

UNITED BANK for AFRICA (UK) LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2018

Company Registration number 310497

United Bank for Africa (UK) Limited

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United Bank for Africa (UK) Limited

1. ABOUT UNITED BANK FOR AFRICA UK LIMITED (UBA UK)

1.1. Corporate Profile

United Bank for Africa (UK) Limited (UBA UK) was incorporated in the United Kingdom in 2005. The company was renamed from UBA Capital (Europe) Limited to United Bank for Africa (UK) Limited on 19 March 2018 on becoming a UK wholesale deposit taking institution. It has conducted business mainly financing trade flows between Europe and Africa by advising and confirming letters of credit, providing trade loans and foreign currency services. UBA UK conducts business in a number of African countries, the UK and Europe.

UBA UK became authorised as a wholesale deposit taking institution on 19 March 2018.

UBA UK is a wholly owned subsidiary of United Bank for Africa Plc (UBA Plc).

1.2. Group Footprint

UBA Plc is a leading pan-African financial services group with a presence in 19 African countries, the United Kingdom, the United States of America and France.

1.3. Directors

High Chief Samuel Oni – Chairman and Non-Executive Director

High Chief Oni was appointed to the Board of UBA UK and became Chairman in August 2015. He was appointed to the Board of UBA Plc as an Independent Non-Executive Director in January 2015 following the mandatory three years cooling period after retiring as a Director from the Central Bank of Nigeria (CBN) in June 2011. Prior to this he performed different roles in the Banking Supervision Department between 1993 and 2011. He was appointed the Director of Bank Examination in 2004. In 2009 he became the Director of Banking Supervision and performed a leading role in the joint CBN / Nigerian Deposit Insurance Corporation (NDIC) special audits of Nigerian banks during the financial crisis in 2009/2010.

He was the Chairman of the Committee set up by the CBN to supervise the establishment of the Asset Management Corporation of Nigeria (AMCON). He was appointed by the CBN as Non-Executive Director to represent its interests on the Board of Bank of Industry and the Nigeria Deposit Insurance Corporation (NDIC). He is a Chartered Accountant and a Fellow of both the Association of Chartered Certified Accountants, London and the Institute of Chartered Accountants of Nigeria. He holds an MBA (Finance) from the University of Ilorin, Nigeria.

Committees:

Board of Directors (Chair)

In attendance:

Board Audit & Compliance Committee

Board Nominations & Governance Committee

Board Finance & General Purposes Committee

Board Risk Committee

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Rose Okwechime – Non-Executive Director

Mrs Okwechime was appointed to the Board of UBA UK in July 2014. She is currently the Managing Director of Abbey Mortgage Bank Plc.

She holds a master's degree in Business Administration specialising in Banking and Finance, is a Fellow of the Chartered Institute of Bankers of Nigeria and a Fellow of the Institute of Bankers (London). She is an alumna of the International Institute of Management Development (IMD) in Lausanne, Switzerland and Harvard Business School in Boston, USA. She is a recipient of many awards including the Woman of Excellence Award.

Committees:

Board of Directors

Board Audit & Compliance Committee

Board Nominations & Governance Committee

Board Finance & General Purposes Committee

In attendance:

Board Risk Committee

Victor Osadolor – Non-Executive Director

Mr. Osadolor is the Deputy Managing Director of UBA Plc and the Chairman of UBA Pensions Custodians Limited.

He has a degree in Accounting from the University of Benin. He is a Fellow of the Institute of Chartered Accountants of Nigeria, an alumnus of Harvard Business School's Advanced Management Program and an honorary life member of the Chartered Institute of Bankers of Nigeria.

Until his appointment as Deputy Managing Director of UBA Plc he served as Group Director, Financial Services at Heirs Holdings Limited. Previously he held senior positions at Ecobank Transnational Incorporated (ETI) including Chief Operating Officer for the Corporate and Investment Banking Division and Chief Strategist for the Group based in Johannesburg and subsequently in Lome, Togo.

Before joining ETI Mr. Osadolor held various leadership positions at UBA Plc, including Group CFO, Executive Director - Risk and Compliance, Deputy Group CEO, and CEO of UBA Capital Group.

Committees:

Board of Directors

Board Finance & General Purposes Committee (Chair)

Board Audit & Compliance Committee

Board Nominations & Governance Committee

Board Risk Committee

Clive Carpenter – Independent Non-Executive Director

Mr Carpenter was appointed to the Board of UBA UK in May 2014. He has over 40 years' experience in business and finance, much of which has been gained in the highly challenging environments of developing countries including top level banking appointments in Kenya (incl. Central Bank of Kenya) and Nigeria (Diamond Bank). He spent 5 years with the private sector arm of the World Bank (IFC), heading the AMSCO project spanning the African Continent.

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He is a Trustee of the Royal Over-seas League's Golden Jubilee Trust and a consultant to the global risk and strategic consulting firm, Control Risks. Until June 2018 he was the Deputy Chairman of the Business Council for Africa.

Mr Carpenter is a Fellow of the Chartered Institute of Bankers, London (FCIB) and a Chartered Director (C.Dir), the definitive qualification in corporate governance from the Institute of Directors UK, of which he is also a Fellow (FIoD).

Committees:

Board of Directors
Board Nominations & Governance Committee (Chair)
Board Audit & Compliance Committee
Board Risk Committee

In attendance:

Board Finance & General Purposes Committee

Alex Romer-Lee – Independent Non-Executive Director

Mr Romer-Lee was appointed to the Board of UBA UK in August 2015. He is a Non-Executive Director of BCS Prime Brokerage Ltd, a leading financial services group providing trading solutions for emerging markets. Previously he was Senior Non-Executive Director (and Chair/Member of key board committees) of FCE Bank Plc (Ford Credit), and a Non-Executive Director of Sonali Bank UK Ltd.

Mr Romer-Lee is a Chartered Accountant (ACA 1980, FCA 1990) and was previously a Partner with PricewaterhouseCoopers (previously Coopers & Lybrand and Deloitte Haskins & Sells); where he was in the Banking Division, and Financial Services Leader for Central and Eastern Europe.

He holds a Diplome Universitaire de Technologie, Gestion et Administration des Entreprises, Dijon.

Committees:

Board of Directors
Board Audit & Compliance Committee (Chair)
Board Nominations & Governance Committee
Board Risk Committee

In attendance:

Board Finance & General Purposes Committee

John Coulter – Independent Non-Executive Director

Mr Coulter was appointed to the Board of UBA UK in August 2017. He is an experienced banker having spent most of his career with JP Morgan holding senior positions in a number of their African entities. He has also held senior positions with Brait SA, Ndola Capital and Morgan Stanley as CEO Sub Sahara Africa.

He is an alumnus of Trinity College and University College Dublin.

Committees:

Board of Directors
Board Risk Committee (Chair)
Board Nominations & Governance Committee

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Board Finance & General Purposes Committee

In attendance:

Board Audit & Compliance Committee

Uche Ike – Alternate Non-Executive Director

Mr. Ike was appointed as an alternate director on 21 September 2018. Uche holds a B.Sc degree in Accountancy and a Master of Business Administration. He is an Associate member of the Institute of Chartered Accountants of Nigeria (ICAN). He has over two decades of banking experience spanning Operations, Internal Audit, Enterprise Risk Management, Fraud Management, and Regulatory Compliance.

At UBA PLC, Uche is currently the Executive Director, Risk Management, Governance and Compliance and is responsible for coordinating the risk management activities of the bank. Prior to this role he was the General Manager of UBA New York Branch.

Committees:

Board of Directors

Board Audit & Compliance Committee

Board Nominations & Governance Committee

Board Finance & General Purposes Committee (Chair)

Board Risk Committee

Patrick Gutmann – Chief Executive Officer

Mr Gutmann was appointed as CEO in September 2018 and commenced duties on 14 January 2019.

Mr Gutmann is an experienced executive with diverse background and experience in managing cross-cultural teams across a variety of businesses and functions. He has extensive international experience having lived and worked in Europe, North America, Asia, the Middle East, and Africa. He is a qualified strategic manager with deep experience in Corporate, Retail and Transaction banking in the fields of business management, finance, project management, strategic planning, operations, product development, and performance management.

Prior to joining UBA UK, Mr Gutmann was the Managing Director, Head of Corporate & Institutional Banking for BACB, a London-based pan-African financial institution. Prior to this, Mr. Gutmann spent a number of years with Ecobank as the Managing Director & Group Head of Transaction Services, where he oversaw the transaction banking business globally for the Bank, based in Johannesburg and Lagos. Before Ecobank, Mr. Gutmann spent three years with Commercial International Bank (CIB) in Cairo, Egypt, where he was mandated to build up and grow the Bank's transaction banking business. Mr. Gutmann's early career was spent with ABN AMRO Bank in various positions, based in the US, in the Netherlands and in Hong Kong.

Mr Gutmann has a strong academic foundation including a Master of Business Administration (MBA) degree from Northwestern University's Kellogg School of Management in Chicago, IL, USA; a Bachelor of Arts degree in International Studies and Economics from Macalester College in St. Paul, MN, USA; and an International Baccalaureate diploma from St. Mary's International High School in Tokyo, Japan.

Committees:

Board of Directors

Board Finance & General Purposes Committee

EXCO (Chair)

ALCO (Chair)

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Risk Committee
Compliance Conduct and Audit Committee
IT Steering Committee
New Products & Activities Committee
Security Committee

Attendee:

Board Audit & Compliance Committee
Board Nominations & Governance Committee
Board Risk Committee

Adeleke Adeyemi – Executive Director, Business Development

Adeleke joined UBA UK in June 2018. He has over 20 years' experience in financial services including credit, financial analysis and control, assets trading, treasury and balance sheet management, with exposure to consulting, training, auditing and enterprise risk management. He is a chartered accountant with an honours degree in Accounting and an MBA (Finance).

Committees:

Board of Directors
Board Finance & General Purposes Committee
EXCO
ALCO
Risk Committee
New Products & Activities Committee

In attendance:

Board Risk Committee

1.4. Management Team

Alan Clark – Chief Operating Officer

Alan has 17 years in financial services with a background in governance, control and internal audit. More recently he has held two Head of Internal Audit positions for small foreign banks. Prior to moving to the banking sector, he managed IT security and law enforcement activities for a central government department.

Alan holds a PG Dip in Internal Audit and Management and is currently the Chief Operating Officer for UBA UK.

Committees:

IT Steering Committee (Chair)
Security Committee (Chair)
EXCO
Risk Committee
Compliance Conduct and Audit Committee

Attendee:

Board Finance & General Purposes Committee
Board Audit & Compliance Committee

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Daniel Marx – Chief Risk Officer

Daniel joined UBA UK in October 2016. He has 30 years of banking experience with extensive exposure to emerging markets. He is an experienced banker who has held various senior positions in smaller foreign owned banks in the United Kingdom.

Daniel performed the role of interim CEO from 1 October 2018 until the arrival of the new CEO early in January 2019.

Daniel holds an honours degree in economics.

Committees:

EXCO

ALCO

Risk Committee (Chair)

Compliance Conduct and Audit Committee

New Products & Activities Committee (Chair)

Security Committee

Attendee: Board Risk Committee

Paul Savaker – Head of Compliance & MLRO

Paul has over 40 years of banking experience with over 30 years in internal audit and compliance. He has held senior compliance positions at various large and small banks over the past decade including CF10, CF11 and CF28 authorisations.

Committees:

EXCO

Compliance Conduct and Audit Committee (Chair)

Risk Committee

New Products & Activities Committee Risk Committee

Security Committee

Attendee: Board Audit & Compliance Committee

Fiona Christiansen – Chief Financial Officer

Fiona is an Associate member of the Chartered Institute of Management Accountants and has worked in financial control and international banking for over 30 years. She has held senior finance roles in small and medium sized banks with a focus on emerging markets and has previously held SMF 2 and SMF 3 authorisations as CFO and Director.

Committees:

EXCO

ALCO

Risk Committee

Compliance Conduct and Audit Committee

IT Steering Committee

New Products and Activities Committee

Security Committee

Attendee:

Board Audit & Compliance Committee

Board Finance & General Purposes Committee

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Funmi Dele-Giwa – Head of Legal and Company Secretary

Funmi joined UBA UK in February 2019. She is a dual-qualified solicitor with over 10 years' experience in private practice in the UK and in Nigeria. She has broad corporate, commercial and finance experience across various industry sectors. Funmi is the secretary to the Board and its various Committees in addition to the Executive Management Committee.

Funmi holds an LLM in International Corporate Governance & Financial Regulation from the University of Warwick and an LLB, Law from the University of Lagos, Nigeria.

Committees:

New Products and Activities Committees
Security Committee

Attendee:

Board of Directors
Board Finance & General Purposes Committee
Board Audit & Compliance Committee
Board Risk Committee
Board Finance & General Purposes Committee
EXCO

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2. CHAIRMAN'S STATEMENT

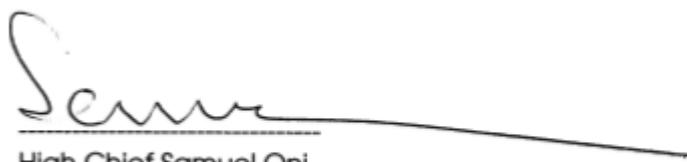
2018 marks an important year for UBA UK, with the Bank receiving its Wholesale Banking license in March of 2018. The year also marked the start of the building of a strong and sustainable bank in the UK, for which many of the first steps were taken throughout 2018.

This significant milestone of receiving our Wholesale Banking license would not have been possible without the commitment, dedication and hard work of our previous CEO, Mr. Andrew Martin. On behalf of the Board and the Shareholders, I would like to extend a warm and heartfelt thank you to Mr. Martin for his tenure with the Bank and for delivering the banking license for the Bank.

I would also like to take this opportunity to welcome our incoming CEO, Mr. Patrick Gutmann, to the Bank. He joins the Bank at a pivotal stage of the Bank's evolution and is mandated to help build the Bank into a premier UK-based, Africa-centric financial institution that will deliver strong value to its customers and sustainable returns to the shareholder.

The vision of UBA Group is to be Africa's Global Bank, and it is our intention that UBA UK will play an increasingly significant role in delivering that vision. The Bank is ideally situated in London to support African corporates and institutions looking for a European Bank to support their trade and investment flows, or for European corporates and institutions looking for a partner who understands the African continent. UBA UK is strongly supported by the UBA Group and is viewed as an independent but important part of the overall Group.

2018 was a year of rebuilding for the Bank and it invested heavily in upgrading its technology platform, strengthening its executive team, and hiring the staff required for the anticipated growth of the Bank. 2019 will be the year that we expect to see increased business growth and momentum, leading to overall improvements in the financial results of the Bank.



High Chief Samuel Oni
Chairman and Non-Executive Director

3. STRATEGIC REPORT

Mission

Our mission to establish a bank in the United Kingdom to serve our customers in line with the UBA Plc Group (UBA Group) strategy was achieved on 19 March 2018 with the approval of UBA UK as a wholesale deposit taking institution by the Prudential Regulation Authority.

Corporate Governance

UBA UK is committed to good corporate governance and understands that well embedded governance culture is fundamental to the long-term success of the Bank. With a strong and diversified Board, consisting of three Independent Non-Executive Directors (INED), three Non-Executive Directors (NED), and two Executive Directors (ED), the Bank has a robust and sound governance structure that guides and oversees the Bank's activities.

The Board meets at least on a quarterly basis, and more frequently should the need arise. The Board is supported by four Board sub-committees, which monitor and provide oversight of specific aspects of the governance framework. The Board sub-committees are as follows:

- Board Nominations and Governance Committee (BNGC)

The BNGC is the Board sub-committee with overall responsibility for the Bank's governance structure and framework and the appointment of key senior personnel. It also has oversight responsibilities for the Bank's organisational structure and manpower plan. The BNGC comprises 6 directors and is chaired by an INED. It meets at least four times per year.

- Board Audit and Compliance Committee (BACC)

The BACC is the Board sub-committee with overall responsibility for monitoring the integrity of the Bank's financial statements, overseeing the Bank's compliance risk framework, and overseeing the Bank's internal and external audit function. The BACC comprises 5 directors and is chaired by an INED. It meets at least four times per year.

- Board Risk Committee (BRC)

The BRC is the Board sub-committee with overall responsibility for the Bank's current and future risk appetite, the Bank's risk management framework, systems, policies and procedures, and the Bank's overarching risk culture. The BRC comprises 4 directors and is chaired by an INED. It meets at least four times per year.

- Board Finance and General Purposes Committee (BFGPC)

The BFGPC is the Board sub-committee with overall responsibility for overseeing the management and controls of the financial affairs of the Bank, including the development and implementation of the strategic plan, reviewing the overall financial position and performance of the Bank, and system and infrastructure needs. The BFGPC comprise 5 directors and is chaired by a NED. It meets at least four times per year.

The Board has delegated day-to-day management responsibilities of the Bank to the Executive Management team, who operate and manage the Bank through the following executive committees:

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- Executive Committee (EXCO)

The EXCO is the executive body of the Bank with overall responsibility for day-to-day management. The EXCO recommends the objectives and strategy of the Bank to the Board for approval, and ensures that the Bank is managed in accordance with the agreed strategy and risk appetite, and in a sound, prudent and ethical manner in accordance with all relevant laws, regulations and guidance. EXCO is chaired by the CEO and meets monthly.

- Assets & Liabilities Committee (ALCO)

The ALCO reports to the EXCO and has been delegated the responsibility to manage and monitor the Bank's balance sheet, including its funding and liquidity profile, and capital position. ALCO is chaired by the CEO and meets twice per month.

- Risk Committee (RC)

The RC reports to the EXCO and has been delegated the responsibility to manage and monitor the risks faced by Bank across all businesses and all risk types. This includes the continuous monitoring of the existing risk profile of the Bank and the approval of new credit exposures or any other type of risk taking. The RC is chaired by the CRO and meets monthly.

- Compliance, Conduct & Audit Committee (CCAC)

The CCAC reports to the EXCO and has been delegated the responsibility to manage and monitor the Bank's overall compliance framework, which includes conduct, anti-money laundering and financial crime risks. Furthermore, the Committee is responsible for overseeing the Bank's prevention of tax evasion, whistle blowing framework, and Internal Audit. The CCAC is chaired by the Head of Compliance and MLRO and meets monthly.

- Information Technology Steering Committee (ITSC)

The ITSC reports to the EXCO and has been delegated the responsibility to manage, monitor and oversee the Bank's technology infrastructure, systems, resources and processes & procedures. The ITSC is responsible to ensure that the technology environment of the Bank is appropriate for the delivery of the strategic plan and is managed in an effective, efficient and prudent manner. The ITSC is chaired by the COO and meets monthly.

- Security Committee (SC)

The SC reports to EXCO and has been delegated the responsibility for the overall security environment within the Bank. This includes the development, monitoring compliance and enforcement of security related policies and procedures for the safeguarding of various aspects of the Bank. The SC is chaired by the COO and meets monthly.

- New Products & Activities Committee (NPAC)

The NPAC reports to the EXCO and has been delegated the responsibility for reviewing and approving all new products and activities. The NPAC is chaired by the CRO and meets as and when required.

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Strategic Review

UBA UK's strategic intent is to be the conduit for international trade and investment flows between Africa and the United Kingdom and Europe. Located in the heart of the world's premier financial centre, it is ideally placed to support the UBA Group's ambition of being Africa's Global Bank by providing the UBA Group and its customers access to the sophisticated financial markets and services in the United Kingdom and Europe. It is particularly well positioned to be the preferred bank for:

- UBA Group entities looking to access the international financial markets or looking to extend international banking services to their wholesale customer base;
- African corporations and institutions dealing in or with Europe and looking for a banking partner that understands their home markets and is willing to support their international banking needs;
- European corporations and institutions dealing in or with the African continent and looking for a UK-based Bank with a unique grasp of and risk appetite for the African markets, and with access to a pan-African footprint.
- African banks operating in key African target markets and looking for an international bank to support their trade and treasury activities; and
- Trade beneficiaries and trading houses buying from or selling to African markets.

UBA UK is an important contributor to the overall UBA Group. As such, we place great importance on cooperation and alignment with the UBA Group and believe that through collaboration we can maximize the value to all stakeholders.

Political & Economic Review

UBA UK remained strongly associated with and dependant on the political and economic situation in Nigeria. The overall African GDP growth slowed in 2018, with the largest economies on the continent, South African and Nigeria, both facing challenging economic environments. The real GDP for Nigeria was an estimated 1.9% on the back of recoveries in the services and industry sectors¹. Nigeria was negatively impacted by the decrease in oil prices towards the end of the year following the previous recovery in oil prices. The Brent oil price ended the year at close to US\$60 per barrel compared to US\$70 per barrel a year earlier.

Nigeria is rated an average of B by the major rating agencies with a stable outlook following the return to growth. Foreign currency reserves saw a continued decline in the second half of 2018 but improved slightly in December and ended the year in excess of US\$43bn.

During 2018 emerging markets benefited from an increase in commodity prices signalling that the global economy and China, in particular, continued to grow. Investor confidence also revived as demonstrated by both the MSCI emerging-stock market index and JP Morgan's emerging-market bond index continuing to outperform their developed-world equivalents.

After the flight from emerging markets in 2016, which followed the US presidential elections, investment flows have recovered and together with the stronger commodity prices resulted in more stable local currencies. In addition, the fiscal policy of the US administration, including

¹ Source AfDB Nigeria Economic outlook

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increased spending and the lowering of corporate tax rates, is expected to result in a bigger budget deficit with a weaker US dollar, although this will most likely be cushioned by higher Treasury-bond yields. A weaker US dollar should have a beneficial effect on commodity prices which is of benefit to emerging markets. However, trade protectionism is on the increase which could in turn adversely impact emerging markets.

In the UK, growth remained constrained by “Brexit” uncertainty. The possibility of a no deal exit remained high throughout 2018 and had a dampening effect on the economy. The value of GBP remained constrained by uncertainty with interest rates remaining close to 10-year lows after an 0.25 % increase during the year.

Brexit Impact

Given the business model of UBA UK, which is predominantly focused on facilitating African trade and investment flows, the impact of Brexit on the Bank is expected to be insignificant.

2018 Business Review

The early parts of 2018 were focused on activities related to attaining the wholesale banking license. Once the license had been granted and the Bank thus became authorized as a wholesale deposit taking institution, the focus shifted toward building the business. During the second half of the year the Bank began to expand and broaden its client base, with a number of new clients opening accounts with the Bank. There was also a focus on expanding the Bank's trade finance network and several new third-party Banks were onboarded for the purposes of driving increased trade flows. Finally, there was significant focus on enhancing and improving the Bank's treasury activities by increased emphasis on growth in client FX business and broadening its fixed income portfolio.

2018 Financial Performance

The Bank saw its gross income grow by 9% year-on-year, with interest income growing by 14%, and fee income declining by 7%. The growth in interest income was predominantly on the back of improved yields earned through its Treasury department.

During 2018 the Bank continued to invest significantly in various internal projects to ensure that going forward it will remain on a strong footing as it builds its business model. The Bank also invested in key staff resources and several new executives were brought on board post the authorisation. As a result of these investments, the Bank's operating expenses increased by 44% year-on-year.

Therefore, despite seeing moderate income growth, the Bank posted a net loss of US\$1.88m, primarily on the back of significant investments made leading up to the authorisation and subsequently post the authorisation to create the foundation for future growth.

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US\$ '000	2018	2017
Gross income	6,195	5,670
Net Interest income	4,933	4,379
Profit/ (loss) after tax	(1,881)	86
Equity	44,723	47,292
Total assets	166,173	154,519
Return on assets	0.07%	0.06%
Capital adequacy ratio	83%	89%
Liquidity coverage ratio	466%	918%

Asset Quality

On balance sheet risk assets comprise mainly of trade loans extended to group companies, a bond portfolio with a hold to maturity intent, high-quality liquid assets held for liquidity management purposes, and overnight balances with international financial institutions.

Trade loans are predominantly cash collateralised. The bond portfolio consists of Eurobonds issued by Nigerian financial institutions. High-quality liquid assets comprise exclusively of US Treasuries. Overnight balances are with investment grade international financial institutions.

Off balance sheet trade finance assets comprise mainly the confirmation of trade finance obligations issued by UBA Plc and are once again predominantly cash collateralised.

Asset quality was maintained with no impairment provisions made during the year.

Shareholders equity, loans and cash collateral continued to provide the bulk of the Bank's funding.

High levels of liquidity and capital were maintained throughout the year, well in excess of internal and external requirements. Available liquidity comprised both short term deposits at well rated financial institutions and high-quality liquid assets.

Risk Management

A robust and effective risk management structure is considered an instrumental and crucial part of the Bank's ability to achieve its stated strategic objectives. Through its business dealings, the Bank is exposed to numerous risks, including credit, market, operational, cyber, financial crime, regulatory, reputational and conduct risk.

To monitor, manage, and mitigate these risks, the Bank has in place a robust and sound enterprise risk management framework, which is embedded and integrated across all aspects of the Bank's business model.

Staff & Culture

UBA UK aims to create superior value for all its stakeholders, abiding by the utmost professional and ethical standards, and by building an enduring institution. To achieve this, the Bank has a duty to ensure that the right people are in the right position to manage, safeguard and grow the institution. The Bank's staff play an important role in safeguarding the Bank's culture;

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promoting one bank, one people, one culture. The Bank's values, practices and how staff work together are at the heart of this, and how things are achieved is as important as what is being achieved. The Bank's core values of enterprise, excellence and execution are prevalent in everything the Bank does and serve as a guide to the staff of UBA UK.

Summary and Future Prospects

UBA UK became authorised as a wholesale deposit taking institution on 19 March 2018. The Bank is an integral component of the UBA Group as its portal to the United Kingdom and European markets. Although the Bank's target market countries remain subject to political and economic uncertainty, the UBA Group's presence in 20 African countries provides diversification complemented by a presence in New York and Paris. The UBA Group continues to support the growth and ultimate success of UBA UK.

Approved by the board of directors on 28 March 2019 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P. Gutmann', is written over a horizontal dashed line.

Patrick Gutmann
Director and Chief Executive

Date: 28 March, 2019

4. GOVERNANCE

4.1. Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

4.2. Effectiveness

The Board consists of 8 persons, three of whom are independent non-executive directors.

The director's duties include providing strategic direction, oversight and challenge, specialist knowledge, expertise and advice with problem solving, using contacts with third parties as necessary, and ensuring audit recommendations are implemented. In addition, the independent non-executive directors provide independence and impartiality.

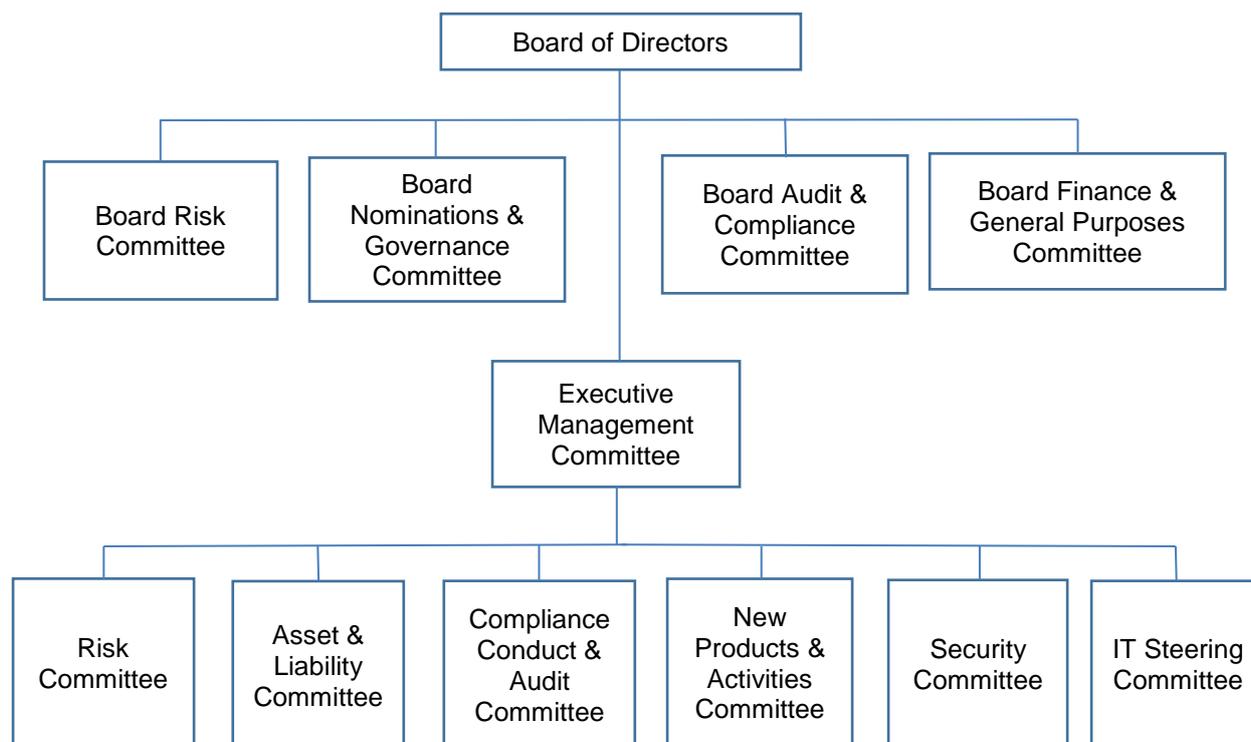
Board members are subject to an independent annual performance review.

Board members receive initial and ongoing training to enhance the performance of their duties.

4.3. Accountability

The board is ultimately accountable for the firm and to its shareholder. The board performs its role through a number of board committees including the appointment and remuneration of directors. The main board committees and functions delegated to the Executive Management Committee are set out below:

United Bank for Africa (UK) Limited



Board members, senior management and certain staff members are subject to the requirements of the Senior Managers and Certification Regimes set by the banking regulators.

5. FINANCIAL STATEMENTS

5.1. Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

The following persons served as directors during the year:

High Chief Samuel Oni
Mrs Rose Okwechime
Mr Clive Carpenter
Mr Alex Romer-Lee
Mr John Coulter
Mr Victor Osadolor (Alternate Mr Uche Ike – appointed 21 September 2018)
Mr Andrew Martin (Resigned 30 September 2018)
Mr Adeleke Adeyemi (Appointed 13 June 2018)

Mr Patrick Gutmann was appointed as the new CEO in September 2018 and commenced duties with effect from 14 January 2019.

United Bank for Africa (UK) Limited

Principal activities

United Bank for Africa (UK) Limited is a London-based bank with a wholesale banking licence.

The company is a wholly owned subsidiary of United Bank for Africa Plc, one of the leading banks in Nigeria.

The principal activities of the company are international trade finance products and services, fixed income and foreign exchange broking. The company provides these services to customers in Europe and Africa, working closely with its parent and other UBA Group entities and provides related trade and foreign exchange lines to meet the needs of these customers.

Revenues are generated by advising, confirming, issuing and negotiating letters of credit to target market customers, being both Financial Institutions and non-Financial Institutions in Europe and Africa. The Treasury department supports the activities of the Trade Finance department through the provision of funding for trade risk assets such as discounted loans, refinancing and risk participations. Foreign exchange services are also provided to meet the needs of trade customers, UBA Group entities, and other institutions operating in Europe and into Africa.

The business strategy is to seek continued growth in these businesses through the expansion of the product offering and increased marketing in conjunction with the UBA Group.

The implications of the future development of the company and an assessment of the financial risks facing the company are covered in the Strategic Report.

Going concern

The capital of the bank at US\$ 44.7 million is sufficient to meet its present and future obligations. The company's strategic role in supporting UBA Group's activities into and out of Africa provides a strong motivation for ongoing support by the parent if required. The company is expected to generate retained income in the future to support operations. Losses have mainly arisen from the costs incurred in developing governance and control structures, deploying new systems and the application for a banking licence.

The directors have considered the company's resources and the level of support provided to it by its parent, UBA Plc, and concluded that there are adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

Capital

There was no additional capital injection in 2018. The Statement of Changes in Equity provides more detailed information on the company's capital structure.

Results and Dividend Statement

The company's loss after tax for 2018 was USD 1,881,000 (2017: Profit USD 86,000). No dividend has been proposed. (2017: Nil).

United Bank for Africa (UK) Limited

Directors' indemnities

The company has made qualifying third-party indemnity provisions for the benefit of the directors of the company which were renewed during the year and remain in force at the date of this report.

Statement as to disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have reasonably taken as a director in order to make themselves 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 in accordance with the provisions of s418 of the Companies Act 2006.

Political donations

The company did not make any political donations during the year (2017: Nil).

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors on 28 March 2019 and signed on its behalf by:



.....
Patrick Gutmann
Director and Chief Executive



.....
Funmi Dele-Giwa
Company Secretary

Date: 28 March, 2019

Date: 28 March, 2019

5.2. Independent auditors’ report to the members of United Bank for Africa (UK) Limited

Independent auditors’ report to the members of United Bank for Africa (UK) Ltd

Report on the audit of the financial statements

Opinion

In our opinion, United Bank for Africa (UK) Ltd’s financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the “Annual Report”), which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of cash flow, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board Audit and Compliance Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the company.

Other than those disclosed in note X to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall materiality: US\$1.66m (2017: US\$3.09m), based on 1% of total assets.



-
- The company is based wholly in the United Kingdom, and does not have any subsidiaries, branches or service centres. We therefore audited the company as a standalone entity
 - The valuation of the receivable from the parent entity, United Bank for Africa plc.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Bank and the industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations such as, but not limited to, the relevant rules of the Prudential Regulatory Authority and Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with regulatory authorities such as the Financial Conduct Authority and the Prudential Regulation Authority in relation to compliance with banking regulations; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>The valuation of the receivable from the parent entity, United Bank for Africa plc</i></p> <p>The company's parent, UBA plc, issues letters of credit to exporters to facilitate international trade. A significant proportion of the company's revenue is generated by providing short term financing to those customers, collateralised by the letters of credit issued by UBA plc.</p> <p>The settlement arrangements for these financings result in a receivable on the balance sheet from UBA plc, rather than the original borrower. This receivable from UBA plc represents 49 percent of the total assets on the balance sheet.</p>	<p>We independently confirmed the amount receivable by the company to the corresponding payable by UBA plc with the group auditor.</p> <p>We reviewed payments from UBA plc and noted evidence of regular payments through the year.</p> <p>We obtained management's IFRS 9 expected credit loss calculation, which calculated a nil provision because the receivable is collateralised by the financing</p>

Key audit matter

In previous years there have been delays in repayment of this receivable, due to challenges for UBA plc in converting Nigeria Naira into US Dollars.

In addition, 2018 is the first year of adoption of IFRS 9 Financial Instruments, which requires management to assess the expected credit loss on this receivable, rather than the incurred loss.

The valuation of the receivable from UBA plc was therefore the key matter on which we focused our audit effort.

How our audit addressed the key audit matter

provided under the right of set off by UBA plc to support the company.

We obtained the funding contract between UBA plc and the company, and confirmed the existence of the right of set off. The payable balance to UBA plc is greater than the receivable, supporting the value of the receivable.

We also obtained a confirmation from the Directors of UBA plc that they intend to continue to provide support and assistance to the company.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	US\$1.66m (2017: US\$3.09m).
How we determined it	1% of total assets.
Rationale for benchmark applied	The company has been used to facilitate and conduct the UBA plc Group's business in the United Kingdom, and has conducted limited profit making activity during the period of applying for its wholesale banking license. Total assets is therefore considered the most appropriate benchmark. We reduced the percentage applied to the benchmark in the current year to 1 percent to reflect the company's regulatory permission to accept deposits.

We agreed with the Board Audit and Compliance Committee that we would report to them misstatements identified during our audit above US\$75,500 (2017: US\$153,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

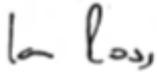
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members in 1 December 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2013 to 31 December 2018.



Ian Ross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 March 2019

United Bank for Africa (UK) Limited

5.3. Statement of Comprehensive Income for the year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Interest income		9,863	8,622
Interest expense		(4,930)	(4,243)
Net interest income	5.7.4	4,933	4,379
Fee and Commission Income	5.7.5	880	946
Credit impairment gains/(losses)		28	-
Other income		354	345
Operating income		6,195	5,670
Staff costs	5.7.6	(5,241)	(3,342)
Administrative expenses	5.7.7	(2,343)	(1,895)
Depreciation and amortisation	5.7.12/5.7.13	(494)	(360)
(Loss)/Profit before tax for the year		(1,883)	73
Taxation	5.7.9	2	13
(Loss)/Profit after tax for the year		(1,881)	86
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Unrealised loss on hedging derivative measured at FVOCI		(165)	-
Net gains on investments in debt instruments measured at FVOCI		127	-
Net gains on available-for-sale financial assets		-	(4)
Total comprehensive (expense)/ income for the year		(1,919)	82

All transactions are in respect of continuing operations.
The accompanying notes form an integral part of the financial statements.

United Bank for Africa (UK) Limited

5.4. Statement of Financial Position as at 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Assets			
Cash at bank		25,260	36,781
Loans and advances to banks	5.7.10	74,927	79,084
Investment securities	5.7.11	61,754	33,868
Property and equipment	5.7.12	765	817
Intangible assets	5.7.13	2,809	2,364
Other assets	5.7.14	658	1,605
Total assets		<u>166,173</u>	<u>154,519</u>
Liabilities			
Loans from banks	5.7.15	110,774	105,503
Deposits from customers	5.7.16	8,649	393
Derivative financial instruments	5.7.17	165	-
Deferred tax liability	5.7.18	85	95
Other liabilities	5.7.19	1,777	1,236
Total liabilities		<u>121,450</u>	<u>107,227</u>
Equity			
Called up share capital	5.7.20	60,246	60,246
Share premium account		201	201
Retained earnings		(15,682)	(13,151)
Other reserves		(42)	-
AFS reserves		-	(4)
Total shareholders' equity		<u>44,723</u>	<u>47,292</u>
Total liabilities and equity		<u>166,173</u>	<u>154,519</u>

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 25 to 51 were approved by the board of directors on 28th March 2019 and signed on its behalf by:



 Patrick Guimann
 Director and Chief Executive

Date: 28th March, 2019

36 Queen Street, London EC4R 1BN



 Alex Romer-Lee
 Director

Date: 28th March, 2019

36 Queen Street, London EC4R 1BN

United Bank for Africa (UK) Limited

5.5. Statement of Changes in Equity

	Share capital US\$'000	Share premium account US\$'000	Available for sale reserve US\$'001	Other reserves US\$'000	Hedging reserves US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2017	60,246	201	-	-	-	(13,237)	47,210
Profit for the year	-	-	-	-	-	86	86
Other comprehensive expense	-	-	(4)	-	-	-	(4)
Balance at 31 December 2017	60,246	201	(4)	-	-	(13,151)	47,292
Balance at 1 January 2018	60,246	201	(4)	-	-	(13,151)	47,292
Changes on initial application of IFRS 9	-	-	4	(4)	-	(650)	(650)
Restated balance at 1 January 2018	60,246	201	-	(4)	-	(13,801)	46,642
(Loss) for the year	-	-	-	-	-	(1,881)	(1,881)
Other comprehensive income/(expense)	-	-	-	127	(165)	-	(38)
Balance at 31 December 2018	60,246	201	-	123	(165)	(15,682)	44,723

United Bank for Africa (UK) Limited

5.6. Statement of Cash Flow for the year ended 31 December 2018

	<u>Note</u>	2018 US\$'000	2017 US\$'000
Cashflows from operating activities			
Profit/(Loss) for the year	5.3	(1,881)	86
Depreciation and amortisation	5.7.12/5.7.13	494	360
Changes in loans and advances to banks	5.7.10	4,157	17,872
Changes in other assets	5.7.14	947	1,666
Changes in loans from banks	5.7.15	5,271	(8,215)
Changes in deposits from customers	5.7.16	8,256	-
Changes in other liabilities	5.7.19	531	(914)
Taxation paid		-	-
Other non-cash movements		127	(4)
Net cashflows from operating activities		<u>17,902</u>	<u>10,851</u>
Investing activities			
Investment in property and equipment	5.7.12	(148)	(7)
Investment in intangible assets	5.7.13	(739)	(942)
Purchase of investment securities	5.7.11	(28,536)	(17,207)
Net cash (outflow) from investing activities		<u>(29,423)</u>	<u>(18,156)</u>
Financing activities			
		-	-
Net cash (outflow) from financing activities		<u>-</u>	<u>-</u>
Net cash (outflow) during the year		(11,521)	(7,305)
Cash and cash equivalents at 1 January		<u>36,781</u>	<u>44,086</u>
Cash and cash equivalents at 31 December		<u>25,260</u>	<u>36,781</u>

The accompanying notes form an integral part of the financial statements.

5.7. Notes to the Financial Statements

5.7.1 Accounting Policies

Reporting entity

UBA UK is an authorised and regulated wholesale deposit taking institution domiciled and incorporated in the UK and is a wholly-owned subsidiary of UBA Plc. The bank's principal activities comprise wholesale deposit taking, the provision of international trade finance products and services, fixed income and foreign exchange broking. The address of the bank's registered office is 36 Queen Street, London EC4R 1BN.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by IFRS Interpretation Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. Policies have been consistently applied other than where new policies have been implemented.

Functional Currency

The financial statements are prepared and presented in US dollars (USD) as the functional currency of the primary economic environment in which the bank operates and plans to continue to operate. This is the primary currency of trade finance services, fixed income and foreign exchange transactions.

Basis of preparation and significant accounting estimates and judgements

The preparation of financial statements requires the directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. We have identified IFRS 9 as a significant accounting estimate as explained below.

Financial instruments

Financial instruments are recognised and measured under the requirements of IFRS 9 effective from 1 January 2018, having previously been classified and measured under IAS 39.

IFRS 9 has been applied retrospectively by adjusting the opening balance sheet at the date of initial application and comparative periods have not been adjusted.

The bank recognises a financial asset or financial liability on its Statement of Financial Position when the bank becomes a party to the contractual provisions of the instrument.

The Bank derecognises a financial asset when: the contractual rights to the cash flows from the financial asset expire; or it transfers the contractual rights to the cash flows and the bank has no continuing involvement in all or a portion of those rights.

United Bank for Africa (UK) Limited

The bank removes a financial liability from the Statement of Financial Position (derecognition) when it is extinguished, when the obligation specified in the contract is discharged, cancelled or expires.

IFRS 9 requires financial assets to be classified using two criteria:

- A contractual cash flow test to determine whether cash flows represent 'solely payments of principal and interest' and
- A business model test which takes the nature, purpose and intention of the asset into account.

Financial assets measured at amortised cost receive contractual cash flows on specified dates and are held with no intention to sell. Initial recognition is at fair value with subsequent re-measurement at fair value and includes directly attributable transaction costs. Income earned is recognised in profit and loss.

Financial assets measured at fair value through other comprehensive income comprise assets which receive contractual cash flows on specified dates and are potentially for sale. Initial recognition is at fair value with subsequent re-measurement at fair value and changes (except changes relating to impairment, interest and currency movements) are recognised in other comprehensive income until sold. Upon disposal the cumulative gains and losses in other comprehensive income are recognised in the income statement as net investment income.

Under IAS39 the following classifications applied:

Financial assets classified as Available for Sale (AFS)

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured and held at fair value (less any permanent impairment) and changes in fair value are recognised in the other comprehensive income.

Financial assets classified as Held to maturity

Held to maturity assets are non-derivative financial assets with fixed or determinable payments, fixed maturity and have been acquired with the positive intention and ability to hold to maturity. Financial assets that are held to maturity are stated at amortized cost less any impairment.

Refer Note 5.7.25 for further details on the adoption of IFRS 9.

Derivatives

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets. A derivative with a positive fair value is recognised as a financial asset and a derivative with a negative fair value is recognised as a financial liability.

The bank may enter into derivative financial instruments to manage exposure to foreign exchange and interest rate risk.

IFRS 9 includes an accounting policy choice to apply hedge accounting where the requirements for a hedging relationship between a hedging instrument and a hedged item can be met. UBA UK has elected to remain with IAS 39 and hedges are accounted for as derivatives.

United Bank for Africa (UK) Limited

Impairment

Under IFRS 9 entities are required to recognise Expected Credit Losses (ECLs) based on forward looking information for all financial assets at amortised cost, assets at FVOCI, commitments and guarantees. At each balance sheet date financial assets are assessed for impairment. Expected credit losses are a probability weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions, including both upside and downside scenarios.

The bank calculates a base scenario, two downside scenarios and one upside scenario for stress testing purposes as follows:

1. For the base case the bank undertakes a comprehensive review of its credit portfolio, including an ECL calculation, monthly. This enables the close tracking of the risk comprising the credit portfolios basis, and takes cognisance of the largely trade finance led business model, including the material use of cash collateral as qualifying credit mitigation. The Bank's approach has regard for loan deterioration and stage allocation, and is predicated on identifiable primary, secondary and backstop indicators to identify significant increases in credit risk. This base case calculation incorporates probability of default and loss given default assumptions publicly sourced and defined in a Board approved framework.
2. A Nigeria specific downside scenario which, following a continued and extended decline in the oil price, leads to a weakening in the economic fundamentals of Nigeria translating into a 1 notch downgrade in the sovereign credit rating. A downward shift in the "sovereign ceiling" in turn translates into a 1 notch downward shift in the credit ratings of all Nigerian counterparties.
3. A Bank specific downside scenario for developed market exposures leading to a 2 notch downgrade in the rating of the Bank's exposure to developed market entities, and a one notch downgrade in Nigerian exposures.
4. The upside scenario models a Nigeria specific scenario which, following a sustained increase in the oil price, leads to an improvement in the economic fundamentals of Nigeria, translating into a 1 notch upgrade in the sovereign credit rating. This shift in the "sovereign ceiling" over time translates into a 1 notch upward shift in the credit ratings of all our Nigerian counterparties.

The table below summarises the forecast economic scenarios applied in measuring the ECL and the impact of assigning a 100% weighting to any one scenario:

US\$	ECL Closing Balance - Weighting 31/12/2019 used	
Base Case	623	60%
Scenario 1 - Nigeria Specific - Downside	1,000	20%
Scenario 2 - Selected Developed Market - Downside	627	10%
Scenario 3 - Nigeria Specific - Upside	386	10%
		100%

Having calculated the expected credit loss under the 3 scenarios it is not considered to have a significant impact on the ECL provision. The ECL provision has been recognised on the base case.

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An ECL allowance is calculated on individual exposures at the reporting date. The ECL allowance is based on three stages with a default horizon of 12 months for performing exposures and a lifetime horizon for under-performing or non-performing exposures. The mitigating effects of collateral and the time value of money are considered when determining the ECL.

Stage 1 is the initial recognition of the ECL allowance and the calculation model is based on three main components:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

A 12 month expected loss horizon is used for the calculation of the ECL. Interest revenue is recognised on a gross basis. At this stage an exposure is usually performing.

Stage 2 applies when there is a significant increase in credit risk based on quantitative and qualitative assessments. Quantitative criteria include an increase in PD and considers obligor specific factors such as changes in performance, technology and collateral support as well as macro-economic factors. The following shall indicate a significant increase in credit risk:

- For investment grade – one band out of investment grade; and
- For speculative grade – one band for instruments rated below B and two notches for instruments rated B and above (but not investment grade).

Qualitative criteria include industry and peer group analysis. A lifetime expected loss horizon is used for the calculation of the ECL. Interest is recognised on a gross basis. At this stage an exposure is usually under-performing.

Stage 3 applies to exposures in default. Credit losses are the expected cash shortfalls from what is contractually due discounted at the original effective interest rate. Forborne assets are usually be regarded as in default. A lifetime horizon is used for the calculation of the ECL. Interest is recognised on a basis net of the impairment allowance. At this stage an asset is usually non-performing.

When commercial restructuring of non-defaulted exposure occurs, an assessment is made of any change in the overall risk profile. Any resulting gain or loss is recognised in the income statement.

Definition of default

The definition of default is based on the Regulatory Capital CRR Article 178 definition which defines an exposure more than 90 days past due as being in default. Extraordinary factors are considered when applying this definition.

Impairment losses as a result of uncollectible exposures are written off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written off are credited to the income statement.

IFRS 15 Revenue from contracts with customers

Revenue from contracts with customers, except leases, financial instruments and insurance contracts, have been accounted for under IFRS 15 with effect from 1 January 2018.

The 5-step model requires UBA UK to:

- Identify the contract with the customer
- Identify each of the performance obligations
- Determine the amount of the consideration under the contract
- Allocate the consideration to each of the performance obligations

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- Recognise revenue as each performance obligation is satisfied.

Revenue comprises mainly fee and commission income and is recognised when the services are provided. There has been no material impact on the financial statements from the adoption of this policy.

Interest income, foreign exchange income and interest expense

Interest income comprises interest earned on loans advanced, fixed income instruments held and money market deposits. Interest income is recognised on a days elapsed basis. In practice this closely resembles income under the effective interest method.

Foreign exchange broking income is recognised in the income statement on the trade date. Interest expense consists of interest payable on loans and deposits and is recognised when incurred in the income statement using the effective interest rate method.

Property and equipment

Measurement

Fixed Assets are recorded at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets (costs of bringing the asset to its location and working condition). Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the asset flow to the bank and the cost of the asset can be measured reliably.

External costs to bring the asset into use are capitalized and amortized over the life of the asset. Internal implementation costs are not separately recognised. Repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Tangible fixed assets are depreciated on the straight-line basis over the following estimated useful lives:

Furniture and fittings	5 years
Office equipment and IT hardware	5 years

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's value, less costs to sell, and value in use.

Leasehold improvements are amortised using the straight-line method over the shorter of the remaining lease term before any options to extend, or the estimated useful life of the asset.

All capital contributions received are deducted from the cost before the amortization of leasehold improvements. Costs for repairs are expensed in the period work is undertaken. Dilapidation provisions are made unless it is not possible to reliably quantify the obligation arising at the end of the lease period.

Disposal

On disposal of a fixed asset (movable and immovable), economic substance rather than legal form determines the timing of the derecognition, the amount and the designation of gain/loss arising.

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Gains and losses on disposal are recognized at the time an asset is sold provided:

- The amount of profit/loss is measurable, and payment of sales price reasonably assured; and
- The bank is not obligated to perform significant activities after the sale or to provide any warranties after sale.

Gains and losses on disposal shall be determined by comparing net proceeds with the carrying amount. These are included in the income statement for the year.

Intangible assets

Computer software, licenses and system infrastructure recognized by the bank is stated at cost less accumulated amortization. Subsequent expenditure is capitalized only when it increases the future economic benefits in the asset. All other expenditure is expensed as incurred.

Amortization is recognized in the income statement on a straight-line basis over the useful life of 10 years.

Foreign currencies

Transactions in foreign currencies are translated into US dollars at the mid rates prevailing as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the mid rates of exchange prevailing at that date. All exchange differences are included as gains or losses in the statement of comprehensive income.

Operating leases

Rental payments made under operating leases are charged to the income statement on a straight-line basis over the lease term. Any rent-free period is spread on a straight-line basis over the lease term.

Finance leases

Assets held under finance leases, which confer rights and obligations similar to owned assets, are capitalised as assets and depreciated over the lease term. The capital elements of future lease obligations are recorded as liabilities, while the interest payable is charged to the income statement over the period of the lease.

Pension

The bank operates a defined contribution scheme. The contributions are recognised as an expense in the income statement when they are due, and the bank has no further payment obligations once the contributions have been paid.

Provisions and financial commitments

A provision is recognized if the bank has a present or future legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits is required to settle the obligation.

Financial commitments from contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

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Financial commitments from contingent assets are possible assets that arise from past events and whose existence are confirmed only by the occurrence of one or more uncertain future events not wholly within the banks control. These are disclosed where an inflow of economic benefits is probable, and are recognised only when it is virtually certain that an inflow of economic benefits arises.

Taxation

Corporation tax:

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws which have been enacted or substantively enacted at the reporting date.

Deferred tax:

A deferred tax liability or asset is recognised in respect of timing differences which result in an obligation to pay more or less tax respectively at a future date. Timing differences arise as a result of differences between taxable profits and profits as stated in the financial statements.

Deferred tax is calculated on a non-discounted basis after taking assessed losses into account at the tax rates that are known or are expected to apply in the years in which the timing differences are expected to reverse. Changes to deferred tax as a result of changes in tax rates are recognised in the current year.

Going concern

The Directors have considered the principal risks, the bank's resources and the level of support provided to it by its parent, UBA Plc, and consider it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

5.7.2 New standards and interpretations not yet adopted

IFRS 16: Leases

IFRS 16 is effective from 1 January 2019. The main impact from initially applying IFRS 16 is to recognise the right of use asset in respect of premises leased by the bank under contracts classified as operating leases under IAS 17. The impact of other operating leases is limited.

IFRS 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognise a right-of-use asset and a lease liability representing its obligation to make lease payments. Lessees capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments is recognised as lease liabilities.

The Bank will apply IFRS 16 on a retrospective basis without restating prior years.

The opening balance sheet at 1 January 2019 will be adjusted to create a right of use asset of approximately US\$1.4 million. A lease liability will also be recognised of approximately US\$1.4 million. The estimated impact on the statement of comprehensive income is expected to be less than \$50,000.

5.7.3 Business and geographical segments

All the Bank's activities are derived from one main activity, the provision of wholesale banking services which are carried out in the United Kingdom.

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5.7.4 Net Interest Income

	2018 US\$'000	2017 US\$'000
Interest income		
Cash and cash balances	43	2
Loans and advances to banks	6,289	7,224
Loans and advances to customers	1	-
Investment securities	3,530	1,396
	<u>9,863</u>	<u>8,622</u>
Interest expense		
Loans from banks	(4,930)	(4,243)
	<u>(4,930)</u>	<u>(4,243)</u>
Net interest income	<u>4,933</u>	<u>4,379</u>

The income is derived from the interest receivable on loans and advances to banks, interest bearing investment securities less interest expense payable on borrowings.

5.7.5 Fee and Commission Income

Fee and commission income of US\$880,000 (2017 US\$946,000) is derived from advising and confirming letters of credit.

5.7.6 Staff costs

Staff costs during the year were as follows:

	2018 US\$'000	2017 US\$'000
Wages and salaries	4,525	2,798
Social security costs	434	315
Pension costs	188	146
Other costs and benefits	94	83
	<u>5,241</u>	<u>3,342</u>

A defined contribution pension scheme is operated by the bank. The amount payable at the reporting date in relation to these contributions was US\$ nil (2017: US\$27k).

The average number of employees employed during the year was 27 (2017: 27), of which 9 were customer facing and 18 employees were in administrative roles.

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5.7.7 Administrative expenses

	2018 US\$'000	2017 US\$'000
Auditors remuneration:		
Audit of statutory accounts	90	78
Other non- audit services	-	4
	<u>90</u>	<u>82</u>
Consulting fees	348	253
IT software maintenance and support	400	493
Leasing expenses	498	202
Other administrative expenses	1,007	865
	<u>2,343</u>	<u>1,895</u>

5.7.8 Directors' remuneration

Staff costs include the following emoluments in respect of the qualifying services provided by the directors of the bank:

	2018 US\$'000	2017 US\$'000
Salaries, fees and other	1,137	701
Pension contributions	4	-
Other benefits	32	4
	<u>1,173</u>	<u>705</u>

The number of directors for whom retirement benefits were accrued under money purchase pension schemes amounted to nil (2017: none). Other benefits include accommodation allowances.

Emoluments disclosed above include the following amounts payable to the highest paid director:

	2018 US\$'000	2017 US\$'000
Total emoluments	481	426
	<u>481</u>	<u>426</u>

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5.7.9 Taxation on profit on ordinary activities

	2018	2017
	US\$'000	US\$'000
Analysis of change in period:		
UK corporation tax on profit for the year	-	-
Adjustments in respect of prior periods	-	10
Current tax	8	10
Deferred tax	(10)	(23)
Deferred tax - prior year adjustment	-	-
	(2)	(13)

	2018	2017
	US\$'000	US\$'000
Factors affecting the tax charge for the year:		
Profit / (loss) on ordinary activities for the year	(1,883)	73
Profit/(loss) on ordinary activities at standard rate of corporation tax of 19% (2017: 19.25 %)	(358)	12
Expenses not deductible for tax purposes	1	1
Fixed asset permanent differences	13	9
Deferred tax on losses not recognised	307	(43)
Deferred tax - different tax rates	35	(2)
Under / (over) provision	-	10
	(2)	(13)

Corporation tax provided on a small amount of non-trade income was US\$ nil (2017: \$91). The bank has a potential deferred tax asset of US\$2,527,327 (2017: US\$2,229,048) calculated at 17% of the carried forward trading losses of \$14,915,689 (2017: US\$13,112,047). The bank follows a prudent approach and has not recognised a potential deferred tax asset at 31 December 2018.

5.7.10 Loans and advances to banks

	2018	2017
	US\$'000	US\$'000
Loans to parent bank	74,373	77,363
Loans to fellow subsidiaries	8	8
Loans to other banks	557	1,713
Less impairment provision	(11)	-
	74,927	79,084

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Loans and advances to banks include collateralised trade financing receivables owed by the parent bank to UBA UK. The directors consider that the carrying amount loans and advances to banks is approximately equal to their fair value after the recognition of the impairment provision. At 31 December 2018 no loans to banks were impaired (2017: nil). The maturity profile of loans and advances is disclosed in note 5.7.24.

5.7.11 Investment securities

	2018	2017
	US\$'000	US\$'000
Debt instruments held at amortised cost	34,516	-
Debt instruments held to maturity	-	13,913
Less impairment provision	(546)	-
	<u>33,970</u>	<u>13,913</u>
Debt instruments held at FVOCI	27,784	-
Debt instruments held for available for sale	-	19,955
	<u>27,784</u>	<u>19,955</u>
Total investment securities	<u><u>61,754</u></u>	<u><u>33,868</u></u>

The carrying amount of investment securities is approximately equal to the fair value after the recognition of the impairment provision.

At 31 December 2018 all investment securities are considered as performing. Debt instruments held at FVOCI are classed as stage 1 for the recognition of ECL allowances. In 2017 no investments were impaired.

The maturity profile of investment securities is disclosed in note 5.7.24.

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5.7.12 Property and equipment

	Furniture and fittings US\$'000	Office equipment US\$'000	Leasehold improve- ments US\$'000	Total US\$'000
Cost				
At 1 January 2018	122	480	762	1,364
Additions	-	16	132	148
At 31 December 2018	<u>122</u>	<u>496</u>	<u>894</u>	<u>1,512</u>
Accumulated depreciation				
At 1 January 2018	65	254	228	547
Charge for the year	25	98	77	200
At 31 December 2018	<u>90</u>	<u>352</u>	<u>305</u>	<u>747</u>
Net book value				
At 31 December 2018	<u>32</u>	<u>144</u>	<u>589</u>	<u>765</u>
Cost				
At 1 January 2017	116	467	774	1,357
Additions	6	13	-	19
Recovered expenses	-	-	(12)	(12)
At 31 December 2017	<u>122</u>	<u>480</u>	<u>762</u>	<u>1,364</u>
Accumulated depreciation				
At 1 January 2017	41	159	152	352
Charge for the year	24	95	76	195
At 31 December 2017	<u>65</u>	<u>254</u>	<u>228</u>	<u>547</u>
Net book value				
At 31 December 2017	<u>57</u>	<u>226</u>	<u>534</u>	<u>817</u>

5.7.13 Intangible assets

	Software and Licences	
	2018 US\$'000	2017 US\$'000
Cost		
At beginning of year	2,578	1,636
Additions	739	942
At end of year	<u>3,317</u>	<u>2,578</u>
Accumulated amortisation		
At beginning of year	214	49
Charge for the year	294	165
At end of year	<u>508</u>	<u>214</u>
Net book value		
At end of year	<u>2,809</u>	<u>2,364</u>

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5.7.14 Other assets

	2018 US\$'000	2017 US\$'000
Prepayments and accrued income	316	772
VAT receivable	126	102
Other receivables	47	555
Rent deposits	169	169
	<u>658</u>	<u>1,598</u>

5.7.15 Loans from banks

	2018 US\$'000	2017 US\$'000
Amounts due to parent bank	100,714	105,244
Amounts due to fellow subsidiaries	10,060	259
	<u>110,774</u>	<u>105,503</u>

Intercompany borrowings from the parent, UBA Plc, are recorded at amortised cost. The carrying amount of loans from banks approximates to their fair value after the recognition of the impairment provision. The intercompany borrowings are unsecured and subject to a netting agreement. The maturity profile of these deposits is disclosed in note 5.7.24.

5.7.16 Deposits from customers

	2018 US\$'000	2017 US\$'000
Current accounts	8,397	-
Deposit accounts	252	393
	<u>8,649</u>	<u>393</u>

The maturity profile of these deposits is disclosed in note 5.7.24

5.7.17 Derivative financial instruments

	Notional amount US\$'000	Assets 2018 US\$'000	Liabilities 2018 US\$'000	Assets 2017 US\$'000	Liabilities 2017 US\$'000
Exchange rate contracts	<u>20,496</u>	<u>-</u>	<u>165</u>	<u>-</u>	<u>-</u>

Derivative financial instruments consist of non-deliverable forward transactions held to hedge the currency risk on foreign currency treasury bills and are held at fair value through other comprehensive income and priced with reference to observable market data.

These exchange rate contracts have maturity dates within twelve months.

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5.7.18 Deferred tax liability

Capital allowances in advance of depreciation/short term timing differences:

	2018	2017
	US\$'000	US\$'000
At 1 January	95	118
Reversal of provision	(10)	(23)
At 31 December	<u>85</u>	<u>95</u>

At 31 December 2018 there was a reversal of previous timing differences resulting in a decrease in the deferred tax liability of US\$ 10k (2017: US\$23k) in respect of investment in the infrastructure and systems.

5.7.19 Other liabilities

	2018	2017
	US\$'000	US\$'000
Accrued expenses	1,283	878
Accounts payable	427	152
Current tax liabilities	-	107
Other liabilities	2	27
Provision for other liabilities and charges	65	72
	<u>1,777</u>	<u>1,236</u>

5.7.20 Share capital

	2018	2017
	US\$'000	US\$'000
Issued and fully paid:		
43,287,826 ordinary shares of £1 each (2018: 43,287,826)	60,246	60,246

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 December 2018 is US\$44.7million (2016 US\$47.3million).

5.7.21 Regulatory capital

UBA UK was granted a wholesale deposit banking licence in March 2018. Regulatory capital is determined in accordance with the requirements stipulated by the PRA in the UK. Total regulatory capital as at 31 December 2018 was US\$42.506m.

Bank's total regulatory capital qualifies as Tier 1 capital, which is the total of the issued share capital and retained earnings, less intangible assets and unrealised gains on investment securities.

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Capital adequacy and the use of regulatory capital are monitored by the Bank's management. The bank employs techniques based on the guidelines developed by the Basel Committee and European Community Directives as implemented by the FCA and the PRA in the UK, for supervisory purposes, who requires each bank to maintain a ratio of total regulatory capital to risk-weighted exposures at or above a level determined for each institution. The bank is in compliance with all regulatory capital requirements.

5.7.22 Financial commitments

(i) The bank has the following commitments under operating leases:

	2018	2017
	US\$'000	US\$'000
Land and buildings lease		
Expiring:		
Less than one year	333	293
Between two and five years	1,334	1,171
More than than five years	222	1,464
	1,889	2,928

(ii) The bank has the following commitments under trade finance contracts:

	2018	2017
	US\$'000	US\$'000
Letters of credit (including cash backed)	20,796	49,302
	20,796	49,302

The sum of US\$3.07million (2017: US\$13.2m) represents amount received for collateralised letters of credit which the bank is committed to pay upon presentation of documents.

Under IFRS 9 an ECL provision is held against these commitments totalling US\$65,000. There were no committed loan facilities or capital commitments.

5.7.23 Financial instruments

The fair value of a financial instrument is the amount for which the instrument could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties. The fair value of the Bank's financial instruments reflects the carrying value, as the valuations are observable either in an active market or derived from prices within an active market.

Level 1 - The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring transactions on an arm's length basis.

Level 2 - The fair value of financial instruments that are not traded in active markets (for example over the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

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Level 3 - If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The banks method of valuation of the financial instruments subject to fair value are listed below.

	Quoted market price Level 1 US\$'000	Fair value US\$'000
At 31 December 2018		
Debt instruments at fair value	27,784	27,784
Derivative financial instruments	165	165
	27,949	27,949
At 31 December 2017		
Securities available for sale	19,955	19,955
Derivative financial instruments	-	-
	19,955	19,955

5.7.24 Risk management

The bank manages its capital and its liquidity to ensure that it meets its obligations and to continue as a going concern while maximising the return to stakeholders. The capital of the bank consists of equity, comprising issued capital and reserves.

The bank is primarily exposed to market, credit, concentration, liquidity, operational and regulatory risks.

- **Market risk**

Market risk is the risk of losses in positions arising from movements in market prices. The main contributors to market risk are:

Bond price risk

From time to time fixed income instruments are held both for liquidity purposes and as part of the investment bond portfolio.

A quantitative assessment of bond price risk is conducted through scenario stress tests for the fixed income book, using 11 historical scenarios. These scenarios measure the possible losses to the bonds if a historical scenario was to arise again. Stress tests are conducted and reviewed on a two-weekly basis. A 2% change in the price of bonds would lead to a change in book value of US\$555,700 (2017: US\$399,100).

Interest rate risk

Interest rate risk is the potential adverse impact on future cash flows, assets and liabilities from changes in interest rates and arises from the differing interest rate risk characteristics of the bank's assets and liabilities. To measure the changes in interest rates, UBA UK calculates the present value, based on future cash flows out to five years, by a sudden parallel shift of +/- 200

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basis points. A change in the interest rate shows the increase and decrease in equity by the analysis show below:

	2018	2017
	US\$'000	US\$'000
Sensitivity	Profit/(Loss)	Profit/(Loss)
Increase of 200bps	(833)	(67)
Decrease of 200 bps	559	155

Foreign currency risk

Revenues, assets and liabilities are primarily in the functional currency, US\$. However, as the bank is a UK entity its operating expenses are in pounds sterling (GBP). To mitigate foreign exchange risk, the bank hedges the exposure arising from operating expenses by entering into forward foreign exchange transactions, sets foreign exchange limits for individual currencies and ensures that any collateral held against obligations is held in the relevant currency. Furthermore, foreign exchange risk arising from its foreign exchange transactions with mainly UBA Group subsidiaries is closed out by entering into equal and opposite transactions with acceptable financial institutions. With the exception of small operating balances in its bank accounts, the bank's stated risk appetite does not allow for intraday or overnight positions in foreign exchange. The carrying amounts of the bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Euro (EUR)	1,907	2,711	538	1,513
British Pound (GBP)	664	1,009	474	824
Nigerian Naira (NGN)	1,130	3	-	-
	3,701	3,723	1,012	2,337

The bank's expense base is primarily in British Pounds, which is different to the functional currency of US dollars and is subject to fluctuations in foreign currency exchange rates.

A sensitivity analysis has been carried out on the foreign currency open position using a 1% increase/ (decrease) in exchange rates and the foreign currency risk is considered immaterial.

- **Credit risk**

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. The bank controls credit risk by setting strict counterparty limits for all obligors. Limits are set after careful consideration of the credit profile for each counterparty and the present market environment. The counterparties which the bank transacts with are mainly Tier 1 African Financial Institutions with acceptable external credit ratings.

The bank adopts a 6 Credit Quality Step (CQS) grading approach when assessing counterparty risk, with 1 being excellent and 6 unrated. For added transparency, the CQS ratings correspond to their Moody's ratings in the tables below.

At the reporting date, UBA UK was exposed to two counterparties in the trade finance portfolio. Counterparties had a CQS of 5 or 6 and were expected to repay their loans within the credit period given.

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	Credit quality step	2018 US\$'000	2017 US\$'000
Assets			
Cash at bank			
Rated A+ to A-	2	15,214	36,746
Rated B+ to B-	5	10,046	35
		<u>25,260</u>	<u>36,781</u>
Loans and advances to banks			
Rated B+ to B-	5	74,927	79,084
		<u>74,927</u>	<u>79,084</u>
Debt instruments at amortised cost			
Rated B+ to B-	5	33,970	13,913
		<u>33,970</u>	<u>13,913</u>
Debt instruments at fair value			
Rated AAA to AA-	1	27,784	19,955
		<u>27,784</u>	<u>19,955</u>
Contingent liabilities			
Rated B+ to B-	5	20,796	49,302
		<u>20,796</u>	<u>49,302</u>

- **Concentration risk**

Exposures are highly concentrated by country, industry sector and counterparty as a result of the bank's historical role within the UBA Plc group. The bank's main counterparty was UBA Plc, causing counterparty concentration risk as reflected by the Herfindahl-Hirschman Index (HHI) to be high. There is a legally effective and enforceable netting agreement with UBA Plc which substantially reduces the net exposure.

- **Liquidity risk**

Liquidity risk is the risk that the bank is not be able to meet its financial obligations as they fall due. The bank's exposure to liquidity risk is limited as trade assets are match funded. To ensure intra- day liquidity risk is mitigated, the bank has introduced a robust pre-transaction approval process to ensure funding is in place, previous day's trades are settled, and upcoming assets are repaid at maturity. The bank held HQLA assets at fair value through other comprehensive income of \$28.784 million fixed income instruments as at 31st December 2018 (2017: \$19.95million) which provided a liquidity buffer.

The bank uses two internal liquidity stress tests and calculates an implied Liquidity Coverage Requirement. Liquidity risk measurement and management are outlined in and governed by strict internal policies.

The following tables detail the bank's expected maturity for its financial assets and liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest earned on those assets and undiscounted cash flows of financial liabilities including interest payable based on the earliest date which the bank can be required to pay. The tables include both interest and principal cash flows. The inclusion of information on financial assets and liabilities is necessary to understand the bank's liquidity risk management as liquidity is managed on a net asset and net liability basis.

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	Less than 1 month US\$'000	1 - 3 months US\$'000	3 months to 1 year US\$'000	1 - 5 years US\$'000	More than 5 years US\$'000	Total US\$'000
Assets 2018						
Cash at bank	25,260	-	-	-	-	25,260
Loans and advances to banks	36,745	33,504	4,678	-	-	74,927
Investment securities	-	3,012	53,575	5,167	-	61,754
Property and equipment	-	-	-	-	765	765
Intangible assets	-	-	-	-	2,809	2,809
Other assets	658	-	-	-	-	658
	<u>62,663</u>	<u>36,516</u>	<u>58,253</u>	<u>5,167</u>	<u>3,574</u>	<u>166,173</u>
Liabilities 2018						
Cash at bank						
Loans from banks	7,044	1,377	102,353	-	-	110,774
Deposits from customers	8,397	-	252	-	-	8,649
Derivative financial instruments	-	-	165	-	-	165
Other liabilities & deferred tax	1,777	-	-	-	85	1,862
Total equity	-	-	-	-	44,723	44,723
	<u>17,218</u>	<u>1,377</u>	<u>102,770</u>	<u>-</u>	<u>44,808</u>	<u>166,173</u>
Financial commitments Letters of credit	<u>12,960</u>	<u>6,446</u>	<u>1,390</u>	<u>-</u>	<u>-</u>	<u>20,796</u>
	<u>48,957</u>	<u>65,295</u>	<u>29,217</u>	<u>7,869</u>	<u>3,181</u>	<u>154,519</u>
Assets 2017						
Cash at bank	36,781	-	-	-	-	36,781
Loans and advances to banks	10,571	65,295	3,042	176	-	79,084
Investment securities	-	-	26,175	7,693	-	33,868
Property and equipment	-	-	-	-	817	817
Intangible assets	-	-	-	-	2,364	2,364
Other assets	1,605	-	-	-	-	1,605
	<u>48,957</u>	<u>65,295</u>	<u>29,217</u>	<u>7,869</u>	<u>3,181</u>	<u>154,519</u>
Liabilities 2017						
Cash at bank						
Loans from banks	4,410	7,985	93,108	-	-	105,503
Deposits from customers	8	-	385	-	-	393
Other liabilities & deferred tax	1,236	-	-	-	95	1,331
Total equity	-	-	-	-	47,292	47,292
	<u>5,654</u>	<u>7,985</u>	<u>93,493</u>	<u>-</u>	<u>47,387</u>	<u>154,519</u>
Financial commitments Letters of credit	<u>40,054</u>	<u>7,885</u>	<u>1,363</u>	<u>-</u>	<u>-</u>	<u>49,302</u>

- Operational risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risk has been reduced by the introduction of enhanced Risk Control Self-Assessment and Control Assurance Testing procedures, upgraded system and additional experienced staff. The bank believes that operational risk is adequately assessed, monitored and managed.

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5.7.25 IFRS 9 Transition

The following changes in presentation have been made following the adoption of IFRS 9. These presentational changes have no effect on the measurement of these items and therefore had no impact on the accumulated loss or results for any period.

The accounting standard category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are detailed below:

	IAS 39 category	IFRS 9 category	Balance under IAS 39 31 December US\$'000	Remeasurement : ECL allowance US\$'000	Balance under IFRS 9 1 January US\$'000
On balance sheet positions					
	US\$'000	US\$'000			
Cash at Bank	Loans and receivables	Amortised Cost	36,781	(3)	36,778
Loans and advances to banks	Loans and receivables	Amortised Cost	79,084	(113)	78,971
Investment securities	Hold to Maturity	Amortised Cost	13,913	(271)	13,642
Investment securities	Available for sale	FVOCI	19,955	-	19,955
Loans from banks	Loans and receivables	Amortised Cost	105,895	-	105,895
			<u>255,628</u>	<u>(387)</u>	<u>255,241</u>
Financial commitments					
Letters of credit	Off balance sheet	Off balance sheet	49,302	(263)	49,039

On the initial application of IFRS 9 on 1 January 2018, the impairment allowance of \$650,000 was incorporated into retained earnings brought forward and the balance of retained earnings restated. Refer note 5.5 statement of changes in equity.

The expected credit losses are detailed below:

	US\$'000
Amortised cost assets	(387)
Financial commitments	(263)
Total expected credit losses	<u>(650)</u>

5.7.26 Related party transactions

Key management personnel compensation

	2018	2017
	USD 000	USD 000
Short term benefits for employee	<u>2,119</u>	<u>2,001</u>

Transactions with related parties

The following represent notional amounts that were transacted with the parent and fellow subsidiaries:

	2018	2017
	US\$'000	US\$'000
Foreign exchange transactions	935,911	2,604,470
Trade related transactions	357,152	401,870
	<u>1,293,063</u>	<u>3,006,340</u>

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Contingent liability outstanding with related parties

The following off-balance sheet items are letters of credit outstanding at the end of the reporting period in relation to transactions with related parties:

	2,018	2,017
	US\$'000	US\$'000
Contingent liabilities		
Amount due from parent bank	14,667	50,467
Amount due from fellow subsidiaries	-	259
	<u>14,667</u>	<u>50,726</u>

Loans to/from related parties

	2018	2017
	US\$'000	US\$'000
Loans payable UBA Group		
Beginning of year	90,867	90,803
Loans advanced	109,900	89,900
Loans repaid	(99,900)	(89,900)
Interest charged	4,930	4,242
Interest paid	(4,890)	(4,178)
End of year	<u>100,907</u>	<u>90,867</u>
Loans receivable UBA Group		
Beginning of year	76,558	76,318
Loans advanced	438,020	544,327
Loans repaid	(441,149)	(544,819)
Interest charged	5,945	5,336
Interest received	(6,156)	(4,604)
End of year	<u>73,218</u>	<u>76,558</u>

Loans from UBA Plc were transacted on terms equivalent to those that prevail in an arm's length transaction.

5.7.27 Parent undertaking and controlling party

The immediate parent bank and ultimate controlling party is UBA Plc, a company incorporated in Nigeria. UBA Plc owns 100% (2017: 100%) of the share capital of UBA UK.

Details of fellow subsidiaries and representative offices of the UBA group and copies of the group financial statements may be obtained from United Bank for Africa Plc, 57 Marina, Lagos, Nigeria or on the group website: www.ubagroup.com.

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6. ABBREVIATIONS

ALCO	Assets and Liabilities Committee
CBN	Central Bank of Nigeria
ECL	Expected Credit Loss
EXCO	Executive Management Committee
EU	European Union
FI	Financial Institution
FVOCI	Fair value through other comprehensive income
SMCR	Senior Manager & Certified Persons Regime
SMF	Senior Manager Function
UBA UK	UBA (UK) Limited
UBA PLC	United Bank for Africa Plc

7. CORPORATE INFORMATION

Registered Office:
UBA UK Limited
36 Queen Street
London EC4R 1BN

Auditors:
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Company Registration Number:
3104974

Group website:
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Company Secretary:
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