Registered Number 4661188

UNION BANK UK PLC

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2019

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FINANCIAL HIGHLIGHTS

Thousands of US Dollars (Unless otherwise stated)

	2019	2018	2017	2016	2015
Reporting period ended	**31 December**	31 December	31 December	31 December	31 December
Total Income	**14,618**	13,182	14,290	11,024	10,593
Profit/(Loss) before tax	**(11,963)**	900	2,982	685	958
Profit/(Loss) after tax	**(11,660)**	702	2,422	499	856
Dividends declared	**1,000**	3,000	-	-	-
Shareholders' Funds	**63,396**	76,035	78,450	75,382	73,599
Total Assets	**454,799**	426,906	436,039	447,820	300,691
Capital / Risk Weighted Assets	**30%**	34%	45%	38%	49%
Return on Equity	**(18.9%)**	1.2%	3.8%	0.9%	1.3%
Cost Income Ratio	**70%**	80%	76%	87%	90%
NPL Ratio	**14.9%**	14.9%	0.0%	0.1%	0.0%
Dollar / Sterling exchange rate					
Year End	**$1.32**	$1.28	$1.35	$1.23	$1.48
Average	**$1.28**	$1.33	$1.30	$1.32	$1.53

Cost Income Ratio has been calculated using total costs (excluding impairment) /total income.

NPL Ratio is calculated as gross non-performing loans/loans to banks and customers (excluding bank placements).

CHAIRMAN'S STATEMENT

Opening Remarks
It is my pleasure to present the 2019 financial report for Union Bank UK. This report details the Bank's performance in the year and notes the challenging operating environment.

2019 Financial Performance
Our performance in 2019 reflects growth in top-line fundamentals. Our gross earnings grew by 14% to $19.4m (2018: $17m) driven by higher business volumes combined with balance sheet optimisation. We were also disciplined with optimising our operations leading to a 5% decline in operating expenses to $10.3m (2018: $10.8m). Pre-tax profits before impairment were $4.3m (2018: $2.4m) which represents one of the best underlying performances since our inception in 2004. However, in an effort to clean up our books ahead of future growth potentials, we took one-time hits leading to impairments of $16.3 million (2018: $1.5m). This led to a loss for the year of $11.96m (2018: profit of $0.90m).

2020 Outlook
In January 2020, in order to streamline its business operations and focus on growth opportunities in Nigeria, UBN entered into a share Sale and Purchase agreement ('SPA') to divest its entire equity stake in UBUK. The successful bidder was MBU BidCo Limited ('MBU'), wholly owned by MBU Capital Limited ('MBU Capital'). The agreement followed a lengthy due diligence process by MBU Capital who had emerged as the preferred bidder, enabling UBUK to continue to support its customers. We are delighted that the transaction has been signed and the final completion of the sale is subject to regulatory approvals from the relevant regulatory authorities in Nigeria and the UK. We are extremely excited about the next phase of the Bank's development and the opportunities for growth that the new strategic direction will enable. In the period between the signing of the SPA and change of control, it is expected that UBUK will operate normally, in its ordinary course of business.

It was expected that 2020 would be all about a post Brexit economy but the impact of the Covid-19 pandemic on global welfare, economies and on the markets in which the bank operates will create challenges unprecedented in recent years. I am confident that the bank will rise to these challenges and, as the markets emerge from this global crisis and with better asset quality based on lower NPL ratios, we are well-positioned to consolidate on our headline performance to drive further growth in the future.

Finally, I would like to express my appreciation to all our external stakeholders, including our customers, investors and partners, for their sustained confidence in and loyalty towards the Bank. My appreciation also extends to all our employees, for their critical role in realising the bank's corporate aspirations.

Thank you.

Gavin Laws
Chairman

DIRECTORS AND ADVISERS

Directors:	Gavin C Laws	Chairman / Independent non-executive & Chairman of Remuneration & People Committee
	Emeka Emuwa	Non-executive and Group Managing Director/Chief Executive of Union Bank of Nigeria Plc
	David Forster	Managing Director/Chief Executive
	Suzanne O Iroche	Independent non-executive and Chairman of the Audit & Compliance Committee
	Kandolo S Kasongo	Non-executive and Executive Director of Union Bank of Nigeria Plc
	Emeka Okonkwo	Non-executive and Executive Director of Union Bank of Nigeria Plc
	Nigel J Richards	Independent non-executive and Chairman of the Risk Committee
Secretary:	P.R Hartley F.C.A	London, EC2R 7AF
Registered Office:	1 King's Arms Yard,	London, EC2R 7AF
Solicitors:	Hogan Lovells	Atlantic House, London, EC1A 2FG
Auditors:	BDO LLP	150 Aldersgate Street, London, EC1A 4AB

PRINCIPAL OFFICERS

Management Committee:

David Forster	Managing Director/Chief Executive
Jerold Williamson	Director, Risk & Compliance
Gino Brenzini	Associate Director, Chief Operating Officer
Farhood Hieydary	Associate Director, Treasury
Charles Ladeji	Associate Director, Compliance
Janet A Ntuk	Associate Director, Corporate Resources
Matthew Oakes	Associate Director, Finance
Martin Uzus	Associate Director, Business Development

STRATEGIC REPORT

Overview
Union Bank UK's ('UBUK' or 'the Bank') strategic aim is to primarily serve as an extension of Union Bank of Nigeria in the UK, serving and partnering with our clients on their specialised financial needs revolving around regional and international trade. Our focus is to build our core business segments of Retail, Treasury/Corporate and Commercial both vertically, by offering a competitive range of products, and horizontally so that our customers recognise UBUK for all of their banking needs.

Performance
The Bank's performance in 2019 reflected a downturn in economic conditions producing a pre-tax loss of US$11.96m against the previous year profit of US$0.90m.

Interest income at US$16.9m is up on the 2018 figure of US$14.6m. Dealing and exchange gains at US$0.6m were up on the previous year figure of US$0.4m. Fee and commission income at US$1.9m were slightly down on the previous year of US$2.0m.

Costs were again maintained within budget for the year while impairment charges amounted to US$16.3m against the previous year of US$1.5m.

Position
Total assets of the Bank's increased from $427m at 31 December 2018 to $455m at 31 December 2019. The majority of the Bank's assets were loans and advances to banks, being $279m at 31 December 2019 ($296m at 31 December 2018).

Loans and advances to customers reduced from $47m at 31 December 2018 to $34m at 31 December 2019, mainly due to the $17m impairment recognised in 2019, whereas cash and cash equivalents increased from $26m at 31 December 2018 to $83m at 31 December 2019.

The overall increase in assets was driven by the increase in the Bank's liabilities; deposits by banks increased to $320m at 31 December 2019 ($277m at 31 December 2018).

Key Performance Indicators
The key indicators of the Bank's performance monitored by the Board are those relating to profitability as measured by the pre-tax return on equity (ROE) and Capital over risk weighted assets.

In the 12 months to 31 December 2019, the Bank's losses on equity and capital over risk weighted assets were 18.9% (2018: return of 1.2%) and 30% (2018: 34%) respectively. The key indicator of efficiency monitored by the Board is the cost/income ratio which improved to 70% from 80% in 2018.

The Bank recognises that the movement in Sterling/US$ rates could impact on its costs and it would take appropriate steps if there is a significant negative movement. The Bank's results are shown in the statement of comprehensive income on page 23, with the impact on shareholders' funds shown in the statement of changes in equity on page 25.

We recognise our Corporate Responsibility and are committed to ensuring our business practices have a positive effect on our staff, clients and society as a whole. We achieve this through adhering to key corporate objectives and values of a high standard which are set and pursued in the context of the current social and regulatory environment. We know that sustainable business success depends on the engagement of our people and with our community.

Future Prospects
As noted in the Chairman's statement, UBN has entered into a share Sale and Purchase agreement ('SPA') to divest its entire equity stake in UBUK to MBU BidCo. In the period between the signing of the SPA and change of control, UBUK will operate normally, in its ordinary course of business and continue to enable UBUK be a leading provider of specialised financial services to target clients with interests in the UK, Europe and Africa.

STRATEGIC REPORT
CONTINUED

RISK MANAGEMENT
The Board of Directors is ultimately responsible for risk management policies, limits and risk appetite. It is supported by two of its standing Committees, the Board Risk Committee and Board Audit & Compliance Committee that assist in formulating policy and provide strategic direction for all aspects of risk management. These Committees, in turn, charge management to develop, update and implement these policies, controls and limits with risk management ensuring that there is no event or combination of events that will materially affect the stability of the Bank.

Management operates through a number of committees, namely The Asset and Liability Committee (‘ALCO’), Management Risk Committee, Credit Committee and Management Committee, each having its own terms of reference.

All credit decisions and new products require the approval of one or more committees depending on the amount required and are initially reviewed and recommended by the Risk Department before submission to the relevant committee for approval. Risk will monitor the credit until drawdown to ensure all conditions precedent are met. All portfolios and limits are continuously monitored by senior management via the monthly Management Risk Committee.

Principal Risks and Uncertainties
The principal risks associated with the business of the Bank are credit risk, liquidity risk, market interest rate risk and operational risk. The Bank has established a comprehensive enterprise risk management framework to manage these risks, guided by the Basel Committee’s principles for sound risk management and compliance with Basel III and FCA and PRA prudential regulations, including those in respect of liquidity risk.

Section 172(1) statement
The biggest decision to have been made this year that will impact on the Bank’s stakeholders is UBN entering into a share Sale and Purchase agreement (‘SPA’) to divest its entire equity stake in UBUK to MBU BidCo, as noted in the Chairman’s statement.

The terms of the sale of the Bank entrust its customers and trading partners to a high-quality financial services institution who will work with existing management to deliver a stronger and more profitable entity.

The sale will allow the Bank to build on its strengths in international markets and will enable the Bank to focus on the needs of U.K. and international SMEs (small and medium-sized enterprises) and other fast-growing businesses. The Bank plans to introduce new business, technology and growth initiatives in the medium to long term to improve product and service delivery to current and future customers including maintaining and leveraging relationships with the Bank’s existing partners.

The employees are the Bank’s most valuable asset, as recognised by the Directors in the “Employee Matters” section of the Directors’ Report. The Bank will build on its existing team, both through further hires and training and development, to ensure they are able to support the execution of the strategic plan going forward.

Clearly, maintaining the Bank’s reputation with Regulators and other stakeholders during the SPA process is of paramount importance to the Bank. Pre and post completion the Bank will continue to undertake its business adhering to the highest standards of conduct and culture, as detailed in the “Corporate Culture and Values” section of the Directors’ report. We will keep all stakeholders fully informed and hold regular dialogue with the Regulator.

As already highlighted in this Directors’ Report the Bank has a clearly defined process for risk identification, assessment and mitigation and has identified those reputational risks associated with the sale and ensured mitigants are in place.

Prior to completion, UBUK will continue to execute its current strategy.

STRATEGIC REPORT

CONTINUED

Covid-19 pandemic
The Bank recognizes that there will be impact upon its business as a result of the Covid-19 pandemic. This matter is under constant review by the Board and Senior Management due to the rapidly changing environment and information released by the Government and UK Health organisations. The primary concern of the Bank is the health and welfare of its staff and customers.

The Bank has a fully tested remote working capability and instigated its contingency plans early in the crisis. All staff are currently working remotely. Our remote working facilities are secure and access is only possible through bank issued equipment. Systems for oversight and surveillance will continue to operate. Processes that require pre or post authorization or approval will continue to operate, and electronic signatures will be used if appropriate.

The Bank's customers are primarily Nigerians based in Nigeria. These customers have been advised of changes to our services and will be kept up to date of developments through the bank website.

We have carried out a full Covid-19 risk assessment looking at all aspects of risk. Whilst we expect that some customers will experience short term economic difficulties, we will work closely with them to overcome these. Our liquidity and capital positions will remain adequate.

Management will continue to closely follow the global health and economic situation with an emphasis on Nigeria via the ALCO and evaluate the possible short and long term impact on our portfolios. In addition, the Bank makes an assessment with regard to the financial position of the Union Bank of Nigeria, current and prospective regulatory developments and their likely impact on the Bank's capital and liquidity requirements, and the Bank's approach to the management of its other key risks, as well as current budgets and financial forecasts for profitability, capital and liquidity requirements. The Bank is satisfied that, as a result of these assessments and its prudent approach to risk management, there would be no unexpected negative impact from these factors.

Approved by the Board of directors and signed on behalf of the Board

D J Forster

David Forster

Managing Director / Chief Executive 18 May 2020

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2019.

Principal Activities
Union Bank UK plc ('UBUK' or the 'Bank') was incorporated in England and Wales on 10th February 2003 as a wholly owned subsidiary of the Union Bank of Nigeria Plc ('UBN').

The Bank is authorised under the Financial Services and Markets Act 2000 (FSMA 2000), to carry on regulated financial services activities, including deposit-taking and dealing in investments as principal. The business of the Bank includes the provision of retail and commercial banking, treasury and trade finance services.

The Bank has established and maintains the management structure, policies, systems and procedures necessary to enable full compliance with the rules and regulations of the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA').

Directors
The directors of the Bank at the date of this report and those who served during the year ended 31 December 2019, are as follows:

Mr GC Laws	-	Non-executive Chairman
Mr AC Emuwa	-	Non-executive
Mr E Okonkwo	-	Non-Executive
Mr DJ Forster	-	Managing Director/Chief Executive
Mrs SO Iroche	-	Non-executive
Mr KS Kasongo	-	Non-executive
Mr NJ Richards	-	Non-executive

Going Concern Basis of Preparation
The financial statements are prepared on a going concern basis.

In keeping with the guidance issued by the Financial Reporting Council, the Board has considered formally whether it is appropriate to prepare the financial statements on a going concern basis and has concluded that the Bank has sufficient resources to continue in business for the foreseeable future and there is no material uncertainty. In making this assessment, the Board has considered a wide range of information relating to present and future conditions, including that set out under the headings 'Financial Risk Management' and 'Developments in Financial Regulation' below.

The assessment has regard to the economic climate in the major markets in which the Bank participates, the financial position of UBN, current and prospective regulatory developments and their likely impact on the Bank's capital and liquidity requirements, and the Bank's approach to the management of key risks, as well as current budgets and financial forecasts for profitability, capital and liquidity requirements. It has also considered the impact of the Covid-19 pandemic.

Financial Results
The Bank's financial statements are prepared under International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU). The functional currency of the Bank for financial reporting purposes is the US Dollar (US$), being the currency in which the majority of its assets, liabilities, capital and revenues are denominated.

The financial statements for the year ended 31 December 2019 are shown on pages 27 to 60. The loss for the year after taxation amounted to US$ 11,660,000 (2018: US$ 702,000 profit).

The directors do not propose a dividend for the year ended 31 December 2019 (2018: US$1,000,000).

DIRECTORS' REPORT
CONTINUED

Financial Risk Management
The principal risks associated with the business of the Bank are highlighted in the Strategic Report but are credit risk, liquidity risk, market interest rate risk and operational risk.

The Bank has established a comprehensive enterprise risk management framework to manage these risks, guided by the Basel Committee's principles for sound risk management and compliance with Basel III and FCA and PRA prudential regulations, including those in respect of liquidity risk. The Board establishes the risk governance structure and sets the overall risk appetite for both risks to the capital and the liquidity position of the Bank, together with key risk management policies, including limits relating to credit, market and liquidity risks. The framework provides for independent oversight of business units, risk identification, assessment and measurement, as well as stress testing of key risks and various other risk mitigations and monitoring techniques.

Financial and other risks are assessed and documented as part of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') whereby 'treated risk' after mitigation is considered and internal capital allocated accordingly. The assessment of risks and allocation of capital recognises the Bank's commitment to the Nigerian and African markets. These include political, infrastructure and concentration risks, including dependence on industry sectors such as oil and gas. These risks are significantly mitigated by virtue of the specialised knowledge and experience of the Bank and UBN, which permits the taking of informed decisions as to risk assumption and mitigation.

The Bank has a clearly defined risk appetite including policies for the identification of key risks and also has in place Credit Grading and Key Risk Indicator tools.

The Bank also prepares an Internal Liquidity Adequacy Assessment ('ILAA'). The framework is designed to assess whether the Bank is able to survive liquidity stresses of varying magnitude and duration, including the provision to build up a liquidity asset buffer ('LAB') of UK Government or similar quality securities to be used in liquidity stress event. In addition to this, the Bank maintains, at all times, positive liquidity ratios which are measured and monitored on a daily basis. Further information concerning the Bank's policies for managing risks associated with financial assets and liabilities is set out in note 31 to the financial statements.

Operational risk is monitored via Risk Incident Reporting from which Key Risk Indicators are generated which are aligned with the Bank's appetite statement and further supplemented by a Key Control Self-Assessment process.

The Bank has also completed a Recovery plan. The process includes identifying events and triggers thereto which would force the Bank to need to recover from an actual or imminent failure of all or part of its business and agreeing, in consultation with the twin regulatory authorities, the critical economic functions undertaken by the Bank for which a Resolution Pack will be put in place to be used by those authorities or their appointed agents.

Developments in Financial Regulation
The Bank continues to monitor developments in relation to Basel III. In addition to traditional capital requirements, banks will also be required to build up Capital Requirements Directive IV ('CRDIV') buffers, Capital Conservation and Counter Cyclical Buffer ('CCyB'), 2.5% of RWA between 1 January 2017 and 1 January 2020.

In December 2019, the Bank of England's Financial Policy Committee ('FPC') recommended in its latest Financial Stability Report that the CCyB rate for UK exposures be increased from 1% to 2% with effect from December 2020 in order to give the UK more flexibility in times of future stress. It considers that the total loss absorbing capacity in the UK banking system should remain unchanged, notwithstanding the buffer increase. To this end, the PRA will consult in 2020 on proposals to reduce Pillar 2A requirements to reflect the additional resilience associated with a higher buffer.

DIRECTORS' REPORT

CONTINUED

The UK left the EU on 31 January 2020 and in order to smooth the transition, the UK remains subject to EU law during an implementation period, which is currently expected to end on 31 December 2020. It is possible that the implementation period may be extended by a further two years. In preparation for the UK leaving without an agreement, a series of statutory instruments were made to transpose into UK law, all of the EU laws and regulations that were directly applicable to UK firms on the day of exit. Although these statutory instruments were prepared for the UK leaving without a deal, it is anticipated that they will form the basis of the UK's regulation after the implementation period has ended; however, these may be subject to change to reflect the introduction of new EU law during the implementation period and the terms of any trade deal between the UK and the EU.

In December 2017, The Basel Committee on Banking Supervision ('BCBS') published revisions to the Basel III framework. The final package which would apply to UBUK includes widespread changes to the risk weights under the standardised approach to credit risk and the replacement of the operational risk approaches with a single methodology. The proposals anticipate an implementation of 1 January 2022. The Bank continues to monitor these developments; the proposals will ultimately need to be transposed into the relevant legal framework to take effect. There remains a degree of uncertainty due to the number of national discretions within BCBS's reforms, the need for further supporting technical standards to be developed and the lack of clarity regarding their implementation following the UK's withdrawal from the EU.

In the Europe, the BCBS's reforms are being implemented through revisions to the CRDIV framework. These reforms, often referred to as 'Basel IV' are following a phased implementation and in turn are being referred to as 'CRR II' and 'CRR III'. In June 2019, the EU enacted the final rules amending CRR II which will follow a phased implementation with significant elements entering into force in 2021, in advance of the BCBS's timeline.

The remaining elements of the Basel III Reforms will be implemented in the EU via CRR III. In 2019, the European Commission ('EC') began consulting on these reforms to credit risk and operational risk. The EC is expected to produce a draft CRR III text by the end of 2020. The UK may have to implement the remaining Basel III Reforms independently under UK law.

The Bank also continues to maintain HQLA 10% above the regulatory minimum in order to maintain the Pillar 1 Liquidity Coverage Ratio at required levels. From June 2021 the Net Stable Funding Ratio will be added to liquidity Pillar 1 standard. The European Banking Authority ('EBA'), introduced Common Reporting Standards in 2014 and the Bank continues to report the data items set to its reporting portfolio to Prudential Regulation Authority UK ('PRA').

Future Developments

In January 2020 UBN entered into a share Sale and Purchase agreement ('SPA') to divest its entire equity stake in UBUK to MBU BidCo. In the period between the signing of the SPA and change of control, UBUK will operate normally, in its ordinary course of business and continue to enable UBUK be a leading provider of specialised financial services to target clients with interests in the UK, Europe and Africa. MBU plans to introduce new business, technology and growth initiatives in the medium to long term to improve product and service delivery to customers including maintaining and leveraging relationships with UBUK's existing partners.

Replacement of the LIBOR benchmark

In April 2017, the regulatory body reviewing LIBOR; the Risk Free Rate Working Group recommended that LIBOR should no longer be as a market reference rate. Historically, the Bank has used LIBOR to hedge the risks associated with having medium to long term fixed rate instruments on its balance sheet.

It has been announced that by 2021 LIBOR will cease to exist and in response the Bank has formed a LIBOR Transition Committee which has been working to move the Bank away from using LIBOR. At the end of December 2019, the Bank has 2 LIBOR based loans with a value of £16.6m which will mature after the LIBOR cessation at the end of 2021.The Bank also has 19 LIBOR based mortgages with an outstanding balance of 4.2m which will contractually be on LIBOR after the end of 2021. At the end of December 2019, the Bank no longer has any LIBOR-based treasury instruments in its liquidity portfolio.

DIRECTORS' REPORT
CONTINUED

Corporate Culture & Values
The UBN Group has, at its heart, the corporate values of Initiative, Customer Focus, Accountability, Respect and Efficiency. These values are the foundation of our dealings with our customers, and each other, and are regularly reviewed by the Board and staff to ensure that we have a working culture that sustains our position as a highly respected provider of quality banking services. The Bank promotes compliance with the "spirit" as well as the "rule" of regulation, and that all risks should be fully identified, assessed and understood before they are incurred. The Bank operates a "Three Lines of Defence" business model, to promote effective and controlled risk taking.

Information Management

The Bank seeks to ensure that expenditure on IT and Communications remains appropriate to meet all regulatory and business needs.

The Bank recognises the importance of safeguarding client data and has developed policies and physical and logical access controls which, coupled with staff awareness training, are designed to protect against data loss.

Employee Matters

The Bank recognises that its performance is dependent on the quality of its work force and the investment it makes in training and development. It is the Bank's policy that its staff should have the opportunity to develop to their full potential, promote its business in a manner consistent with the highest standards and recognise its environmental and other responsibilities as a corporate citizen. Staff competencies, training and development are planned consistently with corporate objectives, including the management of risk, and staff are appraised and rewarded accordingly.

Business relationships
The biggest decision to have been made this year that will impact on the Bank's business relationships, including suppliers, customers and others, is UBN entering into a share Sale and Purchase agreement ('SPA') to divest its entire equity stake in UBUK to MBU BidCo, as noted in the Chairman's statement.

The sale will allow the Bank to build on its strengths in international markets and will enable the Bank to focus on the needs of U.K. and international SMEs (small and medium-sized enterprises) and other fast-growing businesses. The Bank plans to introduce new business, technology and growth initiatives in the medium to long term to improve product and service delivery to current and future customers including maintaining and leveraging relationships with the Bank's existing partners.

Property and Equipment, Intangible Assets
Changes in property and equipment and intangible assets are set out in notes 21 and 22 to the financial statements.

Covid-19 Risk Assessment
As stated in the Strategic Report the bank recognises, and has assessed, the potential for impact upon its business as a result of the Covid-19 pandemic. This matter is under constant review the by the Directors and Senior Management due to the rapidly changing environment and information released by the Government and UK Health organisations.

DIRECTORS' REPORT
CONTINUED

Directors' Representation

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Auditors

The Board approved BDO's reappointment.

By order of the Board on 18 May 2020

D J Forster

David Forster
Managing Director / Chief Executive
1 King's Arms Yard
London, EC2R 7AF

DIRECTORS' RESPONSIBILITIES AND CORPORATE GOVERNANCE

Statement of Directors' Responsibilities in respect of the Strategic Report and Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report and the 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Website Publication

The Directors are responsible for ensuring the Directors' Report and financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate Governance

The Board of Directors of the Bank comprises one executive director, three non-executive directors appointed by UBN, and three independent non-executive directors one, of whom is the chairman of the Board.

The Board meets at least quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank, including assessment of the Bank's competitive position, approval of strategic and financial plans and review of performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation and establishes the risk framework, overall risk appetite and key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

The Board has three standing committees: the Board Risk Committee ('BRC'), the Board Remuneration & People Committee ('BRPC') and the Board Audit & Compliance Committee ('BACC'). Each of these standing committees is chaired by an independent non-executive director, has written terms of reference and, with the exception of the BACC, defined limits of authority. The BRC meets as often as required but at least quarterly, the BACC and the BRPC meets quarterly.

The primary functions of the BRC is to consider credit proposals in excess of the limits of authority of the executive Assets & Liabilities and Credit Committees of the Bank, and to monitor compliance with the Bank's credit, large exposure, impairment, liquidity and market risk policies.

DIRECTORS' RESPONSIBILITIES AND CORPORATE GOVERNANCE

CONTINUED

The BACC comprises solely non- executive directors and is chaired by a financially experienced individual. The MD/CEO, the Head of Finance, CRCO, the Compliance Manager, a representative of the outsourced Internal Auditors and a representative of the external auditors shall attend meetings only at the invitation of the Committee. The primary functions of the BACC are to assist the Board in fulfilling its oversight responsibilities by monitoring and assessing the integrity of financial statements, the qualifications, independence and performance of external auditors, compliance with legal and regulatory requirements and the adequacy of systems of internal accounting and financial controls. Its assessment of the internal control environment is made by reviewing and approving the plans of Internal Audit and considering and questioning management on operational audit reports.

The BACC also approves the appointment of, and fees paid to, the external auditors for all audit and non-audit work. It is also responsible for the appointment of the outsourced Internal Auditor.

The BRPC has responsibility for considering matters related to human resource policy, including compensation arrangements. In particular, it reviews and recommends to the Board both overall compensation pools and the remuneration of executive directors and certain other members of senior management. It has responsibility also for certain matters relating to the working environment of staff and insurance arrangements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC

Opinion

We have audited the financial statements of Union Bank UK plc (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 the IFRSs as adopted by the European Union 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 applicable 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 judgment, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC CONTINUED

Key Audit Matters	**How the matter was addressed in our audit**
<u>Loan loss provisioning</u> The principal activity of the Bank is the provision of credit services to banks, corporate and individual customers. Commensurate with the activities of the Bank, the total loan loss provision is a material balance subject to management judgement and estimation. Please refer to note 2 and 3 in the financial statements Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations and modelling assumptions used to build the models that calculates the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple economic scenarios; • Accuracy and adequacy of the financial statement disclosures.	We analysed the components of the loan book and considered management's processes for identification and treatment of underperforming loans. We have evaluated and challenged the Bank's determination of what constitutes a Significant Increase in Credit Risk and whether the definition of default used for the Bank's estimate of Expected Credit Loss results in a probability of default that reflects the Bank's current view of the future and is unbiased. We have conducted our own credit reviews, as well as reviewing the Bank's Credit Risk Policy in order to ensure that the SICR which the bank has defined has been applied consistently. We evaluated the selection and source of the information used by the Bank to determine Probability of default (PDs), Loss given default (LGDs) and Exposure at default (EADs), by comparing to similar institutions and external data sources where available. We made an assessment of the adequacy and accuracy of the credit provision by reference to internal and external information where available to establish if provisioning was in accordance with requirements of IFRS9. With the support of our internal economic specialists, we assessed the appropriateness of the models used and assessed the macroeconomic variables, such as GDP and Corporate insolvency rates. With the support of our modelling specialists, we reviewed the correlation and impact of the macroeconomic factors to the ECL. We assessed the reasonability of multiple economic scenarios used, including weighting and probability changes, by comparison to other institutions of similar size. We enquired of management regarding the value of collateral held and checked it to support to determine whether the level of provisions is reasonable. On a sample basis we performed tests of details on loan files and made our own assessment of the valuation and recoverability of loan assets. For significant Stage 3 loans we understood the default trigger, management strategy and the basis for the collateral valuation. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC CONTINUED

Key Audit Matters	How the matter was addressed in our audit
Going concern **Covid-19 and post balance sheet event** When preparing financial statements, management are required to make an assessment to support the going concern basis of preparation. An entity is a going concern unless management either intends to cease trading, or has no realistic alternative but to do so. Following the year end, the COVID-19 virus is having a significant impact on businesses and the economy in the UK and Globally. In assessing whether the entity is a going concern management is required to take into account all available information about the future including the implications of COVID-19 effects on their operations, for a period of at least 12 months from the date when the financial statements are authorised for issue. Management has concluded that there is no material uncertainty in relation to the entity's ability to continue as a going concern. Management's associated consideration is in the Directors report on page 9. Given the uncertainty regarding the impact of COVID-19 on the economy and the Bank we considered this to be a key audit matter.	**Key observations:** We have not identified any areas of expected credit loss modelling which are not in line with the requirements of IFRS9. In responding to this risk, our audit procedures included assessing the reasonableness of the assumptions within management's forecasts for liquidity and capital for a period of 12 months from the signing of these accounts. In particular: • We considered the stress scenarios testing undertaken by management to support the Going concern assessment which included assumptions about the potential impact this could have on customer repayments of loans or the repayment of customer deposits and consider these assumptions plausible. We focused on the capital and liquidity position during this period; • We have also considered the Bank's ability to comply with the regulatory capital and liquidity requirements throughout this period.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality	$313,000
Performance materiality	$235,000
Reporting threshold	$5,000

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC
CONTINUED

Materiality

We consider materiality to be the magnitude by which misstatements, individually or taken together, could reasonably be expected to influence the economic decisions of the users of the financial statements. We determined the materiality for the company financial statements as a whole to be $313,000 (2018: $371,000), which was set at 0.5% of Tier 1 capital. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that Tier 1 capital was the most appropriate benchmark as regulatory stability is considered to be the main driver for the company at this time.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

Performance Materiality

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with our assessment of the company's overall control environment, our judgment was that overall performance materiality for the company should be 75% of materiality, namely $235,000 (2018: $278,000).

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial. We agreed with the Audit Committee that we would report all individual audit differences in excess of $5,000 (2018: $7,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates. Our audit has encompassed all balances in the financial statements, as well as the related disclosures and notes. Our audit approach has been driven by our materiality thresholds set out above.

Our audit approach was developed by obtaining an understanding of the company's activities and the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the calculations of expected credit losses where there is a high level of estimation uncertainty.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC
CONTINUED

Capability of the audit to detect irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included, but were not limited to, compliance with Companies Act 2006 and EU adopted IFRSs. We also considered the company's compliance with licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and relevant tax legislation.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. There are inherent limitations in an audit of financial statements and the further removed noncompliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

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

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 the 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC

CONTINUED

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 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 directors' responsibilities statement, 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

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNION BANK UK PLC
CONTINUED

Other matters we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 4 August 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. We were re-appointed in respect of the year ended 31 December 2019 by the members of the company at the annual general meeting held on 10 May 2019. The period of total uninterrupted engagement is 6 years, covering the years ending 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 our 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.

BDO LLP

Ariel Grosberg (Senior Statutory Auditor)
For an on behalf of BDO LLP, Statutory Auditor
London, UK
Dated: 18 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Interest income	5	16,906	14,607
Interest expense	6	(4,803)	(3,824)
Net interest income		**12,103**	10,783
Fees and commission income	7	1,934	2,000
Dealing and exchange gains	8	591	399
Total income		**14,628**	13,182
Administrative expenses	10	(9,039)	(9,831)
Depreciation and amortisation	21/22/33	(1069)	(786)
Bad debt written off		(815)	-
Impairment charge	20	(15,462)	(1,507)
Other operating expense	9	(206)	(158)
(Loss) /Profit before tax		**(11,963)**	900
Tax charge	14	303	(198)
(Loss) /Profit for the year after tax		**(11,660)**	702
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Unrealised, net change in fair value of financial assets measured at FVOCI		26	(5)
Other comprehensive income for the year		26	(5)
Total comprehensive (loss)/ income for the year		**(11,634)**	697

The result is derived entirely from continuing activities.

The notes on pages 27 to 60 form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 US$'000	2018 US$'000
Assets			
Cash and cash equivalents	16	82,920	26,257
Loans and advances to banks	18	278,511	296,100
Loans and advances to customers	19	34,396	46,702
Financial assets measured at FVOCI	17	52,577	55,133
Intangible assets	22	579	1,160
Property and equipment	21	234	286
Right-of-use-assets	33	3,294	-
Tax debtor		775	-
Other assets	23	920	865
Prepayments		593	403
Total Assets		454,799	426,906
Liabilities			
Deposits by banks	24	320,132	277,258
Customer accounts	25	65,141	71,260
Lease liabilities	33	3,439	
Financial liabilities derivatives		-	9
Other liabilities	26	2,198	1,566
Deferred tax liabilities	14	-	39
Accruals and deferred income	27	493	510
Tax Payable		-	229
Total Liabilities		391,403	350,871
Equity			
Called up share capital	28	60,090	60,090
FVOCI reserve		21	(5)
Retained earnings		3,285	15,950
Equity		**63,396**	**76,035**
Total Liabilities and Equity		**454,799**	**426,906**

The financial statements were approved by the Board of Directors and authorised for issue on 18 May 2020
Signed on behalf of the Board of directors:

D J Forster

David Forster
Managing Director / Chief Executive

The notes on pages 27 to 60 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Share Capital US$'000	FVOCI Reserves US$'000	Retained Earnings US$'000	Total Equity US$'000
Balance as at 1 January 2018	**60,090**	**-**	**18,360**	**78,450**
IFRS9 Transitional Adjustments			(112)	(112)
Dividends Paid	-	-	(3,000)	(3,000)
Total comprehensive income for the year				
Change in fair value of assets measured at FVOCI	-	(5)	-	(5)
Profit for the year	-	-	702	702
Balance attributable to equity shareholders as at 31 December 2018	**60,090**	**(5)**	**15,950**	**76,035**

	Share Capital US$'000	FVOCI Reserves US$'000	Retained Earnings US$'000	Total Equity US$'000
IFRS9 Transitional Adjustments			(5)	(5)
Dividends paid		-	(1,000)	(1,000)
Total comprehensive income for the year				
Change in fair value of assets measured at FVOCI	-	26	-	26
Current Tax recognised on fair value gain on assets measured at FVOCI	-	-	-	-
Loss for the year	-	-	(11,660)	(11,660)
Balance attributable to equity shareholders as at 31 December 2019	**60,090**	**21**	**3,285**	**63,396**

The notes on pages 27 to 60 form part of these financial statements

STATEMENT OF CASH FLOWS

	Note	2019	2018
		US$'000	US$'000
(Loss)/ Profit before tax		(11,962)	900
Adjustments for:			
Depreciation and amortisation	21/22	678	786
Amortisation of rights of use assets	33	391	-
Loss on disposal of intangible assets		10	
Bad debt written off		813	-
Realised loss on disposal of financial assets -FVOCI		-	8
Impairment of loans and advances		15,462	1,507
Unrealised gain/(loss) on financial assets measured at FVOCI		21	(5)
		5,413	3,196
Change in loans and advances to banks		17,633	17,020
Change in loans and advances to customers		(4,044)	22,084
Change in other assets		(55)	481
Change in prepayments		(78)	388
Change in deposits by banks		42,874	7,164
Change in customer accounts		(6,119)	(12,396)
Change in derivative liability		(9)	-
Change in other liabilities		632	(996)
Change in accruals and deferred income		(17)	(100)
Cash generated from operations		56,230	36,841
Acquisition of financial assets		(6,395)	(41,652)
Disposal of financial assets		8,992	17,669
Income tax paid		(740)	(579)
Net cash generated from operating activities		58,087	12,279
Acquisition of tangible and intangible assets		(55)	(574)
Net cash flow used in investing activities		(55)	(574)
Dividends paid		(1,000)	(3000)
Leasehold property repayments		(359)	-
Net cash used in financing activities		(1,359)	(3,000)
Net increase in cash and equivalents		56,673	8,705
Cash and cash equivalents at 1 January		26,261	17,556
Cash and cash equivalents at 31 December	**16**	82,934	26,261

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Union Bank UK plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the Company's registered office is given on page 5.

Information concerning the principal activities and operations of the Bank and its regulatory status is set out in the Directors' Report and in the notes to the financial statements.

2. Basis of presentation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Bank has also complied with its legal obligation to comply with IFRSs as adopted by the European Union (EU) as there are no applicable differences between the two frameworks for the periods presented.

IFRS16 Leases ('IFRS 16') is a new standard effective 1 January 2019 and its adoption has given rise to the Bank's accounting policy given in note 3(l) below.

(b) Going concern basis of preparation

The financial statements have been prepared on a going concern basis as the directors continue to be of the opinion that the Bank has sufficient resources to continue in business for the foreseeable future.

In forming this opinion, the directors have had due regard to the latest guidance issued by the Financial Reporting Council. The assessment enabling the directors to form this opinion has included a wide range of information relating to present and future conditions, as well as obtaining satisfaction as to the Bank's own current and prospective capital adequacy and liquidity and the policies in place to manage and control the risks inherent in the markets in which the Bank operates.

The Bank does not expect to be materially affected by the impact of Brexit.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments as required under IFRSs.

(d) Functional and presentation currency

The directors are of the opinion that the functional currency of the Bank is the US Dollar (US$), being the currency in which the majority of the assets, liabilities and revenues are denominated. Therefore, these financial statements are expressed in US$ and all financial information is presented in US$, rounded to the nearest thousand.

(e) Use of estimates and judgement

The Bank makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Expected Credit Loss provisioning

The Bank uses IFRS 9 Financial Instruments ('IFRS 9') guidance on the 'classification and measurement' of financial instruments, including the expected loss model for calculating 'impairment' on financial assets and general hedge accounting requirements.

The key components of IFRS 9 which are applicable to the Bank and its financial instruments are: 'classification and measurement' and 'impairment'.

The Bank's interpretation of these requirements is detailed below in addition to how they have been implemented and continue to be monitored.

2. Basis of presentation (continued)

Classification and measurement

Classification of financial assets depends on how they are managed and their contractual cash flow characteristics. IFRS 9 requires that financial assets are categorised in to two broad business models: 'hold to collect' and 'hold to collect and sell'. The objective of the 'hold to collect' ('HTC') business model is to hold financial assets and collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. However, there is no requirement that financial assets are always held until their maturity. Financial assets that meet a 'Solely Payments of Principal and Interest' ('SPPI') test and are held in a HTC business model will be classified at amortised cost. Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial asset. In contrast to the 'hold to collect' business model, sales are integral rather than incidental, and consequently this business model typically involves a greater frequency and volume of sales.

Only financial assets that meet the SPPI test and are held in a 'hold to collect and sell' business model can be classified at fair value through other comprehensive income ('FVOCI').

Impairment

Under IFRS 9 loan loss provisions are calculated on an expected credit loss ('ECL'). The ECL model incorporates a forward looking view so when a financial asset is initially recognised, an impairment loss allowance is calculated for the expected losses from defaults over the following 12 months. If the Bank then determines that there has been a significant increase in the credit risk of an asset, this impairment loss is increased to cover the expected losses over the whole life of the asset. In addition to impairment losses being required against financial assets, ECLs are also required against the value of certain off-balance sheet commitments where contracts have been entered in to on behalf of customers, but an asset has yet to be recognised on the Statement of Financial Position.

The computation of credit losses under IFRS 9 involves estimation of probabilities of default ('PD'), loss given default ('LGD'), a range of unbiased future economic scenarios, estimation of exposure at default and assessing where there have been instances of increases in credit risk.

The Bank currently estimates the 12-month and lifetime PD, LGD and exposure at default ('EAD') for each loan to estimate the ECL for its portfolio. This modelling approach forecasts PDs for the remaining contractual maturity by taking into consideration how borrower-specific and macroeconomic conditions influence their estimation. Estimates are also generated for LGDs and EADs based on the nature of the collateral held and the credit exposures as well as

incorporating credit risk mitigation activities that the Bank undertakes in its management of credit risk. The Bank has performed an assessment of the key drivers of risk in its credit exposures and is modelling multiple-economic scenarios for these.

The Bank has used the general approach that categorises each loan into a '3 Stage' impairment model. For credit exposures where there have not been significant increases in credit risk since initial recognition, a 12-month ECL is provided for (Stage 1). For credit exposures where there have been significant increases in credit risk, lifetime ECLs are provided for (Stages 2 and 3). The Bank assesses significant increases in credit risk using both relative quantitative and qualitative measures that are commensurate with the nature of the credit exposures at their inception and on an on-going basis.

2. Basis of presentation (continued)

Assets designated in the HTC model that have had no observed significant increase in credit risk will be placed into Stage 1 (‘performing’) and provisions measured according to the outputs of the model. The Bank uses a number of both relative quantitative and qualitative measures that are commensurate with the nature of the credit exposures at their inception and on an on-going basis to determine if there is evidence of significant increase in credit risk in an exposure.

As an appropriate backstop measure, under-performing assets which have had no objective evidence of impairment that are 30 days past due will be moved to Stage 2 (‘under-performing’). Once exposures become 90 days past due, this backstop will be used in conjunction with other qualitative criteria to determine that they are non-performing and placed into Stage 3 (‘non-performing’). This objective evidence of impairment will result in a provision of EAD multiplied by LGD as the lifetime ECL.

In some circumstances, as part of the Bank’s recovery process for non-performing assets, the Bank will agree to exercise “forbearance”, agreeing to accept later payment of principal and interest (“re-scheduling”), or to fully restructure a loan obligation. In these circumstances, particularly where repayments are heavily postponed or “back ended”, loans that were under-performing (IFRS 9 Stage 2) or non-performing (IFRS 9 Stage3) might be considered, following re-structure, to be performing again.

It is the policy of UBUK, in accordance with the principles of IFRS 9 that where forbearance is exercised, there should be at least a 12 month “cure period” before any impairment allowance, generated by the previous default or arrears, is removed. During this period the customer needs to demonstrate that all new repayments are being met in full.

Loans and Advances are written off after they are classified as ‘lost’, that is, the asset is irrecoverable, or it is no longer considered economically viable to try and recover it or it is deemed immaterial, or full and final settlement is reached, including loan collateral that has been realised, and a shortfall remains. In the event of write off, the loan balance is removed from the statement of financial position and the impairment allowance held against this loan is released.

Assets designated in the ‘hold to collect and sell’ model are initially recorded at cost and subsequently remeasured at fair value with changes recognised in other comprehensive income (‘OCI’) until the assets are sold. Upon disposal the cumulative gains or losses in OCI will be recognised in the income statement. At the year end, the Bank only had debt securities in this classification as measured in note 17.

2. Basis of presentation (continued)

	Performing US$'000 (Stage 1)	Under-performing US$'000 (Stage 2)	Non-Performing US$'000 (Stage 3)	Total US$'000
Opening loss allowance at 1 January 2019 (under IFRS 9)	**645**	**39**	**1,843**	**2,527**
Financial assets transferred:				
From Stage 1 to Stage 2	(15)	15	-	-
From Stage 2 to Stage 3	-	-	-	-
From Stage 1 to Stage 3	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
Increase / (decrease) in ECL	(64)	236	15,290	15,462
New financial assets originated	-	-	-	-
Closing loss allowance at 31 December 2019	**566**	**290**	**17,133**	**17,989**
Comprised of:				
Loans and cash deposits with banks	383	-	-	**383**
Loans and advances to customers	48	290	17,133	**17,471**
Financial assets measured at FVOCI	-	-	-	**-**
Trade related contingencies	135	-	-	**135**
Total by stage and asset class	566	290	17,133	17,989

At 31 December 2019, impairment allowance totalled US$17.99m (2018: US$2.53m). The net impairment loss (i.e. after recoveries) for loans and advances to customers recognised in 2019 was US$15.46m (2018: US$1.50m).

The gross carrying amount of financial instruments, and thus the maximum exposure to loss is as follows:

	Financial Assets 2019 US$'000
Performing	432,437
Under-performing	13,754
Non-performing	20,202
Total gross financial assets	466,393
Less: Loan loss allowance	(17,989)
Financial assets net of ECL	448,404

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income on financial assets that are classified at amortised cost or fair value through other comprehensive income and interest expense on financial liabilities are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross balance on stage 1 and stage 2 assets.

The calculation of the effective interest rate includes all fees, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Interest income and expense presented in the profit and loss include interest on financial assets and liabilities held at amortised cost on an effective interest rate basis.

(b) Fees and commission

Fees and commission are accounted for depending on the services to which the income relates as follows:

- income earned on the execution of a significant act is recognised in 'fees and commission income' when the act is completed (for example, a fee arising from arranging a loan facility);
- income earned from the provision of services is recognised in 'fees and commission income' as the services are provided (for example, charges made for servicing customer accounts and the provision of trade finance services); and income which forms an integral part of the effective interest rate (for example, certain loan commitment fees) of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

(c) Foreign currency

A foreign currency transaction is recorded in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period, foreign currency monetary items are translated using the closing rate and resulting gains and losses on translation are included in the profit or loss.

Exchange gains on foreign exchange transactions with customers are recorded as income during the period.

(d) Financial instruments

Recognition

The Bank recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The classification policy below relates to financial assets recorded in 2018 and 2019 are compliant with IFRS 9 and outlined in accordance with the policies in note 2.

Management classifies financial assets and liabilities into the following categories at the time of initial recognition:

- 'Amortised cost'
- 'Fair value through profit or loss'
- 'Fair value through other comprehensive income -equity'
- 'Fair value through other comprehensive income -debt'

Initial measurement

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus (in the case of a financial asset or financial liability not at fair value through the profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3. Summary of significant accounting policies (continued)

Subsequent measurement
Financial assets initially classified at amortised cost are subsequently measured at amortised cost. Financial assets classified as 'hold to collect and sell' are subsequently measured at fair value through other comprehensive income. Financial liabilities are subsequently measured at amortised cost.

Measurement bases
(i) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, less principal repayments to date, plus or minus the cumulative amortisation using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

(ii) Fair value measurement
The determination of fair values of financial assets and financial liabilities quoted in an active market is based on observed bid and offer prices for assets and liabilities respectively. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include comparison to similar instruments for which market observable prices exist, discounting future cash flows, option pricing and other valuation models and methods widely used by market participants. As the Bank does not presently use more complex financial instruments, all the inputs to these valuation models and techniques are market-observable.

(e) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise of financial assets which are classified on initial recognition as being held to collect for contractual inflows and for sale. Gains and losses arising from changes in fair value are recognised as they occur in other comprehensive income.

(f) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through the profit and loss comprise of derivatives recognised at fair value with transaction costs recognised in profit or loss. Gains and losses arising from changes in fair value are recognised as they occur in other comprehensive income.

(g) Equity and other financial liabilities

The Bank classifies financial instruments that it issues as an equity instrument or financial liability in accordance with the substance of the contractual terms of the instrument. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after deduction of liabilities. An instrument is classified as a liability if it represents a contractual obligation to deliver cash, or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms.

Other financial liabilities, not classified as fair value through profit and loss, are initially recognised at fair value, including directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Deposits and customer accounts are classified as liabilities. Customer accounts with no activity for two years are moved to dormant account status and are then held within other liabilities.
Letters of credit are given as security to support the performance of a customer to third parties. As the Bank will only be required to recognise the exposure of these obligations in the event of the Customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts. However, the bank assesses letter of credit according to IFRS9 principles and makes provisions accordingly.

3. Summary of significant accounting policies (continued)

(h) Impairment of financial assets

The Bank assesses impairment of financial assets on a forward-looking basis; the expected credit losses ('ECL') associated with its financial assets carried at amortised cost, FVOCI and other off-balance sheet commitments are recognised in profit or loss as they occur.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar credit risk characteristics, taking into account asset type, industry, geographic location, collateral type, past-due status, historical loss experience and other relevant factors.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(a) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold improvements	-	Remaining life of lease
Office equipment and furniture	-	5 years
Computer hardware	-	3 years
Motor vehicles	-	4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date

(j) Intangible assets - software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. All costs have been capitalised in accordance with IAS 38.

Amortisation is recognised in profit or loss (within 'Depreciation and amortisation') on a straight-line basis over the estimated useful life of the software, which is assessed annually, from the date that it is available for use. The estimated useful life of software is three to five years.

3. Summary of significant accounting policies (continued)

(k) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, excluding any deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Leases

IFRS 16 applies to accounting periods beginning on or after 1 January 2019 and has been endorsed for use by those entities applying EU IFRSs. It requires lessees to bring all leases within its scope on balance sheet, showing an asset for the right-of-use and a liability for the discounted amount of future payments. The Bank has applied the modified retrospective adoption method in IFRS 16 so has recognised leases on balance sheet as at 1 January 2019. In addition, the Bank has measured right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. Instead of recognising an operating expense for its operating lease payments, the Bank will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. Comparative figures for 2018 have not been restated and remain as measured under IAS17.

The Bank has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

Payments made under operating leases out of scope from IFRS 16 are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The lease liability has been measured at the present value of the remaining lease payments discounted at 4.46% which represents an estimate of the Bank's rate of borrowing, independently and under comparable conditions. The right-of-use asset is equal to the lease liability less any prepaid lease payments.

3. Summary of significant accounting policies (continued)

(m) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss except to the extent where underlying items are recognised directly through other comprehensive income or equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the reporting date.

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are deemed to comprise cash in hand, cash at other banks repayable on demand and treasury bills maturing within three months.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(o) Pension costs

The Bank operates a defined contribution pension scheme and the amount charged to profit or loss in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the statement of financial position.

4. Segmental reporting

Segmental analysis of income has not been prepared as, in the opinion of the directors, all of the Bank's income derives from one main activity, commercial and retail banking, which is carried out in the United Kingdom

5. Interest income

	2019	2018
	US$'000	US$'000
Interest income on securities measured at FVOCI	2,874	1,486
Interest income on loans and advances	14,032	13,121
	16,906	14,607

6. Interest expense

	2019	2018
	US$'000	US$'000
Interest expense on deposits from banks	(4,481)	(3,626)
Interest expense on customer accounts	(163)	(198)
Interest expense on lease liability	(159)	-
	(4,803)	(3,824)

7. Fees and commission income

	2019 US$'000	2018 US$'000
Letters of credit	1,456	1,505
Funds transfer	243	206
Customer account charges	176	222
Others	59	67
	1,934	**2,000**

Timing of Revenue recognition

	Letters of credit	Funds transfer	Customer Account	Others	Total
Recognised at point in time	1,453	243	176	22	1,894
Recognised over time	3			37	40
Total	**1,456**	**243**	**176**	**59**	**1,934**

8. Dealing and exchange gain

Dealing and exchange gains relates to foreign exchange income derived from customer facilitation, including transactions on behalf of the UBN, the revaluation of assets and liabilities denominated in currencies other than the US Dollar and the gain / (loss) from the sale of securities.

	2019 US$'000	2018 US$'000
Loss on assets measured at FVOCI	-	(8)
Foreign exchange gain	591	407
	591	**399**

9. Other operating expense

	2019 US$'000	2018 US$'000
Other operating charges and brokerage	(206)	(158)
	(206)	**(158)**

10. Administrative expenses

	2019 US$'000	2018 US$'000
Wages and salaries, including directors	(4,306)	(4,237)
Social security costs	(494)	(454)
Pension costs	(447)	(390)
Other staff costs	(456)	(569)
Total staff costs	**(5,703)**	**(5,650)**
Other recurring administrative expenses	(3,336)	(4,181)
	(9,039)	**(9,831)**

Other administrative expenses are incurred in the ordinary course of the Bank's business and do not include any non-recurring items

Average number of employees, including executive directors:	2019 No.	2018 No.
Banking	20	19
Operations	21	20
Administration	3	3
	44	**42**

11. Pension costs

The Bank makes contributions to the personal pension funds of employees under Group Personal Pension arrangements. During the year to 31 December 2019, the Bank made contributions totalling US$ 446,751 (2018: US$ 390,302).

Contributions accrued at the reporting date amounted to US$nil (2018: US$nil). There were no outstanding pre-paid contributions at the reporting date.

12. Directors' emoluments

	2019 US$'000	2018 US$'000
Executive director emoluments	(261)	(258)
Non-executive directors' fees	(320)	(298)
	(581)	(556)

The emoluments of the highest paid director, excluding pension contributions, were US$261,072 (2018: US$257,957). Pension contributions were made to one director during the year amounting to US$25,255 (2018: US$23,481). US$nil of benefits in kind were paid during the year (2018: US$nil).

13. Profit / (Loss) before tax

	2019 US$'000	2018 US$'000
Profit / (loss) is stated after charging:		
Amounts payable to the Auditor and its associates pursuant to legislation in respect of:		
- Statutory Audit of the financial statements	(184)	(187)
Other services relating to taxation which are not provided by auditors (BDO)	(18)	(19)
Rental of premises held under an operating lease	-	(457)
Other low value operating lease and similar rentals	(30)	(79)

14. Taxation

Tax on profit on activities in the statement of comprehensive income:

(a) Analysis of tax charge on activities

	2019 US$'000	2018 US$'000
Current tax:		
United Kingdom corporation tax based on the (profit) / loss for the year	-	(253)
Adjustment in respect of prior year	264	4
Prior year restatement	-	-
Exchange differences		(33)
Total current tax	**264**	**(282)**
Deferred tax:		
Timing differences, origination and reversal	39	84
Prior year deferred tax adjustment	-	-
Change in tax rate	-	-
Total deferred tax	**39**	**84**
Tax (charge) / credit on profit / loss	**303**	**(198)**

14. Taxation (continued)

(b) Reconciliation of the total tax charge

	2019 US$'000	2018 US$'000
Profit / (Loss) on activities before tax	(11,961)	900
Tax at 19%	2,273	(171)
Effects of:		
Expenses not deductible for tax purposes	(8)	(24)
Exchange differences	-	(20)
Adjustments in respect of prior year	56	4
Adjustments in respect of deferred tax prior year	-	(16)
Income not taxable for tax purpose	-	1
Adjustments on IFRS balance sheet	-	10
Adjustments to brought forward values	-	25
Deferred tax recognised directly to equity	-	(20)
Deferred tax not recognised	(1,803)	-
Difference in tax rates	(214)	-
Temporary differences not recognised in the computation	(1)	13
Tax (charge)	**303**	**(198)**

(c) Analysis of deferred tax assets / (liabilities)

The following is an analysis of the deferred tax assets recognised by the Bank:

	2019 US$'000	2018 US$'000
Brought forward	(39)	(143)
Movements in respect of prior year	39	-
Deferred tax recognised directly to equity	-	20
Short term timing differences	-	84
	-	**(39)**

(d) Factors that may affect future tax charges

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017 and has not changed since. This has resulted in the effective overall tax rate being 19% for the current financial year. The UK corporation tax rate remains at 19% for the year beginning 1 April 2020..

15. Financial assets and liabilities

The table below sets out the Bank's classification of each class of financial asset and liability as at 31st December 2019:

US$'000	Note	Measured at FVOCI	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16	-	82,920	-	**82,920**
Financial assets measured at FVOCI	17	52,577	-	-	**52,577**
Loans and advances to banks	18	-	278,511	-	**278,511**
Loans and advances to customers	19	-	34,396	-	**34,396**
Other assets	23			920	**920**
Deposits by banks	24	-	-	320,132	**320,132**
Customer accounts	25	-	-	65,141	**65,141**
Other liabilities	26/33	-	-	5,743	**5,743**

US$'000	Note	Measured at FVOCI	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16	-	26,257	-	**26,257**
Financial assets - derivatives		-	-	-	**-**
Financial assets measured at FVOCI	17	55,133	-	-	**55,133**
Loans and advances to banks	18	-	296,100	-	**296,100**
Loans and advances to customers	19	-	46,702	-	**46,702**
Deposits by banks	24	-	-	277,258	**277,258**
Customer accounts	25	-	-	71,260	**71,260**
Other liabilities	26	-	-	1,404	**1,404**

16. Cash at bank and in hand

	2019	2018
	US$'000	US$'000
Cash	149	184
Short term placements with other banks	82,785	26,077
Gross amount	82,934	26,261
Impairment under IFRS 9	(14)	(4)
Net amount	**82,920**	26,257

Cash is classified as a level 1 instrument.

17. Financial assets measured at fair value

	2019	2018
	US$'000	US$'000
Treasury bills	1,315	3,997
Multilateral development bank bonds	51,262	51,177
Gross amount	**52,577**	**55,174**
Impairment under IFRS 9	**-**	**(41)**
Net amount	**52,577**	**55,133**
Maturity		
3 months or less	20,033	7
- 1 year or less but over 3 months	16,332	8,951
- 5 years or less but over 1 year	16,212	46,175
- Over 5 years	-	-
-	**52,577**	**55,133**

The Bank measures fair values using the fair value hierarchy that reflects the significance of inputs used in making the measurements. The financial assets of the Bank fall within the category of Level 1 where valuation is based upon quoted prices in an active market for the same or identical instrument. Unrealised Profit of US$25,718 (2018: Unrealised profit of US$4,582) have been recognised in other comprehensive income. Financial assets measured at fair value through OCI purchased and sold amounted to US$6,394,955 (2018: US$ 41,610,824) and US$8,951,474 (2018: US$17,668,521) respectively.

18. Loans and advances to banks

The following table shows total bank loans

	2019 US$'000			2018 US$'000		
	Gross amount	**Impairment Allowance**	**Net amount**	Gross amount	Impairment Allowance	Net amount
Bank loans	279,015	(504)	278,511	296,648	(548)	296,100
	279,015	**(504)**	**278,511**	**296,648**	**(548)**	**296,100**

The fair value of the cash collateral held in respect of the loans and advances to banks at 31 December 2019 is US$18,005,978 (2018: US$9,372,056). This collateral can be used in the event of default by the borrower.

The following table shows the remaining maturity of the loans and advances to banks:

	2019 US$'000			2018 US$'000		
	Gross Amount Performing	**Impairment Allowance**	**Net Amount**	Gross Amount	Impairment Allowance	Net amount
Repayable on demand or at short notice	83	-	83	94		94
Remaining maturity:						
- 3 months or less excluding above	253,111	(403)	252,708	277,794	(444)	277,350
- 1 year or less but over 3 months	22,071	(101)	21,970	3,665	(25)	3,640
- 5 years or less but over 1 year	3,750	-	3,750	15,095	(79)	15,016
	279,015	**(504)**	**278,511**	**296,648**	**(548)**	**296,100**

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US$83,000 (2018: US$ 94,000).

19. Loans and advances to customers

	2019 US$'000			2018 US$'000		
	Gross amount	**Impairment allowance**	**Net amount**	Gross amount	Impairment allowance	Net amount
Commercial loans & advances	35,011	(17,152)	17,859	25,178	(1,849)	23,329
Personal loans & advances	231	-	231	3,002	(3)	2,999
Syndicated loans	16,625	(319)	16,306	20,456	(82)	20,374
	51,867	**(17,471)**	**34,396**	**48,636**	**(1,934)**	**46,702**

The fair value of the collateral held in respect of the loans and advances to customers is US$34,746,393 as at 31 December 2019 (2018: US$46,907,046). This collateral can be used in the event of default by the borrower. Out of the total collateral, US$3,328,021 is for impaired loans and advances to customers (2018: US$10,771,851) and US$nil (2018: US$nil) is for loans and advances to customers that are past due, but not impaired

The following table shows the remaining maturity of the loans and advances to customers:

	2019 US$'000			2018 US$'000		
	Gross Amount	**Impairment allowance**	**Net amount**	Gross Amount	Impairment allowance	Net amount
Repayable on demand or at short notice	13,163	(9,399)	3,764	22,725	(1,845)	20,880
Remaining maturity:						
- 3 months or less excluding above	15,065	(7,742)	7,323	2,372	(4)	2,368
- 1 year or less but over 3 months	3,301	(285)	3,016	10,016	(38)	9,978
- 5 years or less but over 1 year	11,167	(44)	11,123	10,728	(44)	10,684
- Over 5 years	9,171	(1)	9,170	2,795	(3)	2,792
	51,867	**(17,471)**	**34,396**	**48,636**	**(1,934)**	**46,702**

Of the US$17,470,941 impairment provision (2018: US$1,933,708), US$337,622 represents the Stage 1 and stage 2 provisions under IFRS 9. (2018: US$90,573).

20. Net impairment loss for loans and advances to customers & banks

	2019 US$'000	2018 US$'000
At beginning of the year	(2,527)	(891)
Write back to statement of comprehensive income	-	-
Charge to statement of comprehensive income	(15,462)	(1,507)
IFRS 9 opening ECL taken to equity		(132)
Exchange differences		3
Amounts written off against historic provisions	-	-
At the end of the year	**(17,989)**	**(2,527)**
Loans and advances to banks and cash in hand	(383)	(418)
Loans and advances to customers	(17,471)	(1,934)
Investment securities	-	**(41)**
Trade finance contingencies (to banks)	(135)	(134)
	(17,989)	(2,527)

20. Net impairment loss for loans and advances to customers & banks (continued)

During the year, the Bank has written off loans and advances to customers amounting to US$813,556. (2018: US$nil).

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US$20,020,000 (2018: US$10,443,000).

21. Property and equipment

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Total
Cost:			
At beginning of the year	278	679	957
Additions	-	42	42
At end of the year	**278**	**721**	**999**
Depreciation:			
At beginning of the year	(94)	(577)	(671)
Charge for the year	(42)	(52)	(94)
At end of the year	**(136)**	**(629)**	**(765)**
Net book value at 31 December	**142**	**92**	**234**

US$'000	Leasehold Improvements	Office Equipment and Furniture & Computer Hardware	Total
Cost:			
At beginning of the year	278	666	944
Additions	-	13	13
At end of the year	278	679	957
Depreciation:			
At beginning of the year	(52)	(389)	(441)
Charge for the year	(42)	(115)	(157)
Disposal	-	-	-
Reclassified	-	(73)	(73)
At end of the year	**(94)**	**(577)**	**(671)**
Net book value at 31 December	**184**	**102**	**286**

22. Intangible assets

	2019 Software US$'000	2018 Software US$'000
Cost:		
At beginning of the year	3,839	3,278
Additions	13	561
Disposals	(277)	-
At end of the year	**3,575**	**3,839**
Amortisation:		
At beginning of the year	(2,679)	(2,123)
Disposals	267	-
Reclassified	-	73
Charge for the year	(584)	(629)
At end of the year	**(2,996)**	**(2,679)**
Net book value at 31 December	**579**	**1,160**

23. Other Assets

	2019 US$'000	2018 US$'000
Receivable within twelve months:		
Fees and Commissions	114	134
Other receivables	296	239
Rent and other security deposits	510	492
	920	**865**

24. Deposits by banks

	2019 US$'000	2018 US$'000
Repayable on demand	211,944	178,604
Remaining maturity:		
- 3 months or less excluding above	59,870	98,654
- 1 year or less but over 3 months	48,318	-
	320,132	**277,258**

Deposits by banks include amounts totalling US$54,132,000 (2018: US$20,363,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

25. Customer accounts

	2019 US$'000	2018 US$'000
Repayable on demand	50,810	63,780
Remaining maturity:		
- 3 months or less excluding above	8,210	1,605
- 1 year or less but over 3 months	5,644	5,440
- 5 years or less but over 1 year	477	435
	65,141	**71,260**

Customer accounts include amounts totalling US$nil (2018: US$148,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

26. Other liabilities

	2019 US$'000	2018 US$'000
Payable within twelve months:		
Taxation and social security	151	165
Accounts payable	838	659
Dormant for more than twelve months:		
Customers' unclaimed balances	1,209	742
	2,198	**1,566**

27. Accruals and deferred income

	2019 US$'000	2018 US$'000
Accruals	257	179
Deferred income	236	331
	493	**510**

28. Called up share capital

	2019 US$'000	2018 US$'000
Authorised, Allotted, called up and fully paid		
50,000 deferred shares of £1 each	90	90
60,000,000 ordinary shares of US$1 each	60,000	60,000
	60,090	**60,090**

The ordinary shares comprise a single class and each have the same voting rights as well as rights to dividends and distributions. The deferred shares carry no entitlement to vote or receive distributions.

29. Related party transactions

During the year, the Bank undertook transactions with Union Bank of Nigeria Plc and its subsidiaries (the UBN Group) in the normal course of business. These include loans and deposits and foreign currency transactions and the associated interest income and expenses. Loans and advances to banks are cash secured to a maximum of US$7.5m (2018: US$8.9m). Balances and related income and expense included in these financial statements in respect of the transactions with UBN Group are as follows:

	2019	2018
Holding company	US$'000	US$'000
Assets		
Cash at bank and in hand	-	0.3
Loans and advances to banks	12,032	10,935
Liabilities		
Deposits by banks	28,766	33,917
Income – interest		
From holding company	912	1,366
Expense - interest		
To holding company	172	287
Fellow subsidiaries		
Liabilities		
Deposits by banks	-	-
Customer accounts	-	-
Income		
From fellow subsidiaries	-	-

At 31 December 2019 loans made to one (2018: one) executive directors of the Bank during the year, on terms generally available to staff, remained outstanding to the amount of US$10,577 (2018: US$15,704). This balance is included within note 19. More information regarding key management compensation is included within note 12. Also outstanding were loans totalling US$520,062 (2018 555,560) to the relative of a member of the Board. These were granted at commercial terms and at market rates.

30. Financial risk management

(a) Risk management

The Bank holds and issues financial instruments for the purposes of:

- earning interest margins, fees and commission;
- financing its operations; and
- managing the interest rate and currency risks inherent in its operations.

The Bank does not actively trade in financial instruments and, therefore, does not have a trading book. Its operations are financed from a mixture of equity and deposits. Deposits are raised primarily in US Dollars and to a lesser extent Sterling and euros at both fixed and variable rates and lending is similarly distributed. Longer term lending is partly financed by capital but is otherwise generally matched to deposits both in terms of maturity and re-pricing.

The Bank's functional currency is the US Dollar. It does not actively speculate in foreign currencies and the majority of its foreign exchange transactions are carried out in the spot market for customer facilitation purposes.

The main risks arising from the Bank's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management has developed policies for managing each of these risks, which are reviewed and approved by the Board on an annual basis. Significant features of these policies are summarised below.

30. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that a customer or counterparty is unable or unwilling to meet a commitment that it has entered into with the Bank and arises mainly from lending and trade finance activities. To mitigate this risk, the Bank has adopted policies that minimise significant unsecured credit exposures other than to financial institutions and to avoid concentrations of unsecured credit risk to counterparty groups, industry sectors and countries, which do not carry investment grade credit ratings. All credit exposures are subject to continuous assessment by the Assets & Liabilities Committee and the Risk & Board Risk Committee. It is the policy of the Bank to make adequate impairment allowances where real or probable problems in asset recovery are identified and to make adequate collective impairment allowances for those as yet unidentified credit problems that are inherent in any portfolio of banking assets. Details of impairment allowances are summarised in notes 16 to 20.

(i) Credit exposure by sector

	2019	2018
	US$'000	US$'000
Banks	361,431	322,356
Government	52,577	55,133
Corporate	29,963	43,421
Individuals	4,433	3,282
	448,404	**424,192**

(ii) Credit exposure by location

	2019	2018
	US$'000	US$'000
Europe	219,992	106,416
Africa	114,109	120,722
United States	46,182	46,174
India	59,983	140,389
Others	8,138	10,491
	448,404	**424,192**

The above sector and geographical analyses only include cash at bank and in hand, loans and advances to banks and to customers at amortised cost, financial assets valued at fair value through other comprehensive income and financial assets - derivatives. The Bank has established procedures to manage country risk. During the year there continued to be periods of significant volatility in the emerging bond markets which are closely monitored and valued daily. The Bank also carries out country credit reviews of emerging markets and thereby assesses any potential creditworthiness issues.

30. Financial risk management (continued)

(iii) Credit exposure by Credit Quality Step

The Bank extends credit facilities to quality rated and unrated counterparties. An analysis of the credit quality of the maximum credit exposure based on ratings provided by Fitch rating agency and where applicable grouped by Credit Quality Steps (CQS) as follows:

		2019	2018
CQS	**Assets**	**US$'000s**	**US$'000s**
	Cash and Cash Equivalent		
1	Rated AAA to AA-	5	35
2	Rated to A+ to A-	14,766	529
3	Rated BBB+ to BBB-	67,948	25,505
4	Rated BB+ to BB-	52	4
5	Rated B+ to B-	-	-
6	Unrated	149	**184**
		82,920	26,257
	Loans and Advances to Banks		
1	Rated AAA to AA-	-	-
2	Rated A+ to A-	135,154	64,622
3	Rated BBB+ to BBB-	59,983	151,114
4	Rated BB+ to BB-	1	-
5	Rated B+ to B-	56,511	75,319
6	Unrated	26,862	5,045
		278,511	296,100
	Loans and Advances to Customers		
	Unrated neither past due nor impaired	31,327	29,208
	Unrated past due but not impaired	3,069	17,494
		34,396	**46,702**
	Financial Assets		
1	Related AAA to AA-	52,577	52,330
5	Related B+ to B-	-	2,803
		52,577	**55,133**

30. Financial risk management (continued)

As at 31 December 2019, the Bank's maximum exposure to credit is US$472m (2018: US$450m), of which US$ 20,202,203 (2018: US$19,336,846) was deemed to be impaired or doubtful. These amounts include all financial assets and undrawn irrevocable loan and trade commitments. The Bank held collateral totalling US$80m (2018: US$69m) against credit exposures of US$446m (2018: US$414m) of which US$33.6m (2018: US$20.5m) was in the form of cash. The remaining collateral was primarily in the form of government guarantees, immovable property and charges over companies assets. Total trade related exposure included above was US$107.1m (2018: US$101.9m) against which the Bank held cash collateral of US$28.6m (2018: US$20.5m) included above. There are currently no instances where an ECL has not been recognised as a result of collateral being held.

Loans are considered forborne when terms and conditions of a loan are modified due a borrower being unable to meet current terms and conditions due to factors indicating financial difficulty. Examples may include reducing interest rates, delaying payment of principal and amending or not enforcing covenants.

Lending subject to forbearance, net of credit risk mitigation, as at 31 December 2019 is US$16.8m (2018: US$19m).

(c) Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its commitments to customers and counterparties as they fall due as a result of mismatch in cash flows arising from liabilities and assets. To mitigate this risk, the liquidity structure of assets, liabilities and commitments is managed so that resultant cash flows are appropriately balanced, within approved limits and mismatch parameters set by the PRA, to ensure that all obligations can be met when due. Generally, it is the policy of the Bank to match the currency and maturity of all liabilities and assets as far as practicable and to maintain a store of liquidity in the form of readily realisable debt securities, including government treasury bills.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities. All amounts within deposits by banks and customer accounts include both principal and future interest payments:

2019

US$'000			**Time band**			**Total**
	Less than 3 Months	**3 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Over 5 years**	
Liabilities						
Deposits by banks	271,814	48,318	-	-	-	320,132
Customer accounts	59,021	1,478	4,165	477		65,141
Financial liabilities-derivatives	-					-
Other liabilities	5,743	-	-	-	-	5,743
Total liabilities	**336,578**	**49,796**	**4,165**	**477**	**-**	**391,016**

2018

US$'000			**Time band**			**Total**
	Less than 3 Months	**3 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Over 5 years**	
Liabilities						
Deposits by banks	178,604	98,654	-	-	-	277,258
Customer accounts	63,780	1,605	5,440	435	-	71,260
Financial liabilities-derivatives	9					9
Other liabilities	2,222	-	-	-	-	2,222
Total liabilities	**244,615**	**100,259**	**5,440**	**435**	**-**	**350,749**

30. Financial risk management (continued)

(d) Interest rate risk

Interest rate risk is the risk of loss arising from differences in the re-pricing dates of liabilities and assets. The Bank's policy is to limit re-pricing risk by setting re-pricing gap limits and by regularly reviewing its re-pricing risk by reference to assumed adverse movements in interest rates to ensure that the risk of loss remains within acceptable limits. Therefore, the Bank's treasury and lending functions seek to price assets at floating rates or at fixed rates for fixed periods at appropriate roll-over dates that allow for matching with customer and market liabilities.

The table below summarises the Bank's assets and liabilities by re-pricing time band and demonstrates the extent to which these are matched, save in respect of equity, which are presently invested short term.

(i) Interest rate gap analysis

Assets and liabilities are analysed in time bands according to the earlier of the period to the next interest rate re-pricing and maturity date as follows:

2019

US$'000	**Time band**						**Total**
	Less than 3 Months	***3 – 6 months***	***6 – 12 months***	***1 – 5 years***	***Over 5 years***	***Non-interest bearing***	
Total Financial assets	366,831	22,150	19,168	31,085	9,170	-	448,404
Total Financial liabilities	330,833	49,796	4,166	477	-	-	385,273
Interest rate sensitivity gap	35,998	(27,646)	15,002	30,608	9,170	-	63,132
Cumulative gap	**35,998**	**8,352**	**23,354**	**53,962**	**63,132**		

2018

US$'000	**Time band**						**Total**
	Less than 3 Months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	
Total Financial assets	375,764	6,911	13,009	25,700	2,792	16	424,192
Total Financial liabilities	242,393	100,259	5,440	435	-	-	348,527
Interest rate sensitivity gap	133,371	(93,348)	7,569	25,265	2,792	16	75,665
Cumulative gap	**133,371**	**40,023**	**47,592**	**72,857**	**75,649**	**75,665**	

30. Financial risk management (continued)

(ii) Interest rate sensitivity analysis

Interest rate sensitivity analysis has been performed on the net cash flow interest rate risk exposures as at the reporting dates. A range of possible upward/downward movements in Libor/Euribor of 100bps has been assumed for the different currencies which the directors consider reasonable given the current market conditions and the nature of matched funding within the exposures. If all other variables are held constant, the tables below present the likely impact on the Bank's statement of comprehensive income:

2019

US$'000		**Currencies**			**Total**
	US Dollar	**£ Sterling**	**Euro**	**Other**	
Total Financial assets	420,845	20,698	6,581	280	**448,404**
Less: fixed rate assets	(219,293)	(1,547)	-	-	**(220,840)**
Total Variable rate assets	201,552	19,151	6,581	280	**227,564**
Total Financial liabilities	359,010	19,561	6,426	275	**385,272**
Less: fixed rate liabilities	(105,686)	(6,546)	-	-	**(112,232)**
Total Variable rate liabilities	253,324	13,015	6,426	275	**273,040**
Net cash flow interest Rate Risk exposure	**(51,773)**	**6,137**	**154**	**6**	**(45,476)**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	(518)	61	2	-	**(455)**
Tax charge-19%	98	(12)	(1)	-	**85**
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	(420)	49	1	-	**(370)**
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	518	(61)	(2)	-	**455**
Tax charge-19%	(98)	12	1	-	**(85)**
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	420	(49)	1	-	**(370)**

30. Financial risk management (continued)

US$'000	2018 Currencies US Dollar	£ Sterling	Euro	Other	Total
Total Financial assets	348,280	3,614	68,876	3,422	**424,192**
Less: fixed rate assets	(210,792)	(31,405)	-	(3,032)	**(245,229)**
Total Variable rate assets	137,488	(27,791)	68,876	390	**178,963**
Total Financial liabilities	309,487	35,006	3,650	384	**348,527**
Less: fixed rate liabilities	(114,045)	(17,834)	-	-	**(131,879)**
Total Variable rate liabilities	195,442	17,172	3,650	384	**216,648**
Net cash flow interest Rate Risk exposure	**(57,954)**	**(44,963)**	**65,226**	**6**	**(37,685)**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	(580)	(450)	652	-	**(378)**
Tax charge-19.25%	110	85	(124)	-	**71**
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	(470)	(365)	528	-	**(307)**
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	580	450	(652)	-	**378**
Tax charge-19.25%	(110)	(85)	124	-	**(71)**
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	470	365	(528)	-	**307**

(e) Currency risk

Limited foreign exchange exposure arises from the facilitation of customer orders and from profits and losses in currencies other than the functional currency. The Bank does not actively speculate in foreign currencies and does not deal in forward foreign exchange, foreign exchange options, futures or options thereon except to the limited extent necessary to hedge cash flows arising from its own and its customers' activities. Foreign exchange exposures are subject to limits as to positions in individual currencies and as to the 'overall net open position'.

Details of the Bank's assets and liabilities by currency of denomination are summarised in US Dollars in table *(i)* below so as to demonstrate the extent to which foreign currency exposures are matched.

(i) Net currency position analysis

Assets and liabilities, expressed in US$ but analysed according to the currency in which they were denominated, after taking into account the accounting policy for foreign currencies as set out in note 3(c), were as follows:

US$'000	**2019 Currencies US Dollar**	**£ Sterling**	**Euro**	**Other**	**Total**
Total Financial assets	420,845	20,698	6,581	280	**448,404**
Total Financial liabilities	(359,010)	(19,561)	(6,426)	(275)	**(385,272)**
Currency position	**61,835**	**1,137**	**155**	**5**	**63,132**

US$'000	2018 Currencies US Dollar	£ Sterling	Euro	Other	Total
Total Financial assets	348,280	3,614	68,876	3,422	**424,192**
Total Financial liabilities	(309,487)	(35,006)	(3,650)	(384)	**(348,527)**
Currency position	**38,793**	**(31,392)**	**65,226**	**3,038**	**75,665**

30. Financial risk management (continued)

(ii) Foreign currency sensitivity analysis

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in the Bank's financial assets and financial liabilities at the reporting dates. The sensitivity analysis provides an indication of the impact on the Bank's statement of comprehensive income of reasonably possible changes in the currency exposures embedded within the functional currency environment in which the Bank operates. Reasonably possible changes are based on an analysis of historical currency volatility, together with any relevant assumptions regarding near-term future volatility.

The Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Bank's functional currency, given the control exercised over the Bank's currency positions. If all other variables are held constant, the tables below present the impacts on the Bank's statement of comprehensive income if these currency movements had occurred.

The financial statement have used a closing rate of £1 to $1.32 and during the year the average rate for £1 was 1.28.

2019

US$'000	**Currencies (FC)**		
	£ Sterling	**Euro**	**Other**
Net foreign currency exposures	1,137	154	5
Impact on profit and equity of 5% increase in FC:USD rate	(41)	(7)	6
Impact on profit and equity of 5% decrease in FC:USD rate	45	7	(6)

2018

US$'000	**Currencies (FC)**		
	£ Sterling	**Euro**	**Other**
Net foreign currency exposures	(31,392)	65,226	3,038
Impact on profit and equity of 5% increase in FC:USD rate	(1,495)	3,106	145
Impact on profit and equity of 5% decrease in FC:USD rate	1,652	(3,433)	(160)

30. Financial risk management (continued)

(f) Capital adequacy

The Bank is subject to minimum capital requirements imposed by the PRA, following guidelines developed by the Basel Committee on Banking Supervision and implemented in the UK via European Union Directives. The revised framework, known as CRDIV, includes a more risk-sensitive methodology for the calculation of capital requirements for Credit Risk as well as a capital requirement for Operational Risk.

Minimum capital requirements under the PRA's rules are calculated by summing the capital requirements for Credit Risk, Operational Risk, Market Risk and Counterparty Credit Risk. For the purposes of computing these requirements the Bank has elected to adopt the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk. Market Risk is determined using the standard Position Risk Requirement ('PRR') rules and Counterparty Credit Risk ('CCR') is calculated using the CCR mark to market method. The Market Risk and Counterparty Credit Risk components of the capital requirement are small because the Bank has no trading book.

The minimum capital requirement for Credit Risk under Pillar 1 of CRDIV is calculated by multiplying risk weighted assets by 8%, the internationally agreed minimum ratio. Risk weighted assets are determined by applying risk weights, which vary according to the credit rating of the obligor, to the Bank's assets, including off statement of financial position engagements that are subject also to given credit risk conversion factors. Under Pillar 2 the Bank undertakes an assessment (the ICAAP process) of the amount of capital that is required to support its activities using the Pillar 1 plus approach. This assessment has identified a number of risks that either do not attract capital under Pillar 1 or where the Pillar 1 requirement does not fully capture the risks faced by the Bank. Additional capital is set aside under Pillar 2 for these risks, which include exposure concentrations and interest rate risk in the non-trading book. The Bank's total capital requirement is then the sum of the amounts calculated under Pillar 1 and Pillar 2. Furthermore, the Bank is subject to Individual Capital Guidance ('ICG') provided by the PRA whereby the Pillar 2 requirement is computed by applying a formula to the Pillar 1 requirement. This results in a Pillar 2 requirement that is somewhat higher than that determined through the ICAAP process.

The Bank calculates its capital adequacy on a daily basis by comparing the total capital requirement in accordance with the ICG to capital available to meet this requirement (Regulatory Capital). A capital buffer is also incorporated, which is based on a level of tolerance to unexpected losses that is considered and agreed by the Board as part of the ICAAP process. At 31 December 2019 and throughout the year, the Bank maintained Regulatory Capital in excess of the total capital requirement calculated in accordance with the ICG.

The following table is an analysis of those items which comprise the Regulatory Capital base for the purposes of reporting to the PRA.

	2019 US$'000	2018 US$'000
Statement of financial position:		
Share Capital	60,090	60,090
Profit & Loss Reserve	3,038	15,950
Securities (FVOCI reserve)	21	
Less Intangibles	(578)	(1,160)
IFRS 9 transitional adjustments	407	464
Total Tier 1 Capital	62,978	75,344
Total Regulatory Capital	62,978	75,344

30. Financial risk management (continued)

The Regulatory Capital shown above differs from that reported to the PRA because retained profits cannot be included until such time as the Financial Statements for the relevant period have been audited and approved.

The directors regard share capital and reserves as its capital for the capital management purposes where the objective to ensure it is sufficient to participate in lines of business and to meet Prudential Regulatory Authority's capital requirements. In order to maintain or adjust the capital structure, the Bank may issue new shares or sell assets.

(g) Lending commitments	**2019**	2018
	US$'000	US$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount	-	-
Credit equivalent amount	-	-
Risk weighted amount	-	-

31. Fair values of financial instruments

Fair value measurements

The information set out below provides information about how the Bank determines fair values of various financial assets and financial liabilities. The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – fair value measurements derived from unobservable inputs to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

US$'000	**2019**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at FVOCI	52,577	-	-	52,577
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	**52,577**	**-**	**-**	**52,577**

US$'000	2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at FVOCI	55,133	-	-	55,133
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	9	-	-	9
Total	**55,142**	**-**	**-**	**55,142**

31. Fair values of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value and compares them to carrying value.

	2019		2018	
	Carrying Value US$'000	**Fair Value US$'000**	**Carrying Value US$'000**	**Fair Value US$'000**
Assets				
Cash at bank	82,920	82,920	26,257	26,257
Loans and advances to banks	263,004	263,004	296,100	296,100
Loans and advances to customers	34,396	34,530	46,702	47,088
Liabilities				
Deposits by banks	320,132	320,132	277,258	277,258
Customer accounts	65,141	65,213	71,260	71,278
Other liabilities	5,743	5,743	2,079	2,079
Financial liabilities – derivatives	-	-	9	9

The fair value of financial instruments is the estimated price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. Where quoted market prices are not available, fair value is determined using pricing models which use a mathematical methodology based on accepted financial theories, depending on the product type and its components.

Cash at bank consists of demand deposits with third party banks. Accordingly, the carrying amount of these balances is deemed an appropriate approximation of the fair value.

Both loans and advances to banks and customers noted above are level 3 financial assets. Loans and advances to banks comprise secured loans, short-term placements with banks including collateral and unsettled financial transactions. The secured loans have been valued as above and using the valuation technique described below. The carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are very short-term in duration. This includes intercompany balances.

The fair valuation of loans and advances to customers is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour. These comprise secured loans, unsecured loans and corporate loans.

The fair values of mortgage portfolios have been estimated by comparing existing contractual interest rates over the weighted average lives with an estimation of new business interest rates based on competitor market information. Adjustments have also been made to reduce:

- the weighted average lives to reflect the uncertainty inherent in the value that could be achieved, given that the borrower could re-finance at any time;
- discount the value of performing loans with a higher loan-to-value ratio to reflect the higher risk of this part of the portfolio and the fact that this is outside the Company's normal underwriting standards; and
- discount the collateral value of non-performing loans with a higher loan-to-value ratio to reflect the significantly higher possibility of re-possession and the lower value that is achieved on repossession and to take cognisance of rates available in the market for loans in arrears but with a lower loan-to-value ratio.

Unsecured loans are overdrafts and personal loans. The weighted average lives of these portfolios are short, and the business was written relatively recently. As a result, contractual interest rates approximate new business interest rates, and therefore no mark-to-market surplus or deficit has been recorded with respect to the performing book and discounts applied to the non-performing book.

31. Fair values of financial instruments (continued)

The fair values of corporate loans have been estimated by comparing existing margins with an estimation of new business rates for similar loans in terms of the borrower's segment, maturity and structure. Provisions are considered appropriate for the book that is not impaired. A discount has been applied to impaired loans as although exits have generally been achieved at carrying value, this does not reflect the discount a purchaser would require.

All financial liabilities are level 3 liabilities. The majority of deposit by banks, customer accounts and other liabilities are payable on demand and therefore can be deemed short-term in nature with the fair value equal to the carrying value. Certain of the customer accounts are at a fixed rate until maturity. The deficit/surplus of fair value over carrying value of these liabilities has been estimated by reference to the market rates available at the reporting date for similar customer accounts of similar maturities. The fair value of such customer accounts has been estimated using the valuation technique described below.

In the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rates curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

32. Contingent liabilities and commitments

Contingent liabilities

	2019 **US$'000**	2018 US$'000
Letters of credit	22,775	21,296
Guarantees given to third parties	508	2,053
Undrawn facilities	-	-
	23,283	23,349

33. Leases

Operating leases

The Company had total minimum lease payments in respect of operating leases for land and buildings and equipment used in the business as follows. The 2018 comparatives have not been restated and reflect the measurement under IAS17.

Leases which expire:	**2019** **US$'000**	**2018** **US$'000**
Within one year	30	510
Within two to five years	-	1,779
Over five years	-	2,321
	30	**4,610**

Reconciliation of opening balance of operating lease commitments under IAS17 and lease liability under IFRS16

Leases which expire:	**2018** **US$'000**
As 1 January 2019 (IAS17)	4,610
Operating leases considered to be immaterial under IFRS16	(32)
Effect of discounting/exchange rates	(780)
As 1 January 2019 (IFRS16)	**3,798**

The following assets and liabilities have been classified and measured under IFRS 16.

The opening balance difference between right of use assets and lease liabilities is a result of a net prepayment of rent amounting to US$112,993.

Right-of-use-assets

	Land and buildings US$'000
At 1 January 2019	3,685
Depreciation charge for the year	(391)
Foreign exchange movements	-
At 31 December 2019	**3,294**

Lease liabilities

	Land and Buildings US$'000
At 1 January 2019	3,798
Interest expense	159
Lease payments	(518)
Foreign exchange movements	-
At 31 December 2019	**3,439**

Lease liabilities which expire:	**2019 US$'000**	2018 US$'000
Within one year	518	501
Within two to five years	1,842	1,756
Over five years	1,759	2,321
	4,119	**4,578**

These lease liabilities were previously classified as 'operating leases' and relate to the rental lease for the Bank's office premises at 1 King's Arms Yard, London, EC2R 7AF. In 2018 the Bank entered into a 10-year lease agreement for its office premises with a fixed rental term agreed for the first 5 years. The Bank has agreed to a known minimum increase at the end of the fixed term rental period and this has been factored into the lease calculations. These calculations are subject to amendment if any future rent increase is above the known minimum amount.

34. Dividends

A dividend payment of US$1,000,000 was made during the year ended 31 December 2019 in respect of the year ended 31 December 2018 (made during the year ended 31 December 2018 in respect of the year ended 31 December 2017: US$3,000,000).

35. Ultimate parent company and controlling party

The Bank is a directly wholly owned subsidiary of its parent and ultimate holding undertaking, Union Bank of Nigeria Plc, a company incorporated in Nigeria and listed on the Nigerian Stock Exchange. The smallest and largest group in which the Bank is consolidated is Union Bank of Nigeria Plc.

Copies of the Group financial statements of Union Bank of Nigeria Plc can be obtained from:
Corporate Affairs Department
Union Bank of Nigeria Plc
Stallion Plaza
36, Marina, Lagos
Nigeria

36. Subsequent events

The directors do not propose a dividend in respect of the year ended 31 December 2019 (2018: US$1,000,000)

There has been a significant decrease in the expected credit losses provision which is primarily due to non-performing loans and advances amounting to $17.1M being written off in 2020.

Debt securities measured at fair value have been assessed to determine if there will be any significant change in their market value as a result of the Covid-19 pandemic. However, no material impact is expected as these instruments are highly liquid, Level 1 bonds with highly rated multilateral development banks.

In January 2020, in order to streamline its business operations and focus on growth opportunities in Nigeria, UBN entered into a share Sale and Purchase agreement ('SPA') to divest its entire equity stake in UBUK. The successful bidder was MBU BidCo Limited ('MBU'), wholly owned by MBU Capital Limited ('MBU Capital'). The agreement followed a lengthy due diligence process by MBU Capital who had emerged as the preferred bidder, enabling UBUK to continue to support its customers. The sale is subject to regulatory approvals from the relevant regulatory authorities in Nigeria and the UK. In the period between the signing of the SPA and change of control, it is expected that UBUK will operate normally, in its ordinary course of business.

The Bank recognises that there will be impact upon its business as a result of the Covid-19 pandemic. This matter is under constant review by the Board and Senior Management due to the rapidly changing environment and information released by the Government and UK Health organisations.

OTHER DISCLOSURES

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 (SI 2013 No. 3118) implements part of the European Union's Capital Requirements Directive ("CRDIV"). Credit institutions and investment firms must disclose certain information on a consolidated basis for each country in which the firm has a subsidiary or branch.

Union Bank UK plc is a bank, and this disclosure meets its Country-by-Country Reporting ("CBCR") obligations under the Regulations. The information contained in this document reflects the position as at 31 December 2019.

Union Bank UK is required to disclose the following information:

Country (by turnover size)	Turnover ($m)	Employees*	Profit or (loss) before tax ($m)	Corporation tax paid ($m)	Public subsidies received ($m)
United Kingdom	14.62	42	(11.96)	0.0	Nil
Consolidation adjustments	-		-		
Group Total	**14.62**	**42**	**(11.96)**	**0.0**	**Nil**

**the average number of employees on a full-time equivalent basis*

Country	**Description of Activities**	**Name of entities**
United Kingdom	Corporate, Retail & Commercial Banking Treasury & Trade Finance services	Union Bank UK plc