Registered Number 4661188

UNION BANK UK PLC

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Thousands of US Dollars (Unless otherwise stated)

	2018	2017	2016	2015	2014
Reporting period ended	**31 December**	31 December	31 December	31 December	31 December
Total Income	**13,182**	14,290	11,024	10,593	10,605
Profit/(Loss) before tax	**900**	2,982	685	958	1,483
Profit/(Loss) after tax	**702**	2,422	499	856	1,161
Dividends declared	**3,000**	-	-	-	-
Shareholders' Funds	**76,035**	78,450	75,382	73,599	74,061
Total Assets	**426,906**	436,039	447,820	300,691	431,568
Capital / Risk Weighted Assets	**34%**	45%	38%	49%	74%
Return on Equity	**1.2%**	3.8%	0.9%	1.3%	2.0%
Cost Income Ratio	**80%**	76%	87%	90%	87%
Dollar / Sterling exchange rate					
Year End	**$1.28**	$1.35	$1.23	$1.48	$1.56
Average	**$1.33**	$1.30	$1.32	$1.53	$1.66

CHAIRMAN'S STATEMENT

Opening Remarks
It is my pleasure to present the 2018 financial report for Union Bank UK. This report details the bank's performance in the year achieved despite the challenging operating environment.

The Global Landscape
According to the International Monetary Fund, the global economy is on track to grow by 3.7%, unchanged from last year. The year has been characterised by significant political events including deliberations surrounding the UK's decision to leave the EU ('Brexit'), U.S sanctions on Iran, fluctuating oil prices and trade disputes between China and the US.

The UK Economy
Growth for the UK economy in 2018 could be described as slow, as the GDP growth rate moved from 0.1% in Q1 to 0.4% in Q4. In the first half of 2018, the UK was described as one of the slowest growing economies. This can be attributed mainly to the drag on business investment from ongoing economic and political uncertainties relating to the outcome of the Brexit negotiations. The Pound has been unstable being worth $1.4 in January 2018, closing at $1.2 in December. In comparison to the Euro, it was worth €1.14 at the beginning of the year and €1.1 at year end.
In August, the Bank of England raised the interest rate from 0.5% to 0.75%. This is the second consecutive increase in a decade as it raised the interest rate from 0.25% to 0.5% in November 2017. Similarly, this raise is attributed to inflation driven by the weakness of the pound and increase in the cost of imports due to Brexit.
Inflation declined from 3% in January 2018 to 2.1% in December 2018, the lowest since January 2017. Consumer spending also dropped by 1% in December mainly due to the rising cost of living and inflation.
Looking ahead, it is expected that higher government spending and short-term tax cuts announced in the budget will provide some boost to growth in 2019. Brexit may still cause a drag on investments, consumer and business sentiments relating to the existing uncertainties until there is clarity on trading arrangements.

The Nigerian Economy
The Nigerian economy indicated a fluctuating trend in 2018 with the GDP slowing down from 1.95% in Q1 2018 to 1.5% in Q2, and then rising to 1.81% as at Q3 2018. This is largely attributed to growth in the non-oil sectors of the economy specifically, the agricultural and services sectors. Oil prices indicated a similar trend, starting off at $71/barrel in January, growing to a peak of $83/barrel in October and dropping significantly to end the year at $58/barrel in December.
Inflation also took a downward slide indicating 18 consecutive declines from 18.72% since January 2017 to 11.14% in July 2018, after which it indicated a fluctuating trend ultimately ending the year at 11.44%. The Naira was more stable compared to the previous year, with exchange rate at N305.7/$ in January and ending the year at N307/$. The external reserves grew slightly by $2.67billion in the year closing at $43.23billion in December.
In 2019, the country's General Elections took place in February and it is expected that economic activities would be less than robust in the first half of the year. The implementation of the proposed Budget of Continuity is also expected. This budget is intended to place the Nigerian economy on an inclusive, diversified and sustainable path for growth. The budget is in line with the Economic Recovery and Growth Plan ('ERGP') (2017–20) focused on restoring and sustaining growth, investing in people and building a globally competitive economy.

2018 Financial Performance
UBUK's performance in 2018 reflected a challenging operating environment, combined with the implementation of IFRS 9 accounting standards. Notwithstanding, our pre-tax profit for the year was $0.90 million (2017: $2.98 million) after impairments of $1.5m (2017: $0.3m).
In 2019, we expect to improve our financial and operational performance as we implement our strategic objectives including deepening our trade finance proposition to facilitate trade between Nigeria and West Africa, our value chain offerings and synergies with our parent company. This will be supported by our digital strategy to improve operational efficiency and revenue productivity.

CHAIRMAN'S STATEMENT
CONTINUED

2019 Outlook

During 2019 the UK is expected to leave the European Union after 46 years. Decisions on economic integration between the country and Europe are yet to be agreed and will be a major determinant for the economic direction for the U.K.

Despite current levels of uncertainty arising from unresolved geo-political events as well as expected trends for 2019, we remain optimistic that the bank is well positioned to deliver on its strategy and ambition to be a leading provider of specialised financial services to target clients with interests in the UK, Europe and Africa.

In conclusion, I want to express my heartfelt gratitude to our customers and shareholders for their loyalty, patronage and support. I also thank fellow members of the Board, Management and Staff for their continued efforts and commitment towards the success of Union Bank UK. As we commence 2019, I am confident we will have a productive and fulfilling year.

Thank you.

Gavin Laws
Chairman

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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	PO Box 27075, London, EC2R 7AF
Registered Office:	1 King's Arms Yard,	London, EC2R 7AF
Solicitors:	Hogan Lovells	Atlantic House, London, EC1A 2FG
Auditors:	BDO LLP	55 Baker Street, London, W1U 7EU

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.

Our ambition is to be a leading provider of specialised financial services to clients with interests in the UK, Europe and Africa. We will do this with the highest standards of conduct and by always putting the customer first.

Performance

The Bank's performance in 2018 reflected a downturn in economic conditions producing a pre-tax profit of US$0.90m against the previous year of US$2.982m.

Interest income at US$14.6m is up on the 2017 figure of US$14.1m. Dealing and exchange profits at US$0.4m were up on the previous year figure of US$0.3m. Fee and commission income at US$2.0m were slightly down on the previous year of US$2.09m.

Costs were again maintained within budget for the year and showed a decrease from the previous year due to lower professional fees. Impairment charges, amounted to US$1.5m against the previous year of US$0.3m.

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 2018, the Bank's returns on equity and capital over risk weighted assets were 1.2% (2017: 3.8%) and 34% (2017: 45%) respectively. The key indicator of efficiency monitored by the Board is the cost/income ratio which declined to 80% from 76% in 2017.

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 20, with the impact on shareholders' funds shown in the statement of changes in equity on page 22.

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 know that sustainable business success depends on the engagement of our people and with our community.

Future Prospects

The Bank continues to diversify its business in alignment with a strategy designed to enable UBUK be a leading provider of specialised financial services to target clients with interests in the UK, Europe and Africa. Business is primarily sought and undertaken in other sub-Saharan African markets either in asset-backed transactions or co-financing with established international banks and multilateral development agencies.

Overall, performance remains closely linked to developments in Nigeria, including the financial strength and performance of the parent bank.

Principal Risks and Uncertainties

The principal risks associated with the business of the Bank are dealt with in the Directors' Report. The Bank is firmly committed to risk management and to this end has continued to invest in this area in the form of experienced staff and systems.

STRATEGIC REPORT
CONTINUED

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.

Management closely follows the economic situation in Nigeria via the ALCO and evaluates the possible impact on our portfolios. In addition, the Bank makes an assessment with regard to the economic climate in the other major markets in which the Bank participates, 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

David Forster
Managing Director / Chief Executive

18 April 2019

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2018.

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 2018, are as follows:

Mr GC Laws	-	Non-executive Chairman
Mr AC Emuwa	-	Non-executive
Mr E Okonkwo	-	Non-Executive appointed 25/5/18
Mr DJ Forster	-	Managing Director/Chief Executive
Mrs S Irocheonwu	-	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. 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.

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 2018 are shown on pages 20 to 56. The profit for the year after taxation amounted to US$ 702,000 (2017: US$ 2,422,000).

The directors propose the payment of a dividend for the year of US$1,000,000 (2017: US$3,000,000).

DIRECTORS' REPORT
CONTINUED

Financial Risk Management

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. 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.

During 2017, the Bank of England's Financial Policy Committee (FPC) recommended that the CCyB rate for UK exposures be increased from 0% to 0.5% with effect from June 2018. It decided to raise it further to 1% with effect from November 2018 but also agreed to reconsider the adequacy of a 1% CCyB thereafter as it continues to monitor the overall risk environment. Previously, in 2016 the FPC stated that it intends to set a CCyB for UK exposures in the region of 1% when risks are judged to be neither subdued nor elevated and this expectation will be kept under review.

The impact of the CCyB is currently immaterial to UBUKs capital requirements however the Bank monitors the requirement against those jurisdictions where the relevant authorities have not set a CCyB rate or where the rate has been set to 0%.

Between June and October 2018, Her Majesty's Treasury ('HMT') commenced the process of 'onshoring' the current EU legislation to ensure that there is legal continuity in the event of the UK leaving the EU. These publications set out how HMT intends to use the powers under the European Union (Withdrawal) Act 2018, to ensure that the UK will have a functioning financial services regulatory regime in all scenarios, when the UK leaves the EU in 2019.

DIRECTORS' REPORT
CONTINUED

This involved publication of draft Statutory Instruments across key sets of prudential legislation for banking, encompassing the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD'). The UK and the EU have agreed the terms of an implementation period that will last until 31 December 2020. During the implementation period, common rules will continue to apply. Under the draft provisions published by HMT, the PRA will be given the power to grant transitional provisions to delay the implementation of these changes for up to two years, should the UK leave the EU without an agreement.
The Bank of England ('BoE') and the PRA subsequently published a package of consultations setting out the changes required to the PRA's rules and technical standards as a result of the UK's withdrawal. It also included proposals on the exercise of the transitional powers.

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 in to the relevant legal framework to take effect.

In the Europe, the BCBS's reforms are being implemented through revisions to the CRR and CRD. These reforms, often referred to as 'Basel IV' are following a phased implementation from 2019 to 2022 and in turn are being referred to as 'CRR2' and 'CRR3'. In May 2018, the European Commission commenced the process of implementing CRR3, by requesting a European Banking Authority ('EBA') report. The CRR3 tranche will include Basel's reforms in relation to credit risk and operational risk. The EBA's final report on the details of the EU's adoption of the reforms is not due to be published later in 2019.

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 1 January 2018 Net Stable Funding Ratio has been 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).

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.

DIRECTORS' REPORT
CONTINUED

Property and Equipment, Intangible Assets
Changes in property and equipment and intangible assets are set out in notes 22 and 23 to the financial statements.

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 LLP as their auditors.

By order of the Board on 18 April 2019

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 2018 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 2018 and of its profit/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 applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional 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 matter	How the matter was addressed in our audit
The principal activity of the Bank is the provision of credit services (loans and overdrafts) 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 calculate 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 performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. 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). We made an assessment of the adequacy and accuracy of the credit provision by reference to internal and external information to establish if provisioning was in accordance with requirements of IFRS 9. With the support of our internal economic specialists, we assessed the appropriateness of the predictive models used and assessed the macroeconomic variables, which were appropriate such as GDP and Corporate insolvency rates. With the support of our modelling specialists, we challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured. We assessed the reasonability of multiple economic scenarios used, including weighting and probability changes. We enquired of management regarding the value of collateral held and checked it 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. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39 to IFRS 9.

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

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	$370,000
Performance materiality	$277,000
Reporting threshold	$7,000

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 $370,000 (2017: $377,000), 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 Bank 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 $277,000 (2017: $283,000).

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 $7,000 (2017: $7,500) 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

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. As in all of our audits 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, 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.

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 13 to 14, 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.

Other matters which 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 2018 by the members of the company at the annual general meeting held on 11 May 2018. The period of total uninterrupted engagement is 5 years, covering the years ending 31 December 2014 to 31 December 2018.

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.

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
Dated: 18 April 2018

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 2018

	Note	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000 (restated)
Interest income	5	14,607	14,075
Interest expense	6	(3,824)	(2,174)
Net interest income		**10,783**	**11,901**
Fees and commission income	7	2,000	2,089
Dealing and exchange profit	8	399	300
Total income		**13,182**	**14,290**
Administrative expenses	10	(9,831)	(10,031)
Depreciation and amortisation	22/23	(786)	(808)
Impairment charge	21	(1,507)	(331)
Other operating expense	9	(158)	(138)
Profit before tax		**900**	**2,982**
Tax charge	14	(198)	(560)
Profit for the year after tax		**702**	**2,422**
Unrealised, net change in fair value of financial assets measured at FVOCI		(5)	
Unrealised, net change in fair value of financial assets available for sale		-	409
Loss on disposal of financial assets available for sale reclassified to profit and loss		-	237
Other comprehensive income for the year		(5)	646
Total comprehensive income for the year		**697**	**3,068**

The result is derived entirely from continuing activities.

The notes on pages 24 to 56 form part of these financial statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	2018 US$'000	2017 US$'000 (restated)
Assets			
Cash and cash equivalents	16	26,257	17,556
Loans and advances to banks	19	296,100	313,668
Loans and advances to customers	20	46,702	69,829
Financial assets available for sale	17	-	31,190
Financial assets measured at FVOCI	17	55,133	-
Intangible assets	23	1,160	1,155
Property and equipment	22	286	503
Deferred tax assets	14	-	-
Other assets	24	865	1,346
Prepayments		403	792
Total Assets		426,906	436,039
Liabilities			
Deposits by banks	25	277,258	270,095
Customer accounts	26	71,260	83,656
Financial liabilities derivatives		9	-
Other liabilities	27	1,566	2,562
Deferred tax liabilities	14	39	143
Accruals and deferred income	28	510	609
Tax Payable		229	524
Total Liabilities		350,871	357,589
Equity			
Called up share capital	29	60,090	60,090
Available-for-sale reserve		(5)	-
Retained earnings		15,950	18,360
Equity		**76,035**	**78,450**
Total Liabilities and Equity		**426,906**	**436,039**

The financial statements were approved by the Board of Directors and authorised for issue on 18 April 2019
Signed on behalf of the Board of directors:

David Forster
Managing Director / Chief Executive

The notes on pages 24 to 56 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Share Capital US$'000	Available-for-Sale Reserves US$'000	Retained Earnings US$'000	Total Equity US$'000
Balance as at 1 January 2017	**60,090**	**(186)**	**15,478**	**75,382**
Total comprehensive income for the year				
Change in fair value of assets classified as available-for-sale	-	800	-	800
Current Tax recognised on fair value loss on assets classified as available-for-sale	-	(154)	-	(154)
Transfer to retained earnings		(460)	460	-
Profit for the year (restated)	-	-	2,422	2,422
Balance attributable to equity shareholders as at 31 December 2017	**60,090**	**0**	**18,360**	**78,450**

	Share Capital US$'000	FVOCI Reserves US$'000	Retained Earnings US$'000	Total Equity US$'000
IFRS 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)
Current Tax recognised on fair value gain on assets measured at FVOCI	-	-	-	-
Profit for the year	-	-	702	702
Balance attributable to equity shareholders as at 31 December 2018	**60,090**	**(5)**	15,950	**76,035**

The notes on pages 24 to 56 form part of these financial statements

STATEMENT OF CASH FLOWS

	Note	2018 US$'000	2017 US$'000
Profit before tax		900	2,982
Adjustments for:			
Depreciation and amortisation	22/23	786	808
Realised loss on disposal of financial assets available for sale			115
Realised loss on disposal of financial assets -FVOCI		8	
Impairment of loans and advances		1,507	331
Unrealised gain on financial assets available for sale			646
Unrealised loss on financial assets measured at FVOCI		(5)	
		3,196	4,882
Change in loans and advances to banks		17,020	17,272
Change in loans and advances to customers		22,084	(5,928)
Change in other assets		481	(175)
Change in prepayments		388	(124)
Change in deposits by banks		7,164	(11,927)
Change in customer accounts		(12,396)	(1,898)
Change in other liabilities		(996)	788
Change in accruals and deferred income		(100)	(2,083)
Cash generated from operations		36,841	807
Disposal of financial assets held to maturity		-	2,085
Acquisition of financial assets		(41,652)	(59,145)
Disposal of financial assets		17,669	65,488
Income tax paid		(579)	(421)
Net cash generated from operating activities		12,279	8,814
Acquisition of tangible and intangible assets		(574)	(83)
Net cash flow used in investing activities		(574)	(83)
Dividends paid		(3,000)	-
Net cash flow used in financing activities		-	-
Net increase in cash and equivalents		8,705	8,731
Cash and cash equivalents at 1 January	16	17,556	8,825
Cash and cash equivalents at 31 December		26,261	17,556

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 6.

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 they are no applicable differences between the two frameworks for the periods presented.

The following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective at the date of authorisation of these financial statements:

IFRS16 Leases ('IFRS 16')

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 Board has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure 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. At 31 December 2018 operating lease commitments amounted to $3.6m, which is not expected to be materially different to the anticipated position on 31 December 2019 or the amount which is expected to be disclosed at 31 December 2018. Assuming the Bank's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately $2.9m being recognised on 1 January 2019.

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. This is expected to reduce reported profit before tax by the amount of its current operating lease cost, which for the year ended 31 December 2018 was estimated to be $112k in the first year of application.

(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.

2. Basis of presentation (continued)

(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.

Loan loss provisioning

IFRS 9 Financial Instruments (‘IFRS 9’), published in July 2014, replaced the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the ‘classification and measurement’ of financial instruments, including a new expected loss model for calculating ‘impairment’ on financial assets and a new general hedge accounting requirements. It also carries guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted however, the Bank did not early adopt the requirements. The 2017 financials have not been restated so the policy outlined in note 3 relating to financial instruments and associated classification and measurement are in reference to IAS 39. The policy on IFRS 9 relating to 2018 financials are contained in this note and the related movements in ECLs have also been highlighted.

IFRS 9 adoption results in impairment being recognised earlier than is the case under IAS 39 because for some exposures it requires expected losses to be recognised before the loss event arises, so it could have a material impact in future periods.

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 monitored.

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’).

These factors determine whether the Bank’s financial assets are measured at amortised cost or FVOCI. This has resulted in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on our assessment of financial assets performed to date and minimal changes to balance sheet composition, the Bank observes that the overall impact of any change has not been significant. This is because the available-for-sale investments held at the reporting date consist of treasury bills and these continue to be measured at fair value through other comprehensive income in light of the associated business model.

2. Basis of presentation (continued)

The table below shows the classification and measurement ('C&M') changes on adoption of IFRS 9:

	Measurement category under IAS39	**Measurement category under IFRS9**	**Carrying amount under IAS 39**	**Changes in ECL arising from C&M**	**Carrying amount under IFRS 9**
			US$'000	**US$'000**	**US$'000**
Financial assets	**(2017)**	**(2018)**	**31 December 2017**		**1 January 2018**
Cash and cash equivalents	Amortised cost	Amortised cost	17,423	-	17,423
Loans and advances to Banks	Amortised cost	Amortised cost	313,668	(218)	313,450
Loans and advances to Customers	Amortised cost	Amortised cost	69,829	131	69,960
Other Financial assets:					
Treasury bills & Other HQLA	Available for sale	FVOCI	31,190	-	31,190
Total financial assets			432,110		432,023
Trade contingencies				(45)	
Total ECL impact				(132)	

Financial Liabilities

Deposits by Banks	Amortised cost	Amortised cost	270,095	-	270,095
Customer accounts	Amortised cost	Amortised cost	83,656	-	83,656
Derivative financial instruments	FVTPL	FVTPL	-	-	-
Total financial liabilities			353,751	-	353,751

Since the Bank did not early adopt IFRS 9, the 2017 comparatives and associated policies have been prepared in accordance with IAS 39 while the 2018 provisions and associated policies have been prepared in accordance with IFRS 9.

Impairment

Under IFRS 9 loan loss provisions are calculated on an expected credit loss ('ECL') model rather than an incurred loss model as was the case under IAS 39. Provisions were previously recognised once an impairment event had been identified and this specific provision was supplemented by a collective, overall estimate of potential loan losses arising from a review of all the loan portfolios. The ECL model now 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. The change in the methodology of calculating impairment losses will alter the timing of recognition of loan loss provisions in the financial statements and this is generally earlier. However the change in methodology does not change the actual loan loss observed and recorded over the life-cycle of any financial instrument. 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 into 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 will involve increased complexity and judgement including 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

2. Basis of presentation (continued)

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.

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.

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.

Reconciliation of impairment loss provision from IAS39 to opening and closing IFRS9 balances

The table below reconciles the movements of impairment loss provisions from those calculated under IAS39 to the movements recorded in the current year.

	Movement US$'000	**2018 US$'000**
Closing impairment under IAS39 at 31 December 2017 (i)		891
Less IAS 39 collective provision (ii)		(209)
Add 12 month ECL not individually impaired under IAS 39 (iii)		322
Lifetime ECL for assets classified in Stage 2 and 3 (iv)		19
Opening impairment under IFRS 9 at 1 January 2018		**1,023**
12 month ECL (Stage 1)	323	
Lifetime ECL on assets not individually impaired (Stage 2)	34	
Under-performing (Stage 3)	1,147	
		1,504
Closing impairment at 31 December 2018		**2,527**

(i) As shown in note 21.
(ii) As shown in note 20. Under IAS 39 a collective provision was made against a portfolio of loans however, under IFRS 9 no such estimate exists as impairment is calculated for all accounts.
(iii) A 12 month ECL calculated under IFRS 9 which did not require individual impairment under IAS 39. This includes provisions for off-balance sheet exposures.
(iv) For loans allocated to Stage 2 and 3 under IFRS9, a provision is made for lifetime ECL and will lead to a difference in impairment to that required under IAS 39.

2. Basis of presentation (continued)

Loss allowance provision from IAS 39 to IFRS9 by stage showing key movements between each stage

	Performing	**Under-performing**	**Non-Performing**	**Total**
	US$'000 (Stage 1)	**US$'000** (Stage 2)	**US$'000** (Stage 3)	**US$'000**
Closing loss allowance at 31 December 2017 (under IAS 39)	209	-	682	891
Amounts restated through opening retained earnings	113	5	14	132
Opening loss allowance at 1 January 2018 (under IFRS 9)	**322**	**5**	**696**	**1,023**
Financial assets transferred:				
From Stage 1 to Stage 2	-	-		-
From Stage 2 to Stage 3		(5)	5	-
From Stage 1 to Stage 3	-		-	-
From Stage 3 to Stage 2		73	(73)	-
Increase / (decrease) in ECL		(34)	1,215	1,181
New financial assets originated	323	-	-	323
Closing loss allowance at 31 December 2018	**645**	**39**	**1,843**	**2,527**
Comprised of:				
Loans and cash deposits with banks	418	-	-	**418**
Loans and advances to customers	52	39	1,843	**1,934**
Financial assets measured at FVOCI	41	-	-	**41**
Trade related contingencies	134	-	-	**134**
Total by stage and asset class	**645**	**39**	**1,843**	**2,527**

At 31 December 2018, impairment allowance totalled US$2.53m (2017: US$0.89m). The net impairment loss (i.e. after recoveries) for loans and advances to customers recognised in 2018 was US$1.50m (2017: US$0.33m).

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

	Financial Assets 2018 US$'000
Performing	397,217
Under-performing	10,165
Non-performing	19,337
Total gross financial assets	426,719
Less: Loan loss allowance	(2,527)
Financial assets net of ECL	424,192

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income on financial assets that are classified as loans and receivables, held-to-maturity or available-for-sale and interest expense on financial liabilities are recognised in the statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income.

Exchange profits 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 2017 and compliant with the requirements of IAS 39. Classification and measurement of financial instruments recorded in 2018 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:

- ‘loans and receivables’
- ‘financial assets held-to-maturity’
- ‘financial assets available-for-sale’
- ‘financial assets fair value through profit & loss’
- ‘financial liabilities’

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 statement of comprehensive income) 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 classified as loans and receivables or as financial assets held to maturity are subsequently measured at amortised cost. Financial assets available for sale are measured at fair value. 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.

Where the fair value cannot be reliably determined for an investment in an equity instrument, the instrument is measured at cost.

(e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available-for-sale or at fair value through the statement of comprehensive income.

Loans and receivables are recognised initially at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.
Loans and advances to banks and customers are classified as loans and receivables.

(f) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity and which are not classified or designated upon initial recognition as at fair value through the statement of comprehensive income.
Held-to-maturity investments are recognised initially at fair value, including directly attributable transaction costs, and subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.
This classification would only applicable to the investments held under IAS 39, however UBUK sold all of its held-to-maturity investments in 2017.

(g) Available-for-sale investment

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.
Available-for-sale financial assets are recognised on settlement date and are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity through other comprehensive income until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised through the statement of other comprehensive income is recognised in statement of comprehensive income. UBUK holds treasury bills and bonds for non-trading purposes which are classified as available-for-sale.
This classification would only applicable to the investments held in 2017 under IAS 39.

3. Summary of significant accounting policies (continued)

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

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

(i) 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.

(j) Impairment of financial assets

The Bank assesses whether there is objective evidence that a financial asset or a group of financial assets, not carried at fair value through the statement of comprehensive income, is impaired. Financial assets or portfolios of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on the amount and/or timing of future cash flows from the asset that can be estimated reliably.

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.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and advances or against the carrying value of held-to-maturity investments as appropriate.

Impairment losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity through other comprehensive income until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised through the statement of other comprehensive income is recognised in statement of comprehensive income.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income. This policy is applicable to assets held in 2017 but has been superseded by IFRS 9 which has been effected to 2018 assets as outlined in the impairment policy in note 2.

(k) Property and equipment

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

3. Summary of significant accounting policies (continued)

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 the statement of comprehensive income as incurred.

Depreciation

Depreciation is recognised in the statement of comprehensive income 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

(l) 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 the statement of comprehensive income (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.

(m) 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 the statement of comprehensive income.

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.

(n) Leases

Payments made under operating leases are recognised in the statement of comprehensive income 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.

3. Summary of significant accounting policies (continued)

(p) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly through the statement of other comprehensive income, in which case it is recognised through the statement of other comprehensive income.

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.

(q) 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.

(r) Pension costs

The Bank operates a defined contribution pension scheme and the amount charged to the statement of comprehensive income 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

	2018	**2017**
	US$'000	**US$'000**
Interest income on securities available-for-sale	-	728
Interest income on securities measured at FVOCI	1,486	-
Interest income on loans and advances	13,121	13,347
	14,607	**14,075**

6. Interest expense

	2018	**2017**
	US$'000	**US$'000**
Interest expense on deposits from banks	(3,626)	(1,623)
Interest expense on customer accounts	(198)	(551)
	(3,824)	**(2,174)**

7. Fees and commission income

	2018 US$'000	2017 US$'000
Letters of credit	1,505	1,607
Funds transfer	206	246
Customer account charges	222	236
Others	67	-
	2,000	**2,089**

8. Dealing and exchange profit

Dealing and exchange profit 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 profit / (loss) from the sale of securities.

	2018 US$'000	2017 US$'000
Loss on Available-for-sale assets	-	(115)
Loss on assets measured at FVOCI	(8)	-
Foreign exchange	407	415
	399	**300**

9. Other operating expense

	2018 US$'000	2017 US$'000
Other operating charges and brokerage	(158)	(138)
	(158)	**(138)**

10. Administrative expenses

	2018 US$'000	2017 US$'000
Wages and salaries, including directors	(4,237)	(4,369)
Social security costs	(454)	(468)
Pension costs	(390)	(375)
Other staff costs	(569)	(403)
Total staff costs	**(5,650)**	**(5,615)**
Other recurring administrative expenses	(4,181)	(4,416)
	(9,831)	**(10,031)**

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:	2018 No.	2017 No.
Banking	19	20
Operations	20	17
Administration	3	3
	42	**40**

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 2018, the Bank made contributions totalling US$ 390,302 (2017: US$ 375,171).

Contributions accrued at the reporting date amounted to US$ nil (2017: US$nil). There were no outstanding pre-paid contributions at the reporting date.

12. Directors' emoluments

	2018 US$'000	2017 US$'000
Executive directors' emoluments	(258)	(498)
Non-executive directors' fees	(298)	(196)
	(556)	(694)

The emoluments of the highest paid director, excluding pension contributions, were US$257,957 (2017: US$272,627). Pension contributions were made during the year amounting to US$23,481 (2017: US$2,686). US$nil of benefits in kind were paid during the year (2017: US$nil).

13. Profit / (Loss) before tax

	2018 US$'000	2017 US$'000
Profit is stated after charging:		
Amounts payable to the Auditor and its associates pursuant to legislation in respect of:		
- Statutory Audit of the financial statements	(187)	(138)
Other services relating to taxation	(19)	(18)
Rental of premises held under an operating lease	(457)	(422)
Other operating lease and similar rentals	(79)	(79)

14. Taxation

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

(a) Analysis of tax charge on activities

	2018 US$'000	2017 US$'000 (restated)
Current tax:		
United Kingdom corporation tax based on the (profit) / loss for the year	(253)	(696)
Adjustment in respect of prior year	4	(170)
Prior year restatement	-	456
Exchange differences	(33)	-
Total current tax	**(282)**	**(410)**
Deferred tax:		
Timing differences, origination and reversal	84	90
Prior year deferred tax adjustment	-	(249)
Change in tax rate	-	9
Total deferred tax	**84**	**(150)**
Tax (charge) / credit on profit	**(198)**	**(560)**

14. Taxation (continued)

(b) Reconciliation of the total tax charge

	2018 US$'000	2017 US$'000 (restated)
Profit / (Loss) on activities before tax	900	2,982
Tax at 19% (2017: 19.25%) thereon	(171)	(574)
Effects of:		
Expenses not deductible for tax purposes	(24)	(4)
Exchange differences	(20)	(27)
Adjustments in respect of prior year	4	(170)
Adjustments in respect of deferred tax prior year	(16)	(246)
Income not taxable for tax purpose	1	5
Adjustments on IFRS balance sheet	10	-
Adjustments to brought forward values	25	-
Deferred tax recognised directly to equity	(20)	
Temporary differences not recognised in the computation	13	
Prior year restatement		456
Tax (charge)	**(198)**	**(560)**

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 bank has applied a retrospective adjustment to the 2017 financial statements to adjust the tax charge which was overstated by $455,784.

There has been no impact to the opening position as at 1 January 2017 and therefore no statement of financial position for that date has been presented.

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

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

	2018 US$'000	2017 US$'000
Brought forward	(143)	(7)
Depreciation in excess of capital allowances	-	(23)
Deferred tax recognised directly to equity	20	
Short term timing differences	84	(113)
	(39)	**(143)**

(d) Factors that may affect future tax charges

The tax rate on the profit before tax for the Company's UK activities for 2016 was 20%. The Finance Act 2016, which was substantially enacted in September 2016, included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020, and Finance Act (No. 2) included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and has not changed since. To the extent that deferred tax reverses at a different rate than it is recognised at, then this will change the impact of the net deferred tax liability.

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 2018:

US$'000	Note	Measured at FVOCI	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16	-	26,257	-	**26,257**
Financial assets measured at FVOCI	17	55,133	-	-	**55,133**
Loans and advances to banks	19	-	296,100	-	**296,100**
Loans and advances to customers	20	-	46,702	-	**46,702**
Deposits by banks	25	-	-	277,258	**277,258**
Customer accounts	26	-	-	71,260	**71,260**
Other liabilities	27	-	-	1,404	**1,404**

US$'000	Note	Held at fair value	Loans and receivables	Financial liabilities at amortised cost	Total
Cash at bank and in hand	16	-	17,556	-	**17,556**
Financial assets - derivatives		-	-	-	**-**
Financial assets available-for-sale	17	31,190	-	-	**31,190**
Financial assets held to maturity		-	-	-	**-**
Loans and advances to banks	19	-	313,668	-	**313,668**
Loans and advances to customers	20	-	69,829	-	**69,829**
Deposits by banks	25	-	-	270,095	**270,095**
Customer accounts	26	-	-	83,656	**83,656**
Financial liabilities - derivatives		-	-	-	**-**
Other liabilities	27	-	-	2,420	**2,420**

16. Cash at bank and in hand

	2018	**2017**
	US$'000	**US$'000**
Cash	184	133
Short term placements with other banks	26,077	17,423
Gross amount	26,261	17,556
Impairment under IFRS 9	(4)	-
Net amount	**26,257**	17,556

Cash is classified as a level 1 instrument.

17. Financial assets measured at fair value

	2018	**2017**
	US$'000	**US$'000**
Treasury bills	3,997	8,667
Other high quality liquid assets	51,177	22,523
Other securities	-	-
Gross amount	**55,174**	**31,190**
Impairment under IFRS 9	**(41)**	-
Net amount	**55,133**	**31,190**
Maturity		
- 3 months or less	7	-
- 1 year or less but over 3 months	8,951	17,668
- 5 years or less but over 1 year	46,175	13,522
- Over 5 years	-	-
	55,133	**31,190**

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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$4,582 (2017: Unrealised profit of US$645,673) have been recognised in the Statement of Comprehensive Income. Financial assets measured at fair value through other comprehensive income purchased and sold amounted to US$41,610,824 (2017: US$ 59,145,000) and US$17,668,521 (2017: US$65,488,000) respectively.

18. Financial assets hold to collect

The Bank no longer holds financial investments which it had previously classified as held to maturity.

19. Loans and advances to banks

The following table shows total bank loans

	2018 US$'000			2017 US$'000		
	Gross amount	**Impairment Allowance**	**Net amount**	**Gross amount**	**Impairment Allowance**	**Net amount**
Bank loans	296,648	(548)	296,100	313,668	-	313,668
	296,648	**(548)**	**296,100**	**313,668**	**-**	**313,668**

The fair value of the cash collateral held in respect of the loans and advances to banks at 31 December 2018 is US$9,372,056 (2017: US$18,814,331). 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:

	2018 US$'000			2017 US$'000		
	Gross Amount Performing	**Impairment Allowance**	**Net Amount**	**Gross Amount**	**Impairment Allowance**	**Net amount**
Repayable on demand or at short notice	94	-	94	94		94
Remaining maturity:						
- 3 months or less excluding above	277,794	(444)	277,350	313,574	-	313,574
- 1 year or less but over 3 months	3,665	(25)	3,640	-	-	-
- 5 years or less but over 1 year	15,095	(79)	15,016			
	296,648	**(548)**	**296,100**	**313,668**	**-**	**313,668**

Amounts repayable on demand or at short notice include monies pledged to banks in respect of trade finance transactions of US$94,000 (2017: US$ 94,000).

20. Loans and advances to customers

	2018 US$'000			2017 US$'000		
	Gross amount	**Impairment allowance**	**Net amount**	**Gross amount**	**Impairment allowance**	**Net amount**
Commercial loans & advances	25,178	(1,849)	23,329	36,370	(784)	35,586
Personal loans & advances	3,002	(3)	2,999	263	(19)	244
Syndicated loans	20,456	(82)	20,374	34,087	(88)	33,999
	48,636	**(1,934)**	**46,702**	**70,720**	**(891)**	**69,829**

The fair value of the collateral held in respect of the loans and advances to customers is US$46,907,046 as at 31 December 2018 (2017: US$61,702,589). This collateral can be used in the event of default by the borrower. Out of the total collateral, US$10,771,851 is for impaired loans and advances to customers (2017: US$nil) and US$nil (2017: US$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:

	2018 US$'000			2017 US$'000		
	Gross Amount	**Impairment allowance**	**Net amount**	**Gross Amount**	**Impairment allowance**	**Net amount**
Repayable on demand or at short notice	22,725	(1,845)	20,880	34,282	-	34,282
Remaining maturity:						
- 3 months or less excluding above	2,372	(4)	2,368	10,489	-	10,489
- 1 year or less but over 3 months	10,016	(38)	9,978	2,420	-	2,420
- 5 years or less but over 1 year	10,728	(44)	10,684	20,368	-	20,368
- Over 5 years	2,795	(3)	2,792	3,161	-	3,161
Less: Allowances for impairment	-	-	-	(208)	(683)	(891)
(note 21)	**48,636**	**(1,934)**	**46,702**	**70,512**	**(683)**	**69,829**

Of the US$1,933,708 impairment provision (2017: US$891,340), US$90,573 represents the Stage 1 and stage 2 provisions under IFRS9 while the collective impairment provision under IAS 39 for (2017 was US$208,700).

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

	2018 US$'000	2017 US$'000
At beginning of the year	(891)	(939)
Write back to statement of comprehensive income	-	329
Charge to statement of comprehensive income	(1,507)	(331)
IFRS 9 opening ECL taken to equity	(132)	-
Exchange differences	3	(3)
Amounts written off against historic provisions	-	53
At the end of the year	**(2,527)**	**(891)**
Loans and advances to banks and cash in hand	(418)	-
Loans and advances to customers	(1,934)	(891)
Investment securities	(41)	-
Trade finance contingencies (to banks)	(134)	
	(2,527)	**(891)**

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

During the year, the Bank has not written off any loans and advances to customers. (2017: US$53,000).

The carrying amount of the loans and advances to customers in default at the end of the reporting period is US$10,443m (2017: US$nil).

22. Property and equipment

US$'000	Leasehold Improvements	2018 Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
Cost:				
At beginning of the year	278	666	-	944
Additions	-	13	-	13
Assets disposed off	-	-	-	-
At end of the year	**278**	**679**	**-**	**957**
Depreciation:				
At beginning of the year	(52)	(389)	-	(441)
Charge for the year	(42)	(115)	-	(157)
Disposals	-	-	-	-
Reclassified	-	(73)		(73)
At end of the year	**(94)**	**(577)**	**-**	**(671)**
Net book value at 31 December	**184**	**102**	**-**	**286**

US$'000	Leasehold Improvements	2017 Office Equipment and Furniture & Computer Hardware	Motor Vehicles	Total
Cost:				
At beginning of the year	276	671	-	947
Additions	2	9	-	11
Assets disposed off	-	(14)	-	(14)
At end of the year	278	666	-	944
Depreciation:				
At beginning of the year	(10)	(242)	-	(252)
Charge for the year	(42)	(161)	-	(203)
Disposal	-	14	-	14
At end of the year	**(52)**	**(389)**	**-**	**(441)**
Net book value at 31 December	**226**	**277**	**-**	**503**

23. Intangible assets

	2018 Software US$'000	2017 Software US$'000
Cost:		
At beginning of the year	3,278	**3,301**
Additions	561	72
Asset disposed off	-	(95)
At end of the year	**3,839**	**3,278**
Amortisation:		
At beginning of the year	(2,123)	(1,613)
Disposals	-	95
Reclassified	73	-
Charge for the year	(629)	(605)
At end of the year	**(2,679)**	**(2,123)**
Net book value at 31 December	**1,160**	**1,155**

24. Other Assets

	2018 US$'000	2017 US$'000
Within twelve months:		
Fees and Commissions receivable	134	114
Other receivables	239	711
More than twelve months:		
Rent and other security deposits	492	521
	865	**1,346**

25. Deposits by banks

	2018 US$'000	2017 US$'000
Repayable on demand	178,604	146,414
Remaining maturity:		
- 3 months or less excluding above	98,654	123,681
- 1 year or less but over 3 months	-	-
	277,258	**270,095**

Deposits by banks include amounts totalling US$20,363,000 (2017: US$42,563,000) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

26. Customer accounts

	2018 US$'000	2017 US$'000
Repayable on demand	63,780	65,590
Remaining maturity:		
- 3 months or less excluding above	1,605	10,405
- 1 year or less but over 3 months	5,440	7,377
- 5 years or less but over 1 year	435	284
	71,260	**83,656**

Customer accounts include amounts totalling US$148,000 (2017: US$36,079) charged to the Bank to secure actual and contingent liabilities in respect of letters of credit.

27. Other liabilities

	2018 US$'000	2017 US$'000
Within twelve months:		
Taxation and social security	165	142
Accounts payable	659	1688
More than twelve months:		
Customers' unclaimed balances	742	732
	1,566	**2,562**

28. Accruals and deferred income

	2018 US$'000	2017 US$'000
Accruals	179	230
Deferred income	331	379
	510	**609**

29. Called up share capital

	2018	2017
Authorised, Allotted, called up and fully paid	**US$'000**	**US$'000**
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.

30. 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$8.9m (2017: US$18.7m). Balances and related income and expense included in these financial statements in respect of the transactions with UBN Group are as follows:

	2018	2017
US$'000	**Closing balance**	Closing balance
Holding company		
Assets		
Cash at bank and in hand	0.3	0.6
Loans and advances to banks	10,935	23,216
Liabilities		
Deposits by banks	33,917	46,246
Income – interest		
From holding company	1,366	851
Expense - interest		
To holding company	287	177
Fellow subsidiaries		
Liabilities		
Deposits by banks	-	-
Customer accounts	-	-
Income		
From fellow subsidiaries	-	-

At 31 December 2018 loans made to one (2017: two) executive directors of the Bank during the year, on terms generally available to staff, remained outstanding to the amount of US$15,704 (2017: US$38,048). This balance is included within note 20. More information regarding key management compensation is included within note 12.

31. 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. Forward foreign exchange transactions are undertaken for the purposes of hedging the US$ value of the Bank's estimated Sterling expenses.

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.

31. 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 19 to 21.

(i) Credit exposure by sector

	2018	2017
	US$'000	US$'000
Banks	322,356	331,092
Government	55,133	31,190
Corporate	43,421	62,483
Individuals	3,282	7,345
	424,192	**432,110**

(ii) Credit exposure by location

	2018	2017
	US$'000	US$'000
Europe	106,416	170,286
Africa	120,722	81,296
Others (mainly India & US)	197,054	180,528
	424,192	**432,110**

The above sector and geographical analyses only include cash at bank and in hand, loans and advances to banks and to customers, financial assets available-for-sale, financial assets held to maturity 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.

31. 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 Moody and Fitch rating agencies where applicable grouped by Credit Quality Steps (CQS) is as follows:

		2018	2017
CQS	**Assets**	**US$'000s**	**US$'000s**
	Cash and Cash Equivalent		
1	Rated AAA to AA-	35	14
2	Rated to A+ to A-	529	636
3	Rated BBB+ to BBB-	25,505	16,483
4	Rated BB+ to BB-	4	290
5	Rated B+ to B-	-	1
6	Unrated	184	-
		26,257	17,424
	Financial assets derivatives		
1	Rated AAA to AA-	**-**	-
	Loans and Advances to Banks		
1	Rated AAA to AA-	-	-
2	Rated A+ to A-	64,622	130,109
3	Rated BBB+ to BBB-	151,114	151,933
4	Rated BB+ to BB-	-	-
5	Rated B+ to B-	75,319	31,626
6	Unrated	5,045	-
		296,100	313,668
	Loans and Advances to Customers		
	Unrated neither past due nor impaired	29,208	69,829
	Unrated past due but not impaired	17,494	-
		46,702	**69,829**
	Financial Assets		
1	Related AAA to AA-	52,330	31,190
5	Related B+ to B-	2,803	-
6	Unrated	-	-
		55,133	**31,190**

31. Financial risk management (continued)

As at 31 December 2018, the Bank's maximum exposure to credit is US$450m (2017: US$452m), of which US$ 19,336,846 (2017: US$683,000) 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$69m (2017: US$96m) against credit exposures of US$414m (2017: US$402m) of which US$20.5m (2017: US$35.5m) was in the form of cash. Total trade related exposure included above was US$101.9m (2017: US$44.2m) against which the Bank held cash collateral of US$20.5m (2017: US$36.6m) included above.

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 2018 is US$19m (2017: US$15m).

(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. Also, where possible, the Bank enters into deposit netting agreements with those banks with which it makes placements in order to retain access to funds at short notice.

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:

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**

2017

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	270,095	-	-	-	-	270,095
Customer accounts	75,994	715	6,662	286	-	83,657
Other liabilities	3,315	-	-	-	-	3,315
Total liabilities	**349,404**	**715**	**6,662**	**286**	**-**	**357,067**

31. 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:

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**		

2017

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	364,648	19,153	11,419	33,726	3,151	13	432,110
Total Financial liabilities	346,089	715	6,662	285	-	-	(353,751)
Interest rate sensitivity gap	18,559	18,438	4,757	33,441	3,151	13	78,359
Cumulative gap	**18,559**	**36,997**	**41,754**	**75,195**	**78,346**		

31. 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:

2018

US$'000			**Currencies**		**Total**
	US Dollar	**£ Sterling**	**Euro**	**Other**	
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%	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%	(110)	(85)	124	-	**(71)**
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	470	365	(528)	-	**307**

31. Financial risk management (continued)

US$'000	2017 Currencies				Total
	US Dollar	**£ Sterling**	**Euro**	**Other**	
Total Financial assets	394,157	31,727	5,310	916	**432,110**
Less: fixed rate assets	(307,825)	(23,229)	-	-	**(331,054)**
Total Variable rate assets	86,332	8,498	5,310	916	**101,056**
Total Financial liabilities	319,922	27,531	5,396	902	**353,751**
Less: fixed rate liabilities	(107,100)	(8,810)	-	-	**(115,910)**
Total Variable rate liabilities	212,822	18,721	5,396	902	**237,841**
Net cash flow interest Rate Risk exposure	**(126,490)**	**(10,223)**	**(86)**	**14**	**(136,785)**
Possible movement in Libor/Euribor (bps)	100	100	100	100	
Possible impact of increase in Libor/Euribor on profit/loss before tax and equity	(1,265)	(102)	(1)	-	**(1,368)**
Tax charge-19.25%	243	20	-	-	**263**
Possible impact of increase in Libor/Euribor on profit/loss after tax and equity	(1,021)	(83)	(1)	-	**(1,105)**
Possible impact of decrease in Libor/Euribor on profit/loss before tax and equity	1,265	102	1	-	**1,368**
Tax charge-19.25%	(243)	(20)	-	-	**(263)**
Possible impact of decrease in Libor/Euribor on profit/loss after tax and equity	1,021	83	1	-	**1,105**

(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	**2018 Currencies**				**Total**
	US Dollar	**£ Sterling**	**Euro**	**Other**	
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**

US$'000	**2017 Currencies**				**Total**
	US Dollar	**£ Sterling**	**Euro**	**Other**	
Total Financial assets	394,212	31,656	5,325	916	**432,109**
Total Financial liabilities	(319,921)	(27,531)	(5,396)	(904)	**(353,752)**
Currency position	**74,291**	**4,125**	**(71)**	**12**	**78,357**

31. 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.

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)

2017

US$'000	**Currencies (FC)**		
	£ Sterling	**Euro**	**Other**
Net foreign currency exposures	4,126	(70)	14
Impact on profit and equity of 5% increase in FC:USD rate	206	(4)	1
Impact on profit and equity of 5% decrease in FC:USD rate	(206)	4	(1)

31. 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 2018 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.

	2018 US$'000	2017 US$'000
Statement of financial position:		
Share Capital	**60,090**	**60,090**
Profit & Loss Reserve	**15,950**	**17,904**
Less Intangibles	**(1,160)**	**(1,155)**
IFRS 9 transitional adjustments	**464**	-
Total Tier 1 Capital	**75,344**	**76,839**
Tier 2 Capital - Collective impairment allowance	**-**	**209**
Total Tier 2 Capital	**-**	**209**
Total Regulatory Capital	**75,344**	**77,048**

31. 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	**2018**	2017
	US$'000	US$'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Contract amount	-	-
Credit equivalent amount	-	-
Risk weighted amount	-	-

32. 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	**2018**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at FVOCI	55,133	-	-	55,133
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	**55,133**	**-**	**-**	**55,133**

US$'000	**2017**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets available-for-sale	31,190	-	-	31,190
Financial assets - derivatives	-	-	-	-
Financial liabilities - derivatives	-	-	-	-
Total	**31,190**	**-**	**-**	**31,190**

The Bank no longer holds held-to-maturity bonds.

32. 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.

	2018		2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Assets				
Cash at bank	26,257	26,257	17,423	17,423
Loans and advances to banks	296,100	296,100	313,668	313,668
Loans and advances to customers	46,702	47,088	69,829	70,055
Liabilities				
Deposits by banks	277,258	277,258	270,095	270,095
Customer accounts	71,260	71,278	83,656	83,674
Other liabilities	2,079	2,079	3,170	3,170
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.

32. 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.

33. Contingent liabilities and commitments

(a) Contingent liabilities

	2018 US$'000	**2017 US$'000**
Letters of credit	21,296	20,264
Guarantees given to third parties	2,053	-
Undrawn facilities	-	-
	23,349	20,264

(b) 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.

Leases which expire:	**2018 US$'000**	**2017 US$'000**
Within one year	510	56
Within two to five years	1,779	24
Over five years	2,321	-
	4,610	**80**

34. Dividends

A dividend payment of US$3,000,000 was made during the year ended 31 December 2018 in respect of the year ended 31 December 2017 (made during the year ended 31 December 2017 in respect of the year ended 31 December 2016: US$nil).

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. The directors do not consider there to be an ultimate controlling party.

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 propose a final dividend of US$1,000,000 in respect of year ended 31 December 2018 (2017: US$3,000,000)