Company Registration No. 4146820

United National Bank Limited

Annual Report and Financial Statements

31 December 2019

United National Bank Limited

Annual Report and Financial Statements 2019

Contents

United National Bank Limited

Officers and professional advisers

Directors

Mr B Hasan (Chairman and Independent Non-Executive Director)
Mr R Wilton (Chairman of the Audit Committee and Senior Independent Non–Executive Director)
Mr B Firth*
Ms S Kamil
Mr M Naeem (resigned 1 June 2019)
Mr S Z Ijaz
Mr M F Haider
Mr A Usmani (appointed 22 July 2019)
Mr M Husain (appointed 10 January 2020) – (Independent Non–Executive Director)
*Executive Director

Secretary

Mr T Varkey

Registered office

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Auditor

Mazars LLP
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United National Bank Limited

Strategic report

The Directors have the pleasure in presenting the Strategic report and the audited financial statements for the year to 31 December 2019 for United National Bank Limited (the 'Company').

Overview

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

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

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

Business results

During 2019, the Company made further progress on the long-term strategy to transition towards a business model, which reflected the reduced risk appetite of the Board. The planned actions for the year included two key strategic objectives - i) reduce exposures to emerging market investments, and ii) increase lending secured on UK residential property.

The Company started the year with a surplus of High Quality Liquid Assets ('HQLAs') following the sale of a large part of our investment book at the end of 2018. In 2019 due to surplus liquidity, the Company sought to reduce its cost of funds by not seeking to retain expensive deposits. In addition, to improve the net interest income the Company deployed a net £75 million in Residential Real Estate ('RRE') loans.

By the end of 2019, the surplus liquidity had been utilised and the Company began to raise long-term deposits to fund the RRE pipeline that had been built up during the year.

The Company also saw an improvement in the market value of investments as at 31 December 2019, as previous concerns about trade relations between the US and China, among others, appeared to ease slightly. In addition, the decisive outcome of the UK general election in December 2019 and progress made on the Brexit withdrawal agreement at the end of the year were contributing factors to the improved market values.

There were also a number of exceptional items, both positive and negative, which had a material impact on the profit and loss for the year. In December 2019, we completed the sale of a freehold property in Manchester, on which we realised a net gain of £0.2 million.

The 2019 performance was adversely impacted by an onerous lease provision of £0.2 million on the lease for the Ilford premises following the closure of the branch operations earlier in the year. We also incurred £0.5 million of non-recurring project costs from the work undertaken to enhance the Company's risk management framework.

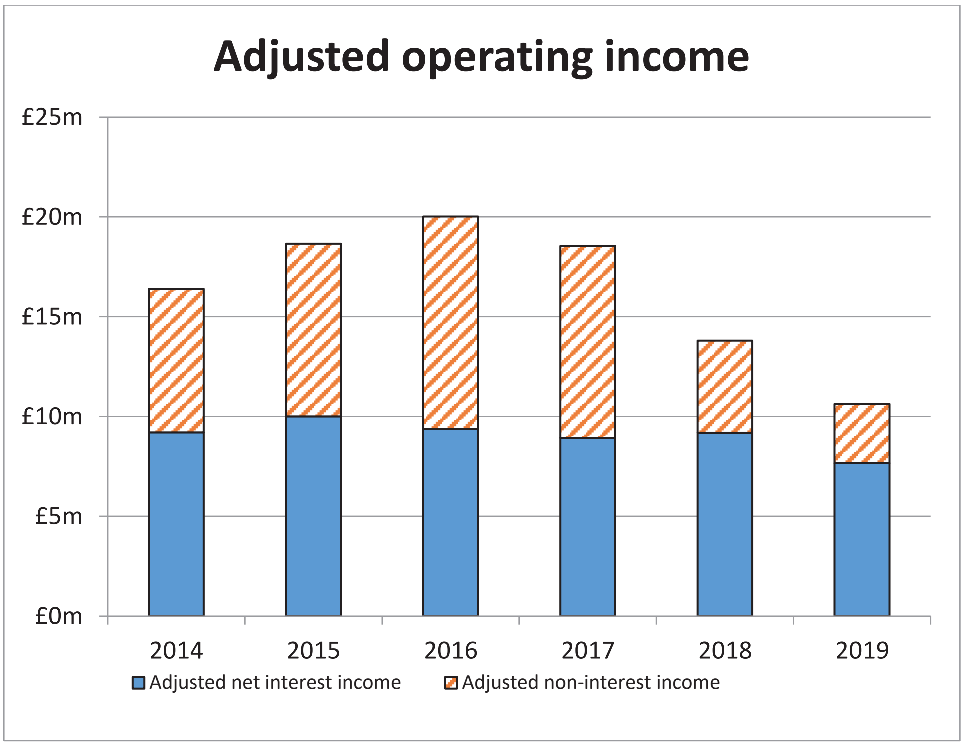
The table below shows a summary of profit on ordinary activities before taxation for the past six years, along with details of the items which have been adjusted to determine the underlying profitability of the Company.

All figures in GBP 000s	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Profit/(loss) on ordinary activities before tax	**(1,009)**	**(3,779)**	**711**	**7,401**	**9,605**	**4,960**
Adjusting items:						
Interest payable on preference shares	-	234	778	479	2,254	118
Revaluation gain on Brook Street premises	-	(787)	-	-	(2,750)	-
Gain on disposal of property	(209)	-	-	-	(2,185)	-
Enhancement of risk management framework	538	-	-	-	-	-
Onerous property lease termination costs	172	-	-	-	-	-
Realised losses on de-risking actions	-	2,487	-	-	-	-
Impairment provisions	-	2,652	4,799	-	-	-
Adjusted profit on ordinary activities before tax	**(508)**	**807**	**6,288**	**7,880**	**6,924**	**5,078**

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

The adjusted loss for 2019 was £0.5 million, a decrease of £1.3 million from the adjusted profit for 2018. The primary cause of this movement was attributed to the lower net interest income resulting from the transition in business model.

The graph below illustrates the movement in adjusted operating income since 2014, showing the split between net interest income and non-interest income:



Adjusted non-interest income (as per the table below) has decreased by £1.6 million during 2019 due primarily to the reduction in FX transaction volumes but also due to a reduction in structured finance fees and rental income.

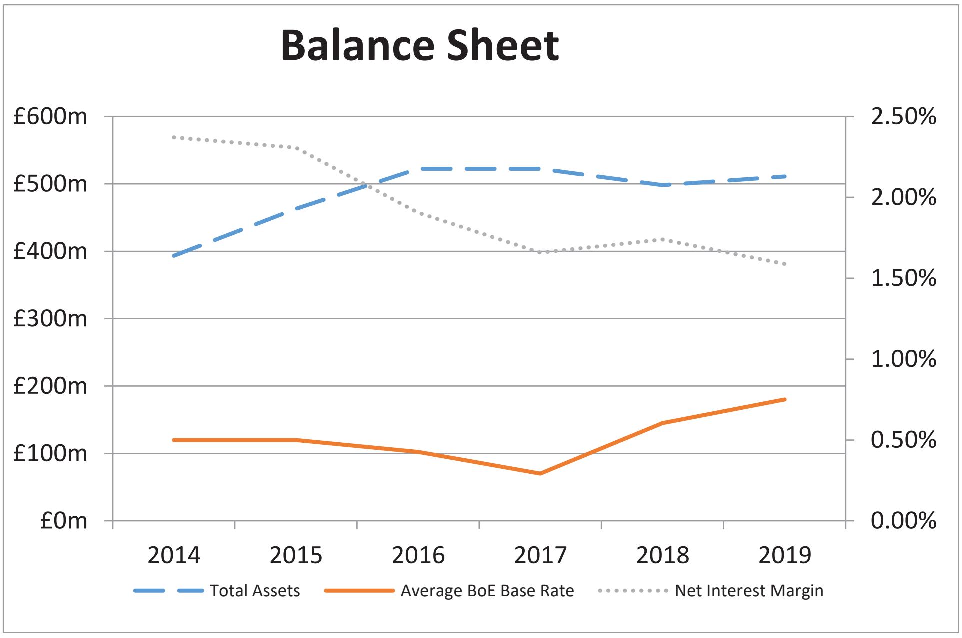
All figures in GBP 000s	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Non-Interest Income as per profit and loss account	3,176	2,469	9,626	10,666	13,589	7,192
Adjusting items:						
Fees and Commissions receivable	-	438	-	-	-	-
Property valuations and gains	(209)	(787)	-	-	(4,935)	-
Realised losses on de-risking actions	-	2,487	-	-	-	-
Adjusted Non-Interest Income	**2,967**	**4,607**	**9,626**	**10,666**	**8,655**	**7,192**

Adjusted net interest income (as per the table below) decreased by £1.5 million due to reduced yields on our assets. The de-risking of the investment book and the holding of surplus liquidity in lower-yielding HQLAs primarily caused this.

All figures in GBP 000s	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Net Interest Income as per profit and loss account	7,662	9,400	8,150	8,880	7,746	9,086
Adjusting items:						
Fees and Commissions receivable	-	(438)	-	-	-	-
Preference dividend	-	234	778	479	2,254	118
Adjusted Net Interest Income	**7,662**	**9,196**	**8,928**	**9,359**	**9,999**	**9,204**

Total adjusted operating income (includes both adjusted non-interest and net interest income) has decreased by 23% during 2019 to £10.6 million (2018: £14.0 million).

The graph below illustrates the growth in the balance sheet since 2014 and the movement in the net interest margin (net interest income divided by total assets) compared with the average Bank of England base rate over the same period:



The total balance sheet grew by about 3% during 2019 to end the year at £511 million.

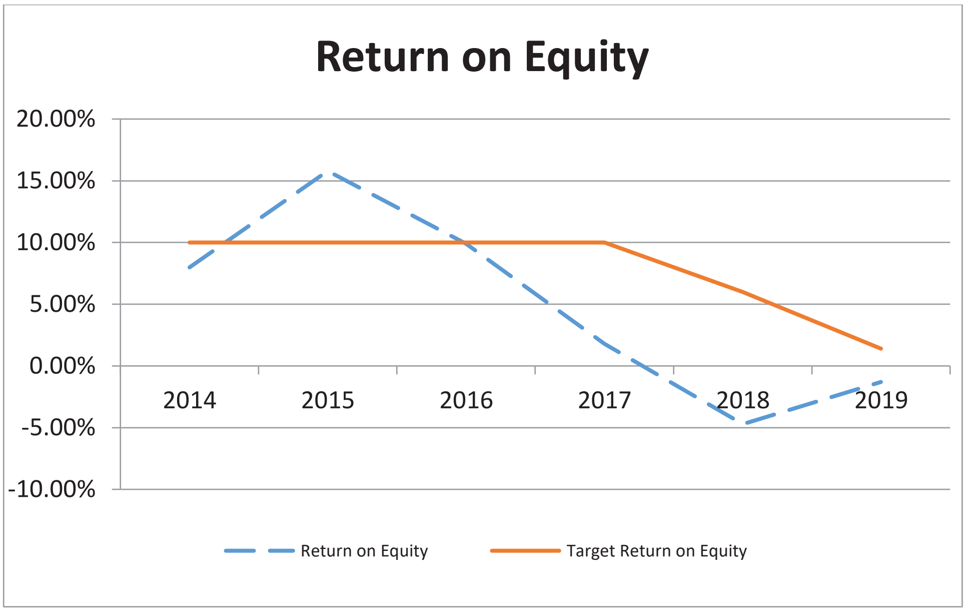
Net interest margin has decreased by 15 basis points, which reflects the reduced risk in the balance sheet at the end of 2019, compared to the previous year.

Key performance indicators

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

1. *Return on equity*

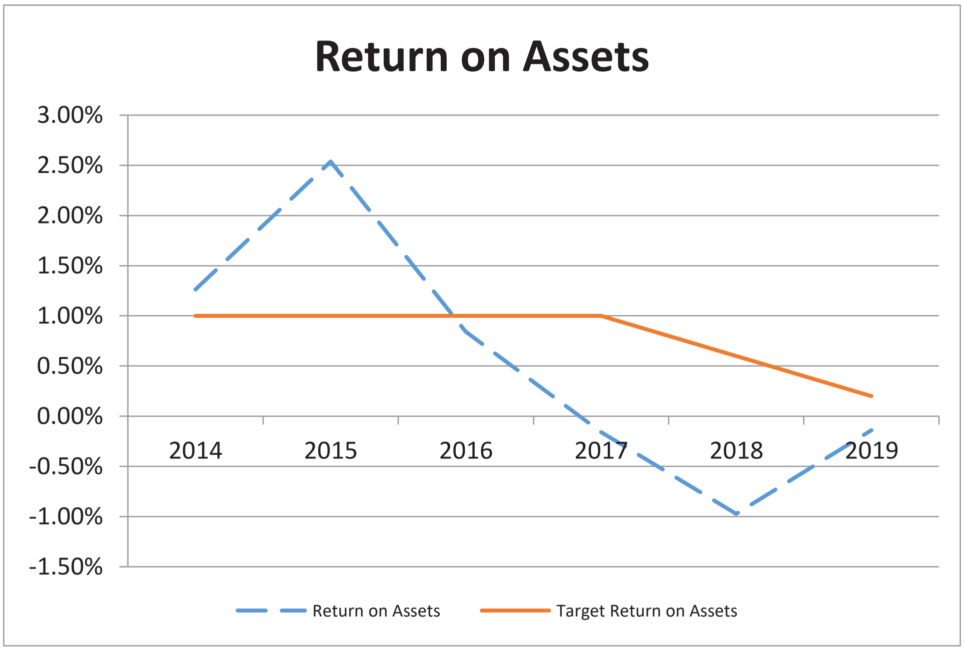
This is defined as the profit or loss on ordinary activities before taxation and preference dividend divided by shareholders' funds. This measures the shareholders' return on their investment. The graph overleaf illustrates the return on equity since 2014:



This year, the return on equity ratio increased to -1.3% (2018: -5.0%).

2. *Return on assets*

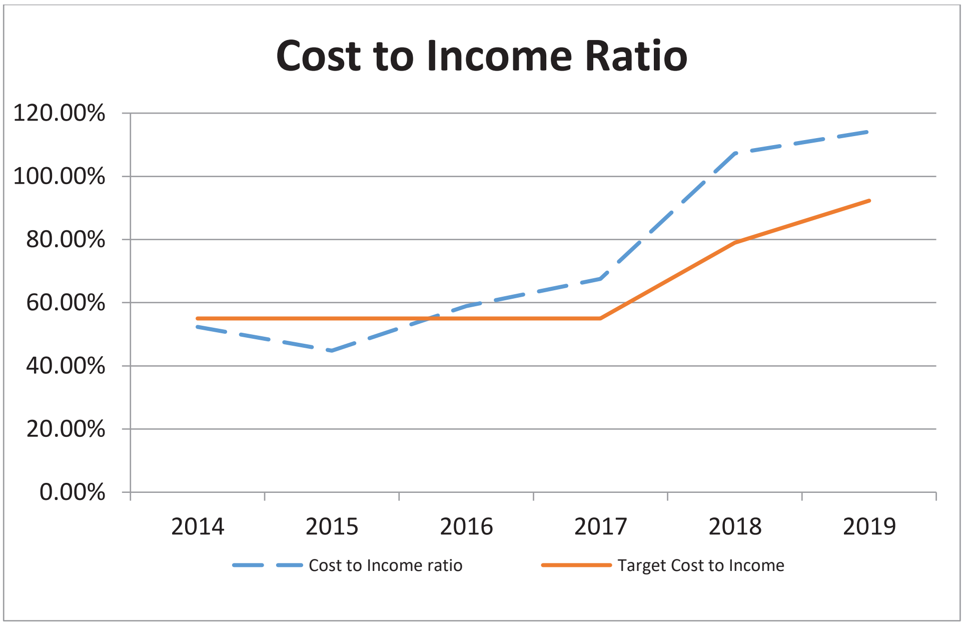
Return on assets is defined as profit or loss for the year divided by total assets. The disclosure of this ratio is also a requirement of the fourth Capital Requirements Directive ('CRD IV') which came into effect in 2014. The graph below shows the return on assets since 2014:



There was a negative return on assets for 2019 of -0.1% (2018: -1.0%).

3. *Cost to income ratio*

This is defined as operating income (sum of net interest income & non-interest income) before preference dividend divided by operating expenses excluding impairment charges and debt recoveries. This ratio measures the operating efficiency of the Company; the lower the ratio the less spent on operating expenses for every £1 earned in revenue. The graph overleaf shows the cost to income ratio since 2014:



The cost to income ratio for 2019 is 114% (2018: 107%), which shows a slight deterioration from 2018. The main cause of the deterioration over the last year has been the 12% decrease in operating income, primarily caused by the transition in business model. Core operating expenses (which exclude the non-recurring items for risk management framework and the onerous lease termination costs) have been reduced by 12% primarily due to branch closures and headcount reductions.

Business Review

The Company divides itself broadly into two business lines: Retail Banking and Wholesale/Corporate Banking.

Retail Banking

During the first half of 2019, the Company completed the closure of two branches located in Bradford and Ilford. The Company now operates from the three remaining branches, which are located in London (Mayfair), Birmingham and Manchester. In addition, the Company currently operates six booths which are situated within the various Pakistan High Commission consulates located around the UK. Additionally, over the past few years the Company has developed an online presence for deposit taking, which overcomes the limitations of the small branch network. During 2020, the Company is undertaking a major digitisation project to further enhance its digital banking offering to customers.

The main activity for the retail side of the business is deposit mobilisation and retention. During the last year, Current Account and Savings Account (‘CASA’) deposits increased by £3.8 million whilst term deposits decreased by £15 million, resulting in total deposits being down by £11.2 million year-on-year. As a result of these changes, the average duration of deposits decreased slightly causing the average deposit cost to also reduce by 3 basis points to 1.80% (2018: 1.83%). The focus for 2020 will be to continue to increase the proportion of CASA deposits in order to reduce the overall cost of funding, and improve the net interest margin.

Money Transmission Services to Pakistan have always provided a regular revenue stream, but the Company’s share of this $2 billion a year market remains very small. The Company’s online remittance product, UBL Net Remit, continues to expand through the addition of new customers, and provides the majority of the Company’s home remittances by volume.

Wholesale Banking

As part of the de-risking strategy, which began during 2018 the Company, has shifted its focus towards growing the RRE loan book. Despite the slow start to the year, the Company managed to grow this portfolio by more than £75 million over the year.

In order to provide some diversification to the RRE exposures, the Company in future also intends to leverage existing relationships via the Parent banks to seek lending opportunities with Pakistan-based blue-chip corporates, principally those who operate in the renewable energy, infrastructure, telecom and textile sectors.

Future developments

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

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

Towards the end of 2019, the management and Board devoted significant time to review the Company's future strategy. This culminated in a Business Plan, which continues to focus on reducing the overall levels of risk in the business and building a firm foundation for business in future years. However, the Company had to revisit its future strategy and business plan as a result of the current global pandemic (Coronavirus or Covid-19) that has significantly disrupted economic activity predominantly caused by protective actions by the Government which includes social distance measures and enforced closures of certain businesses and social facilities. The revised business plan took into consideration the following:

- The Board's decision to slow the 2020 lending pipeline as well as restriction in considering any new lending proposals;
- The impact on net interest income due to the reduction of Bank of England base rate and US Federal Reserve rates, which was in response to the global pandemic;
- The increased credit provisioning levels that might arise due to the Covid-19 induced economic recession;
- Continual focus on trying to reduce the cost of funding by raising more low cost deposits, in both GBP and USD; and
- Focus on the M3/M4 corridor on resumption of lending activities to reduce the Company's exposure to the London and South East regions.

The Directors expect the Company to post improved performance in 2021 and beyond and this will be driven by lifting of restrictions on new lending leading to strong balance sheet growth

Going concern

The viability of the Company has been assessed, taking into account the Company's current financial position over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in that period. The assessment period covered twelve (12) months from the approval or signing of the accounts. Certain scenarios, considered severe but highly unlikely to occur, have been modelled which encompass these identified risks. Stress testing has been performed for each principal risk.
An additional key assessment was the Company's viability through the Covid-19 pandemic referred to on page 11. However, in conducting this assessment the Board took into consideration the immediate implications of the government actions to contain the spread of Covid-19 along with the support provided by the government and the Bank of England to individuals and businesses to support the economy. The Board going concern assessment was based on the report presented by Management.

As part of this assessment, the Board considered:

- The impact on the Company's profits from an expected reduction in interest income and increased provisioning levels.
- The sufficiency of the Company's capital base throughout the pandemic;
- The adequacy of the Company's liquidity as the Company supports customers through a period of financial stress;
- The operational resilience of the Company's critical functions including call centres, online channels and the Company's ability to provide continuity of service to its customers throughout a prolonged stress;
- The resilience of the Company's IT systems;
- The regulatory and legal environment and any potential conduct risks, which could arise; and
- Any potential valuation concerns in respect of the Company's assets as set out in the balance sheets.

The Board assessed a range of scenarios including performing a reverse test and the results indicated that the Company has sufficient capital and liquidity to fund its balance sheet for each reasonably possible scenario.
After making enquiries, the Directors believe that the Company has sufficient resources to continue in operation for the foreseeable future and for at least 12 months from the approval or signing date of the financial statements and the Company has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulatory Authority (PRA). The Board concluded that there is no material uncertainty on going concern and therefore it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

Board engagement with our stakeholders

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

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

The Directors consider the factors set out above in discharging their duties under section 172. During 2019, the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom.

Customers

In addition to the Board receiving updates from senior management on the Company's interaction with customers, members of the Board regularly visit the branches meeting customers. Additionally, the Board members attend charity dinner events which customers are also invited to. This also provides opportunities for the Board to interact with the communities that represent the markets, in which the Company operate.

Employees

In addition to the Board receiving updates from senior management on various metrics and feedback tools in relation to employees, members of the Board engage with the Company's employees in a variety of ways. These include meeting employees during branch visits and an annual meeting with the Chair of the Employee Engagement Committee ('EEC'). The main objective of the EEC is to prioritise employee engagement across the Company, boost morale and improve the overall culture of the Company. It achieves this mission by bringing forth specific engagement recommendations to senior management and, where necessary the Human Resources Board Committee. The Board uses feedback from employees to formulate improvement initiatives. Senior management is tasked to develop action plans for implementing these initiatives, which are continuously monitored. Further details on employees can be found on page 14.

Regulators

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

Environment

The Board in its risk appetite statement have considered incorporating climate change into Company's risk management and governance processes.

Principal risks and uncertainties

Financial and operational risks

The Company is exposed to a variety of financial risks that arise in the course of its business. These risks include credit risk, market risk and operational risks such as conduct and financial crime. The Company has in place a risk management framework that is designed to limit the adverse effects of these risks on the financial performance of the Company but as a bank, it is not possible to eliminate all the risks. The risk management policies of the Company including the use of financial instruments are set out in note 23.

Brexit

Throughout 2019, the potential impacts of the UK's exit from the European Union resulted in continued volatility in the financial markets. Following extensive negotiations between UK and EU representatives, a withdrawal agreement was finally concluded and came into force at 11pm GMT on 31 January 2020, signalling the end of 47 years of the UK's membership of the Union.

The UK is now within the transition period, which lasts until 31 December 2020, during which time negotiations will continue about the future relationship with the EU. It is expected that as we progress through 2020 the financial impact on the Company will become clearer so that appropriate action can be taken, if required.

The Company's customer base and activities are primarily focused in the UK and Pakistan with negligible exposure to the EU, and therefore management believe the potential direct impact on the Company should be minimal. However, it is likely that there would be an indirect impact of general changes in the UK financial environment. Adverse movements' in house prices, unemployment levels, interest rates and foreign exchange markets could affect the Company and its clients, but we believe our prudent credit risk decisions and low average ('LTV') ratios will limit the potential negative impacts on the Company.

Coronavirus (Covid-19)

Since the first outbreak was identified in China in December 2019, the coronavirus has spread to most countries around the world. Despite concerted efforts to try to contain the virus, on 11th March 2020 the World Health Organisation ('WHO') formerly labelled the outbreak as a pandemic.

In the UK the number of cases is growing daily, and at an increasing pace, and this has prompted the Company to put in place additional measures to ensure operational resilience and to minimise disruption to our stakeholders. Among other things, these measures include increasing the number of remote access licenses to enable staff to work from home, due to travel restrictions being enforced by the UK Government.

The Company's priority is always the well-being of its customers and staff, and it will continue to do all it can to ensure their safety and support them through this difficult time.

In addition to the impact on customers and staff, the financial markets have been severely hit with all major financial indices seeing a significant downward correction in early March 2020. In an attempt to reduce the likelihood of a global economic slowdown, various international governments, including the UK, have begun to reduce interest rates and to implement other methods of financial stimuli.

However, the overall business and financial impact of Covid-19 still remains uncertain and cannot be reliably estimated at this time. The Company will be closely monitoring the situation as it develops, and will be revising its own financial projections and contingency plans to ensure it is able to respond to the evolving situation. Further details on Covid-19 impact is on pages 9 and 30.

Materiality

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

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

Revenue recognition

Fees, commission, income, premiums and discounts are recognised in the EIR where they are an integral part of the instrument yield. Judgement is required to determine whether fees are recognised as EIR or recognised when a service is performed. Although, the systems do not automatically calculate the EIR, it is monitored manually and adjusted when considered necessary based on materiality. The key assumptions in the EIR calculations are the projected loan amortisation schedules and if these turn out to be different from those projected, the resulting EIR results may differ from expectations. During 2019, an assessment was conducted to ascertain the effect of using EIR, the result of which was a potential adjustment of £27k. This was considered not material to warrant an adjustment.

Investment properties

A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. A recent desktop valuation undertaken by a firm of surveyors has indicated that the market value has remained at the same level as compared to the prior year. Further analysis is provided in note 12.

Deferred tax asset

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

As a result of the post-tax losses experienced by the Company in 2017 and 2018, and a reduction in future profit expectations due to the lower-risk business model; the Company took the decision last year to derecognise the deferred tax asset. Despite the de-recognition of the asset on the balance sheet, carry forward losses will still be available to set off against future profits, subject to the loss restriction rules currently imposed on UK banks.

Further details of principal risks and uncertainties are set out in note 2.

Capital resources

United National Bank Limited is 55% owned by United Bank Limited and 45% owned by National Bank of Pakistan. Both parent banks are established and profitable banks in Pakistan, and committed to the future growth of the Company.

A breakdown of the capital resources of the Company at the balance sheet date is set out in the Statement of Changes in Equity. Details of how the company manages its capital risk is described in detail in the following paragraphs:

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

The Company maintains capital levels commensurate with a prudent level of solvency and to support this, the capital risk appetite is calibrated by taking into account both the internal view of the amount of capital the Company should hold as well recognising external regulatory requirements. The Company measures both its capital requirements through applying the regulatory framework as outlined in Capital Requirements Directive IV (CRD IV, 27 June 13), made up of the Capital Requirements Directive (2013/36/EU), implemented through national law (via policy and supervisory statements published by the PRA) and the Capital Requirements Regulation (CRR, 575/2013). Further details of the Company's capital risk management can also found in the unaudited Pillar III disclosure document.

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

Additional minimum requirements under Pillar 2A are set by the PRA as firm-specific Individual Capital Requirement ('ICR') reflecting a point in time estimate, which may change over time, of the minimum amount of capital that is needed by the Company to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered by Pillar II, such as pensions and interest rate risk in the banking book ('IRRBB'). The Company's Pillar 2A capital requirement was 5.8% of RWAs as of 31 December 2019.

The Company is also required to hold a number of regulatory capital buffers, which are required to be met with CET1 capital. The Capital Conservation Buffer ('CCoB') is a standard buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of stress. In addition, there is the Countercyclical Capital Buffer ('CCyB') which is time varying and is designed to hold additional capital to remove or reduce the build-up of systemic risk in times of credit expansion, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The CCyB rate for the UK was set at 1.0% but due to recent economic disruption arising from Covid-19, Financial Policy Committee (FPC) has reduced the rate to 0% to enhance the banks' ability to supply the credit required in this challenging time. FPC is expected to maintain the rate at 0% for at least the next 12 months and any further increase is not expected until March 2022.

As part of the capital planning process, forecast capital positions are subject to a wide-ranging programme of stress testing to determine the adequacy of the Company's capital resources against the minimum requirements, including ICR. The PRA considers outputs from both the Company's stress tests and the annual Bank of England Concurrent Stress Testing parameters for non-participating banks as well as the Company's other regulatory capital buffers and non-stress related elements. This is part of the process for informing the setting of a bank specific capital buffer for the Company, known as the PRA buffer. The PRA requires this buffer to be confidential between the Company and the PRA. All buffers are required to be met with CET1 capital. Usage of PRA Buffer would trigger a dialogue between the Company and the PRA to agree what action is required.

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

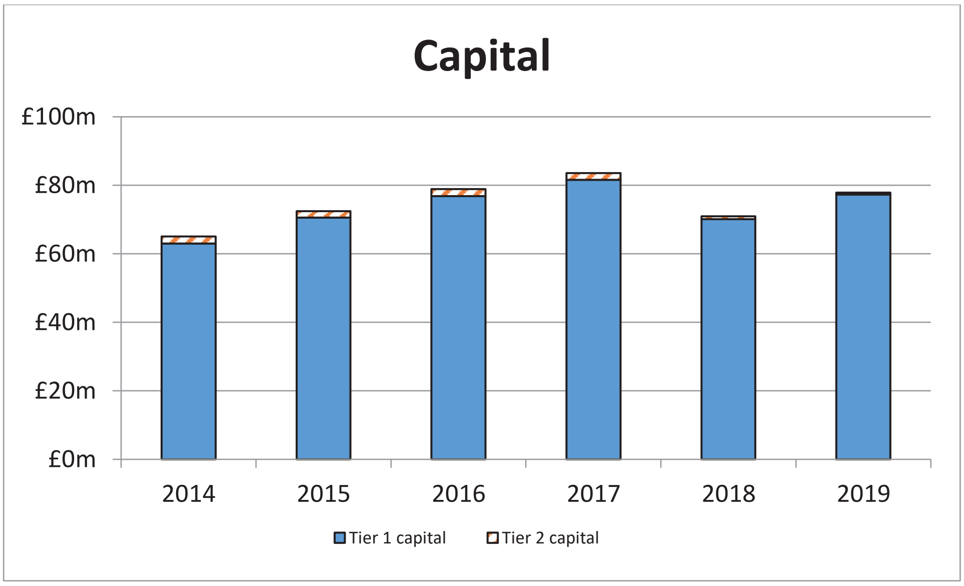
The table below, based on the audited financial statements, shows the breakdown of the Company's capital resources:

	2019	2018
	£	£
Tier 1 capital		
Share capital	45,000,000	45,000,000
Retained earnings	24,584,784	25,134,759
Revaluation reserve	8,207,712	472,212
Intangible assets	(468,847)	(485,176)
Total – Tier 1 capital	77,323,649	70,121,795
Tier 2 capital		
Collective provision	575,883	854,078
Total capital	77,899,532	70,975,873

The Company has not reported any breaches of its capital requirements during the year (2018: no reported breaches).

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

The graph below shows the movement in capital resources since 2014:



Tier 1 capital has increased by £7.2 million (10%) over the year as a result of the significant improvement in the market value of the remaining available-for-sale debt securities. The Tier 2 capital has decreased by £0.3 million (33%) due to a reduction in the amount of collective provision, which is the only remaining Tier 2 item. As a result of the Covid-19, the unrealised losses relating to available for sale assets have deteriorated significantly. See further details on the impact assessment of Covid-19 on pages 9, 30 and 72.

Defined benefit pension scheme

The Company's defined benefit pension scheme had its last triennial valuation carried out in 2017. The valuation showed a £0.3million deficit as at 1 January 2017.

Following an agreement with the scheme trustees, the Bank began making regular monthly contributions of £9,030 in order to reduce the deficit. These payments began in February 2018 and are scheduled to continue until December 2020.

The FRS 102 valuation of the pension scheme's assets and liabilities for the 2019 year-end has shown a deficit of £0.18 million (2018: surplus of £0.15 million). The deficit has arisen from an actuarial loss, which have increased the value of the defined benefit obligations.

Preference shares

The Company uses preference shares to return net income back to the parent bank resulting from the utilisation of tax losses and the recovery of written-off loans relating to tax losses and bad debts that were transferred upon merger (see note 18 for further details).

The preference share liability arises in the accounting year following the year when the tax losses are actually utilised. Due to the Company being in a tax loss position there was no opportunity to utilise the tax losses during the year, and therefore the preference share interest for the year was £nil.

Liquidity resources

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

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

Climate Change

Over the past few years, the issue of climate change has become of increasing importance on the global political agenda. In 2019, fears about the potential impacts of climate change appeared to accelerate to become one of the top concerns for nearly all governments around the world. Global regulators, including the PRA and FCA in the UK, published numerous papers on this topic, and the expectation for firms to begin to take action has never been higher.

The Company's current strategy is focused on residential property-secured lending, and the physical risks of climate change could impact the quality of property as adequate collateral. There is also a risk that the transition to a low-carbon economy could have a detrimental impact on our customers and their ability to meet their loan obligations. During the coming year the Company will be looking to incorporate climate change considerations into its risk management and governance processes.

Human resources

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

In 2018, the Company launched the Employee Engagement Committee. Membership of the committee is on a voluntary basis and is open to staff (other than Executive Committee members) from all branches and departments. The committee provides a confidential forum for employees to raise a broad range of day-to-day issues, which are then discussed with the Executive Committee on a regular basis. Its mission statement is to prioritise employee engagement, boost staff morale, act as a channel between senior management and staff and assist in transforming the culture within the Company.

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

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

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

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

United National Bank Limited

Strategic report

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

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

B Firth
Director
28 May 2020

Directors' report

The Directors have the pleasure in presenting the Annual Report and Financial Statements for the year to 31 December 2019 for United National Bank Limited ('the Company'). A number of disclosures previously incorporated in the Directors' report are now included in the Strategic report. These include:

a) A review of the Company's results;

b) Definition of the Company's key performance indicators and objectives;

c) A description of the Company's future developments;

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

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

Statement of Directors' responsibilities

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

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

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

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

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

Organisation and governance

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

The Directors who served on the Board during the year are set out below together with those noted as appointed or terminated during the year:
Mr B Hasan (Chairman)
Mr B Firth (Chief Executive Officer)
Mr R Wilton (Chairman of Audit Committee)
Ms S Kamil
Mr M Naeem (resigned 1 June 2019)
Mr S Z Ijaz
Mr M F Haider
Mr A Usmani (appointed 22 July 2019)

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

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

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

- Board Audit Committee
  Mr R Wilton (Chairman), Mr B Hasan and Ms S Kamil
  - Oversight of financial reporting
  - Oversight of external audit
  - Oversight of internal control
  - Oversight of internal audit
  - Oversight of corporate governance and regulatory compliance

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

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

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

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

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

Mr B Firth - Chief Executive Officer
Mrs D Grant – Chief Risk Officer (resigned 7 August 2019)
Mr M Daniels - Chief Risk Officer (appointed 5 August 2019)
Mr T Varkey – Chief Compliance Officer
Ms B Dyson - Head of Human Resources (resigned 15 November 2019)
Ms T Eplett - Head of Human Resources (appointed 19 November 2019)
Mr R Mathews – Head of Finance
Mr Z Haider – Head of Wholesale Banking
Ms S Mandeville - Head of Retail Strategy and Marketing (resigned 27 September 2019)
Mr A Rushworth – Head of Shared Services (appointed 23 September 2019)

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

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

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

Directors' indemnification

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

Share capital and dividends

The Shareholders' Agreement signed by the shareholder banks in 2001 stipulated that ordinary dividends would not be paid for the first five years after the merger to enable the Company to build its capital resources. Since incorporation, the Company's shareholders' funds have grown from £30million to almost £80million at the end of 2019. In 2015, the Directors agreed to implement a dividend policy to return 35% of the net annual distributable profits to the shareholders. As a result of the realised loss for the year, the Board of Directors has taken the decision not to declare a dividend for the financial year ended 31 December 2019 (2018: nil).

Diversity policy

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

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

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

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

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

Auditor

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

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

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

(2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

United National Bank Limited

Directors' report

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

B Firth
Director

28 May 2020

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

Opinion

We have audited the financial statements of United National Bank Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of profit or loss, the Statement of other comprehensive income, the Balance sheet, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

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

Area of Focus	**How our audit addressed the area of focus**
Credit Risk in relation to loan loss provisions *Refer to Significant Accounting Policies (Note 1); and Notes 2, 7, 8 and 23 of the financial statements.* Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at both specific and collective provisions. There is also an inherent risk over credit events that have occurred but have not been identified at the year end. The company calculates its collective provision using a collective impairment model. This model uses external data with a management adjustment, increasing	We have assessed the design and implementation, and tested the operating effectiveness, of the key controls operating at the company in relation to credit processes which include underwriting, monitoring, collections and provisioning. We assessed senior management's ability to identify impairment triggers on a timely basis and, in consideration of the value of collateral where relevant, determined whether the exposure would be repaid as originally intended. We have assessed specific provisions to ensure they are appropriate by reviewing all non-performing loans and a sample of loans across the performing portfolio. We have independently assessed the level

management judgement and therefore the risk of misstatement.	of provision, with consideration to valuation of collateral or other sources of repayment. We have critically assessed the collective provision methodology and assumptions applied and considered whether they are consistent with our understanding of the company's portfolio. We have reperformed the calculation of the collective provision and verified inputs to source information. **Key observations** We found that the assumptions used by management in the impairment assessment are reasonable and that the loan loss provisions as at 31 December 2019 are consistent with the requirements of United Kingdom Generally Accepted Accounting Practice.
Risk of fraud in revenue recognition *Refer to Significant Accounting Policies (Note 1); and Note 2 of the financial statements.* The financial reporting fraud risk over revenue recognition specifically relates to income recognised using the effective interest rate ('EIR') method. There's a risk that interest income is misstated through failure of the automated system calculations, incorrect manual input, incorrect manual adjustments and risk of management override of controls. Fees and commission income which forms an integral part of the EIR of a financial asset is included in the measurement of the EIR which is used in the computation of interest income. Judgement is required to determine whether fees are recognised as part of the EIR or recognised when a service has been performed. Judgement is also required to determine the expected life of the loan. The company's systems do not automatically calculate the EIR. Management monitors the difference between their straight-line approach and EIR manually and adjusts when considered necessary based on materiality.	We have assessed the design and implementation and test the operating effectiveness, of the key controls operating at the company in relation to revenue recognition in particular around fees and commission income recognised on an EIR basis. With respect to EIR calculation, over a sample of instruments we have: • Re-performed the analysis calculations on EIR; • Verified data inputs used in the calculation to the respective underlying agreements; and • Assessed the period over which yield adjustments were applied. **Key observations** We found that the assumptions used by management in determining the basis for revenue recognition are reasonable and that interest income recorded by the company as at 31 December 2019 is consistent with the requirements of United Kingdom Generally Accepted Accounting Practice.
Impact of the outbreak of COVID-19 on the financial statements *Refer to Strategic Report, Significant Accounting Policies (Note 1) and Note 28 of the financial statements.* Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The directors' consideration of the impact on the financial statements is disclosed in the strategic report on page 11 and going concern assessment on pages 9 and 30. Whilst the situation is still evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate. As per Note 28 to the financial statements, the directors have also concluded that COVID-19 is a non-adjusting post balance sheet event.	We assessed the directors' conclusion that the matter be treated as a non-adjusting post balance sheet event and that adopting the going concern basis for preparation of the financial statements is appropriate. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the financial statements and business operations of the company might be impacted by the disruption. In forming our conclusions over going concern, we evaluated how the directors' going concern assessment considered the impacts arising from COVID-19 as follows: • We reviewed the directors' going concern assessment including COVID-19 implications based on a range of scenarios and a 'reverse stress test scenario' as approved by the board of directors; • We made enquiries of directors to understand the period of assessment considered by the directors, and the potential impact of COVID-19 on the company's financial performance, business operations, and liquidity and regulatory positions;

	• We evaluated the key assumptions used in the scenarios indicated above and considered whether these appeared reasonable; • We assessed the potential impact of COVID-19 on the company's capital utilisation and considered whether the directors' conclusion that adequate capital headroom remains is reasonable; and • We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, including events after the reporting period and going concern. **Key observations** Based on the work performed, we are satisfied that the matter has been appropriately reflected in the financial statements. Our conclusions on going concern are set out under 'Conclusions relating to going concern' above.

Our application of materiality

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

Overall materiality	£583,000
How we determined it	0.75% of net assets
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to better reflect more appropriately the size of the bank's operations. Furthermore, net assets remains the focus of the regulator and shareholder banks in terms of capital adequacy.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds overall materiality. Performance materiality of £350,000 (based on 60% of overall materiality) was applied to the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £18,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit, including extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- at planning stage, we gained an understanding of the legal and regulatory framework applicable to the company, the industry in which it operates and considered the risk of acts by the company which were contrary to the applicable laws and regulations;
- we discussed with the directors the policies and procedures in place regarding compliance with laws and regulations;

- we discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and
- during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Prudential Regulation Authority and the Financial Conduct Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation (governed by HM Revenue and Customs).

Our procedures in relation to fraud included but were not limited to:
- inquiries of management whether they have knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risk related to fraud;
- discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation loan impairments and revenue recognition requiring the application of EIR method of income recognition, and significant one-off or unusual transactions; and
- addressing the risk of fraud through management override of controls by performing journal entry testing.

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

As a result of our procedures, we did not identify any additional "Key audit matters" relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the company's board on 7 December 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ended 31 December 2014 to 31 December 2019.

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

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

Use of the audit report

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

Maximiliano Bark (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way
London
E1W 1DD
28 May 2020

United National Bank Limited
Statement of profit or loss
For the year ended 31 December 2019

	Note	2019 £	2018 £
Interest receivable from debt securities		5,201,026	7,974,396
Interest receivable from group undertakings		347,080	236,006
Other interest receivable and similar income		11,365,617	12,324,732
		16,913,723	20,535,134
Interest payable to group undertakings		(48,801)	(312,180)
Interest payable		(9,202,679)	(10,822,647)
		(9,251,480)	(11,134,827)
Net interest income		7,662,243	9,400,307
Fees and commissions receivable		925,317	1,097,733
Profit from foreign exchange		708,265	970,269
Fair value gain on investment properties		-	787,241
Profit/(Loss) on realised debt securities	4	1,089,460	(704,103)
Other operating income		243,870	317,882
Gain on investment property disposal		208,884	-
Non-interest income		3,175,796	2,469,022
Administrative expenses	3	(11,671,393)	(12,302,514)
Depreciation and amortisation	11 & 13	(699,285)	(912,170)
Impairment recoveries / (losses)	8	523,476	(2,433,377)
Loss on ordinary activities before taxation	4	(1,009,163)	(3,778,732)
Tax on loss on ordinary activities	6	293,640	(1,283,193)
Loss for the year		(715,523)	(5,061,925)

The loss for the current year and preceding year are derived from continuing operations. The notes on page 30 to 72 form part of these financial statements.

United National Bank Limited
Statement of other comprehensive income
For the year ended 31 December 2019

	2019 £	2018 £
Loss for the year	(715,523)	(5,061,925)
Other comprehensive income (loss)		
Revaluation gain on freehold property	72,167	1,915,014
Movement on deferred tax relating to freehold property	11,931	(325,552)
Deferred tax adjustment due to change in calculation basis	123,854	341,122
Actuarial (loss)/gain on defined benefit pension schemes	(225,000)	221,000
Movement on deferred tax relating to pension liability	-	(27,370)
Fair value movement on available for sale debt securities	7,918,097	(10,279,086)
Tax related to revaluation of available for sale debt securities	-	(338,842)
Other comprehensive income (loss) for the year, net of tax	7,901,049	(8,493,714)
Total comprehensive income (loss) for the year	7,185,526	(13,555,639)

The notes on page 30 to 72 form part of these financial statements.

United National Bank Limited
Balance sheet
As at 31 December 2019

	Note	2019 £	2018 £
Assets			
Cash and balances at central banks		56,401,421	41,303,910
Loans and advances to customers	7	283,814,684	194,150,630
Derivatives financial assets	9	3,482,846	350,369
Debt securities		137,827,144	229,966,518
Prepayments and accrued income		389,754	434,839
Other assets	14	1,826,419	3,377,080
Investment properties	12	8,187,309	8,757,309
Tangible fixed assets	13	18,651,189	19,160,217
Intangibles	11	468,847	485,176
Total assets		511,049,613	497,986,048
Liabilities			
Customer accounts	17	392,097,803	402,810,377
Deposits by banks	15	15,720,883	5,349,870
Accruals and deferred income		1,627,665	1,317,518
Repurchase agreements	16	18,259,683	10,303,788
Derivative financial liabilities	10	75,835	1,458,058
Other liabilities	18	2,468,305	2,957,737
Provision for liabilities	19	3,006,943	3,181,730
Total liabilities		433,257,117	427,379,078
Net assets		77,792,496	70,606,970
Equity			
Called up share capital	20	45,000,000	45,000,000
Property revaluation reserve		12,561,893	12,744,490
Investment revaluation reserve		(4,354,181)	(12,272,279)
Profit and loss account		24,584,784	25,134,759
Total equity		77,792,496	70,606,970
Memorandum items			
Contingent Liabilities (contract amount)			
Letters of credit		-	593,186
Guarantees		-	366,925
		-	960,111
Commitments	22	49,222,838	569,924

These financial statements were approved and authorised for issue by the Board of Directors on 28 May 2020.
Signed on behalf of the Board of Directors

Brian Firth
Director
Company Registration No 4146820

The notes on page 30 to 72 form part of these financial statements.

United National Bank Limited
Statement of changes in equity
For the year ended 31 December 2019

	Notes	Called up share capital £	Profit and loss account £	Investment revaluation reserve £	Property revaluation reserve £	Total £
Balance as at 1 January 2018		45,000,000	29,993,994	(1,654,351)	10,822,966	84,162,609
Loss for the year		-	(5,061,925)	-	-	(5,061,925)
Actuarial gain recognised relating to the pension scheme	24	-	221,000	-	-	221,000
Movement on deferred tax relating to pension liability		-	(27,370)	-	-	(27,370)
Fair value movement on available for sale investment		-	-	(10,279,086)	-	(10,279,086)
Current tax related to available for sale debt securities		-	-	(338,842)	-	(338,842)
Revaluation gain on freehold property		-	-	-	1,915,014	1,915,014
Movement on deferred tax relating to freehold property		-	-	-	(325,552)	(325,552)
Deferred tax adjustment		-	-	-	341,122	341,122
Total		45,000,000	25,125,699	(12,272,279)	12,753,550	70,606,970
Transfer of depreciation on revaluation surplus		-	9,060	-	(9,060)	-
Balance at 31 December 2018		45,000,000	25,134,759	(12,272,279)	12,744,490	70,606,970
Balance as at 1 January 2019		45,000,000	25,134,759	(12,272,279)	12,744,490	70,606,970
Loss for the year		-	(715,523)	-	-	(715,523)
Actuarial loss recognised relating to the pension scheme	24	-	(225,000)	-	-	(225,000)
Fair value movement on available for sale investment		-	-	7,918,098	-	7,918,098
Revaluation gain on freehold property		-	-	-	72,167	72,167
Movement on deferred tax relating to freehold property		-	-	-	11,931	11,931
Recycling of revaluation related to investment property disposal		-	381,724	-	(381,724)	-
Deferred tax adjustment		-	-	-	123,853	123,853
Total		45,000,000	24,575,960	(4,354,181)	12,570,717	77,792,496
Transfer of depreciation on revaluation surplus		-	8,824	-	(8,824)	-
Balance as at 31 December 2019		45,000,000	24,584,784	(4,354,181)	12,561,893	77,792,496

The notes on page 30 to 72 form part of these financial statements.

United National Bank Limited
Statement of cash flows
For the year ended 31 December 2019

	2019 £	2018 £
Cash flows from operating activities		
Loss on ordinary activities before tax	(1,009,163)	(3,778,732)
Adjustments for:		
Depreciation and amortisation	699,285	912,170
Net charge in respect of defined benefit pension scheme	(5,000)	60,000
Impairment (recoveries) / loss on loans and advances and other items	(523,476)	2,433,377
Fair value movement on investment properties	-	(787,241)
Preference share dividend payable	-	233,674
Effects of exchange rate changes on cash and cash equivalents	144,285	(1,244,042)
	(694,069)	(2,170,794)
Change in operating assets and liabilities:		
Change in loans to banks	-	3,500,173
Change in loans and advances	(89,140,578)	27,477,803
Change in other operating assets	(1,386,364)	3,855,840
Change in deposits from banks and customers	(341,561)	(1,316,986)
Change in other operating liabilities	(1,489,551)	(187,962)
	(92,358,054)	33,328,868
Net cash from/(used in) operating activities	(93,052,123)	31,158,074
Cash flows from investing activities		
Purchase of fixed assets	(383,843)	(438,486)
Purchase of debt securities	(1,417,859,464)	(2,050,650,514)
Proceeds on sale of debt securities	1,094,533,482	1,628,428,423
Accretion of discounts and amortisation of premiums	423,383,454	388,733,635
Gain on investment property disposal	(208,884)	-
Proceeds on disposal of investment property	910,603	-
Net cash from/(used in) investing activities	100,375,348	(33,926,942)
Cash flows from financing activities		
Repayment of obligations under finance lease	(37,324)	(22,955)
Payment to preference shareholders	-	(306,182)
Net (decrease) in subordinated debt	-	(2,014,857)
Increase / (decrease) in repurchase agreements	7,955,895	(8,039,266)
Net cash from/(used in) financing activities	7,918,571	(10,383,260)
Net increase/(decrease) in cash and cash equivalents	15,241,796	(13,152,128)
Cash and cash equivalents at the beginning of the financial year	41,303,910	53,211,996
Effects of exchange rate changes on cash and cash equivalents	(144,285)	1,244,042
Cash and cash equivalents at the end of the financial year	56,401,421	41,303,910

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

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2019

1. Significant accounting policies

Reporting entity
United National Bank Limited ('the Company') is a company incorporated in the UK. The address of the registered office is given on page 3. The Company was formed in 2001 from the merger of the UK branches of two Pakistani banks, United Bank Limited and National Bank of Pakistan, who had been operating in the UK since the mid-1960s.

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

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

Basis of preparation
These financial statements were prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

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

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under the critical accounting estimates and judgements note.

Going concern basis
The financial statements are prepared on a going concern basis and the Directors have a reasonable expectation that the Company has the resources to continue in business for the 12 months from the approval or signing of the financial statements and the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Company's capital and liquidity plans have been stress tested and have been reviewed by the Directors. The impact of Covid-19 has also been assessed and stress tested against the 2020 financial and business plans. The Directors assessed the financial implications of the risks associated with Covid-19, including the expected effect of Management actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the ICAAP approved in 2020. This scenario was the Anchor Scenario ('ACS') specified by the Bank of England for use in preparing ICAAP stress tests. Having regard for the severe financial outcomes from this scenario and the reverse stress tests also conducted, the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, over the going concern period. After making enquiries, the Directors believe that the Company has sufficient resources to continue in operation for the foreseeable future and for at least 12 months from the date of approval or signing the financial statements and the Company has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulatory Authority (PRA). The Board concluded that there is no material uncertainty on going concern therefore it remains appropriate to adopt the going concern basis in preparing the Company's financial statements. See further details under Going Concern Assessment on page 9.

1. Significant accounting policies (continued)

Revenue recognition

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

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

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

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

Other operating income relates to operating lease income generated by the Company's investment properties. (See accounting policy note 22).

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

Foreign currency

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

Pensions

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

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

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

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

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

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

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

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2019

1. Significant accounting policies (continued)

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

Software development costs are recognised as an intangible asset when all of the criteria below are demonstrated:
(a) The technical feasibility of completing the software so that it will be available for use;
(b) The intention to complete the software and use it;
(c) How the software will generate probable future economic benefits;
(d) The availability of adequate technical, financial and other resources to complete the development and to use the software; and
(e) The ability to measure reliably the expenditure attributable to the software during its development.

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Significant accounting policies (continued)

Financial assets

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

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

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

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

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

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

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

1. Significant accounting policies (continued)

Impairment of financial assets

Assets accounted for at amortised cost

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

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

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

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

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

Collective assessment

Incurred but not yet identified impairment

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

Property based lending portfolio

All the property based loans are analysed using the Moody's Mortgage Portfolio Analyser ('MPA') which provides the Probability of Defaults ('PDs') and Loss Given Defaults ('LGDs'). The analysis which is through a simulation based econometric model takes into consideration the purpose, occupancy type, employment status, delinquency status, indexed loan-to-value, region, original channel, interest rate type, interest rate, borrower credit status, forbearance history, repayment profile and age of the loan. The MPA separately assesses the credit implications of interest only exposures and assigns them the appropriate PDs and LGDs.

Other loan portfolio

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

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

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

- The emergence period, which is estimated to be in the period between impairment occurring and the loss being identified. The factors used to determine this include the period between the last credit review date, last interest or principal payment date, last missed payment date and the balance sheet date. The Company also considers the full repayment date for the exposure in the determination of the loss emergence period, particularly for those exposures whose maturity are close to the balance sheet date.
- The Company's historical experience in portfolios of similar risk characteristics.

1. Significant accounting policies (continued)

- The fact that an exposure had been restructured is taken into account through higher risk rating and hence higher PDs.
- Exposures that are in the Watch-list category are also assessed separately and attract higher credit ratings.

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

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

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

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

Financial liabilities are initially measured at their fair value and subsequently at amortised cost.

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

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

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

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

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

1. Significant accounting policies (continued)

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

Investment properties

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

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

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

Tangible fixed assets and depreciation

Tangible fixed assets for which fair value can be measured reliably are stated at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Tangible fixed assets that fall under this category are freehold building and land. All other tangible fixed assets are stated at historical cost.

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

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

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

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

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

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

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

Leases

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

1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Dividends
Dividends are recognised when declared during the financial year and are no longer at the discretion of the Company.

2. Critical accounting judgements, estimates and assumptions

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

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

Allowance for impairment losses on loan and advances (Note 7 & 8)
At 31 December 2019 gross loans and advances totalled £285,727,528 (2018: £196,585,948) against which impairment allowances of £1,912,844 (2018: £2,435,318) had been made. The allowance for impairment losses on loans and advances is management’s best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively which makes up the collective unimpaired provision. Individual impairment assessment is established across the Company's lending and wholesale portfolio. The determination of individual impairment allowance requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security, for which there may not be a readily accessible market. In particular, significant judgement is required by management in assessing the borrower's cash flows and debt servicing capability and realisable value of collateral. The actual amount of cash flows and their timing may differ significantly from the assumptions made for the purposes of determining impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clear.

Given the size of the Company's property lending portfolio, a key variable which determines the collateral value supporting loans is house prices. The value of this collateral is estimated by applying changes in house price indices to the original assessed value of the property. This provides another source of uncertainty in the derivation of impairment allowance.

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

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

Fair value of financial instruments (Note 23)
Where the fair value of financial instruments is not observable from a quoted price, the valuation is done using a discounted cash flow model using other observable inputs and information from the market. For available for sale financial instruments where significant estimation techniques have been used, the underlying assumptions used in calculating the appropriate carrying amount includes: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally an adjustment to reflect execution risk.

Defined benefit pension scheme (Note 24)
The Company operates a defined benefit scheme. The value of the Company's defined benefit pension scheme's liabilities requires management to make a number of assumptions. The key area of estimating uncertainty is the discount rate applied to future cash flows and the expected lifetime of the scheme's members. The discount rate is required to be set with reference to market yields at the end of the reporting period on high quality corporate bonds in the currency, with a term consistent with the defined benefit scheme's obligations. The average duration of the scheme is 16.8 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve to base the discount rate. The cost of the benefits payable by the scheme will also depend upon the life expectancy of the members. The Company considers latest market practice and actual experience in determining the appropriate assumptions for both current mortality expectations and the rate of future mortality improvement. Given advances in medical sciences in recent years, it is uncertain whether this rate of improvement will be sustained going forward, as a result, actual experience may differ from expectations. The details on the principal assumptions used in the valuation of the Company's defined benefit pension scheme's liability is in Note 24.

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

Revaluation of properties (Note 13)
A key estimate included within this year's financial results is the valuation of the Company's Head Office on Brook Street in London. The valuation was based on a desktop valuation assessment conducted on 9 April 2020 by qualified RICS property valuation experts. The desktop valuation assessed as of 31 December 2019 took into account current rental yields for similar properties in the same locality as well as recent comparable sale transactions. In addition, the valuation also considered the evidence collated from the comprehensive valuation, which included a site inspection conducted in 2015.

United National Bank Limited
Notes to the financial statements
For the year ended 31 December 2019

3. Administrative expenses

	2019 No.	2018 No.
Average number of employees	99	108
Front Office	44	38
Back Office	55	70

	2019 £	2018 £
Wages and salaries	5,593,883	5,880,184
Social security costs	659,997	726,923
Other pension costs	625,242	737,264
Other administrative expenses	4,792,271	4,958,143
	11,671,393	12,302,514

4. Loss on ordinary activities before taxation

	2019 £	2018 £
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Auditor’s remuneration		
-fees payable for the audit of the Company’s annual accounts	80,000	65,000
-fees payable for the audit of the Company’s annual accounts for the previous year	17,500	-
Depreciation and amortisation	699,285	912,170
Interest payable on preference shares	-	233,674
Pension costs	625,242	737,264
Foreign exchange profits	(708,265)	(970,269)
(Profit)/Loss on realised debt securities	(1,089,460)	704,103
Fair value gain on investment properties	-	(787,241)
Rental of premises held under operating leases	86,814	99,786
Onerous lease termination costs.	172,084	-
Gain on sale of investment property	(208,884)	-

During the year £73,250 (2018: £50,000) was paid to the Auditor by the parent company in respect of the 30 June 2019 Group accounts. The total audit remuneration for the year therefore amount to £153,250 (2018: £132,500). The onerous lease termination costs related to the termination of the lease in respect of Ilford branch, which was closed during the year.

5. Directors and senior management emoluments

Directors emoluments

	2019 £	2018 £
Directors' fees and emoluments	239,538	501,475
Fees payable to Independent Non-Executive Directors	110,000	80,000
Pension contributions	23,633	32,607
National insurance	47,872	80,244
	421,043	694,326

The highest paid director received emoluments excluding pension contributions, totalling £239,538 (2018: £344,839) and the amount of pension contributions paid to the Company's defined contribution scheme was £23,633 (2018: £22,667). One of the Directors is both a Director and a member of the senior management of the Company, but the related emoluments have been included in the Directors emoluments and excluded from the senior management emoluments. These total emoluments (fees and emoluments, pension and national insurance) were £295,864 (2018:£603,008).

Senior management emoluments

	2019 £	2018 £
Senior management emoluments	815,970	1,237,001
Pension contributions	81,983	98,679
National insurance	111,897	169,446
	1,009,850	1,505,126

6. Taxation

	2019 £	2018 £
(i) Analysis of tax charge on ordinary activities		
UK corporation tax on profits of the period	15,524	(310,134)
Adjustments in respect of prior periods	(130,617)	(667,080)
Foreign tax relief	(15,524)	-
	(130,617)	(977,214)
Foreign tax suffered	63,651	29,967
Current tax	(66,966)	(947,247)
Origination and reversal of timing differences	(226,674)	1,666,157
Adjustments in respect of previous periods	-	775,459
Impact of rate changes	-	(211,175)
Deferred Tax	(226,674)	2,230,441
Current Tax	(66,966)	(947,247)
Deferred Tax	(226,674)	2,230,441
Tax charge for the year	(293,640)	1,283,194

6. Taxation (continued)

(ii) Factors effecting tax charge for the year

Loss for the period before tax	(1,009,163)	(3,778,731)
Tax at 19.00% (2018: 19.00%) thereon	(191,741)	(717,959)
Effects of:		
Preference share dividend	-	44,398
Non-deductible expenses	10,625	24,936
Deferred tax not provided	(30,033)	2,014,313
Tax rate differences	48,128	(190,873)
Adjustments from previous periods	(130,619)	108,379
Total tax charge for the year	(293,640)	1,283,194

Deferred taxation

As at 31 December 2019 there were accumulated tax losses of £31.52milion (2018: £31.53million) carried forward and a deferred tax asset of £Nil (2018: £Nil). The full deferred tax breakdown is set out below.

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £135,785 (2018: £350,642).

Legislation was passed on 18 November 2015 to reduce the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020. New legislation was passed on 15 September 2016 to further reduce this rate to 17% from 1 April 2020. The effect of this reduction is reflected in the deferred tax balance. The recent 2020 budget announcement indicated that the rates will be maintained at 19%. On 17 March 2020, the repeal of the 17% rate of corporation tax, which had been expected to take effect on 1 April 2020, was substantively enacted by Budget Resolutions, which also substantively enacted a corporation tax rate of 19% for the fiscal years commencing 1 April 2020 and 1 April 2021.As from 1 April 2016, taxable profits that can be set-off against brought-forward tax losses are restricted to 25%.

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

	2019 £	2018 £
Deferred tax liability - unrealised gain on properties (Note 19)	(2,777,683)	(3,140,141)
Total	(2,777,683)	(3,140,141)

Deferred tax asset of £6,291,154 (2018: £7,706,082) has not been recognised in relation to accelerated depreciation, trading losses carried forward and the revaluation movement on assets available for sale since 1 January 2016 when the new tax legislation came into force. The breakdown of the unrecognised deferred tax assets is set out below:

	1 January 2019 £	Movement £	31 December 2019 £
Tax losses	5,360,453	(1,747)	5,358,706
*Timing differences – trading	2,067,384	(1,290,031)	777,353
Accelerated depreciation	278,245	(123,150)	155,095
	7,706,082	(1,414,928)	6,291,154

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

As highlighted above on 17 March 2020, the repeal of the 17% rate of corporation tax, which had been expected to take effect on 1 April 2020, was substantively enacted by Budget Resolutions, which also substantively enacted a corporation tax rate of 19% for the fiscal years commencing 1 April 2020 and 1 April 2021. If the deferred tax liability and unrecognised deferred tax asset had been computed at the 19% rate, it would have amounted to £3,104,469 and £7,031,289.

7. Loans and advances to customers

	Impaired Loans £	Non-Impaired loans £	Total £
2019			
Remaining maturity:			
Over five years	-	37,055,267	37,055,267
Five years or less but over one year	-	190,657,021	190,657,021
One year or less but over three months	-	23,896,396	23,896,396
Three months or less	-	29,956,242	29,956,242
Overdue	4,162,605	-	4,162,605
	4,162,605	281,564,926	285,727,531
Impairment losses on loans and advances (note: 8)	(1,336,964)	-	(1,336,964)
Collective provision (note: 8)	-	(575,883)	(575,883)
	2,825,641	280,989,043	283,814,684
Amount repayable on demand (included within three months or less)	-	1,034,359	1,034,359
2018			
Remaining maturity:			
Over five years	-	22,422,408	22,422,408
Five years or less but over one year	-	117,969,435	117,969,435
One year or less but over three months	-	26,928,781	26,928,781
Three months or less	-	26,564,088	26,564,088
Overdue	2,701,236	-	2,701,236
	2,701,236	193,884,712	196,585,948
Impairment losses on loans and advances (note: 8)	(1,581,240)	-	(1,581,240)
Collective provision (note: 8)	-	(854,078)	(854,078)
	1,119,996	193,030,634	194,150,630
Amount repayable on demand (included within three months or less)	-	1,433,793	1,433,793

Description of loans

Non-Impaired loans - loans which are neither past due nor impaired
Impaired loans - loans which are more than 90 days contractually past due or which have individual provisions raised against them. Objective evidence of impairment may include: indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal repayments, debt being restructured to reduce the burden on the borrower, covenant breaches, loss of significant income flows, and adverse impact of economic factors on the value of any underlying collateral.

8. Impairment Losses

	Specific £	Collective £	2019 Total £	2018 Total £
At 1 January	1,581,240	854,078	2,435,318	9,956,556
Charge to profit and loss account	9,407	-	9,407	129,279
Reversal of impairment*	-	(278,195)	(278,195)	(780,827)
Release to profit and loss**	(253,683)	-	(253,683)	(218,430)
Amounts written off	-	-	-	(6,651,260)
At 31 December	1,336,964	575,883	1,912,847	2,435,318

During 2019, the total impairment (reversals)/losses were in respect of the following:

	2019 £	2018 £
Loans and advances to customers	9,407	129,279
Loans and advances to customers (reversal)	(278,195)	(780,827)
Loans and advances to customers impairment reversed directly to profit & loss	(1,005)	(16,645)
Debt securities	-	3,320,000
Total impairment loss	(269,793)	2,651,807
Recoveries released to profit and loss	(253,683)	(218,430)
Net impairment (gain) loss	(523,476)	2,433,377

*The reversal is related to re-assessment of the collective provision conducted during the year.

**Release to profit and loss is as a result of debt recoveries during the year.

9. Derivatives financial assets

	2019 £	2018 £
Fair value	3,482,846	350,369
Notional amount	129,642,306	185,928,240

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

10. Derivative financial liabilities

	2019 £	2018 £
Fair value	75,835	1,458,058
Notional amount	126,364,926	187,251,625

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

The derivative instruments reflected in note 9 & 10 comprise foreign exchange forward swaps, which the company uses to hedge against foreign exchange risk.

Refer to note 23 for further information on financial instruments and risk management.

11. Intangibles

	Computer Software £
Cost	
At 1 January 2019	4,094,287
Additions	237,727
At 31 December 2019	4,332,014
Amortisation	
At 1 January 2019	(3,609,111)
Charge for the year	(254,056)
At 31 December 2019	(3,863,167)
Carrying amount	
At 31 December 2019	468,847
At 31 December 2018	485,176

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

12. Investment properties

	2019 £	2018 £
Investment property (Brook Street London*)	8,187,309	8,187,309
Investment property (Thomas Street Manchester)	-	570,000
Total	8,187,309	8,757,309

*The property at 2 Brook Street, London has elements of both tangible fixed asset and investment property. The investment property relates to the 3rd and 4th floors of the building, which are normally leased to third parties but are presently vacant. Thomas Street investment property was sold during the year resulting in a gain of £208,884, which is reflected in the Profit and Loss account.

The carrying value of the investment property is based on a market based desktop valuation as of 31 December 2019 conducted by qualified RICS property valuation experts on 9 April 2020. The valuation was predicated on the following assumptions and factors: stability in the London property market conditions, prices for similar properties, projected rental yields, comparability of recent property sale transactions, void and rent-free periods and capitalisation rates. The valuation results are set out in the table below:

2019	Fair value £	Cost £	Accumulated Depreciation £	Historical net book value £
Property				
2 Brook Street, London	8,187,309	2,645,867	(489,375)	2,156,492

Operating lease agreements where the Company is a lessor
The Company holds surplus office buildings as investment properties as previously disclosed, that are let to third parties. The investment properties are currently vacant.

At 31 December 2019, the future minimum lease rentals receivable under non-cancellable leases for the investment properties were as follows:

	2019 £	2018 £
Within one year	-	97,391
One to five years	-	62,728
	-	160,119

13. Tangible fixed assets

	Computer equipment £	Office equipment £	Leasehold property £	Property improvements £	*Freehold land and buildings £	Total £
Cost or valuation						
At 1 January 2019	1,601,208	983,655	515,545	1,847,645	18,782,629	23,730,683
Revaluation	-	-	-	-	72,167	72,167
Additions	61,603	78,962	-	5,550	-	146,115
Disposal/Adjustments/Transfers	-	(365)	-	**(541,146)	***(220,771)	(762,282)
At 31 December 2019	1,662,811	1,062,252	515,545	1,312,049	18,634,025	23,186,683
Depreciation						
At 1 January 2019	(1,462,943)	(863,182)	(482,208)	(1,453,878)	(308,254)	(4,570,465)
Charge for the year	(101,255)	(65,941)	(29,510)	(164,671)	(83,852)	(445,229)
Disposal/Adjustments/Transfers	-	2	-	**409,427	70,771	480,200
At 31 December 2019	(1,564,198)	(929,121)	(511,718)	(1,209,122)	(321,335)	(4,535,494)
Carrying amount						
At 31 December 2019	98,613	133,131	3,827	102,927	18,312,690	18,651,189
At 31 December 2018	138,265	120,473	33,337	393,767	18,474,375	19,160,217

*Freehold land and buildings only includes the tangible fixed asset element of the Brook Street property. Details of the investment property element of this asset are provided in Note 12.
**This related to Thomas Street investment property sold during the year.
***This is in respect of the closed Bradford property that was transferred to other assets, awaiting to be sold.

	Total £	Carrying value 31 Dec 2019 Freehold land and buildings £	Carrying value 31 Dec 2019 Investment property £	Historical cost NBV 31 Dec 2019 Freehold land and buildings £	Historical cost NBV 31 Dec 2019 Investment property £
Property					
2 Brook Street, London	26,000,00	17,812,691	8,187,309	4,691,765	2,156,492
391-393 Stratford Road, Birmingham	500,000	500,000	-	23,833	-
Total	26,500,000	18,312,691	8,659,654	4,715,598	2,156,492

The valuations on the above properties were based on desktop valuation assessment as of 31 December 2019 conducted by qualified RICS property valuation experts on 9 April 2020. The valuation were predicated on the following assumptions and factors: stable property market conditions in the respective locations, prices for similar properties, projected rental yields, comparability of recent property sale transactions, void and rent free periods and capitalisation rates.

Included within freehold property is land valued at £14,321,858 (2018: £15,359,532), which is not depreciated.

Assets under finance leases have a net book value of £85,848 (2018: £35,675) with minimum lease payments of £101,886 (2018: £66,161).

14. Other assets

	2019 £	2018 £
Remittance funds receivable	505,813	424,356
Capital work-in-progress	-	72,279
Security deposits	353,474	365,654
Rent deposits	148,165	209,587
Sundry debtors	422,504	436,650
Assets awaiting disposal	**150,000	1,288,000
Tax recoverable	-	425,134
Others	198,282	39,970
*Deferred costs	48,181	115,450
	1,826,419	3,377,080

*These are unamortised costs relating to fees paid by the Company for outsourcing the mobilisation of fixed deposits
**This is in respect of the closed Bradford property that was transferred to other assets, awaiting to be sold.

15. Deposits by banks

	2019 £	2018 £
Repayable on demand	4,353,086	4,919,651
With agreed maturity dates or periods of notice by remaining maturity: Three months or less but not repayable on demand	11,367,797	430,219
	15,720,883	5,349,870

16. Repurchase agreements

	2019 £	2018 £
Repurchase agreements	18,259,683	10,303,788

These include 4.5 year repurchase agreement GBP borrowings of £10,307,329 (2018: £10,303,788) secured against UK gilts. Repurchase date is 22 July 2020 and the borrowings carry a coupon rate of 3 month GBP Libor plus 53bps payable quarterly. The remaining amounts of £7,952,354 (2018:£Nil) are short term borrowings from Nomura which mature in February 2020.
Customarily, the Company pledges security in the form of marketable securities for repurchase agreements and this subject to the standard terms of Global Master Repurchase Agreement ('GMRA'). The Securities cannot be sold until the maturity of the loan transaction.

17. Customer accounts

	2019 £	2018 £
Repayable on demand	86,825,884	82,991,523
Over three years	79,126,346	72,018,047
Three years or less but over one year	106,634,483	144,487,973
One year or less but over three months	73,251,189	60,770,867
Three months or less	46,259,901	42,541,967
	392,097,803	402,810,377

18. Other liabilities

	2019 £	2018 £
*Unapplied credits	801,325	1,283,202
Finance lease	93,857	56,533
Amounts due to preference shareholders (see below)	4	4
Accrued expenses	1,294,476	1,100,356
Other liabilities	278,643	517,642
	2,468,305	2,957,737

*The amount of £801,325 (2018: £1,283,202) relate to items over 90 days old where customers have not been identified.

Amounts due to preference shareholders

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

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

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

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

2019	UBL Total £	NBP Total £	Total £
Amounts due on 1 January 2019	2	2	4
Tax losses utilised during the year	-	-	-
Realised debt recoveries	-	-	-
Payable to preference shareholders	2	2	4
Dividends paid	-	-	-
Amounts due on 31 December 2019	2	2	4

18. Other liabilities (continued)

2018	UBL Total £	NBP Total £	Total £
Amounts due on 1 January 2018	72,510	2	72,512
Tax losses utilised during the year	233,674	-	233,674
Realised debt recoveries	-	-	-
Payable to preference shareholders	306, 184	2	306,186
Dividends paid	(306,182)	-	(306,182)
Amounts due on 31 December 2018	2	2	4

An estimated amount of £1,953 (2018: £Nil) relating to utilisation of tax losses will be payable in the form of preference share dividend in 2020, when the tax losses are actually utilised. Any recovery from written-off loans that were transferred upon merger will be paid as preference share dividend.

19. Provision for liabilities

2019	Provision for Deferred Tax £	Pension Liability £	Provision for Compensated Absences £	Total £
1 January 2019	3,140,140	-	41,589	3,181,729
Additions	(11,931)	177,000	52,260	217,329
Utilised during the period	(226,672)	-	(41,589)	(268,261))
Adjustments	(123,854)	-	-	(123,854)
31 December 2019	2,777,683	177,000	52,260	3,006,943

2018	Provision for Deferred tax £	Pension Liability £	Provision for Compensated Absences £	Total £
1 January 2018	2,936,429	161,000	-	3,097,429
Additions	435,450	(161,000)	41,589	316,039
Adjustments	(231,739)	-	-	(231,739)
31 December 2018	3,140,140	-	41,589	3,181,729

The deferred tax provided is the amount expected to be payable in future periods in accordance with the current tax legislation and it is in respect of revaluation and fair value movement of tangible fixed assets and investment properties, respectively. The reversal of any of this amount will only occur when some of the assets are sold. The adjustments reflected under the provision for deferred tax were as a result of the review of the calculation basis to take into account the impact of HMRC indexation rules.

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

20. Called up share capital

	2019 Shares	2018 Shares	2019 £	2018 £
(Issued, allotted and fully paid)				
Ordinary shares of £1 each	45,000,000	45,000,000	45,000,000	45,000,000

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

21. Contingent liabilities

The Company has contingent liabilities arising from letters of credit opened and confirmed and guarantees issued, which are disclosed at the foot of the balance sheet. The total value £Nil was all cash collateralised (2018: £960,111). The Company in the normal course of business issues guarantees on behalf of its customers for non-performance or non-delivery of goods and services. Cash collateral is held against these guarantee arrangements.

22. Commitments

	2019 £	2018 £
*Unutilised overdraft commitments	66,998	569,924
Loan commitments	49,155,840	-
	49,222,838	569,924

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

The loan commitments are amounts where the Company has approved credit and signed facility letters have been sent to the customers for signature or having been signed but the funds have not yet been drawn. The Company had the following future minimum lease payments under non-cancellable operating leases for each of the time bands overleaf. These are in respect to the Company standard lease agreements for the lease of the properties in Ilford and Manchester with remaining terms between 8 years and 10 years
.

	2019 £	2018 £
Within one year	81,000	70,249
Between one year and five years	324,000	180,000
Later than five years	345,000	210,000
	750,000	460,249
The Company had the following future minimum finance lease payments:		
Within one year	25,463	28,013
Between one year and five years	76,423	38,148
Total gross payments	101,886	66,161
Less: Finance charges	(8,029)	(9,647)
*Carrying amount of liability	93,857	56,514

*The carrying amount of the finance lease reflected in the balance sheet (see note 18) includes accrued interest charges of £Nil (2018: £19) totalling £93,857 (2018: £56,533).

22. Commitments (continued)

Certain items of office equipment (franking machines and photocopiers) are held under finance lease arrangements. The finance lease liabilities are secured by the assets held under finance lease (see notes 13 &18 respectively). The lease arrangements include fixed lease payments and a purchase option at the end of the lease term. The lease term remaining is 2 and 4 years for the photocopiers and franking machines, respectively.

23. Financial instruments and risk management

Financial risk instruments and risk management

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

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

1. credit risk

2. liquidity risk

3. interest rate risk

4. foreign currency risk

5. regulatory risk

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

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

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

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

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

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

Fair value

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

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

23. Financial instruments and risk management (continued)

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

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

The Company also holds preference shares and the fair value of these instruments can be approximated to the realisation of future tax losses, which is £1,953 (2018: £Nil).

Financial assets and liabilities that are carried at fair value
The Company holds available for sale securities ('AFS') and derivatives, which are carried on a fair value basis at level 1 and level 2, respectively.

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

2019	AFS £	FVTPL £	Loans & receivables £	Total £
Financial assets				
Cash and balances with central banks	-	-	56,401,421	56,401,421
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	283,814,684	283,814,684
Debt securities	137,827,144	-	-	137,827,144
Derivatives at fair value	-	3,482,846	-	3,482,846
Other assets	-	-	1,502,256	1,502,256
	137,827,144	3,482,846	341,718,361	483,028,351
Financial liabilities				
Deposits by banks	-	-	15,720,883	15,720,883
Borrowings from financial institutions	-	-	18,259,683	18,259,683
Customer accounts	-	-	392,097,803	392,097,803
Derivatives at fair value	-	75,835	-	75,835
Other liabilities	-	-	2,466,970	2,466,970
	-	75,835	428,545,339	428,621,174

23. Financial instruments and risk management (continued)

2018	AFS	FVTPL	Loans & receivables	Total
	£	£	£	£
Financial assets				
Cash and balances with central banks	-	-	41,303,910	41,303,910
Loans and advances to customers	-	-	194,150,630	194,150,630
Debt securities	229,966,518	-	-	229,966,518
Derivatives at fair value	-	350,369	-	350,369
Other assets	-	-	1,901,351	1,901,351
	229,966,518	350,369	237,355,891	467,672,778
Financial liabilities				
Deposits by banks	-	-	5,349,870	5,349,870
Borrowings from financial institutions	-	-	10,303,788	10,303,788
Customer accounts	-	-	402,810,377	402,810,377
Derivatives at fair value	-	1,458,058	-	1,458,058
Other liabilities	-	-	4,204,448	4,204,448
	-	1,458,058	422,668,483	424,126,541

	2019	2018
	£	£
Interest Income		
Available for sale	5,201,026	6,204,475
Held to maturity	-	1,769,921
Loans and receivables	11,712,697	12,560,738
	16,913,723	20,535,134
Interest Expense		
Derivative financial instruments	2,102,140	3,117,872
Loans and receivables (includes preference share dividend)	7,149,340	8,016,955
	9,251,480	11,134,827

A total of £Nil relating to interest income on impaired debt securities and £80,755 relating to interest income on impaired loans and receivables have been recognised in the year (2018: £Nil and £Nil, respectively).

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

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

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23. Financial instruments and risk management (continued)

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

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

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

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

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

2019	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Available for sale investments	137,827,144	-	-	137,827,144
Derivatives at fair value	-	3,482,846	-	3,482,846
	137,827,144	3,482,846	-	141,309,990
Financial liabilities				
Derivatives at fair value	-	75,835	-	75,835

2018	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Available for sale investments	229,966,518	-	-	229,966,518
Derivatives at fair value	-	350,369	-	350,369
	229,966,518	350,369	-	230,316,887
Financial liabilities				
Derivatives at fair value	-	1,458,058	-	1,458,058

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

(a) Level 1 - all investment securities held by the Company at 31 December 2019 are rate, except for one counter party. Prices used for fair value calculations are obtained from Bloomberg.

(b) Level 2 - the Company has forward derivative contracts which are OTC derivatives and are not traded, therefore, cannot be measured using category Level 1 input. Observable currency prices obtained from Thomson Reuters Eikon have been used to determine the fair value of derivatives. Availability of observable market prices reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

(c) Level 3 - the Company uses the discounted cash flow model for determining the fair value of financial instruments where the fair value cannot be reasonably determined. During the year, there was £Nil (2018: £Nil) exposure of this nature. The underlying assumptions normally used in calculating the appropriate carrying amount includes: credit risk of the counterparty, the coupon rate and maturity date for the new instrument to be issued, the time to completion of any restructure, the sovereign risk of the issuing country, the liquidity risk premium, the business model, and finally an adjustment to reflect execution risk.

23. Financial instruments and risk management (continued)

Credit risk

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

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

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

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

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

	2019 Carrying Value £	2019 Maximum Exposure £	2018 Carrying Value £	2018 Maximum Exposure £
Cash and balances with central banks	56,401,421	56,401,421	41,303,910	41,303,910
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
- Loans and receivables	283,814,684	283,814,684	194,150,630	194,150,630
Debt securities	-	-	-	-
- Available for sale	137,827,144	137,827,144	229,966,518	229,966,518
- Held to maturity	-	-	-	-
Derivative financial assets	-	-	-	-
- Currency forwards	3,482,846	3,482,846	350,369	350,369
Commitments	-	49,222,838	-	569,924
	481,526,095	530,748,933	465,771,427	466,341,351

23. Financial instruments and risk management (continued)

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

	Debt securities 2019 £	Debt securities 2018 £	Loans & advances to customers 2019 £	Loans & advances to customers 2018 £
Carrying amount	137,827,144	229,966,518	283,814,684	194,150,630
Individually impaired				
Grade 12: Doubtful	-	-	2,825,641	2,449,503
Grade 14: Loss	-	-	1,336,961	251,736
Impairment allowance (specific)	-	-	(1,336,961)	(1,581,238)
Carrying amount	-	-	2,825,641	1,120,001
Past due but not impaired				
Grade 3-11				
- Up to 30 days	-	-	6,143,763	5,475,683
- 31 – 60 days	-	-	14,610	2,862,763
- 61 – 90 days	-	-	8,667	-
- 121 – 150 days	-	-	342,518	-
- 151 – 180 days	-	-	2,960,923	-
- 180 days +	-	-	-	2,202,806
Carrying amount	-	-	9,470,481	10,541,252
Neither past due nor impaired				
Grade 1-8: Low – Fair risk	131,406,021	227,020,180	270,597,453	183,343,455
Grade 9: Watch-list	6,421,123	2,946,338	1,496,992	-
Carrying amount	137,827,144	229,966,518	272,094,445	183,343,455
Impairment allowance				
Collective provision	-	-	(575,883)	(854,078)

All other assets of the Company are neither past due or impaired (2018: Same)

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23. Financial instruments and risk management (continued)

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

	2019 £	2018 £
Fitch ratings		
AAA	64,212,010	27,180,183
AA+	-	5,895,748
AA	11,176,693	118,180,058
AA-	-	-
BBB+	-	-
BBB	7,111,724	-
BBB-	-	-
BB+	5,661,796	6,712,827
BB	2,247,085	-
BB-	1,861,679	11,963,883
B+	25,470,651	25,300,068
B	11,599,015	14,959,799
B-	-	16,382,872
CCC+	3,002,101	3,391,080
CCC	3,419,022	-
NR	2,065,368	-
	137,827,144	229,966,518

The loans and advances portfolio is predominantly unrated.

23. Financial instruments and risk management (continued)

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

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

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

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

In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and losing their security. As at 31 December 2019 all grade 9, 10 & 11 loans and advances had been considered for forbearance (2018: Same).

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

Collateral
The Company holds collateral against loans and advances to customers in the form of mortgage interests over property and liens over cash deposits. Collateral is not held over loans and advances to banks. During the year no collateral was possessed by the Company (2018: 1,288k) (see note 14). The table below shows a breakdown of the credit exposure by collateral type:

	2019 £	2018 £
Carrying amount	283,814,684	194,150,630
Individually impaired		
Property	2,825,641	1,120,001
Past due but not impaired		
Property	9,470,481	10,541,252
Neither past due nor impaired		
Property	188,369,999	97,377,361
Unsecured	83,724,446	85,966,094
Carrying amount	272,094,445	183,343,455
Impairment allowance		
Collective provision	(575,883)	(854,078)

23. Financial instruments and risk management (continued)

The average loan to value ratio for customer loans secured by property is 58% (2018: 52%); calculated by dividing the balance owed to the Company by the latest valuation held for the property. Property values are updated half yearly by applying changes in property prices to the original assessed value of the property. The Company considers this appropriate as the original assessed value is based on a comprehensive red book valuation by FRICS registered surveyors which takes into account the specific characteristics of the property such as type, quality and location.

The Company will seek to dispose of property and other assets obtained by taking possession of collateral and converting into cash as rapidly as the market for the individual asset permits.

Credit risk concentration

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

	Loans and advances to customers 2019 £	Loans and advances to customers 2018 £
Central and local government	9,455,100	22,568,507
Food, beverage, tobacco	1,960,251	1,552,753
Textiles, leather, clothes	3,465,589	-
Other manufacturing	798	10,053,235
Retail	4,030,621	467,796
Transport, storage, communication	14,907,592	10,816,966
Construction	-	6,325,989
Real estate - buy, sell, develop and letting	124,350,084	64,974,707
Financial	14,213,832	24,145,977
Others	24,671,835	18,516,814
Individuals	86,758,982	34,727,886
Total	283,814,684	194,150,630
Concentration by location		
Great Britain	189,013,339	98,363,222
Europe	12,903,749	20,216,907
South Asia	66,097,680	42,603,278
Africa	2,356,869	14,847,916
Rest of world	13,443,047	18,119,307
Total	283,814,684	194,150,630

Investment Securities

Investment securities held by the Company at 31 December 2019 were all rated, with the exception of one counterparty (2018: all were rated).

In 2019, £806,465 (2018: £2,755,585) 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 (2018: £3,320,000)

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

23. Financial instruments and risk management (continued)

	2019 £	2018 £
As at 1 January	229,966,518	207,095,989
Purchases	1,417,859,464	2,050,650,514
Sales	(1,094,533,482)	(1,628,428,423)
Interest/amortisation	(423,383,454)	(388,733,635)
Unrealised (losses)/gains	7,918,098	(10,617,927)
Balance at 31 December	137,827,144	229,966,518

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

	2019 £	2018 £
As at 1 January	(12,272,279)	(1,654,351)
Unrealised (losses)/gains accounted for in the Statement of Comprehensive Income during the year, net of tax	7,918,098	(10,617,928)
Balance at 31 December	(4,354,181)	(12,272,279)

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

	2019 £	2018 £
Analysis of sector concentration		
Central government	47,122,094	165,958,279
Financial institutions	77,989,282	45,308,303
Corporates	12,715,768	18,699,936
Balance at 31 December	137,827,144	229,966,518

Liquidity risk

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

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

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

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

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23. Financial instruments and risk management (continued)

Residual contractual maturities of financial instruments as at 31 December 2019	Less than 1 month £	More than one month but less than three months £	More than three months but less than one year £	More than one year but less than five years £	More than five years £	Total £	Carrying amount £
Non-derivative assets							
Cash and balances with central banks	51,402,323	5,012,094	1,526	-	-	56,415,943	56,401,421
Loans and advances to customers	17,914,088	17,646,765	32,859,169	220,717,237	41,816,868	330,954,127	283,814,684
Debt securities	808,661	14,235,168	25,158,178	88,940,637	20,839,310	149,981,954	137,827,144
	70,125,072	36,894,027	58,018,873	309,657,874	62,656,178	537,352,024	478,043,249
Non-derivative liabilities							
Deposits by banks	4,379,698	3,824,987	7,602,380	-	-	15,807,065	15,720,883
Repurchase agreements	23,585	7,989,253	10,387,211	-	-	18,400,049	18,259,683
Customer accounts	94,258,190	40,162,927	76,222,578	191,454,188	157,764	402,255,647	392,097,803
Liabilities against assets subject to finance lease	93,857	-	-	-	-	93,857	93,857
	98,755,330	51,977,167	94,212,169	191,454,188	157,764	436,556,618	426,172,226
Derivative contracts							
Forward foreign exchange contracts inflow	(2,258,021)	(1,224,825)	-	-	-	(3,482,846)	(3,482,846)
Forward foreign exchange contracts outflow	24,860	50,974	-	-	-	75,834	75,834
	(2,233,161)	(1,173,851)	-	-	-	(3,407,012)	(3,407,012)
Loan commitments	14,539,998	20,797,105	13,885,735	-	-	49,222,838	-
	111,062,167	71,600,421	108,097,904	191,454,188	157,764	482,372,444	422,765,214
Net position	(40,937,095)	(34,706,394)	(50,079,031)	118,203,686	62,498,414	54,979,580	-
Cumulative gap	(40,937,095)	(75,643,489)	(125,722,520)	(7,518,834)	54,979,580	-	-

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23. Financial instruments and risk management (continued)

Residual contractual maturities of financial instruments as at 31 December 2018	Less than 1 month £	More than one month but less than three months £	More than three months but less than one year £	More than one year but less than five years £	More than five years £	Total £	Carrying amount £
Non-derivative assets							
Cash and balances with central banks	35,046,162	2,370,731	3,930,978	-	-	41,347,872	41,303,910
Loans and advances to customers	11,135,277	17,487,013	33,003,370	137,502,436	31,058,376	230,186,473	194,150,630
Debt securities	58,576,972	54,785,346	5,077,733	72,724,106	60,843,021	252,007,177	229,966,517
	104,758,411	74,643,090	42,012,081	210,226,542	91,901,397	523,541,522	465,421,057
Non-derivative liabilities							
Deposits by banks	5,254,847	95,178	-	-	-	5,350,026	5,349,870
Repurchase agreements	16,572	33,144	149,147	10,403,220	-	10,602,083	10,303,788
Customer accounts	93,881,458	33,070,225	64,086,646	222,732,389	153,790	413,924,507	402,810,377
Liabilities against assets subject to finance lease	56,533	-	-	-	-	56,533	56,533
	99,209,410	33,198,547	64,235,793	233,135,609	153,790	429,933,149	418,520,568
Derivative contracts							
Forward foreign exchange contracts inflow	(14,012)	(336,357)	-	-	-	(350,369)	(350,369)
Forward foreign exchange contracts outflow	1,280,970	177,088	-	-	-	1,458,058	1,458,058
	1,266,958	(159,269)	-	-	-	1,107,689	1,107,689
Unutilised overdraft commitments	569,924	-	-	-	-	569,924	-
	101,046,292	33,039,278	64,235,793	233,135,609	153,790	431,610,762	419,628,257
Net position	3,712,119	41,603,812	(22,223,712)	(22,909,067)	91,747,607	91,930,760	-
Cumulative gap	3,712,119	45,315,931	23,092,219	183,152	91,930,760	-	-

Interest rate risk

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

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

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

The tables overleaf summarise the re-pricing mismatches on the Company's assets and liabilities as at 31 December 2019 and 31 December 2018. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

23. Financial instruments and risk management (continued)

As at 31 December 2019	Not more than three months £	More than three months but not more than six months £	More than six months but not more than one year £	More than one year but not more than five years £	More than five years £	Non-interest bearing £	Total £
Assets							
Cash and balances with central banks	56,133,285	-	-	-	-	268,136	56,401,421
Loans and advances to customers	84,602,144	58,157,989	3,128,449	131,259,936	4,380,682	2,285,484	283,814,684
Debt securities	10,067,801	12,839,879	10,089,315	84,607,637	20,222,512	-	137,827,144
Intangible assets	-	-	-	-	-	468,847	468,847
Investment property	-	-	-	-	-	8,187,309	8,187,309
Tangible fixed assets	-	-	-	-	-	18,651,189	18,651,189
Derivatives at fair value	3,482,846	-	-	-	-	-	3,482,846
Other assets	-	-	-	-	-	1,826,419	1,826,419
Prepayments and accrued income	-	-	-	-	-	389,754	389,754
Total assets	154,286,076	70,997,868	13,217,764	215,867,573	24,603,194	32,077,138	511,049,613
Liabilities							
Deposits by banks	8,140,843	7,580,039	-	-	-	-	15,720,882
Repurchase agreements	7,952,354	-	10,307,329	-	-	-	18,259,683
Customer accounts	60,584,847	32,184,398	50,381,024	185,609,859	150,971	63,186,704	392,097,803
Derivatives at fair value	75,835	-	-	-	-	-	75,835
Other liabilities	-	-	-	-	-	2,468,305	2,468,305
Accruals and deferred income	-	-	-	-	-	1,627,666	1,627,666
Provisions for liabilities	-	-	-	-	-	3,006,943	3,006,943
Shareholders' funds	-	-	-	-	-	77,792,496	77,792,496
Total liabilities	76,753,879	39,764,437	60,688,353	185,609,859	150,971	148,082,114	511,049,613
Interest rate sensitivity gap	77,532,197	31,233,431	(47,470,589)	30,257,714	24,452,223	(116,004,976)	-
Cumulative sensitivity gap	77,532,197	108,765,628	61,295,039	91,552,753	116,004,976	-	-

United National Bank Limited
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23. Financial instruments and risk management (continued)

As at 31 December 2018	Not more than three months £	More than three months but not more than six months £	More than six months but not more than one year £	More than one year but not more than five years £	More than five years £	Non-interest bearing £	Total £
Assets							
Cash and balances with central banks	36,710,641	4,053,584	-	-	-	539,685	41,303,910
Loans and advances to customers	97,271,811	32,809,277	1,747,370	54,540,919	7,599,798	181,456	194,150,631
Debt securities	111,949,992	-	2,039,841	60,029,079	55,947,605	-	229,966,517
Intangible assets	-	-	-	-	-	485,176	485,176
Investment property	-	-	-	-	-	8,757,309	8,757,309
Tangible fixed assets	-	-	-	-	-	19,160,217	19,160,217
Derivatives at fair value	350,369	-	-	-	-	-	350,369
Other assets	-	-	-	-	-	3,377,080	3,377,080
Prepayments and accrued income	-	-	-	-	-	434,839	434,839
Total Assets	246,282,813	36,862,861	3,787,211	114,569,998	63,547,403	32,935,762	497,986,048
Liabilities							
Deposits by banks	1,259,778	-	-	-	-	4,090,092	5,349,870
Repurchase agreements	-	-	-	10,303,788	-	-	10,303,788
Customer accounts	60,779,533	24,140,371	36,615,496	216,358,959	147,061	64,768,957	402,810,377
Derivatives at fair value	1,458,058	-	-	-	-	-	1,458,058
Other liabilities	-	-	-	-	-	2,957,737	2,957,737
Accruals and deferred income	-	-	-	-	-	1,317,518	1,317,518
Provisions for liabilities	-	-	-	-	-	3,181,730	3,181,730
Shareholders' funds	-	-	-	-	-	70,606,970	70,606,970
Total Liabilities	63,497,369	24,140,371	36,615,496	226,662,747	147,061	146,923,004	497,986,048
Interest rate sensitivity gap	182,785,445	12,722,490	(32,828,285)	(112,092,749)	63,400,342	(113,987,242)	-
Cumulative sensitivity gap	182,785,445	195,507,935	162,679,650	50,586,901	113,987,242	-	-

23. Financial instruments and risk management (continued)

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

	2019	2018
Financial assets		
Balances with other banks	0.12%	0.47%
Loans and advances to customers	5.14%	5.47%
Debt securities	2.73%	3.50%

	2019	2018
Financial liabilities		
Deposits by banks	2.39%	0.07%
Repurchase agreements	1.55%	1.93%
Customer accounts	1.80%	1.83%
Subordinated debt	-	2.71%

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

	2019 100 basis points increase £	2019 100 basis points decrease £	2018 100 basis points increase £	2018 100 basis points decrease £
GBP	(1,499,958)	1,653,692	(3,178,351)	3,281,084
USD	(2,436,391)	2,583,006	(3,140,220)	3,399,361
EUR	(2,403)	2,431	(8,194)	8,287

Foreign exchange risk

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

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

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

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book). The table set out in note 9 & 10 gives details of the notional principal amounts and fair values as at 31 December 2019 and 31 December 2018.

The Company has no significant structural currency exposures that are not covered by forward foreign exchange contracts. The tables shown overleaf give details of the Company's assets and liabilities as at 31 December 2019 and 31 December 2018, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Company are matched.

23. Financial instruments and risk management (continued)

As at 31 December 2019	Sterling £	US dollars £	Euro £	Other currencies £	Total £
Assets					
Cash and balances with central banks	37,269,517	15,160,453	3,529,001	442,450	56,401,421
Loans and advances to customers	214,805,157	69,006,259	3,268	-	283,814,684
Debt securities	70,236,960	67,590,184	-	-	137,827,144
Derivatives at fair value	3,482,846	-	-	-	3,482,846
Intangible assets	468,847	-	-	-	468,847
Investment property	8,187,309	-	-	-	8,187,309
Tangible assets	18,651,189	-	-	-	18,651,189
Other assets	1,826,419	-	-	-	1,826,419
Prepayments and accrued income	389,754	-	-	-	389,754
Total assets	355,317,998	151,756,896	3,532,269	442,450	511,049,613
Liabilities					
Deposits by banks	3,726,046	11,584,618	408,240	1,979	15,720,883
Repurchase agreements	10,307,329	7,952,354	-	-	18,259,683
Customer accounts	358,346,878	30,714,237	3,004,032	32,656	392,097,803
Derivatives at fair value	75,835	-	-	-	75,835
Other liabilities	1,422,571	701,572	182,047	162,115	2,468,305
Accruals and deferred income	1,627,665	-	-	-	1,627,665
Provision for liabilities	3,006,943	-	-	-	3,006,943
Shareholders' funds	80,667,356	(2,874,855)	44	(49)	77,792,496
Total liabilities and capital	459,180,625	48,077,926	3,594,363	196,701	511,049,613
Net (liabilities)/assets	(103,862,626)	103,678,970	(62,094)	245,750	-
Net currency forwards	106,214,296	(102,936,917)	-	-	3,277,379
Net position	2,351,670	742,053	(62,094)	245,750	3,277,379

23. Financial instruments and risk management (continued)

As at 31 December 2018	Sterling £	US dollars £	Euro £	Other currencies £	Total £
Assets					
Cash and balances with central banks	19,208,962	14,675,771	6,663,227	755,950	41,303,910
Loans and advances to customers	114,878,591	79,268,509	3,530	-	194,150,630
Debt securities	141,702,790	88,263,727	-	-	229,966,517
Derivatives at fair value	350,369	-	-	-	350,369
Intangible assets	485,176	-	-	-	485,176
Investment property	8,757,309	-	-	-	8,757,309
Tangible assets	19,160,218	-	-	-	19,160,218
Other assets	2,504,222	858,469	9,718	4,670	3,377,079
Prepayments and accrued income	434,839	-	-	-	434,839
Total assets	307,482,476	183,066,476	6,676,475	760,620	497,986,047
Liabilities					
Deposits by banks	4,256,666	941,068	152,136	-	5,349,870
Repurchase agreements	10,303,788	-	-	-	10,303,788
Customer accounts	369,398,589	27,102,020	6,302,898	6,869	402,810,376
Derivatives at fair value	1,458,058	-	-	-	1,458,058
Pension fund liability	-	-	-	-	-
Other liabilities	2,549,397	159,439	191,671	57,230	2,957,737
Accruals and deferred income	1,317,518	-	-	-	1,317,518
Provision for liabilities	3,181,730	-	-	-	3,181,730
Shareholders' funds	80,975,617	(10,368,640)	-	(7)	70,606,970
Total liabilities and capital	473,441,363	17,833,887	6,646,705	64,092	497,986,047
Net (liabilities)/assets	(165,958,887)	165,232,589	29,770	696,528	-
Net currency forwards	165,579,262	(166,649,524)	-	-	(1,070,262)
Net position	(379,625)	(1,416,935)	29,770	696,528	(1,070,262)

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

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

	2019 10% increase £	2019 10% decrease £	2018 10% increase £	2018 10% decrease £
USD	(74,205)	74,205	(141,694)	141,694
EUR	6,209	(6,209)	2,977	(2,977)

23. Financial instruments and risk management (continued)

Regulatory risk

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

Capital management policy

The Company manages its capital through the Basel 3 framework which was enacted in the United Kingdom from 1 January 2014 via the fourth Capital Requirements Directive ('CRD 4') and the Capital Requirements Regulation ('CRR'). Further details of the Company's capital management policy can also be found in the unaudited Pillar III disclosures.

24. Post –employment benefits

United National Bank Limited Pension and Life Assurance Scheme

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

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

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

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

A comprehensive actuarial valuation of the scheme, using the projected unit credit method, was carried out as at 31 December 2019 by Premier Pensions Management, independent consulting actuaries.

	2019 £	2018 £
The amounts recognised are as follows:		
Present value of funded obligations	(6,451,000)	(5,799,000)
Fair value of plan assets	6,274,000	5,949,000
Gross pension (liability) asset	(177,000)	150,000

*In 2018 the gross pension asset was restricted to Nil.

24. Post –employment benefits (continued)

	2019 £	2018 £
The amounts recognised in profit or loss is as follows:		
Interest income	162,000	85,000
Interest expense	(157,000)	(145,000)
Net interest income (expense)	5,000	(60,000)

	2019 £	2018 £
The amounts recognised in other comprehensive income are as follows:		
*(Losses) gains during the year	(225,000)	221,000
Movement in related deferred tax asset	-	(27,370)
(Losses) gains recognised in Statement of Comprehensive Income	(225,000)	193,630

*The losses and gains comprise an actuarial loss of -£225k (2018: £181k) and £43k (2018: £40k) contribution by the Company. In 2019, the employer's contribution of £Nil (2018: £40k) was expensed as administrative costs.

	2019 £	2018 £
Changes in the present value of the defined benefit obligation are as follows:		
As at 1 January	5,799,000	6,130,000
Interest expense	157,000	202,000
Actuarial losses (gain)	648,000	(385,000)
Benefits paid	(153,000)	(148,000)
Balance at 31 December	6,451,000	5,799,000

	2019 £	2018 £
Changes in the fair value of plan assets are as follows:		
As at 1 January	5,949,000	5,969,000
Interest income	162,000	142,000
Actuarial gain (losses)	273,000	(54,000)
Employer contribution	43,000	40,000
Benefits paid	(153,000)	(148,000)
Balance at 31 December	6,274,000	5,949,000

	2019	2018
The major categories of plan assets as a percentage of total plan assets are as follows:		
Insurance policies	61.42%	66.47%
Guaranteed Annuities Rates	5.83%	7.00%
Annuities	32.75%	26.53%

24. Post –employment benefits (continued)

	2019 £	2018 £
The fair values of plan assets were as follows:		
Insurance policies	3,853,000	3,954,000
Guaranteed Annuity Rates	366,000	417,000
Annuities	2,055,000	1,578,000
Total	6,274,000	5,949,000

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

The asset value supplied by the insurance company for 2019 is on an ongoing basis. If the policy had been surrendered at 31 December 2019 the surrender value would have been £3,853,000 (2018: £3,954,000). It is not the Company's intention to surrender the policy.

Principal assumptions are set out below:

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

	2019	2018
Rate of increase of pensions in payment	3.00%	3.00%
Rate of revaluation of pensions in deferment	2.30%	2.50%
Discount rate	2.00%	2.75%
Price inflation (RPI)	3.10%	3.40%
Price inflation (CPI)	2.30%	2.60%
Expected return on assets	2.00%	2.75%
Post retirement mortality		
Current pensioners at 65 - male	86.30	86.80
Current pensioners at 65 - female	88.20	88.70
Future pensioners at 65 - male	87.40	87.90
Future pensioners at 65 - female	89.50	90.00

Total charge for the year (see note 4)

The total amount charged (excluding amounts debited to net interest income) during the year in respect of the defined benefit contribution scheme and other money purchase schemes amounted to £625,242 (2018: £737,264). The charge (current service cost) for the defined benefit scheme was £43,000 (2018: £40,000).

Of the contributions paid in the year £23,633 (2018: £32,607) was made on behalf of directors. It is estimated that contributions of £554,680 would be made to the defined contribution scheme and £43,000 to the defined benefit scheme in 2020.

25. Ordinary dividend paid

No Ordinary dividends were paid in 2019 (2018: £Nil). The directors, at their Board meeting held on Friday 27th March 2019, did not declare an ordinary dividend for the financial year ended 31 December 2019.

26. Ultimate parent company and controlling party

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

The immediate parent company and controlling party of United National Bank Limited is United Bank Limited, a company incorporated in Pakistan and the parent undertaking of the smallest group of which the Company is a member and for which group accounts are prepared. Copies of such accounts may be obtained from the Company Secretary, United Bank Limited, I.I. Chundrigar Road, Karachi, Pakistan. The shareholding structure of the Company is set out in note 20.

27. Related party transactions

During the year, two related companies undertook commercial arm's length transactions with the Company, mainly in the form of deposits placed with the Company. Below are details of amounts due to / from each party as at 31 December 2019 and 31 December 2018.

	United Bank Ltd 2019 £	United Bank Ltd 2018 £	National Bank of Pakistan 2019 £	National Bank of Pakistan 2018 £
Loans to	3,412,352	5,850,645	119	216,220
Deposits from	4,672,388	14,093,855	5,695	144,782
Deposits to	5,401,530	-	1,375,250	-
Interest receivable from	329,978	585,132	4,049	5,777
Interest payable to	16,174	2,109	580	10,000
Preference share dividend paid to	-	306,182	-	-

28. Events after the reporting period

The Board carefully considered the implications of the Covid-19 pandemic upon the preparation of the 2019 Annual Report and Accounts. The Board agreed with Management that the declaration of the pandemic and the various protective actions by government and their immediate impact on economic activity were matters that arose during 2020 and did not pertain to the conditions that existed as at 31 December 2019. As such, it was agreed that the matter should be regarded as a non-adjusting post balance sheet event and no adjustment made to the financial statements.

The Board has nevertheless considered the impact of Covid-19 on the carrying value of the Company's financial assets and liabilities and assessed any potential adjustments that could have arisen if the highlighted conditions existed as at 31 December 2019. Post year-end the market value of the investment book (available for sale debt securities) declined by a maximum of 6.8% on 23 March 2020 and the decline in market value has gone down to 4.3% as of 26 May 2020 when compared to 31 December 2019. However, the outlook of the financial markets continue to be uncertain. In addition, the Board has conducted various Covid-19 impact scenarios and concluded that the Company will be able to trade into the foreseeable future.

The Board also carefully considered the implications of the Covid-19 pandemic upon the going concern statements contained within the Annual Report and Accounts on pages 9 and 30.