monitors the net open position, according to the procedures laid down in the Treasury Manual to ensure compliance with external and internal limits, and covers any such exposure through the use of outright forward foreign exchange contracts.

Position Limits (Foreign Exchange)

The risk appetite of the Bank has been defined and agreed by the Board as a maximum open long or short position in aggregate against GBP of up to £2.5m.

In addition, maximum intra-day exposure limits are also defined for major currency crosses (up to £3m for US$ against sterling, Euros, Swiss francs or yen), other currencies (up to £0.5m) and in total (up to £5m for US$ against all currencies). These intra-day limits are only to facilitate the conducting of spot FX trades where for a short period of time the dealer is unable to simultaneously cover the customer’s order. They are not intended to provide “proprietary trading” positions.

A long PKR position is used to facilitate branch remittances and covering nostro balances.

There is no dealing in FX Futures, FX Options or Options on FX Futures transacted by the Bank

The Board approves FX exposure limits. The ALCO delegates the day-to-day responsibility for the management of FX exposure to the Treasury Department. New product limits and new exposure limits are formulated at ALCO, recommended to, and sanctioned by the Board.

Foreign exchange positions are monitored on a daily basis. As mentioned above the Bank is currently examining ways of strengthening the monitoring and reporting process.

Exposures created in foreign currency where customer funding is not available are covered through the use of foreign exchange swaps that are transacted by the Treasury department. The Risk Department oversee the net open foreign exchange positions of the Bank to ensure they are within the Board's risk appetite.

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

6.3 Pension obligation risk

The Bank operates a defined benefit scheme that has been closed to new members for more than 10 years, and closed to future accrual from the start of 2010. The average age of the members is between 51-56 years.

The Bank's defined benefit pension scheme had its last triennial valuation carried out in 2017. The valuation showed a £0.3m deficit as at 1 January 2017, based on the statutory funding objective basis as defined by the Pensions Act 2004. With effect from February 2018, the Bank has agreed to begin making regular monthly contributions into the scheme in order to reduce this deficit.

The FRS 102 valuation of the pension scheme's assets and liabilities for the 2017 year-end has shown a £0.2m deficit, which is an improvement of £0.8m from the position reported last year. The main reason for the decrease in the accounting deficit is the increased value of the insurance policies which were £0.7m up from last year.

6.4 Liquidity risk

Liquidity risk is the risk that a company will encounter difficulty in meeting the obligations arising from its financial liabilities.

The policy of the Bank is to always maintain sufficient liquidity to meet all known and likely demands which could be made upon it by its customers and ensure that such liquidity is available on a day to day basis. In terms of "survival period" (the amount of time that the Bank can operate during a period of stress before running out of liquidity resources), this should be no less than 3 months.

The Bank'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 Bank's reputation.

The liquidity position of the Bank is monitored daily, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The Bank's Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the UK supervisory authorities. The key measures used by the Bank for managing liquidity risk are the Liquidity Coverage Ratio (LCR) and the

Liquidity Metric Monitor (LMM). These show the stressed behaviourally adjusted net outflow or inflow over a one month and three month horizon respectively. The position is compared with the amount of Liquid Asset Buffer held by the Bank to ensure that at every point in time, the Bank has coverage no less than 100%. The regulatory LCR requirement as at 31st December 2017 was 90%. Whilst the Basel Committee on Banking Supervision (BCBS) Net Stable funding ratio has not fully come into effect, the Bank also informally tracks this measure as a liquidity monitoring technique.

The Bank has undertaken an internal liquidity assessment under the Internal Liquidity Adequacy Assessment Process (ILAAP). The assessment involves modelling the cash flows for specific scenarios including:

1. a firm specific stress test showing the impact of Bank-specific scenarios, such as damage to reputation;
2. a market-wide stress test showing the impact of adverse market conditions; and
3. a combined scenario for both firm specific and market stress test.

The stress tests consider a one year horizon and identify the impacts at intervals of 1 month and 3 month. This will be used to assess the Bank's survival period both before and after management actions to address shortfalls in liquidity requirements.

As one of the objectives of the overall liquidity adequacy is ensuring that the Bank has a prudent funding profile, assumptions are made about the behaviour of depositors and borrowers within each stress scenario in order to calculate the resulting cash flows. The outcome from the model is a detailed liquidity profile under each scenario, which analyses the impact on the balance sheet and other key metrics resulting from the individual stress scenarios. Key pressure points are identified, and the amount of liquid assets necessary to ensure at least a 3 month survival period is calculated from the results.

In the unlikely event of a liquidity crisis the Treasury Department would immediately invoke the contingency funding plan which includes selling the Bank's liquid asset buffer securities, or if more expedient, seeking additional funds from the shareholders or borrowing in the market to alleviate the shortfall.

The Bank is funded mainly from retail deposits and shareholder funds. The Bank is not dependent on funding from the wholesale market, but may use interbank funding from time to time to provide additional funding when required.

The parent banks have confirmed their support to the Bank if there is a requirement for emergency funding. Full details of the Bank's liquidity risk management are contained in its ILAAP document.

6.5 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 Bank, through its compliance and audit functions, both ensures and assures 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. The Bank is regulated by the PRA and FCA and is subject to EBA reporting requirements as implemented by the approved authorities.

6.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems and people, or from external events.

The general categories of operational risk faced by the Bank are summarised below including controls and procedures that the Bank will consider to mitigate these risks. This list is not exhaustive and is merely indicative of the nature of risks faced.

6.6.1 Systems and processes

The Bank makes use of many different systems (both IT and manual), which, in turn involve a variety of processes. The design, implementation and operation of these processes and systems may affect our susceptibility to some types of operational losses e.g. processing errors, system failures, fraud etc.

The Bank will give consideration to the following areas when designing, implementing and operating any processes or systems:

(i) the controls in place that help prevent system and process failures or identify and assist their prompt rectification e.g. pre-approval or reconciliations;
(ii) indicators of process or system risk such as reconciliation exceptions, compensation payments, documentation errors etc.;
(iii) the importance and complexity of the processes and systems used including whether systems are sufficiently integrated;
(iv) whether the design and use of a process and system allow us to comply adequately with regulatory, statutory and business requirements;
(v) whether the responsibilities for designing, developing, maintaining and supporting any IT systems are clearly defined and performed; and
(vi) the confidentiality, integrity, security and availability of information held in systems.

When implementing new systems the following overall procedures will be followed:

(i) Full specification of requirements will be produced;
(ii) Request for proposal will be provided to alternative suppliers with full and detailed analysis of responses; and
(iii) Full testing of the system and appropriate sign off before go-live including penetration testing, load testing and disaster recovery testing.

6.6.2 People

The inappropriate management of the Bank's employees may affect the Bank's susceptibility to some types of operational losses. For example, operational losses may arise as a result of breaches of fiduciary duty by employees, internal fraud or human errors.

The Bank has the following controls to mitigate such risks:

(i) appropriate segregation of duties and supervision of employees;
(ii) effective and robust recruitment procedures;
(iii) effective review procedures to consider an employee's honesty, integrity, competence, capability and financial soundness;
(iv) appropriate systems and procedures manuals that employees should refer to at all times;
(v) sound remuneration policies that support effective risk management,
(vi) training processes that enable employees to attain and maintain competence; and
(vii) appropriate disciplinary and termination of employment policies and procedures that are enforced.

6.6.3 External Events

The exposure of the Bank to operational risk may increase during times of significant change to the organisation, infrastructure and business operating environment e.g. the undertaking of a new business activity, the introduction or modification of processes and systems, changes in regulatory or legal requirements, the invocation of the business continuity plan etc.

The Bank will put in place, the following systems and controls to mitigate such risks:

(i) the formulation of steering groups for managing change, reporting to the Executive Committee;
(ii) planning, approval, implementation and review processes for any changes;
(iii) effective communication of changes to all staff; and
(iv) an effective and robust business continuity plan.

6.6.4 Clients

A client, by the very nature of their circumstances or activities, may create a higher degree of operational risk in terms of increased reputational risk for the Bank, increased potential for financial crime for both the Bank and the client and increased compliance costs or risk for the Bank.

The Bank has the following controls to mitigate such risks:

(i) The performance of a consistently high level of client verification across the entire client base.
(ii) Increased monitoring and due diligence of high risk businesses.

6.7 Other risks

6.7.1 Insurance

The Bank maintains insurance with the aim of reducing the monetary impact of operational losses. The level and nature of insurance maintained is assessed by management on a timely basis to ensure it is adequate to protect the Bank's financial resources.

Whilst insurance should protect the financial resources of the Bank, consideration is also given to the following:

(i) the financial strength of the insurer;
(ii) the time taken for an insurer to pay claims which may be detrimental to the capital resources of the Bank;
(iii) the effect of any limiting conditions and exclusion clauses; and
(iv) The impact of self-insurance and claims in excess of the policy terms.

6.7.2 Strategic/ Business risk

This is the risk arising from changes in the Bank's business, including the risk that the Bank may not be able to carry out its business plan and its desired strategy including the risks arising from the Bank's remuneration policy.

In order to mitigate this risk, performance against strategic plans and budgets is monitored at the Executive Committee's meetings on a monthly basis. Any material deviations from the agreed business plans are investigated and appropriate management actions are taken promptly.

The Bank is currently continuing with the existing business model whilst examining ways to improve efficiency and reduce risks.

6.7.3 Financial crime and anti-money laundering risk

The requirement for a risk-based strategy

The Money Laundering Regulations 2007 require all UK banks and other regulated firms to assess their money laundering/terrorist financing risks and determine how they will be managed. The FCA also requires that in accordance with senior management responsibilities and corporate governance requirements, all regulated financial services firms must conduct and document an AML/CTF risk assessment.

The level of inherent risk within any bank or financial institution is determined through the consideration of a range of factors including:

- The nature of its ownership and regulatory status.
- Its customer, product and activity profiles.
- Its distribution channels.
- The complexity and volume of its transactions.
- Its processes and systems.
- Its operating environment

All banks must be able to demonstrate to the FCA as their Supervisory Authority the appropriateness of the measures introduced to manage their perceived risks. Consequently, UBL UK's risk-based strategy has been documented as part of its anti-money laundering policies and controls.

UBL UK's risk-based strategy

UBL UK's risk-based strategy includes:

- Assessing the Bank's vulnerabilities to money laundering and terrorist financing:

- Assessing the risk that is posed by the bank's products and services, including their characteristics, the way they are delivered and how they are used.
- Assessing what risk is posed by the Bank's customers, including the means by which the customer is acquired, who the bank's customers are, where they are located, their organisational structure and what they do.
- Designing and implementing controls and procedures to manage and mitigate the money laundering and terrorist financing risks that have been determined, paying particular attention to the factors that have been assessed as presenting higher levels of risk:
- Applying increased levels of customer due diligence and monitoring to reflect increasing levels of risk;
- Monitoring a customer's instructions, transactions and activity in their accounts against known and expected behaviour and characteristics;
- Monitoring transactions against HM Treasury Consolidated Financial Sanctions List, OFAC and EU;
- Recording the results of the risk assessment and the controls that have been put in place; and
- Regularly monitoring and reviewing the Bank's risks and keeping this information relevant and up to date.

6.7.4 Exposures to securitisation positions and equities not in the trading book

The Bank does not have any securitisation positions and does not hold any equities, and therefore these specific risks are not currently applicable to the Bank.

7 Leverage Ratio

The leverage ratio was introduced under the Basel III reforms as a simple, transparent, non-risk based ratio intended to restrict the build-up of leverage in the banking sector to avoid distressed deleveraging processes that can damage the broader financial system and the economy.

It is defined as the ratio of Tier 1 capital to the total exposure measure and applies an equal weighting to all assets regardless of their risk.

The leverage framework is emerging in the UK, with a preliminary target level set by the BCBS that banks should hold a minimum leverage ratio of 3%. The Bank's leverage ratio of 15.8% as at 31st December 2017 (2016 – 14.4%), demonstrates a low appetite for excessive leverage.

The tables below follow the Commission Implementing Regulations (EU) 2016/200 format for Leverage Ratio disclosure. In the tables below, the lines/rows that are not applicable to the Bank have not been included.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	Applicable Amount (in £ '000s)

Total assets as per published financial statements	522,062
Adjustments for derivative financial instruments	5,145
Adjustment for securities financing transactions (SFTs)	2,100
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	6,653
Other adjustments	(20,128)
Leverage ratio total exposure measure	**515,832**

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures (in £ '000s)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	501,934
2	(Asset amounts deducted in determining Tier 1 capital)	-
3 = 1+2	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**501,934**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	2,868
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,277
11 = 4+5	Total derivatives exposures	**5,145**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	2,100
16 = 12	Total securities financing transaction exposures	**2,100**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	12,379
18	Adjustments for conversion to credit equivalent amounts)	(5,726)
19=17+18	Other off-balance sheet exposures	**6,653**
Capital and total exposure measure		
20	Tier 1 capital	**81,564**
21 = 3+11+16+19	Leverage ratio total exposure measure	**515,832**
Leverage ratio		
22 = 20/21	**Leverage ratio**	**15.8%**

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures (in £ '000s)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	501,934
Trading book exposures	0
Banking book exposures, of which:	501,934
Exposures treated as sovereigns	*138,133*

Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	*17,215*
Institutions	*67,924*
Secured by mortgages of immovable properties	*48,525*
Retail exposures	*5,149*
Corporate	*180,197*
Exposures in default	*1,220*
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*43,571*

Table LRQua: Free format text boxes for disclosure on qualitative items

Description of the processes used to manage the risk of excessive leverage	The level of leverage is actively monitored and assessed alongside capital and liquidity ratios, as described in Section 5.
Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The principal factor affecting the Bank's leverage ratio during the period have been the level of deposits received, and the lending of these funds to corporates and institutions, and purchase of securities.

8 Asset Encumbrance

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

The Pillar 3 asset encumbrance disclosure templates, shown below, have been compiled in accordance with PRA and EBA regulatory reporting requirements, specifically the PRA's supervisory statement SS11/14 ('CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets'). In accordance with the threshold criteria under SS11/14, the Bank is not required to report Template B on the fair value of encumbered and unencumbered collateral received.

Template A

	Carrying amount of encumbered assets (£m)	Fair value of encumbered assets (£m)	Carrying amount of unencumbered assets (£m)	unencumbered assets (£m) Fair value of unencumbered assets (£m)
Assets of the reporting institution	**20.4**		**517.7**	
Loans on demand	0.0		123.9	

Equity instruments				
Debt securities	20.4	20.4	195.2	186.7
Other assets			32.6	
Loans and advances other than on demand			166.0	

Template C

	Matching liabilities, contingent liabilities or securities lent (£m)	Carrying amount of unencumbered assets (£m)
Carrying amount of selected financial liabilities	**18.3**	**20.4**
of which: derivatives	0.0	0.0
of which: deposits	18.3	20.4
of which: debt securities		
of which: other sources of encumbrance		

9 Remuneration

9.1 Remuneration governance and decision making

The Human Resources, Appointments and Remuneration Committee (HRARC) is responsible for the oversight of remuneration policies within the Bank. The Committee is chaired by an independent non-executive director (iNED), and consists of the Bank's other iNED and non-executive directors as well as the Chief Executive Officer. The main objectives of the Committee are:

- Ensure that the Bank is in compliance with all relevant employment law
- Decide on total remuneration and benefits for senior staff and Executive Directors.

The Bank operates a discretionary bonus scheme that is related to both the Bank's and individual's performance. Performance of the Bank is judged against financial targets agreed by the Board at the start of the year, as well as regulatory compliance, and the prompt implementation of agreed Internal Audit recommendations. Individuals' performance is assessed during an annual appraisal, and is dependent on the achievement of objectives set at the start of the year.

The allocation of the bonus pool is determined by senior Management in consultation with line managers. The bonus allocated to members of the Executive Committee is agreed by the Chairman of the HR Committee, the CEO and the CFO.

9.2 Performance and reward

The Bank's policy when determining remuneration arrangements is to ensure that there is a clear and identifiable link between reward and performance by combining a number of remuneration components. This ensures an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Bank and professional activity as well as market practice.

The five remuneration components are:

1) Fixed remuneration: This is determined on the basis of the role of the individual employee, including responsibility and job complexity, experience, performance and market conditions.
2) Performance based remuneration: This remuneration is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. It motivates and rewards high performers who strengthen long-term customer relations, improve the Bank's performance and generate income and shareholder value. The Bank operates a discretionary non-contractual salary increase and annual bonus schemes. In deciding whether to make any payments under the schemes, the Bank takes into account its own financial results, its assessment of an individual's contribution towards those results, its assessment of their overall conduct and performance during the course of the year and such other factors as it considers relevant.
3) Guaranteed variable pay: This related to employee compensation that does not become a permanent part of salary and it may vary in amount from period to period and is subject to performance adjustment requirements.
4) Pension Schemes.

5) Other benefits such as severance payment or compromise agreements.

The table below shows the remuneration charged to the profit and loss account during 2017:

Staff Remuneration	Average No. of employees	Fixed	Variable	Total
Approved persons, senior management and risk-takers	32	2,571,782	571,276	3,143,058
Staff whose activities do not have a material impact upon the Bank's risk profile	86	3,970,635	110,386	4,081,021
Total	**118**	**6,542,417**	**681,662**	**7,224,079**

No individual received more than £1million in remuneration during 2017.

The remuneration paid in 2017 was in respect of the principal activities of the Bank, which is retail and wholesale banking. The Bank's remuneration policy is in line with the requirements outlined in the remuneration section of the PRA rulebook.

Appendix I Declaration

Board Risk and Compliance Committee Declaration

The Board is responsible for reviewing the effectiveness of the Bank's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Bank's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

Appendix II – Risk Statement

Board Approved Risk Statement

The Bank's Risk Appetite Statement (RAS) is a fundamental tenet of the risk culture of the Bank, defining the boundaries of acceptable risk taking and the risk management framework that supports it, within the context of the Bank's overall strategic goals. Risk Appetite informs, and is in turn informed by, the Bank's strategy and is also a key process in the ICAAP Framework and it has strong links to the recovery triggers in the Bank's Recovery and Resolution Plan.

The RAS is outlined in the context of a Material Risk Assessment as at the year-end 2017 identifying the Bank's material risks from which a series of qualitative statements and quantitative metrics were agreed to facilitate the monitoring of these risks. The qualitative statements describe the risks that the Bank is willing to accept, or tolerate, in pursuit of its strategic objectives. The quantitative metrics establish specific limits, ceilings, floors and in some cases ranges. Both the qualitative statements and the quantitative metrics make up the Bank's RAS and are articulated in a range of key risk indicators (KRIs). A breach of a qualitative statement of Risk Appetite will be escalated and acted upon in the same manner as breach of a quantitative metric.

Key Risk Indicators

KRIs are constructed in order to determine the overall status of each material risk area and these KRIs are measured in conjunction with one another to determine whether or not the bank is operating within its defined risk appetite. The key broad areas covered by the KRIs are as listed below:

- Business (including financials),
- Market ,
- People,
- Operational,
- Conduct & Culture,
- Compliance,
- Credit,
- Capital, and
- Liquidity & Funding.

Monitoring Process

Adherence to the RAS is monitored and reported on a monthly basis to the Risk Committee. Business owners are responsible for:

- ensuring full awareness of the various KRIs;
- the accuracy and integrity of any and all information they input into the Bank's various systems;
- ensuring that all limits/metrics captured within each relevant KRI are respected; and
- providing early notification should any limit/metric be in risk of breach.

The KRIs are monitored on an ongoing basis by the respective individuals, departments and committees, and reported on a monthly basis to the MRC and quarterly to the BRCC. Exceptions (i.e. breaches of risk limits or watch triggers) are reported immediately to the CRO, and escalated immediately for action to the management team and reported to the Board based on specified internal procedure.

Appendix III EBA Regulatory capital balance sheet reconciliation

	Balance Sheet Item	Regulatory Capital[1]	Ref.
Assets	**£**	**£**	
Deferred Tax	1,661,158		
Intangible assets	587,124		
of which: Deducted from Tier 1 capital		(2,248,282)	a
Loans and advances	224,061,810		
of which: gross provisions eligible for Tier 2 capital		1,634,903	b
Total Assets	**522,062,227**		
Liabilities			
Subordinated Loan capital	2,014,857		
of which: included in Tier 2 capital		332,869	c
Total Liabilities	**438,249,618**		
Equity			
Called up share capital	45,000,000		
of which: amount eligible for equity tier 1 capital		45,000,000	d
Revaluation reserves	8,818,615		
of which: Other comprehensive income	10,472,966		
of which: Investment revaluation reserve	-1,654,351		
of which: amount eligible for tier 1 capital		8,818,615	e
Retained earnings	29,993,994		
of which: dividend payable		(0)	f
of which: amount eligible for tier 1 capital		29,993,994	g
Total Equity	**83,812,609**		
Total Liabilities and Equity	**522,062,227**		

Share capital	45,000,000	d
Retained Earnings	29,993,994	g
Accumulated other comprehensive income	8,818,615	e
Less		
Intangible and deferred tax assets	(2,248,282)	a
Common Equity Tier 1 capital	**81,564,327**	
Subordinated loans eligible as tier 2 capital	332,869	c
Standardised approach general credit risk adjustment eligible as tier 2 capital	1,634,903	b
Tier 2 capital	**1,967,772**	
Total Capital	**83,532,099**	

1. The regulatory capital figures above differ from the amounts reported to the PRA as at 31 December as the total above includes profits for the year and intangibles which are not included in the amounts reported to the PRA until such time as the financial statements for the subject year are approved.

Appendix IV Expanded Risks faced by the Bank

RISK	Definition	Applicable	Risk Impact
Credit Risk	The risk of negative effects on the financial results and capital of the Bank caused by borrower's default on its obligations.	Yes	High
Financial Crime	Ensuring that the Bank is not used for the purposes of money laundering or funding terrorism with the ensuing risk of regulatory censure, fine or personal prosecution. Also ensuring that the Bank does not suffer loss due to theft or frauds committed against it either by internal or external parties.	Yes	High
Liquidity Risk	The risk of negative effects on the financial result and capital of the Bank caused by the Bank's inability to meet all its obligations as they fall due – i.e. it runs out of cash to pay its' creditors.	Yes	High
Interest Rate Risk	The risk of negative effects on the financial result and capital of the Bank caused by changes in interest rates. If we are lending at fixed rate and funding that lending through variable rate funds which than increase as a result of market movements to more than the lending rate – we make a loss.	Yes	High
Foreign Exchange Risk	The risk of negative effects on the financial result and capital caused by changes in exchange rates.	Yes	High
Market Risk	The risk of change in the market price of securities held in the book pending sale, financial derivatives or commodities traded or tradable in the market. If their value goes down below what we paid for them, then we may face a loss	Yes	High
Country Risk	Risks relating to the country of origin of the entity to which a bank is exposed (country risk) is the risk of negative effects on the financial result and capital of the Bank due to Bank's inability to collect claims from such entity for reasons arising from political, economic or social conditions in such entity's country of origin. Country risk includes political and economic risk, and transfer risk.	Yes	High
Operational Risk	The risk of negative effects on the financial result and capital caused by omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems (IT), and unforeseeable external events. We lose money if someone does something careless or does not follow policy / procedure or our IT systems are inadequate.	Yes	High
Legal Risk	The risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations with our clients, and penalties and sanctions pronounced by our regulators (FCA / PRA).	Yes	Medium
Reputational Risk	The risk that due to poor behaviour the Bank's reputation is damaged resulting in losses caused by a negative impact on its' market position, such as a run on deposits.	Yes	Medium
Conduct Risk	The risk of not providing fair customer outcomes, or to behave with integrity in any of its business dealings. This is meant to ensure that the Bank has proper systems, controls and governance from the Board of Directors down.	Yes	Medium
Strategic Risk	The risk of loss caused by a lack of a long-term development component in the Bank's business model, lack of realistic budgets and having the right management team to deliver it.	Yes	Low
Regulatory Risk	The risk of breaching regulations resulting in fine and reputational damage.	Yes	High

Appendix V Capital Instruments main features template

		CET1
1	Issuer	United Bank UK Limited
2	Unique identifier (eg CUSIP, ISN or Bloomberg identifier for private placement)	Private placement
3	Governing law(s) of the instrument	English Law
Regulatory Treatment		
4	Transitional CRR rules	CET 1
5	Post-transitional CRR rules	CET 1
6	Eligible at solo/(sub-)consolidated/ solo and (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£45m
9	Nominal amount of instrument	£1
9a	Issue price	£1
9b	Redemption price	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	£30,000,000 'A' Class 9 November, 2001 £15,000,000 'A' Class 23 October 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All liabilities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Appendix VI Own funds disclosure

The following Own Funds disclosure aims to reflect the capital position of the Bank.

	Common Equity Tier 1 capital: instruments and reserves	**(A) Amount at disclosure date (£000)**	**(B) Regulation (EU) No 575/2013 Article reference**
1	Capital instruments and the related share premium accounts	45,000	
	of which: ordinary share capital		26 (1), 27, 28, 29, EBA list 26 (3)
	of which: instrument type 2		list 26 (3)
	of which: instrument type 3		list 26 (3)
2	Retained earnings	29,994	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	8,819	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)
	Public sector capital injections grandfathered until 1 January 2018		483 (2)
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	83,813	
7	Additional value adjustments (negative amount)		34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(587)	36 (1) (b), 37, 472 (4)
9	Empty Set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(1,661)	36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty Set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)		36 (1) 9k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)
25b	Foreseeable tax changes relating to CET1 items (negative amount)		36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 to 468		
	of which: filter for unrealised loss 1		467
	of which: filter for unrealised loss 2		467
	of which: filter for unrealised gain 1		468
	of which: filter for unrealised gain 2		468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481
	of which:		481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2,248)	
29	Common Equity Tier 1 (CET1) capital	81,564	
30	Capital instruments and the related share premium accounts		51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
	Public sector capital injections grandfathered until 1 January 2018		483 (3)

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference
34	Qualifying Tier capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc		
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc		
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR		467, 468, 481
	of which: possible filter for unrealised losses		467
	of which: possible filter for unrealised gains		468
	of which:		481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44	Additional Tier 1 (AT1) capital		
45	Tier 1 capital (T1 = CET1 + AT1)	81,564	
46	Capital instruments and the related share premium accounts		62, 63

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
	Public sector capital injections grandfathered until 1 January 2018		483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties	333	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments	1,635	62 (c) and (d)
51	Tier 2 (T2) capital before regulatory adjustments	1,968	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 b) (i), 66 (a), 67, 477 (2)
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)
54a	of which: new holdings not subject to transitional arrangements		
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79, 477(4)
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)		
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc		
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013		475, 475 (2) a), 475 (3), 475 (4) (a)
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc		

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR		467, 468, 481
	of which: possible filter for unrealised losses		467
	of which: possible filter for unrealised gains		468
	of which:		481
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	Tier 2 (T2) capital 2	1,968	
59	Total capital (TC = T1+T2)	83,532	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual-amounts)		
	of which: items not deducted from CET1 (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)		475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of nonsignificant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	Total Risk Weighted Assets	438,970	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.6%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	18.6%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	19.0%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and counter-cyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a percentage of risk exposure amount)		CRD 128, 129, 130
65	of which: capital conservation buffer requirement		
66	of which: counter-cyclical buffer requirement		
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.2%	CRD 128
69	Empty set in the EU		
70	Empty set in the EU		
71	Empty set in the EU		

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000)	(B) Regulation (EU) No 575/2013 Article reference
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	1,635	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach		62
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) and (5)
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)
84	Current cap on T2 instruments subject to phase out arrangements	333	484 (5), 486 (4) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) and (5)