

**Company Registration No. 4146820**

**United National Bank Limited**

**Report and Financial Statements**

**31 December 2010**

# **United National Bank Limited**

## **Report and financial statements 2010**

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# **United National Bank Limited**

## **Report and financial statements 2010**

### **Officers and professional advisers**

#### **Directors**

Mr A R Bokhari  
Mr A Karachiwalla  
Mr S A Khan  
Mr E Mani  
Mr M Aslam (appointed 1 December 2010)  
Mr M M Khan \*  
\* Executive Director

#### **Secretary**

Mr B G Firth

#### **Registered office**

2 Brook Street  
London  
W1S 1BQ

#### **Auditors**

BDO LLP  
Chartered Accountants and Registered Auditors  
55 Baker Street  
London  
W1U 7EU

# United National Bank Limited

## Directors' report

The directors have pleasure in presenting the annual report and the audited financial statements for the year to 31 December 2010 for United National Bank Limited (the "Company").

### Overview and principal activities

The Company is an authorised banking institution incorporated in the UK and regulated by the Financial Services Authority (FSA).

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

The principal activities of the Company are to provide retail banking products through its branch network in major cities in the UK; wholesale banking, treasury and money transmission services to Financial Institutions, and trade finance facilities to businesses of all sizes. Any significant changes in the Company's principal activities in the year under review are mentioned below. The directors are not aware, at the date of this report, of any likely major changes to the Company's activities in the next year, and expect the Company to continue as a going concern for the foreseeable future (note 1).

### Business review, results and dividend

The recession may be officially over in the UK but the recovery is far from complete. Austerity measures put in place by the Coalition government following the election mid-year has meant public spending cutbacks and tax increases that will affect both businesses and individuals for many years to come.

The Company's results for the year have been mixed. On the one-hand, the balance sheet has grown by nearly 25% and interest income has increased by 7%. However, the Company has slipped into loss for the first time since 2001. The main cause of the loss has been a single loan that went bad at the start of the year leading to interest and cost provisions of more than £0.6 million being absorbed by the profit and loss account during the year.

The Company started 2010 with a stable but concentrated funding base. There was a significant increase in the volume and value of deposits taken in the first half of 2010 as the Company sought to broaden its customer base and fund credit expansion. However, the continuation of record low interest rates and a fragile economic environment has meant that credit extension has needed to be more cautious than normal. Therefore most of the new funds have been deployed in the wholesale market temporarily.

When the Exchange House revenue of £0.5 million earned in 2009 is adjusted for, it reveals that fee income in 2010 has remained static. The Company's trade finance business emanating from Pakistan has declined slightly on the previous year reflecting a worldwide reduction in trade volumes.

Costs have remained static over the year, with the cost savings achieved in 2009 being offset by the investment in 2010 to implement the Company's change programme. Some of the changes implemented during 2010 include:

- Launch of Islamic deposit product range,
- Centralisation of operational processing previously completed within the Branches,
- Restructuring of sales management and credit processes and teams,
- Relocation of the Manchester branch to within the target market, and
- Launch of UNB NetRemit, the Company's first online product

It will take time for the results of the above change programme to be reflected as profitable growth. The Company's monthly run-rate has recently turned to profit, but the underlying business volumes and income streams are still fragile. The wider economy is still not conducive to rapid expansion, particularly from a credit risk perspective. Therefore the focus remains on developing fee-earning products that can offset the impact of more than twenty consecutive months with interest rates at their lowest point in history. The directors are optimistic that the Company's strategy will lead to a return to profit in 2011, and provide the foundation for sustained growth in profitability in the medium term.

The loss for the year before taxation amounted to £178,592, (2009: £28,160 profit).

The Company uses preference shares to appropriate profits resulting from the utilisation of tax losses and the recovery of written-off loans back to the parent bank that those tax losses and bad debts were transferred from upon

# United National Bank Limited

## Directors' report

merger (see note 14 for further details). Under FRS 25, the payments to preference shareholders are treated as a charge on profits instead of an appropriation of profit. Therefore a 3-column approach has been adopted in the profit and loss account to separate the impact of the preference shares upon the results of the Company.

The Directors consider that there are alternative measures that are helpful in assessing the underlying operating performance of the Company. For internal management reporting purposes, the Board uses adjusted profit before taxation, defined as the profit before tax, interest payable on preference shares and debt recoveries.

A five year summary of the underlying profits of the core business is shown below:

	2010 £	2009 £	2008 £	2007 £	2006 £
(Loss) / profit on ordinary activities before taxation	(178,592)	28,160	1,800,475	1,232,223	1,727,250
Interest payable on preference shares	(474,395)	94,802	1,006,899	2,336,376	1,249,343
Debt recoveries	(139,982)	(122,203)	(176,251)	(141,776)	(356,055)
Adjusted (loss)/profit before taxation	<u>(792,969)</u>	<u>759</u>	<u>2,631,123</u>	<u>3,426,823</u>	<u>2,620,538</u>

The Shareholders' Agreement signed by the shareholder banks in 2001 stipulated that ordinary dividends will not be paid for the first five years after the merger to enable the Company to build its capital resources. Since incorporation, the Company's shareholders' funds have grown from £30 million to £43 million at the end of 2010. The Directors agreed to implement a dividend policy from 2008 to return 25% of the net annual profits to the shareholders. No dividend was paid in 2010 in respect of 2009 results (2009: £0.450 million).

### Strategy and planning

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

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

The management and Board undertook a review of strategy during early 2011. This culminated in a new Business Plan being approved by the Board that targets a 10% year on year increase in the balance sheet and a 6% return on tier one capital by the end of 2013.

The main areas of focus for 2011 continue to be the increase of the Company's sales capacity, the improvement of its product offering, and the introduction of new distribution channels to increase the coverage and penetration of its target market:

#### Sales capacity

Although a majority of operational processing has been removed from the branches over the past year the Area Managers have still been responsible for the administration and management of the branch operations. A restructure will be implemented at the start of 2011 that will separate the Area Managers from the branch, to create a Field Sales Team that will focus only on bringing new business to the bank against closely managed targets. The branches will be managed by the Sales & Service Team Leaders, and the branch staff will have the prime responsibility for business retention and repeat sales.

# United National Bank Limited

## Directors' report

The key part in bringing about successful change is to ensure that all the staff are familiar with the objectives of their role and receive the necessary support to achieve them. The Company will therefore focus on training and development of all branch and field staff in the coming year.

### Product offering

UNB's product range is restricted to simple retail banking products, which provide limited opportunity for cross-selling, and maximising the revenue from customer relationships. During the past year UNB has introduced two new products, and will soon launch 'white-labelled' general insurance and life assurance products.

In order to compete with the High Street banks and have a credible current account product UNB will launch a debit card, which coupled with UNB's existing relationship with NatWest, will enable the Company's customers to deposit cash for their UNB account at more than 1,600 NatWest & RBS branches across the country and withdraw funds from more than 40,000 ATMs in the UK alone.

The retail banking space in the UK is concentrated by large players and does not offer much room to improve margins and grow revenues without significant scale. However, UNB has identified an opportunity to provide financial advisory services to its retail customers, to enable them to expand their businesses. Added to this, UNB will also explore the potential to advise on cross-border transactions, as well as the possibility of linking up with the parent banks' own investment banking arms to benefit from the group's resources.

### Distribution channels

One of the major inhibitors to growth has been the absence of an online presence for customers to access their accounts 24/7/365 from all over the world. This is being worked upon at the moment and will roll out in phases over the coming 12 months (subject to FSA approval). Vital infrastructure changes are underway to enhance IT security and introduce a real time failover solution.

2011 will therefore be another year of transition for the Company, but the Board expects the Company to achieve a modest profit by the end of the year.

### Capital resources

United National Bank is 55% owned by United Bank Limited and 45% owned by National Bank of Pakistan. Both parent banks are established and profitable banks in Pakistan, and committed to the future growth of the Company. This is supported by their investment of £30 million of capital into the Company. A breakdown of the capital resources of the Company at the balance sheet date is set out in note 20.

Capital is maintained by ensuring that risks are identified and managed effectively. The risk management policies of the Company including the use of financial instruments are set out in note 18.

Capital was impacted last year by the harsh economic conditions, which have shown some softening during 2010. The value of the Company's Head Office in Mayfair has bounced-back to its 2009 level, and the deficit in the Company's defined benefit pension scheme has reduced. The Board continue to believe that the remaining deficit is temporary, and the funding position will improve as the economy recovers.

The FSA issued their Individual Capital Guidance (ICG) for UNB following their periodical ARROW risk assessment during the year. The maximum capital requirement during the year under the new ICG was £20.6 million. The minimum Tier 1 capital held by the Company during the year was £35.8 million.

Further details of the Company's capital requirements can be found in the unaudited Pillar III disclosure required under the Chapter Financial Services Authority Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIRPU") on the company's website, [www.unbankltd.com](http://www.unbankltd.com).

### Physical resources

The Company owns the freehold to four of its six branches. The Company had its premises revalued in March 2007. The directors have undertaken an informal review of the Company's premises in December 2010. They are

# United National Bank Limited

## Directors' report

of the opinion that the premises have increased in value by £3.4 million as a result of the general recovery in market prices in the UK, and this has been recognised in the Statement of Total Recognised Gains and Losses for the year.

A transfer of £15,326 has been made from the revaluation reserve to the profit and loss reserve to offset the increased depreciation suffered in 2010 as a result of the revaluation.

### Human resources

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

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

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

### Organisation and governance

The Board of Directors has a supervisory role in overseeing the business, strategic direction, organisation structure and risk management activities of the Company.

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

Mr S Ali Raza (Chairman – resigned 15 January 2011)

Mr A R Bokhari

Mr A Karachiwalla

Mr S A Khan

Mr M M Khan (Chief Executive Officer)

Mr E Mani

Mr K Sharwani (deceased 7 January 2010)

Mr M Aslam (appointed 1 December 2010)

The Company has arranged qualifying third party indemnity for all of its directors.

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

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

- Audit and compliance committee
  - Mr E Mani (Chairman), Mr A Karachiwalla, Mr S A Khan, Mr M Aslam
  - Oversight of financial reporting
  - Oversight of external audit
  - Oversight of internal control
  - Oversight of internal audit
  - Oversight of corporate governance and regulatory compliance
  - Oversight of risk management practices.
  - Oversight of financial crime
  - Oversight of compliance

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## Directors' report

- Credit committee
  - Mr A Karachiwalla (Chairman), Mr M M Khan, Mr S A Khan, Mr E Mani, Mr M Aslam
    - Approval of credits and credit provisioning
    - Approval of credit policy and all amendments
    - Review and recommendation to the Board of all lending policies
    - The delegation of credit approval and provisioning limits to the credit committee.
- HR remuneration and appointments committee
  - Mr A Karachiwalla (Chairman), Mr M M Khan, Mr S A Khan, Mr E Mani, Mr M Aslam
    - Ensure that the Company is in compliance with all relevant employment law
    - Decide on total remuneration and benefits for senior staff and Executive Directors.

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

The day-to-day activities of the Company are controlled by the Management Team. The employees who served on the Management Team during the year are set out below along with their specific area of responsibility within the Company.

Mr M M Khan - Chief Executive Officer  
Mr N Ahmad – Group Head: Credit Risk and Administration  
Mr M Akhlaq – Head of Sales: South-East England  
Mr I Chaudhry - Head of Trade Finance and Financial Institutions  
Mr B Firth – Deputy Chief Executive Officer, Chief Financial Officer and Company Secretary  
Mr A Hurl-Hodges – Group Head: Operations (resigned May 2010)  
Mr M Khan – Head of Sales Management and Marketing (appointed January 2010)  
Mr V Monawer – Group Head: Compliance, Risk, and MLRO  
Mr P Murphy – Head of IT (appointed July 2010)  
Mr S Powell - Head of Human Resources  
Mr R Rahim – Head of Retail Assets (appointed May 2010)  
Mr C Wright – Head of Treasury

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

- Line Credit Committee – responsible for the oversight of credit risk, the implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits as delegated by the Board Credit Committee.
- Assets and Liabilities Committee - responsible for the performance of the balance sheet and the management of liquidity, and market risks.
- Steering Committee – responsible for the oversight of the implementation of strategic change within the Company
- Security Committee – responsible for the management of data security and business continuity.
- Risk Committee – responsible for the oversight of risk management.
- Regulatory Changes Committee – responsible for ensuring regulatory changes are implemented on a timely basis.

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

### Auditors

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

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

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## Directors' report

- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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



B G Firth  
Company Secretary

30 March 2011

# **United National Bank Limited**

## **Statement of directors' responsibilities**

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## **Independent auditors' report to the members of United National Bank Limited**

We have audited the financial statements of United National Bank Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



*Daniel Taylor (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom*

*30 March 2011*

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

# United National Bank Limited

## Profit and loss account Year ended 31 December 2010

	Notes	2010 Before preference shares interest £	2010 Preference shares interest £	2010 Total £	2009 Total £
Interest receivable from debt securities		1,840,300	-	1,840,300	1,007,010
Interest receivable from group undertakings		977	-	977	61,002
Other interest receivable and similar income		2,970,879	-	2,970,879	3,471,466
		<u>4,812,156</u>	<u>-</u>	<u>4,812,156</u>	<u>4,539,478</u>
Interest payable to group undertakings		(9,171)	474,395	465,224	(140,857)
Interest payable		(1,598,525)	-	(1,598,525)	(1,239,581)
<b>Net interest income</b>		<u>3,204,460</u>	<u>474,395</u>	<u>3,678,855</u>	<u>3,159,040</u>
Fees and commissions receivable		1,623,170	-	1,623,170	2,182,029
Income from trading activities		434,428	-	434,428	462,137
Fair value (loss)/gain on derivatives	11	(64,248)	-	(64,248)	10,996
Other operating income		274,353	-	274,353	258,342
<b>Operating income</b>		<u>5,472,163</u>	<u>474,395</u>	<u>5,946,558</u>	<u>6,072,544</u>
Administrative expenses	2	(5,466,624)	-	(5,466,624)	(5,575,442)
Depreciation	10	(532,958)	-	(532,958)	(421,708)
Impairment losses on loans and advances	8	(265,550)	-	(265,550)	(169,437)
Other debt recoveries		139,982	-	139,982	122,203
<b>Total operating expenses</b>		<u>(6,125,150)</u>	<u>-</u>	<u>(6,125,150)</u>	<u>(6,044,384)</u>
<b>(Loss)/Profit on ordinary activities before taxation</b>	3	<u>(652,987)</u>	<u>474,395</u>	<u>(178,592)</u>	<u>28,160</u>
Tax on profit on ordinary activities	5	(300,000)	-	(300,000)	-
<b>(Loss)/Profit on ordinary activities after taxation and transfer to shareholder funds</b>		<u>(952,987)</u>	<u>474,395</u>	<u>(478,592)</u>	<u>28,160</u>

The loss for the current year and the profit in the preceding year are derived from continuing operations.

## United National Bank Limited

### Statement of total recognised gains and losses Year ended 31 December 2010

	Notes	2010 £	2009 £
(Loss)/Profit for the financial year		(478,592)	28,160
Gain/(Loss) on revaluation of freehold property	10	3,456,967	(3,005,545)
Loss on revaluation of investment property	9	-	(388,943)
Actuarial gain/(loss) relating to the pension scheme	19	298,000	(611,000)
Loss on available for sale investments		(16,983)	-
Equity dividends paid	21	-	(450,119)
<b>Total recognised gains and losses since last annual report</b>		<b>3,259,392</b>	<b>(4,427,447)</b>

# United National Bank Limited

## Balance sheet 31 December 2010

	Notes	2010 £	2009 £
<b>Assets</b>			
Cash and balances with central banks		3,123,042	4,420,040
Loans and advances to banks	6	7,628,596	30,061,545
Loans and advances to customers	7	57,050,953	57,979,964
Debt securities	18	64,598,172	18,888,762
Investment property	9	9,201,474	2,650,000
Tangible fixed assets	10	16,514,233	12,853,892
Derivatives at fair value	11	-	56,743
Deferred tax	5	-	300,000
Other assets		692,227	517,397
Prepayments and accrued income		228,625	150,600
<b>Total assets</b>		<u>159,037,322</u>	<u>127,878,943</u>
<b>Liabilities</b>			
Deposits by banks	12	9,034,775	7,033,024
Customer accounts	13	104,181,916	77,318,776
Derivatives at fair value	11	71,181	63,676
Other liabilities	14	1,196,864	1,710,979
Accruals and deferred income		718,678	943,972
		<u>115,203,414</u>	<u>87,070,427</u>
Pension scheme liability	19	531,000	765,000
<b>Total Liabilities</b>		<u>115,734,414</u>	<u>87,835,427</u>
Called up share capital	15	30,000,000	30,000,000
Investment revaluation reserve	20	(405,926)	(388,943)
Revaluation reserve	20	7,083,432	3,641,791
Profit and loss account	20	6,625,402	6,790,668
<b>Shareholders' funds</b>	20	<u>43,302,908</u>	<u>40,043,516</u>
<b>Total liabilities &amp; Capital</b>		<u>159,037,322</u>	<u>127,878,943</u>
<b>Memorandum items</b>			
Contingent liabilities (contract amount):	16		
Letters of credit		5,596,748	5,811,402
Guarantees		344,346	337,597
		<u>5,941,094</u>	<u>6,148,999</u>
Commitments	17	<u>4,272,014</u>	<u>1,756,887</u>

These financial statements were approved and authorised for issue by the Board of Directors on 30 March 2011.

Signed on behalf of the Board of Directors



M M Khan  
Director

# United National Bank Limited

## Cash flow statement Year ended 31 December 2010

	2010 £	2009 £
<b>Reconciliation of operating profit to net operating cash flows</b>		
Operating (loss)/profit on ordinary activities before tax	(178,592)	28,160
Net (increase)/decrease in accrued income and prepayments	(78,025)	28,637
Net (decrease)/increase in accruals and deferred income	(225,294)	124,107
Net (increase)/decrease in other assets	(174,830)	597,438
Net increase/(decrease) in other liabilities	40,526	(743,856)
Net charge in respect of defined benefit pension scheme	64,000	154,000
Provision for bad and doubtful debts	265,550	169,437
Net decrease/(increase) in fair value of derivatives	64,248	(10,996)
Depreciation	532,958	421,708
Amortisation of debt securities	(743,456)	(398,296)
Interest payable/ (recoverable) on preference shares	(474,395)	(101,925)
	<u>(907,310)</u>	<u>268,414</u>
<b>Net cash inflow from trading activities</b>	<b>(907,310)</b>	<b>268,414</b>
Net increase in accrued interest on investments	(964,165)	-
Net (increase)/decrease in loans and advances to banks and customers	16,544,936	17,036,703
Net increase/(decrease) in deposits by banks and customer accounts	28,864,891	(9,793,449)
	<u>43,538,352</u>	<u>7,511,668</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>43,538,352</b>	<b>7,511,668</b>
<b>Cash flow statement</b>		
Net cash inflow/(outflow) from operating activities	43,538,352	7,511,668
<b>Returns on investments and servicing of finance</b>		
Payment to preference shareholders	(80,246)	(1,084,668)
<b>Capital expenditure and financial investment:</b>		
Purchase of tangible fixed assets	(736,332)	(238,529)
Purchase of debt securities	(52,585,119)	(23,843,828)
Proceeds on maturity of debt securities	8,566,347	7,451,687
Equity dividends paid	-	(450,119)
	<u>(1,296,998)</u>	<u>(10,653,789)</u>
<b>Decrease in cash</b>	<b>(1,296,998)</b>	<b>(10,653,789)</b>
<b>Reconciliation of net cash flow to movement in net funds</b>		
Decrease in cash	(1,296,998)	(10,653,789)
Net funds as at 1 January	4,420,040	15,073,829
	<u>3,123,042</u>	<u>4,420,040</u>
<b>Net funds as at 31 December</b>	<b>3,123,042</b>	<b>4,420,040</b>

Net funds are represented by cash and balances with central banks.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 1. Accounting policies

The financial statements have been prepared under the historical cost convention basis modified to include the revaluation of certain fixed assets, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, and available-for-sale investments. The financial statements have been prepared in accordance with applicable accounting standards. In order to show a true and fair view, the company's accounting policy in respect of investment properties departs from the requirements of the Companies Act. Details of this departure are given on page 16.

#### Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 4. The Company has considerable financial resources together with a diversified and stable funding base. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. Please see note 18 for the financial risk management policies of the Company.

#### Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to profit or loss over the life of the facility otherwise they are deferred and included in the effective interest rate on the advance.

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

Income from trading activities relates to foreign exchange income derived from customer facilitation and the revaluation of foreign currency assets and liabilities.

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

#### Foreign currency

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

#### Pensions

The Company operates a defined benefit scheme for certain staff. This scheme is closed for new members and the future accrual of benefits ceased from 1 January 2010. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 1. Accounting policies (continued)

#### Pensions (continued)

immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are included in interest payable and interest receivable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet.

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

#### Investment property

The Company has two investment properties that are revalued annually. Any revaluation surplus above the transfer value of the property at merger is shown as an unrealised gain payable to the parent bank via the preference shares issued by the Company. Any revaluation deficit below the transfer value of the property at merger will be shown as an unrealised loss payable by the parent bank and set-off against the amounts owed to that parent bank via the preference shares issued by the Company.

No depreciation is provided in respect of the investment property. This conflicts with the Companies Act requirements, but the directors consider that, because this property is not being held for consumption but for its investment potential, to depreciate it would not give a true and fair view.

#### Fixed assets and depreciation

Fixed assets except for freehold properties are stated at the net of cost and accumulated depreciation and any provision for impairment. Depreciation is provided on a straight-line basis at the following rates to write off the cost of fixed assets over their estimated useful lives:

Computer equipment	20-30% per annum
Computer software	over the period of the licence
Office equipment	15-25% per annum
Motor vehicles	30% per annum
Property improvements	10-25% per annum
Leasehold property	10% per annum
Freehold property	over 50 years
Land	no depreciation charged

The value of each freehold property is assessed by an independent member of the Royal Institution of Chartered Surveyors at least every five years. An interim valuation is carried-out every third year after a full valuation by a qualified external valuer, and interim valuations in the intervening years are performed where it is likely that there has been a material change in value. The surplus or deficit on book value is transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

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

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 1. Accounting policies (continued)

#### **Fixed assets and depreciation (continued)**

remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves

#### **Lease payments**

A lease is classified as an operating lease where the risks and rewards of ownership have not substantially been transferred to the lessee. Rental obligations under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted at the balance sheet date. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### **Financial assets**

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

*Loans and receivables* - non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment losses.

*Held to maturity* - financial instruments with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest rate method. The Company has listed investments that are included within this category.

*Held for trading* - a financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative. Held for trading financial assets are measured at fair value with gains and losses recognised in profit or loss as they arise.

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

*Available-for-sale* - those non-derivative financial assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated as at fair value through profit or loss on initial recognition. Available-for-sale financial assets are measured at fair value with fair value gains or losses recognised directly in equity through the statement of total recognised gains and losses. Interest is calculated using the effective interest rate method and is recognised in profit or loss along with impairment losses. The Company has listed investments that are included within this category.

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

#### **Impairment of financial assets**

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

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 1. Accounting policies (continued)

#### Impairment of financial assets (continued)

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

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

#### Financial liabilities

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

Financial liabilities are measured at amortised cost using the effective interest rate method or at fair value.

Fair value for a net open position in a financial liability that is quoted in an active market is the current offer price times the number of units of the instrument held or issued. Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities.

#### Derivative financial instruments

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

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

A derivative embedded in a contract is accounted for as stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is carried at fair value through profit or loss.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 2. Administrative expenses

	<b>2010</b>	<b>2009</b>
	<b>No.</b>	<b>No.</b>
Average number of employees	72	70
	<b>£</b>	<b>£</b>
Wages and salaries	2,891,042	2,891,976
Social security costs	313,611	306,766
Other pension costs	160,568	436,727
Total staff costs	3,365,221	3,635,469
Other administrative expenses	2,101,403	1,939,973
	<u>5,466,624</u>	<u>5,575,442</u>

### 3. Profit on ordinary activities before tax

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
<b>Operating profit is stated after charging</b>		
Fees payable to the company's auditors for the audit of the company's annual accounts	59,000	59,000
Other services pursuant to legislation:		
Taxation services	8,500	8,500
Depreciation	532,958	421,708
Amortisation of investments	(743,456)	(398,296)
Interest credit on preference shares	(474,395)	(73,926)
Defined contribution pension cost	160,568	106,727
Defined benefit pension cost	-	330,000
Rental of premises held under operating leases	81,612	79,055
	<u>(375,213)</u>	<u>532,768</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 4. Directors' emoluments

	2010 £	2009 £
Directors' fees	32,244	45,000
Other emoluments (excluding pension costs)	245,812	245,779
Pension costs	13,053	6,230
	<u>291,109</u>	<u>297,009</u>

The highest paid director received emoluments excluding pension contributions, totalling £245,812 (2009: £129,100) and the amount of pension contributions paid was £13,053 (2009: £Nil).

One director (2009: one) had contributions paid to a money purchase pension scheme. The amount of pension contributions paid was £13,053 (2009: £6,230).

### 5. Taxation

	2010 £	2009 £
<b>(i) Analysis of tax charge on ordinary activities</b>		
Current tax		
United Kingdom corporation tax at 28% (2009 - 28%) based on the profit for the year	-	-
Deferred tax	300,000	
Recognition of losses carried forward	-	-
	<u>300,000</u>	<u>-</u>
Tax charge for year		
<b>(ii) Factors affecting tax charge for the current year</b>		
(Loss)/Profit on ordinary activities before tax	(178,592)	28,160
Tax at 28% (2009 - 28%) thereon	(50,006)	7,885
Effects of:		
Adjustment to tax charge relating to previous periods	30,319	-
Expenses not deductible for tax purposes	4,166	50,392
Movement on provisions	630	(10,403)
Interest on FRS 17 adjustments not allowable	17,920	(2,800)
Depreciation in excess of capital allowances	149,228	8,561
Interest credit on preference shares	(163,150)	(20,699)
Loan relationships	19,770	19,770
Utilisation of tax losses	14 (8,877)	(52,706)
	<u>-</u>	<u>-</u>
Current tax charge for year		

There is no payment of corporation tax expected within the foreseeable future due to losses brought forward. As at 31 December 2010 there were losses of £49 million (2009: £49 million) carried forward.

Prior to this year, the Company had maintained an eight year period of profitability, and based on the budget for next year, is forecasting that the Company will return to a small profit. However, due to the uncertainty of the economic recovery the directors have decided that it would be prudent to release the deferred tax asset of £0.3 million.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 6. Loans and advances to banks

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Loans and advances:		
One year or less but over three months	-	5,007,569
Three months or less	7,628,596	25,053,976
	<u>7,628,596</u>	<u>30,061,545</u>

### 7. Loans and advances to customers

	<b>Non- performing loans Restated</b>	<b>Performin g loans</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>2010</b>			
Remaining maturity:			
Over five years	-	12,152,070	12,152,070
Five years or less but over one year	-	19,148,101	19,148,101
One year or less but over three months	-	11,395,212	11,395,212
Three months or less	-	14,275,151	14,275,151
Overdue	154,584	-	154,584
	<u>154,584</u>	<u>56,970,534</u>	<u>57,125,118</u>
Impairment losses on loans and advances (note 8)	(74,165)	-	(74,165)
	<u>80,419</u>	<u>56,970,534</u>	<u>57,050,953</u>
Amount repayable on demand (included within Three months or less above)	-	12,699,409	12,699,409
	<u>80,419</u>	<u>56,970,534</u>	<u>57,050,953</u>
<b>2009</b>			
Remaining maturity:			
Over five years	-	12,261,013	12,261,013
Five years or less but over one year	-	22,620,462	22,620,462
One year or less but over three months	-	4,905,361	4,905,361
Three months or less	-	11,301,275	11,301,275
Overdue	7,096,753	-	7,096,753
	<u>7,096,753</u>	<u>51,088,111</u>	<u>58,184,864</u>
Impairment losses on loans and advances (note 8)	(204,900)	-	(204,900)
	<u>6,891,853</u>	<u>51,088,111</u>	<u>57,979,964</u>
Amount repayable on demand (included within Three months or less above)	-	10,495,252	10,495,252
	<u>6,891,853</u>	<u>51,088,111</u>	<u>57,979,964</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 8. Impairment losses on loans and advances

	2010 £	2009 £
At 1 January	204,900	35,300
Charge to profit and loss account	265,550	169,437
Transfer out to investment properties	(350,000)	-
Amounts written off	(46,285)	163
	<u>74,165</u>	<u>204,900</u>
At 31 December	<u>74,165</u>	<u>204,900</u>

This provision is wholly in respect of loans and advances classified as loans and receivables to customers.

### 9. Investment property

	Total £
<b>As at 1 January 2010</b>	2,650,000
Adjustment for revaluation loss (note 20)	-
Additions during the year	6,551,474
<b>Balance at 31 December 2010</b>	<u>9,201,474</u>

At the start of 2010 the Company held one investment property, which was the collateral for a non-performing loan transferred to the Company from United Bank Limited (UBL) at the time of the merger. The investment property is occupied by tenants, and the lease expires in 2012. Rental income from the property is shared between the Company and UBL. UBL's share of the rental income is also paid via the preference share 'C' issued by the Company.

In line with SSAP19 "Accounting for Investment Properties", the property previously acquired has been revalued by independent valuers (King Sturge LLP) to show the current market value and the diminution in value has been insignificant and therefore not reflected in reserves (note 20). Under the conditions of the Shareholders Agreement the Company is required to pay to United Bank Limited via the preference share 'C' any surplus above the transfer value at merger realised when the investment property is sold. Until the property is sold, the unrealised gain on the property over and above the transfer value at merger is recognised in the accounts as an unrealised debt recovery (note 14).

During the year the Company took possession of two properties, which were part of the collateral for a loan that has become non-performing during the year. The investment properties acquired are on the market, and have been valued at their market rent. The details of the investment properties and the valuer's details are:

Property	Date of valuation	Basis of valuation	Market valuation at 31 December 2010	Valuer's details
9-11 Heron Trading Estate, London	December 2010	Market value	£2.640 million	E Andrea, MRICS King Sturge LLP Chartered Surveyors
Unit 3 Rima House, Ripple Road, Barking, and 45 Thames Road, Barking	December 2010	Market rent	£2.860 million £3.700 million	N Matthews, MRICS Strettons Limited Chartered Surveyor

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 10. Tangible fixed assets

	Computer equipment and software £	Office equipment £	Leasehold property £	Freehold property £	Total £
<b>Cost / revaluation</b>					
At 1 January 2010	1,497,756	375,208	246,347	13,181,985	15,301,296
Additions	146,215	54,871	256,554	278,692	736,332
Revaluation gain	-	-	-	3,456,967	3,456,967
At 31 December 2010	1,643,971	430,079	502,901	16,917,644	19,494,595
<b>Depreciation</b>					
At 1 January 2010	1,058,560	284,280	24,977	1,079,587	2,447,404
Charge for the year	206,719	57,226	46,391	222,622	532,958
At 31 December 2010	1,265,279	341,506	71,368	1,302,209	2,980,362
<b>Net book value</b>					
At 31 December 2010	378,692	88,573	431,533	15,615,435	16,514,233
At 31 December 2009	439,196	90,928	221,370	12,102,398	12,853,892

The accounting policy for fixed assets was changed during 2007 to show freehold property at current cost as permitted by *FRS 15 – Tangible Fixed Assets*. The details of the properties revalued and the valuer's details are:

Property	Basis of valuation	Revalued Amount March 2007 £	Net book value at 31 December 2010 £	Historical cost net book value at 31 December 2010 £	Valuer's details
2 Brook Street, London	Market rent	14,950,000	14,180,047	7,670,841	C Horler, FRICS Douglas Duff Chartered Surveyors
3-5 Oak Lane, Bradford	Market value	270,000	261,344	72,743	D O'Hearne, FRICS O'Hearnes & Partners Chartered Surveyor
391-393 Stratford Road, Birmingham (including additions since 2007)	Market value	385,000	621,947	98,387	R I Hills, MRICS Alex Smith & Co Chartered Surveyors
79 Thomas Street, Manchester	Market value	545,000	552,098	184,475	J R A MacDonald, FRICS Associated Valuers Chartered Surveyors

The Directors reviewed the valuation of the Company's properties in December 2010 and are of the opinion that their value has increased by £3 million as a result of the general increase in market values in the UK.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 11. Derivatives at fair value

2010	Notional amounts £	Fair Value	
		Assets £	Liabilities £
<b>Exchange rate-related contracts</b>			
Forward foreign exchange	3,552,459	0	71,181
	<u>3,552,459</u>	<u>0</u>	<u>71,181</u>
<b>2009</b>			
<b>Exchange rate-related contracts</b>			
Forward foreign exchange	8,352,599	56,743	63,676
	<u>8,352,599</u>	<u>56,743</u>	<u>63,676</u>

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale.

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

The fair value loss on derivatives of £64,248 (2009: £10,996) recognised in the profit and loss account is the difference between the mark to market valuation of forward foreign exchange contracts at the start of the year and at the end of the year.

### 12. Deposits by banks

	2010 £	2009 £
Repayable on demand	5,732,796	4,010,660
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	3,301,979	3,022,364
	<u>9,034,775</u>	<u>7,033,024</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 13. Customers accounts

	2010 £	2009 £
Repayable on demand	49,139,340	42,158,822
With agreed maturity dates or periods of notice by remaining maturity:		
Three years or less but over one year	536,489	729,324
One year or less but over three months	35,377,408	9,535,986
Three months or less	19,128,679	24,894,644
	<u>104,181,916</u>	<u>77,318,776</u>

### 14. Other liabilities

	2010 £	2009 £
Taxation and social security	109,262	125,151
Amounts due to preference shareholders (see below)	329,668	884,309
Other liabilities	757,934	701,519
	<u>1,196,864</u>	<u>1,710,979</u>

#### Amounts due to preference shareholders

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

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

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

A breakdown of the amounts owed to the preference shareholders is shown in the table below:

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 14. Other liabilities (continued)

#### Amounts due to preference shareholders (continued)

	Notes	UBL Total £	NBP Total £	Total £
Amounts due on 1 January 2009		1,884,113	858,790	2,742,903
Tax losses utilised during the year	5	52,706	-	52,706
Unrealised debt recoveries		(45,890)	-	(45,890)
Realised debt recoveries		87,986	-	87,986
Interest payable to preference shareholders		94,802	-	94,802
Deferred tax asset		(250,000)	(450,000)	(700,000)
Adjustment to tax charge relating to previous period		(92,800)	(75,928)	(168,728)
Payment made to preference shareholders		(675,880)	(408,788)	(1,084,668)
<b>Amounts due on 31 December 2009</b>		<b>960,235</b>	<b>(75,926)</b>	<b>884,309</b>
Tax losses utilised during the year	5	8,877	-	8,877
Realised debt recoveries		100,787	-	100,787
Unrealised debt recoveries		(392,341)	-	(392,341)
Interest payable to preference shareholders		(282,677)	-	(282,677)
Deferred tax asset		(300,000)	-	(300,000)
Payment made to preference shareholders		(156,174)	75,928	(80,246)
Adjustment to tax charge relating to previous period		108,282	-	108,282
<b>Amounts due on 31 December 2010</b>		<b>329,666</b>	<b>2</b>	<b>329,668</b>
Amounts due to preference shareholders comprise:				
- share capital		2	2	4
- realised and distributable / (recoverable) gains		109,664	-	109,664
Unrealised gains not available for distribution				
- debt recoveries		220,000	-	220,000
		<b>329,666</b>	<b>2</b>	<b>329,668</b>

### 15. Called up share capital

	2010 No. of shares	2010 Amount £	2009 No. of shares	2009 Amount £
<b>Authorised</b>				
Ordinary shares of £1 each	100,000,000	100,000,000	100,000,000	100,000,000
<b>Issued, allotted and fully paid</b>				
Ordinary shares of £1 each	30,000,000	30,000,000	30,000,000	30,000,000

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 15. Called up share capital (continued)

#### Ordinary shares

United Bank Limited holds 16,500,000 (55%) of the ordinary shares and National Bank of Pakistan holds 13,500,000 (45%).

### 16. Contingent liabilities

The Company has contingent liabilities arising from letters of credit opened and confirmed and guarantees issued, which are disclosed at the foot of the Balance Sheet. Of the total value, £337,956 are cash collateralised (2009: £333,046)

### 17. Commitments

	2010 £	2009 £
Credit lines and other commitments to lend (less than one year)	4,272,014	1,756,887
	<u>4,272,014</u>	<u>1,756,887</u>

Annual operating lease commitments under lease of premises:

	2010 £	2009 £
Within one year	-	-
Within two to five years	7,830	7,830
After five years	75,000	75,000
	<u>82,830</u>	<u>82,830</u>

### 18. Financial instruments and risk management

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

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

The Company does not have a trading book.

Set out below is a year-end comparison of carrying values and fair values of the Company's financial instruments by category. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties in an arm's length transaction. Market values have been used to determine the fair values for all financial assets and liabilities.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

	Carrying value 2010 £'000	Fair value 2010 £'000	Carrying value 2009 £'000	Fair value 2009 £'000
<b>Financial assets</b>				
Cash and balances with central banks	3,123	3,123	4,420	4,420
Loans and advances to banks				
Loans and receivables	7,629	7,629	30,062	30,062
Loans and advances to customers				
Loans and receivables	57,051	57,051	57,980	57,980
Debt securities				
Held-to-maturity	61,549	61,634	18,889	19,341
Available for sale	3,049	3,049	-	-
Derivatives at fair value	-	-	57	57
	<u>132,401</u>	<u>132,486</u>	<u>111,408</u>	<u>111,860</u>
<b>Financial liabilities</b>				
Deposits by banks				
Amortised cost	9,035	9,035	7,033	7,033
Customer accounts				
Amortised cost	104,182	104,182	77,318	77,318
Preference shares at amortised cost	330	330	884	884
Derivatives at fair value	71	71	64	64
	<u>113,618</u>	<u>113,618</u>	<u>85,299</u>	<u>85,299</u>

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

As well as using derivatives to hedge interest rate and foreign exchange exposure, the Company takes exchange rate contract orders from customers and will cover these by entering into similar positions with third parties. Set out below is a year-end comparison of carrying values and fair values of the Company's on-balance sheet instruments ("instruments") by category along with those entered into with third parties:

As at 31 December 2010	Notional principal Amount £'000	Carrying value		Fair value	
		Asset £'000	Liability £'000	Asset £'000	Liability £'000
<b>Exchange rate-related contracts</b>					
Forward foreign exchange	3,552	-	71	-	71
Of which third party	-	-	-	-	-

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

As at 31 December 2009	Notional principal Amount £'000	Carrying value		Fair value	
		Asset £'000	Liability £'000	Asset £'000	Liability £'000
<b>Exchange rate-related contracts</b>					
Forward foreign exchange	8,353	57	64	57	64
	<u>8,353</u>	<u>57</u>	<u>64</u>	<u>57</u>	<u>64</u>
Of which third party	7,742	57	56	57	56
	<u>7,742</u>	<u>57</u>	<u>56</u>	<u>57</u>	<u>56</u>

The fair value of all other financial assets and liabilities at the balance sheet date has not been disclosed due to no active market existing for these assets and liabilities.

In addition, various financial instruments - for example, creditors, accruals and prepayments - may arise directly from the Company's operations.

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

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

1. credit risk
2. liquidity risk
3. interest rate risk
4. foreign currency risk

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

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

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

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

#### Credit risk

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

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

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

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

	2010		2009	
	Carrying Value £'000	Maximum Exposure £'000	Carrying Value £'000	Maximum Exposure £'000
Loans and advances to banks				
Loans and receivables	7,629	7,629	30,062	30,062
Loans and advances to customers				
Loans and receivables	57,051	57,051	57,980	57,980
Debt securities				
Held-to-maturity	61,549	61,549	18,889	18,889
Available for sale	3,049	3,049	-	-
Derivative financial assets				
Currency forwards	-	-	57	57
	<u>129,278</u>	<u>129,278</u>	<u>106,988</u>	<u>106,988</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Credit risk (continued)

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

	Loans and advances to customers		Loans and advances to banks	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Carrying amount	57,051	57,980	7,629	30,062
Individually impaired Allowance for impairment	154 (74)	7,097 (205)	- -	- -
Carrying amount	80	6,892	-	-
Past due but not impaired 180 days +	-	-	-	-
Carrying amount	-	-	-	-
Neither past due nor impaired	56,971	51,088	7,629	30,062
Carrying amount	57,051	57,980	7,629	30,062

#### Impaired loans

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

#### Past due but not impaired

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

#### Allowances of impairment

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

#### Write off policy

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

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Credit risk (continued)

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

	Loans and advances to customers		Loans and advances to banks	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Individually impaired				
Property	-	6,700	-	-
Others	80	192		
Past due but not impaired				
Property	-	-	-	-
Neither past due nor impaired				
Property	54,098	49,643	-	-
Cash	-	-	-	-
Unsecured	1,550	1,445	7,629	30,062
Other	1,323	-	-	-
Carrying amount	<u>57,051</u>	<u>57,980</u>	<u>7,629</u>	<u>30,062</u>

The average loan to value ratio for customer loans secured by property is 58% (2009: 58%); calculated by dividing the balance owed to the bank by the latest valuation held for the property. Independent property valuations are undertaken on a three yearly basis as a minimum where the loan to value ratio is greater than 50%, and more frequently where it is likely that there has been a material change in value.

#### Credit risk concentration

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

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

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Credit risk (continued)

The table below summarises the sector and location concentration risk for the Company at the year-end.

	<b>Loans and advances to customers 2010 £'000</b>	<b>Loans and advances to banks 2010 £'000</b>	<b>Loans and advances to customers 2009 £'000</b>	<b>Loans and advances to banks 2009 £'000</b>
Central and local government	165	-	158	-
Food, beverage, tobacco	14,883	-	2,283	-
Textiles, leather, clothes	(81)	-	(92)	-
Other manufacturing	119	-	120	-
Retail	3,089	-	4,778	-
Wholesale including import and export	371	-	492	-
Transport, storage, communication	45	-	58	-
Real estate - buy, sell, develop and letting	15,749	-	29,999	-
Financial	488	7,629	361	30,062
Other service industry	192	-	299	-
Individuals	22,031	-	19,524	-
<b>Total</b>	<u>57,051</u>	<u>7,629</u>	<u>57,980</u>	<u>30,062</u>
<b>Concentration by location</b>				
Great Britain	51,853	5,500	52,823	30,062
Europe	-	2,129	-	-
Pakistan	-	-	3,880	-
Rest of world (excluding Pakistan)	5,198	-	1,277	-
<b>Total</b>	<u>57,051</u>	<u>7,629</u>	<u>57,980</u>	<u>30,062</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Liquidity risk

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

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

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

The Company's Treasury Department is responsible for maintaining sufficient liquidity to meet the Company's obligations and to meet the specific liquidity requirements of the UK supervisory authorities. The key measure used by the Company for managing liquidity risk is the ratio of behaviourally adjusted net liquid assets (maturing in less than one month) to total deposits.

In the unlikely event of a liquidity crisis the Treasury Department would immediately endeavour to sell the bank's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

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

Residual contractual maturities of financial liabilities as at 31 December 2010	Carrying amount £'000	Less than 1 month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Total £'000
<b>Non-derivative liabilities</b>							
Deposits by banks	9,035	5,809	3,226	-	-	-	9,035
Customer accounts	104,182	52,921	15,348	35,377	536	-	104,182
Preference shares	330	330	-	-	-	-	330
	<u>113,547</u>	<u>59,060</u>	<u>18,574</u>	<u>35,377</u>	<u>536</u>	<u>-</u>	<u>113,547</u>
<b>Derivative liabilities</b>							
Forward foreign exchange contracts inflow	-	-	-	(3,552)	-	-	(3,552)
Forward foreign exchange contracts outflow	71	-	-	3,623	-	-	3,623
Total liabilities	<u>71</u>	<u>-</u>	<u>-</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>71</u>
Unrecognised loan commitments	-	4,272	-	-	-	-	4,272
	<u>113,618</u>	<u>63,332</u>	<u>18,574</u>	<u>35,448</u>	<u>536</u>	<u>-</u>	<u>117,890</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2009	Carrying amount £'000	Less than 1 month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Total £'000
<b>Non-derivative liabilities</b>							
Deposits by banks	7,033	7,033	-	-	-	-	7,033
Customer accounts	77,319	45,825	21,229	9,536	729	-	77,319
Preference shares	884	884	-	-	-	-	884
	<u>85,236</u>	<u>53,742</u>	<u>21,229</u>	<u>9,536</u>	<u>729</u>		<u>85,236</u>
<b>Derivative liabilities</b>							
Forward foreign exchange contracts inflow	(57)	(6,094)	-	(2,258)	-	-	(8,352)
Forward foreign exchange contracts outflow	64	6,101	-	2,258	-	-	8,359
	<u>7</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
Total liabilities							
	<u>85,243</u>	<u>55,506</u>	<u>21,229</u>	<u>9,536</u>	<u>729</u>	<u>-</u>	<u>87,000</u>
Unrecognised loan commitments	-	1,757	-	-	-	-	1,757
	<u>85,243</u>	<u>55,506</u>	<u>21,229</u>	<u>9,536</u>	<u>729</u>	<u>-</u>	<u>87,000</u>

#### Interest rate risk

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

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

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

The tables shown below summarise the re-pricing mismatches on the Company's assets and liabilities as at 31 December 2010 and 31 December 2009. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Interest rate risk (continued)

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
<b>As at 31 December 2010</b>							
<b>Assets</b>							
Cash and balances with central banks	-	-	-	-	-	3,123	3,123
Loans and advances to banks	7,629	-	-	-	-	-	7,629
Loans and advances to customers	44,987	10,930	-	559	-	575	57,051
Debt securities	35,045	12,549	7,834	4,518	4,652	-	64,598
Investment property	-	-	-	-	-	9,201	9,201
Tangible fixed assets	-	-	-	-	-	16,514	16,514
Other assets	-	-	-	-	-	692	692
Prepayments and accrued income	-	-	-	-	-	229	229
<b>Total assets</b>	<b>87,661</b>	<b>23,479</b>	<b>7,834</b>	<b>5,077</b>	<b>4,652</b>	<b>30,334</b>	<b>159,037</b>
<b>Liabilities</b>							
Deposits by banks	6,341	-	-	-	-	2,694	9,035
Customer accounts	36,186	26,093	9,091	536	-	32,275	104,181
Derivatives at fair value	-	-	-	-	-	71	71
Pension fund liability	-	-	-	-	-	531	531
Other liabilities	-	-	-	-	-	1,197	1,197
Accruals and deferred income	-	-	-	-	-	719	719
Shareholders' funds	-	-	-	-	-	43,303	43,303
<b>Total liabilities</b>	<b>42,527</b>	<b>26,093</b>	<b>9,091</b>	<b>536</b>	<b>-</b>	<b>80,790</b>	<b>159,037</b>
<b>Interest rate sensitivity gap</b>	<b>45,134</b>	<b>(2,614)</b>	<b>(1,257)</b>	<b>4,541</b>	<b>4,652</b>	<b>(50,456)</b>	<b>-</b>
<b>Cumulative sensitivity gap</b>	<b>45,134</b>	<b>42,520</b>	<b>41,263</b>	<b>45,804</b>	<b>50,456</b>	<b>-</b>	<b>-</b>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Interest rate risk (continued)

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
<b>As at 31 December 2009</b>							
<b>Assets</b>							
Cash and balances with central banks	-	-	-	-	-	4,420	4,420
Loans and advances to banks	25,053	5,008	-	-	-	-	30,061
Loans and advances to customers	47,826	8,765	690	-	-	699	57,980
Debt securities	12,597	-	1,656	2,554	2,082	-	18,889
Investment property	-	-	-	-	-	2,650	2,650
Tangible fixed assets	-	-	-	-	-	12,854	12,854
Derivatives at fair value	-	-	-	-	-	57	57
Other assets	-	-	-	-	-	817	817
Prepayments and accrued income	-	-	-	-	-	151	151
<b>Total assets</b>	<b>85,476</b>	<b>13,773</b>	<b>2,346</b>	<b>2,554</b>	<b>2,082</b>	<b>21,648</b>	<b>127,879</b>
<b>Liabilities</b>							
Deposits by banks	5,689	-	-	-	-	1,344	7,033
Customer accounts	39,820	5,677	3,859	729	-	27,234	77,319
Derivatives at fair value	-	-	-	-	-	64	64
Pension fund liability	-	-	-	-	-	765	765
Other liabilities	-	-	-	-	-	1,711	1,711
Accruals and deferred income	-	-	-	-	-	944	944
Shareholders' funds	-	-	-	-	-	40,043	40,043
<b>Total liabilities</b>	<b>45,509</b>	<b>5,677</b>	<b>3,859</b>	<b>729</b>	<b>-</b>	<b>72,105</b>	<b>127,879</b>
<b>Interest rate sensitivity gap</b>	<b>39,967</b>	<b>8,096</b>	<b>(1,513)</b>	<b>1,825</b>	<b>2,082</b>	<b>(50,457)</b>	<b>-</b>
<b>Cumulative sensitivity gap</b>	<b>39,967</b>	<b>48,063</b>	<b>46,550</b>	<b>48,375</b>	<b>50,457</b>	<b>-</b>	<b>-</b>

The carrying amounts of derivative assets and liabilities represent fair values and have thus been included in the heading of non-interest bearing. Interest rate risk on these instruments has been reflected through the off balance sheet gap which represents the notional principal amounts in respect of interest rate derivatives utilised for managing the interest rate risk position of the Company.

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

	2010	2009
<b>Financial assets</b>		
Loans and advances to banks	0.5%	0.6%
Loans and advances to customers	5.3%	4.9%
Debt securities	4.0%	5.6%
<b>Financial liabilities</b>		
Deposits by banks	0.3%	0.3%
Customer Accounts	1.3%	1.3%

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Interest rate risk (continued)

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

	2010		2009	
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
GBP	387	(387)	406	(378)
USD	6	(107)	13	(91)
EUR	1	(10)	11	1
JPY	-	-	-	-

#### Foreign exchange risk

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

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Company that it will, at all times, adhere to the limits laid down by the FSA in respect of the "overall net open position". It is not the Company's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

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

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book). The table shown in note 11 gives details of the notional principal amounts and fair values as at 31 December 2010 and 31 December 2009.

The Company has no structural currency exposures. The tables shown below gives details of the Company's assets and liabilities as at 31 December 2010 and 31 December 2009, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Company are matched.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Foreign exchange risk (continued)

	Sterling £'000	US dollars £'000	EEC- denominated currencies £'000	Other currencies £'000	Total £'000
<b>As at 31 December 2010</b>					
<b>Assets</b>					
Cash and balances with central banks	1,613	236	1,061	213	3,123
Loans and advances to banks	5,500	2,129	-	-	7,629
Loans and advances to customers	55,015	2,021	15	-	57,051
Debt securities	42,137	17,436	5,025	-	64,598
Investment property	9,201	-	-	-	9,201
Tangible fixed assets	16,514	-	-	-	16,514
Other assets	380	312	-	-	692
Prepayments and accrued income	229	-	-	-	229
	<u>130,589</u>	<u>22,134</u>	<u>6,101</u>	<u>213</u>	<u>159,037</u>
<b>Liabilities</b>					
Deposits by banks	4,202	3,320	1,512	1	9,035
Customer accounts	84,341	18,867	916	57	104,181
Derivatives at fair value	(3,511)	-	3,582	-	71
Pension fund liability	531	-	-	-	531
Other liabilities	970	145	43	39	1,197
Accruals and deferred income	722	(3)	-	-	719
Shareholders' funds	43,305	(27)	25	-	43,303
	<u>130,560</u>	<u>22,302</u>	<u>6,078</u>	<u>97</u>	<u>159,037</u>
<b>Currency forwards</b>	<u>3,509</u>	<u>43</u>	<u>(3,580)</u>	<u>(43)</u>	<u>(71)</u>
<b>Net (liabilities)/assets</b>	<u>3,538</u>	<u>(125)</u>	<u>(3,559)</u>	<u>74</u>	<u>(71)</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 18. Financial instruments and risk management (continued)

#### Foreign exchange risk (continued)

	Sterling £'000	US dollars £'000	EEC- denominated currencies £'000	Other currencies £'000	Total £'000
<b>As at 31 December 2009</b>					
<b>Assets</b>					
Cash and balances with central banks	2,113	1,667	473	167	4,420
Loans and advances to banks	19,211	9,289	1,561	-	30,061
Loans and advances to customers	56,850	1,127	3	-	57,980
Debt securities	13,105	5,784	-	-	18,889
Investment property	2,650	-	-	-	2,650
Tangible fixed assets	12,854	-	-	-	12,854
Derivatives at fair value	57	-	-	-	57
Other assets	817	-	-	-	817
Prepayments and accrued income	147	4	-	-	151
	<u>107,804</u>	<u>17,871</u>	<u>2,037</u>	<u>167</u>	<u>127,879</u>
<b>Liabilities</b>					
Deposits by banks	2,984	3,083	964	2	7,033
Customer accounts	62,272	14,092	905	50	77,319
Derivatives at fair value	64	-	-	-	64
Pension fund liability	765	-	-	-	765
Other liabilities	1,520	151	16	24	1,711
Accruals and deferred income	944	-	-	-	944
Shareholders' funds	39,781	133	126	3	40,043
	<u>108,330</u>	<u>17,459</u>	<u>2,011</u>	<u>79</u>	<u>127,879</u>
<b>Currency swaps</b>	<u>666</u>	<u>(623)</u>	<u>-</u>	<u>(50)</u>	<u>(7)</u>
<b>Net (liabilities)/assets</b>	<u>140</u>	<u>(211)</u>	<u>26</u>	<u>38</u>	<u>(7)</u>

The carrying amounts of derivative assets and liabilities represent fair values and have been included in the heading of sterling currency. Foreign exchange risk on these instruments has been reflected through the currency swaps off balance sheet line, which represents the notional principal amounts in respect of forward foreign exchange derivatives utilised for managing the foreign exchange risk position of the Company.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 19. United National Bank Limited Pension and Life Assurance Scheme

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

Under the terms of the Agreement, the Company is responsible for the funding requirements of the active members whose employment transferred to the Company on the Completion Date and for any new members admitted to the Scheme after this date. United Bank Limited remains responsible for the funding of the deferred members as at the Completion Date. There were no new members admitted to the Scheme during the year to 31 December 2010.

The last full actuarial valuation of the scheme was carried out at 1 January 2008 and was updated as at 1 January 2010 by a qualified actuary.

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

The major assumptions used by the actuary were:

	<b>As at 31 December 2010</b>	<b>As at 31 December 2009</b>
Rate of increase in salaries	0.00%	0.00%
Rate of increase of pensions in payment	3.50%	3.70%
Rate of revaluation of pensions in deferment	5.00%	5.00%
Discount rate	5.50%	5.60%
Price inflation	3.50%	3.70%

The assets and liabilities of the scheme noted below relate to those employees for whom the Company has a funding liability. The combined assets in the scheme and the expected rate of return were:

	<b>Year to 31 December 2010</b>		<b>Year to 31 December 2009</b>		<b>Year to 31 December 2008</b>	
	%	£'000	%	£'000	%	£'000
Other - Insurance policy	5.50%	3,859	5.60%	3,757	6.40%	3,478
Total market value of assets		3,859		3,757		3,478
Actuarial value of liability		(4,597)		(4,820)		(3,437)
<b>Gross pension (liability)/asset</b>		(738)		(1,063)		41
Related Deferred Tax Relief		207		298		-
<b>Net pension (liability)/asset</b>		(531)		(765)		41

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 19. United Bank Limited Pension and Life Assurance Scheme (continued)

The asset value supplied by the insurance company for 2010 is on an ongoing basis. If the policy had been surrendered at 31 December 2010 the surrender value would have been £3,859,000 (December 2009: £3,757,000). It is not the Company's intention to surrender the policy.

#### Reconciliation of fair value of plan assets

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
As at 1 January	3,757	3,478
Expected return on assets	202	229
Actuarial loss	58	(62)
Employer contributions	-	166
Employee contributions	-	15
Benefit paid	(158)	(69)
<b>Balance at 31 December</b>	<b>3,859</b>	<b>3,757</b>

#### Reconciliation of present value of defined obligations

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
As at 1 January	4,820	3,437
Current service cost	-	110
Past service cost	-	220
Interest cost	266	219
Employee contributions	-	15
Actuarial gain/(loss)	(331)	888
Benefit paid	(158)	(69)
<b>Balance at 31 December</b>	<b>4,597</b>	<b>4,820</b>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 19. United Bank Limited Pension and Life Assurance Scheme (continued)

#### Analysis of the amount charged to operating profit

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Current service cost	-	110
Past service cost	-	220
Total operating charge	<u>-</u>	<u>330</u>

The defined benefit scheme is closed to new entrants and future accrual ceased from 1 January 2010. As a result of the curtailment in benefits the Company has not recognised a current or past service cost in this year's profit and loss account.

#### Analysis of the amount credited/ (debited) to net interest income

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Expected return on pension scheme assets	202	229
Interest on pension scheme liabilities	(266)	(219)
Net return	<u>(64)</u>	<u>10</u>

#### Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Actual return less expected return on assets	58	(62)
Experience gains and losses on liabilities and assets	331	(888)
Actuarial gain/(loss) during the year	389	(950)
Adjustment to recognise realisable (losses)/gains only	(91)	339
Actuarial gain/(loss) recognised in STRGL	<u>298</u>	<u>(611)</u>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 19. United Bank Limited Pension and Life Assurance Scheme (continued)

#### Analysis of amount recognised in cash flow statement

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Net amount credited to Interest Income/Expense	(64)	10
Employer's contributions	-	166
Current service cost	-	(110)
Past service cost	-	(220)
	<hr/>	<hr/>
Net charge to profit and loss	<u>(64)</u>	<u>(154)</u>

#### Movement in surplus/ (deficit) during the year

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
(Deficit)/Surplus in scheme at beginning of year	(1,063)	41
<u>Movement in year:</u>		
Current service cost	-	(110)
Past service cost	-	(220)
Employer's contributions	-	166
Net interest (cost)/income	(64)	10
Actuarial gain/(loss)	389	(950)
	<hr/>	<hr/>
(Deficit)/Surplus in scheme at end of year	(738)	(1,063)
Related Deferred Tax Relief	207	298
	<hr/>	<hr/>
Pension scheme liability	<u>(531)</u>	<u>(765)</u>

No directors were members of the defined benefit scheme during the year or as at 31 December 2010.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 19. United Bank Limited Pension and Life Assurance Scheme (continued)

#### History of experience gains and losses

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000	Year to 31 December 2008 £'000	Year to 31 December 2007 £'000
Difference between expected and actual return on scheme assets:				
Amount	58	(62)	(965)	751
Percentage of scheme assets	0.02%	(0.02)%	(28)%	18%
Experience gains and losses on scheme liabilities:				
Amount	331	(888)	(721)	(90)
Percentage	9%	(24)%	(21)%	(2)%
Total amount recognised in statement of total recognised gains and losses				
Amount	389	(950)	(244)	661
Percentage	10%	(25)%	(7)%	17%

#### Total charge for the year (see note 2)

The total amount charged during the year in respect of the defined benefit scheme and other money purchase schemes amounted to £160,568 (2009: £436,727). The charge (current service cost) for the defined benefit scheme was £Nil (2009: £110,000) and there was a further charge of £Nil (2009: £220,000) for past service cost. Contributions were made to a defined contribution scheme on behalf of employees totalling £160,568 (2009: £106,727). Contributions payable of £16,250 (2009: £9,500) was accrued at the year-end. Of the contributions paid in the year, £13,053 (2009: £6,230) was made on behalf of directors.

The Company also paid £12,506 (2009: £1,891) to provide death in service benefits.

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 20. Reconciliation of movement in shareholders' funds and reserves

	Notes	Share capital £	Retained earnings £	Investment Revaluation Reserve £	Revaluation reserve £	Total £
<b>As at 1 January 2009</b>		<b>30,000,000</b>	<b>7,808,301</b>	-	<b>6,662,662</b>	<b>44,470,963</b>
Revaluation of freehold property		-	-	-	(3,005,545)	(3,005,545)
Transfer of depreciation on revaluation surplus		-	15,326	-	(15,326)	-
Profit for year		-	28,160	-	-	28,160
Revaluation of investment property		-	-	(388,943)	-	(388,943)
Actuarial loss recognised relating to the pension scheme		-	(611,000)	-	-	(611,000)
Dividend paid		-	(450,119)	-	-	(450,119)
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>(1,017,633)</b>	<b>(388,943)</b>	<b>(3,020,871)</b>	<b>(4,427,447)</b>
<b>Balance at 31 December 2009</b>		<b>30,000,000</b>	<b>6,790,668</b>	<b>(388,943)</b>	<b>3,641,791</b>	<b>40,043,516</b>
Revaluation of freehold property	10	-	-	-	3,456,967	3,456,968
Transfer of depreciation on revaluation surplus		-	15,326	-	(15,326)	-
Loss for year		-	(478,592)	-	-	(478,592)
Actuarial gain recognised relating to the pension scheme	19	-	298,000	-	-	298,000
Mark to market loss on available for sale investment		-	-	(16,983)	-	(16,984)
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>(165,266)</b>	<b>(16,983)</b>	<b>3,441,641</b>	<b>3,259,392</b>
<b>Balance at 31 December 2010</b>		<b>30,000,000</b>	<b>6,625,402</b>	<b>(405,926)</b>	<b>7,083,432</b>	<b>43,302,908</b>

# United National Bank Limited

## Notes to the accounts Year ended 31 December 2010

### 21. Dividend paid

	Year to 31 December 2010 £	Year to 31 December 2009 £
Ordinary shares		
Amount declared and paid during the year	-	450,119
<b>Total charge to reserves</b>	<b>-</b>	<b>450,119</b>

### 22. Ultimate parent company and controlling party

The ultimate parent company and controlling party is United Bank Limited, a company incorporated in Pakistan and the parent undertaking of both the largest and smallest groups of which the Company is a member and for which group accounts are prepared. Copies of such accounts may be obtained from the Company Secretary, United Bank Limited, I.I.Chundrigar Road, Karachi, Pakistan. The shareholding structure of the Company is set out in note 15.

### 23. Related party transactions

During the year, the two shareholder companies undertook commercial arm's length transactions with the Company, mainly in the form of deposits with the Company. As at 31 December 2010, there were net deposits from United Bank Limited amounting to £3,082,320 (2009: £1,301,455) and from National Bank of Pakistan amounting to £2,002,915 (2009: £3,375,074). For the year ended 31 December 2010, there were net interest payments to United Bank Limited amounting to £8,194 (2009: £14,947) and to National Bank of Pakistan amounting to £2,065 (2009: £(18,562)).

The Company also made payments to its shareholder banks via the preference shares issued to them. For the year ended 31 December 2010, the total preference dividend paid to United Bank Limited was £156,174 (2009: £675,880). There was no preference share dividend paid to National Bank of Pakistan (2009: £408,788).

During the year the Company received interest income of £Nil (2009: £22,901) from United Trust Bank, a related party by way of common directorship of Mr. Ehsan Mani, and incurred a charge for bad debt provisioning of £10,000 (2009: £60,000). There were also repayments of £112,161 (2009: £309,310) received during the year. At 31 December 2010 the gross balance outstanding on this loan was £203,481 (2009: £362,082) with a provision for bad debt of £53,715 (2009: £90,000).

### 24. Events after the balance sheet date

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