UNITED TRUST·BANK

Report & Accounts 2019

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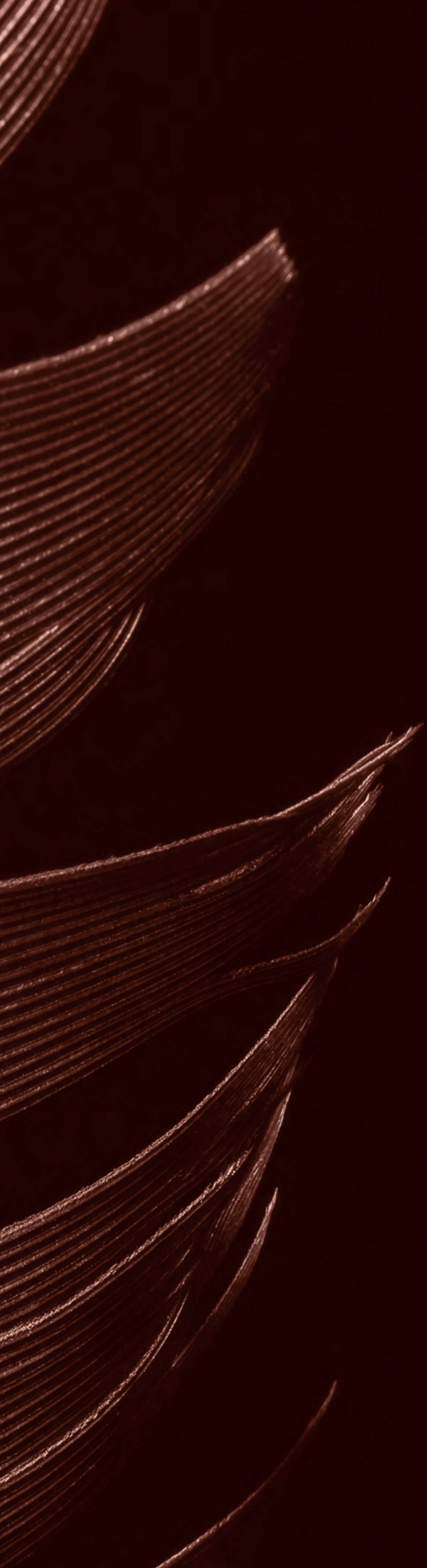


United Trust Bank has seen another year of strong business growth, while significantly investing in technology and our people.

CHAIRMAN'S REPORT

2019 was another year of strong new business growth for United Trust Bank, with record levels of new lending across all divisions. The political and economic uncertainty of previous years, globally and in the UK, remains a recurring theme. Whilst the position in the UK was partially resolved by the general election, growth in the economy continues to be weak and the main effects of Brexit are yet to be felt. As we have previously commented, the UK continues to have a shortage of housing and there is significant political support for addressing the issue.

Despite the underlying growth in our new business and in the Bank's balance sheet, the year was also characterised by a reduction in net interest margin and by significant investment in systems and people. We saw an increase in loan impairment provisions, but once again these were in respect of a small number of loans. As a consequence of these factors, pre-tax profits and return on equity were lower than in 2018. Critically, however, the credit quality of the overall loan book remains robust.

The markets in which the Bank operates continue to be very competitive. While we sense a reduction in the number of new entrants and believe some participants have withdrawn from the mortgage market, there is continued pressure on lending margins which we judge will continue. Our plans anticipate this.

Highlights during the year include the launch of full online banking for our savings customers, which we will roll out during the coming year. This provides customers with the ability to manage their accounts online, update their details and communicate securely with the Bank. We introduced app-based electronic customer identity verification technology for some of our mortgage customers. This has proved a great success and is something we are anticipating rolling out to other areas of business in due course. We have spent significant effort refining our business development activities to coordinate them across our business lines, to further increase new business levels.

I would like to thank my colleagues on the Board for their valuable contributions throughout the year and in particular to thank two departing Board members, Alice Altemaire and Tracy Blackwell. My colleagues and I are pleased to welcome two new directors: Sarah Laessig and Maria Harris. The Bank is fortunate to be able to call on the wide range of experience and skills represented around the boardroom table.

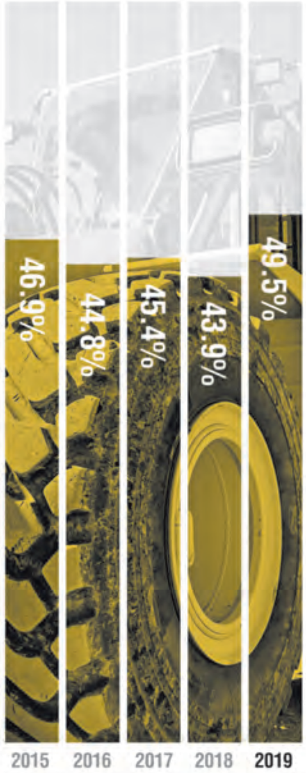
I would also like to thank the whole team at United Trust Bank for their exceptional drive, focus and hard work. Notwithstanding the uncertainties that exist as I write, the balanced structure of the business and its approach to risk allow me to look forward to 2020 with confidence.

Richard Murley
Chairman
25 February 2020

KEY PERFORMANCE INDICATORS

£64.9m
OPERATING INCOME

£32.7m
OPERATING PROFIT[1]



49.5%
COST INCOME RATIO[1]

£994m
GROSS NEW LENDING

221
STAFF NUMBERS

£1,243m
LOAN BOOK

£1,217m
DEPOSIT BOOK

16.2%
RETURN ON EQUITY[2]

1 Excludes provision for impairment losses
2 Return on Equity is calculated net of the coupon paid on contingent convertible securities

STRATEGIC REPORT

We are pleased to report United Trust Bank's ("the Bank" or "the Company") results for 2019, which reflect a favourable year for the Bank given the political and economic uncertainties.

New business volumes grew by 21% and loans and deposits both grew by 20%, reaching £1.2bn. Despite this growth in the balance sheet, for the reasons set out below in the Review of operations, profits before tax reduced to £28.2m from £31.4m.

Operational highlights include the introduction of full online banking functionality, which we have begun to roll out to our savings customers; the introduction of "App" based identity verification software that allows mortgage customers to establish their identity immediately and online; we also refreshed our computer network infrastructure to increase speed, flexibility and resilience. We created a business transformation team, whose role is to work with the business areas and IT team to identify effective and useful technologies to deploy in the Bank to enhance customer and broker interactions and internal efficiency.

The efforts of our staff were recognised again through winning 7 industry awards across a range of our business lines (see below).

The economic environment

Until the general election in December, a minority government and new prime minister struggled to control parliament and the political agenda, leading to significant uncertainty in the economy and with regard to Brexit. The majority won by the Conservative party has provided more certainty, but there are still risks associated with the UK's departure from the EU and risks elsewhere in the domestic economy. President Trump has added the risk of military conflict with Iran and trade tariffs with the EU to the existing confrontation with China on trade, continuing the uncertainty and volatility of the global context.

The Bank of England kept Base Rate steady at 0.75%, at times signalling it was likely to rise, and at other times that it was likely to fall, while wholesale and retail market interest rates fell through the year. Nethertheless, we continue to see good levels of activity in all of the Bank's core markets, in particular property development, where the government has continued to prioritise addressing the shortfall of housing in the UK.

Principal activities and business model

The Bank operates solely in the UK as a credit institution, raising capital and deposits and lending these funds to a range of borrowers. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It does not provide advice. The Bank's strategic focus has been on developing expertise in a set of niche markets so that the Bank's market position is defensible. The Bank concentrates on providing excellent service and specialised lending products of a size that is generally smaller than that which clearing banks consider.

The Bank has continued to extend its range of products and the duration of its lending and plans to maintain this trajectory. Its policy is to take sufficient deposits to meet its lending and liquidity appetite and to tailor its growth to manage capital, liquidity and operational requirements comfortably.

The Bank invests in systems that improve efficiency and enable growth. It has been a steady employer of experienced career credit bankers with considerable market knowledge and practical expertise, augmented by a growing number of staff who are earlier in their careers and to whom the Bank offers training and development opportunities.

Review of operations

Total assets reached £1.4bn, an increase of 18.6%, driven by continued strong demand for the Bank's products and a growing distribution network. The Bank wrote £1.0bn of new loans during the year, which was 21% more than in 2018, and the loan book exceeded £1.2bn for the first time. The Bank experienced a quiet first half for new business and most of the loan book growth occurred in the second half of the year. The average loan balance for the year was 15% higher than in 2018 and this, combined with margin compression, resulted in interest income growth of 8.4%. For prudence, the Bank maintained significantly higher levels of liquidity across both the potential Brexit dates and at the year end, which reduced the efficiency of the balance sheet at these times and further reduced net interest income as a result.

Interest receivable and similar income was £87.4m, an increase of 8.4% on 2018. Operating income, comprising net interest income and net fees, increased by 6.0% to £64.9m (2018: £61.2m). The cost of risk at

Best Secured Loan Lender Mortgage Strategy Awards

Specialist Bank of the Year Bridging and Commercial Awards

Editor's Choice award Bridging and Commercial Awards

Best Second Charge Lender Financial Reporter Awards

Development Lender of the Year Specialist Financial Introducer Awards

Best Secured Loan Provider Moneyfacts Awards

Business Leader Award, Second Charge Lender British Specialist Lending Awards

40bp (2018: 30bp) was higher than in previous years although we did not see any evidence of a systemic weakening of the creditworthiness of the loan book.

In line with the sector, we continue to experience margin compression in certain lending products. In addition the aggregate lending margin is influenced by the increasing proportion of mortgages within the loan book, which are lower margin products and reduce the aggregate, but do provide more stable longer duration assets and require significantly lower regulatory capital than our other lending products. The average cost of deposits increased from 1.85% to 1.95%. Operating costs before provisions grew by 19.6% as a result of investment in people and systems, increasing the cost income ratio to 49.5% from 43.9% in 2018. We continue to build a robust and efficient infrastructure to cater for higher business volumes.

The Bank's capital base increased during the year. In 2018 we resolved to maintain higher surplus capital than in prior years as a buffer against uncertainty. This distorts the comparability of return on equity in different years. Adjusting the surplus capital to a normalised level, by reference to 2017 level of surplus capital which is considered a "normal" level, results in a normalised RoE of 19.0% (2018: 25.1%, which also included an elevated surplus capital for part of the year) versus 16.2% (2018: 22.3%) unadjusted. To reduce this surplus, towards the end of the year, we paid a £10m dividend, called £11.6m of existing Tier 2 debt and issued £20m of new Tier 2 debt at a 150bp lower coupon. The dividend was used by the Bank's parent company to establish an Employee Benefit Trust for the benefit of Bank's employees.

Treasury

Total customer deposit balances increased by 19.7% to £1,217m (2018: £1,017m) across 27,000 accounts. The FSCS scheme covers over 89% of aggregate deposit balances. The majority of our deposit customers are retail, and we are active in the ISA, SME, and charity markets as well as on the Hargreaves Lansdown Active Savings platform.

The Bank's surplus liquidity, including its liquidity buffer, is held in a Reserve Account at the Bank of England, while operational balances are held with UK clearing banks. The Bank is a participant in the Bank of England's Funding for Lending Scheme ("FLS"), which will end in 2022. The Bank's participation is however less than 3% of its customer deposit book and accordingly the refinancing risk is judged to be negligible.

Principal risks and uncertainties

The Bank classifies the risks it faces into various categories. Further detail on these categories and the Bank's approach to risk management can be found in the Risk Management Report set out on pages 12 to 16.

At present, the principal risks and uncertainties which the Bank is faced with are:

- *Economic environment:* we consider economic risk to be elevated at present due to the potential impact of Brexit on the UK economy and weakness in the UK housing and commercial property markets. The Bank only operates in Sterling in the UK, so is relatively isolated from any direct consequences of separating from the rest of the EU. Nonetheless, a poor Brexit trade deal could impact the UK economy and / or housing market, which could reduce the Bank's future growth and increase loan impairments, for example if property sale prices fall materially or sales are significantly delayed. However, for some considerable time the Bank has had a reduced appetite for lending against prime London properties, arguably one of the more volatile sectors, and primarily funds family homes, where there is a shortage of supply, and thus more support for prices. We have also undertaken stress testing to assess the financial and operational resilience of the Bank under an extreme but plausible scenario in which a trade agreement is not concluded. As part of this stress testing, we identified a number of management actions, including reducing lending volumes and an increased focus on cost control, which could be implemented to mitigate the impact of the scenario and ensure the Bank remains profitable, liquid and adequately capitalised.

- *Credit:* credit risk is the risk that the Bank's counterparties will be unwilling or unable to meet their obligations to the Bank as they fall due. It is the Bank's most significant risk. It is mitigated through strict underwriting standards and a pro-active approach to managing arrears and defaults. Credit risk is currently elevated due to the uncertainties around the outlook for the UK economy and UK housing market, as noted above.

- *Interest rates:* interest rate risk is the risk that the value of the Bank's assets and liabilities or its profitability will fluctuate due to changes in interest rates. The withdrawal of the FLS and the Term Funding Scheme ("TFS") means that in due course, all banks that have used them will need to refinance their FLS and TFS funding, which may increase market deposit rates. Less than 3% of the Bank's current requirements are funded via FLS. The Bank does not have any TFS funding.

We make careful decisions to maintain strategic focus, control costs, invest and ensure sufficient capital and liquidity is held.

- *Cyber security:* cyber risk is a form of operational risk and is the risk of the Bank's systems being penetrated to steal data or otherwise cause harm or disruption. Mitigating this risk is an ongoing and increasing challenge for any institution. The Bank has dedicated cyber security staff and resources who manage a range of preventative and detective measures. Nonetheless, we remain vigilant and plan to continue enhancing and testing our arrangements to counter this increasingly complex and evolving threat.

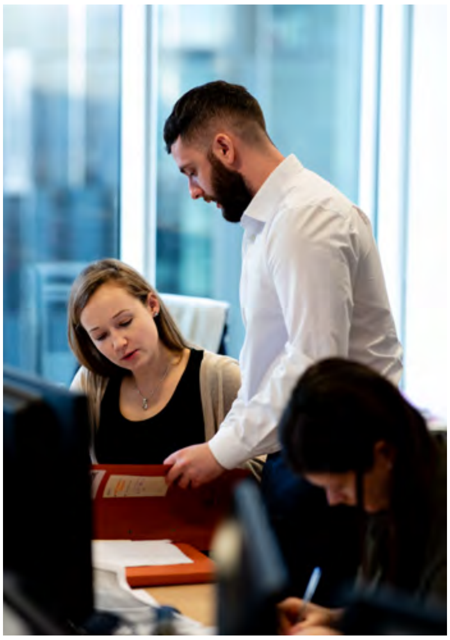
- *Regulatory requirements:* prudential regulation of banks is now relatively stable, whilst operational resilience and conduct regulation and risk continue to evolve. To manage the Bank's compliance with new and existing requirements, the Bank employs experienced professionals in the relevant areas, conducts continuous quality assurance work, has a mature and comprehensive governance framework and maintains an active and open relationship with its regulators.

Regulation

The Bank's Common Equity Tier 1 ("CET1") ratio was 12.5% (2018: 13.1%) at the end of the year, and its Total Capital Ratio was 16.9% (2018: 17.2%), comfortably exceeding the Bank's Total Capital Requirement ("TCR") (excluding regulatory buffers) of 10.23% (2018: 10.23%).

In September the Bank issued £20m of new Tier 2 long-term subordinated debt at a coupon of 7.5% which allowed £11.6m of existing debt at a coupon of 9.0% to be called and refinanced and provided capacity to pay a £10m dividend to the Bank's parent company.

In December 2019, the Bank of England's Financial Policy Committee announced a 1% increase in the Countercyclical Capital Buffer ("CCyB") requirement to 2%, due to take effect in December 2020. This is in addition to the Capital Conservation Buffer at 2.5%, which reached this level on 1 January 2019, after completing its phase in. The total amount of capital committed to the 3.5% combined buffers at the end of 2019 was £35m.



Environment and society

The Bank is increasingly sensitive to its impact on the environment and society. The Bank has limited direct impact on the environment, other than through energy use, paper use, staff commuting and visiting brokers and customers. Given we are UK based, there is negligible international staff travel, and the majority of our staff commute using public transport. We promote recycling and have reduced our use of single use plastics.

The Bank has introduced a Climate Change Impact Plan and a member of the Bank's senior management team has specific responsibility for assessing and addressing the risk posed by climate change. The plan covers how the Bank will identify those areas of the Bank's business that could affect or could be affected by climate change and how it will capture and monitor these risks together with the governance of this risk going forwards.

The Bank supports a staff-nominated charity, which focuses on social issues, and organises events throughout the year to raise awareness and also involve its employees in giving back to society. The Bank matches eligible charitable donations of staff.

Staffing and management

Staff numbers reached 221, an 8% increase on 2018, with new staff joining across all areas of the Bank, including senior management, operations and control functions, to ensure an appropriate control culture is maintained as the Bank grows.

We continued to promote the Bank's values and were pleased to present five employees with individual value awards. Winners of these awards are voted for by staff as people whose behaviour exemplifies the Bank's values.

The Bank is an equal opportunities employer and employs staff from a diverse range of backgrounds. Pay is set in line with the market and a comprehensive package of benefits including: a contributory pension scheme, private healthcare, life and disability insurance, wellbeing support and flexible working where this can be accommodated. We support staff development through training and development programmes and an employee run sports and social committee which arranges a number of events each year to enhance staff cohesion.

Equality and diversity

The Bank employs staff from a wide variety of backgrounds, origins, experiences and cultures. We recognise, respect and value people's differences in terms of skills, experience, background, race and gender and this is reflected both within the organisation, in our

We recognise and promote the importance of respectful business relationships with all of our stakeholders by maintaining long term relationships and adding value back to the community in which we operate.

recruitment and promotion process and in the way we treat our customers.

We believe in treating each other fairly, with dignity and respect and creating an environment where every individual is given equal access to opportunities to fully develop their potential. In line with our values, we listen and respect one another's opinions and promote an inclusive culture for all staff. We work co-operatively with our colleagues, whilst recognising their different strengths and abilities. In our behaviour, we are trustworthy and honest and we are transparent and respectful of one another and of our opinions.

The Directors are committed to:

- Creating an environment in which individual differences and the contributions of all team members are recognised and valued.
- Creating a working environment that promotes dignity and respect for every employee.
- Not tolerating any form of intimidation, bullying, or harassment, and to discipline those that breach this policy.
- Ensuring that training, development and progression opportunities are available to all staff and are based on aptitude and ability.
- Promoting equality in the workplace.
- Encouraging anyone who feels they have been subject to discrimination to raise their concerns so we can apply corrective measures.
- Encouraging employees to treat everyone with dignity and respect.

We also consider diversity within our Board where we value different skills, experience, background, race and gender. When filling Board positions, we ensure that we follow a rigorous selection process, as we do for all our recruitment. This is based on identifying the current skills gap, as well as complementing and expanding the skills, knowledge and experience of the Board as a whole.

Culture

Maintaining and promoting the Bank's culture and values underpins how the Bank conducts business and interacts with customers, brokers, regulators and staff. The values are embedded in staff training and performance appraisals and the recognition of exemplary employees. Assessing cultural fit is a key aspect of the recruitment process and we plan to maintain an appropriate mix of employees, with front line customer facing staff supported by appropriate systems and appropriately staffed control and oversight functions. The Board and management recognise the importance of leading by example.

Matters considered when promoting the success of the Bank

Under Section 172(1) of the Companies Act 2006, the directors are required to describe how they consider a broad range of stakeholders when performing their duty to promote the success of the Bank.

We have developed into a successful and profitable business, whose success is driven by focus on core values, a clear strategy and efforts to consider our stakeholders' interests throughout our decision making process.

In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. We then provide examples of key decisions we have made in the year, describing how we considered stakeholders in these decisions and how the decisions will add long-term value.

Stakeholder engagement

We recognise and promote the importance of respectful business relationships with our stakeholders across all of our business lines, and we are committed to engaging with them to ensure we maintain long-term relationships and add long lasting value to the wider community in which we operate. Below we give examples of stakeholder engagement:

Employees

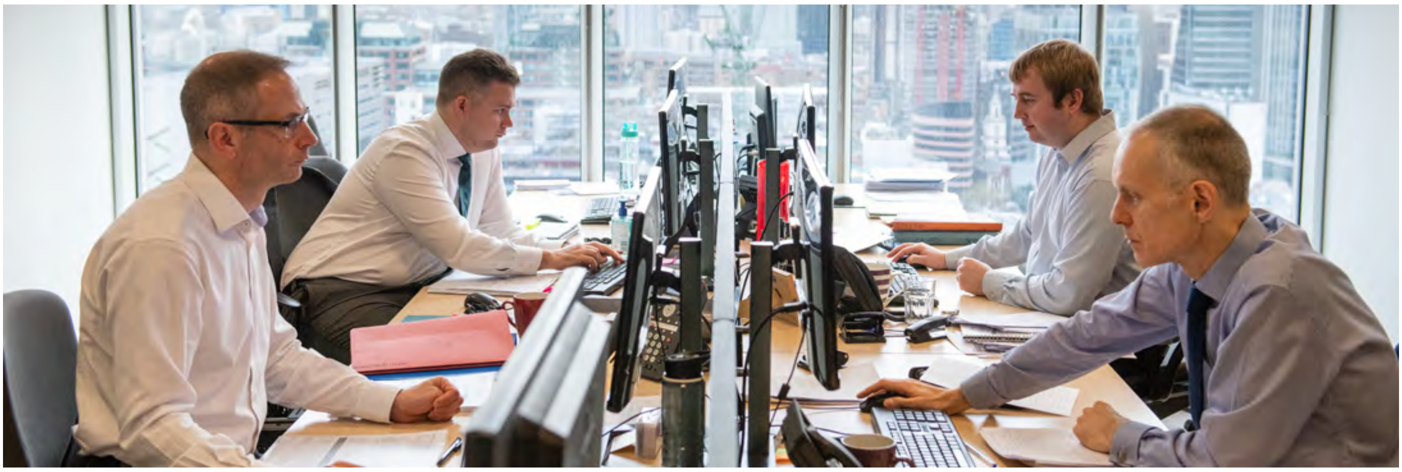
We place a great deal of faith in our employees and how they help drive the success of our business through their high levels of expertise, passion and strong relationships with our customers, brokers and other external stakeholders. We aim to ensure that all of our employees feel valued and appreciated while working for United Trust Bank. The directors engage with our employees through regular meetings and feedback sessions; through a structured appraisal process; and through annual employee surveys, to help understand which policies employees value and what changes they would like to see implemented within the organisation. The results allow us to analyse what is working well and to identify areas needing improvement to increase commitment to and success of the Company and our customers and brokers. A particular area we have continued to focus on this year is training and development programmes for staff, to ensure we invest in and retain high calibre employees by developing, supporting and motivating them to perform at their full potential.

Customers

Customers remain at the heart of our business. We have a customer focused strategy and mission, which is shown through our continuous interaction with customers via regular meetings and customer feedback programmes which take place throughout the year. These programmes allow us to have a deep understanding of our customer's needs and values and provide the opportunity for us to act upon the feedback they have given. This year we have continued to focus on providing fast and flexible solutions for our customers and adapting to their needs by investing in technology and our people. Some examples include online banking portals and app based identity verification within our Mortgage division.

Brokers

We recognise that the intermediaries we operate with are crucial to the success of the business and therefore we understand the importance of maintaining strong lines of communication with our brokers and other suppliers. Staff engage with and visit our brokers regularly throughout the year and feedback is continuously communicated to the



directors through monthly departmental review meetings, so that we can support our brokers and their needs, help them understand the products and services offered by the Bank and help them drive growth and success across the business lines. This year we have particularly focused on improving our online broker portals and reorganising our business development teams to enhance the broker relationships.

Regulators

It is within the Bank's culture to promote high standards of conduct within the Bank and with all external parties. In particular, as directors of a regulated bank, holding customer deposits, safety, soundness and adherence to all relevant aspects of regulation is key to the Bank's business model. We and relevant staff maintain awareness of this through engagement with regulators, industry bodies and specialist advisors. This engagement is maintained through regulatory seminars, online forums and round table events. This has allowed us to stay on top of the increasing regulatory requirements and ensure we operate to the standard required.

Key decisions

Our strategy is focused on the long term, to operate and grow sustainable business in segments of the market that are under served by the large banks. The Bank is privately owned and not subject to the distractions of short term share price fluctuations of the public markets. We make careful decisions to maintain strategic focus, control costs, invest and ensure sufficient capital and liquidity is held. All of the decisions we make consider the regulatory context and the full range of stakeholders mentioned previously.

Technology investment

The decision to invest significantly in technology in the year was driven by our desire to optimise our customer and staff experience. An example is the launch of the online banking portal for our savings customers, which provides them with the ability to manage their accounts online, increasing speed and ease of interaction. Investment in technology also enables staff to work more efficiently and with better controls, using system automation to reduce and streamline manual work, allowing time for more value adding activities, faster responses to customers and increasing staff motivation.

Capital allocation

In the year we raised £20m of Tier 2 debt, which allowed refinancing of £11.6m of existing Tier 2 debt at a lower rate of interest. This decision also facilitated the payment of a £10m dividend to the Bank's 100% shareholder, UTB Partners Limited. The £10m dividend helped rebalance the Bank's capital base and was used for the establishment of the Employee Benefit Trust, to help recognise and reward employees within the Bank and to provide some liquidity to shareholders.

Climate change impact plan

We acknowledge the importance of considering the potential impact of climate change on our business model and also the Bank's impact on the environment. This drove our decision to develop a Climate Change Impact plan which considers the effects on the Bank's business model from a financial and environmental perspective.

Director appointments

We are conscious that culture is filtered down from the top of an organisation and we recognise the importance of diversity across the Board and the organisation as a whole. Board composition has always been an important focus and motivated our decision to appoint two new Board members in the year, ensuring the Board continues to have a varied and balanced skill set which will support the growth and success of the company for all stakeholders.

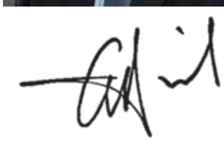
Summary

While the new government's majority in Parliament reduces the uncertainty in the political and economic sense, the global economic climate remains unsettled and the departure of the UK from the EU does bring additional risks. Nonetheless, the Bank begins 2020 highly profitable, well capitalised and liquid, with a team experienced in all stages of the economic cycle. We operate in large markets where there is scope to grow and are currently writing record levels of new business.

Looking ahead, the Bank will continue to develop each of its business lines, whilst maintaining credit risk appetite, and projects further growth. We judge that significant market share growth can be achieved in our existing product sets so do not envisage targeting major new products. We expect margin pressure to continue in a number of the sectors in which the Bank operates and have planned accordingly. In 2019 we increased our focus and investment in innovation to enhance the customer, broker and employee experience and improve efficiency and control, and this will continue to be a priority in the future.

The Board and Management team are grateful for the ongoing support of our customers and brokers and for the contribution of all our staff, across all departments, towards achieving these results. The diverse talent that the Bank's staff bring to work and deploy with focus and passion as a team makes it an exciting and fun place to work and a privilege to be part of.

We look forward with confidence to the years ahead.



Graham Davin
Chief Executive Officer
25 February 2020

We continue to maintain a robust and effective Corporate Governance and Risk Management Framework, to support the Bank's strategy and success for its stakeholders.

CORPORATE GOVERNANCE REPORT

Regular training is provided to members of the Board to ensure they are kept up to date with any changes to the regulatory environment within which the Bank operates.

United Trust Bank Limited is an unlisted company and therefore the UK Corporate Governance Code (2018) does not apply. The Board has sought to comply with a number of the provisions of the UK Corporate Governance Code in so far as it considers them to be appropriate to a company of the Bank's size and nature.

The Board

The Board of Directors comprises the non-executive chairman, five non-executive directors and four executive directors, as listed on pages 19 and 20. The Board is chaired by Richard Murley who is responsible for its effectiveness. The size and composition of the Board is kept under review to ensure an appropriate balance of skills and experience is maintained.

The Board meets at least six times during a year, based on a defined timetable, and additionally when required. The Board is responsible for establishing and monitoring the Bank's strategy and risk appetite and approving related policy statements. These policy statements establish the Bank's overall appetite for risk and set out the control environment within which it operates. Implementation of the strategy and these policies is the responsibility of the Bank's Management Committee who report to the Board.

The Board has oversight of how management implement the Bank's strategy and retains control through challenge at Board and committee meetings. All members of the Board receive accurate and timely information to enable them to effectively participate in discussions.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Board approves the level of risk that the Bank is willing to accept and is responsible for maintaining a sufficient control environment to manage the key risks. The Board is also responsible for ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives. The Board also maintains close oversight of current and future activities through Board reports which include a combination of financial results, operational reports, budgets, forecasts and reviews of the main risks as documented in the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP") reports.

The performance of the Board is kept under review through an evaluation process. Regular training is also provided to members of the Board to ensure they are kept up to date with any changes to the regulatory environment within which the Bank operates.

Audit Committee

The Audit Committee is chaired by Andrew Herd, a non-executive director, and includes Stephen Lockley, another non-executive director; both are chartered accountants. Sarah Laessig, who recently joined the Board, will join the Audit Committee from 1 March 2020.

The committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via management, that recommendations are implemented and reported to the Board where necessary. Any significant judgements and accounting policies in relation to financial reporting are reviewed and challenged by the committee. The committee assesses Internal Audit resources and confirms that these are sufficient to fulfil their responsibilities.

The committee ensures the financial statements give a true and fair view and provide the reader with sufficient information to assess the Bank's performance. The committee also appraises the performance of the internal audit function and the independence of the external auditors. The committee reviews the appointment of external auditors at intervals of not more than three years and approves the audit fees.

Risk Committee

The Risk Committee is chaired by Stephen Lockley, a non-executive director, and includes Andrew Herd, a non-executive director. Alice Altemaire, also a non-executive director, joined the committee on 1 January 2019 and resigned from the Board and this committee on the 30 June 2019. Alice was obliged to resign as she was appointed as CEO of a competitor bank. Maria Harris, who recently joined the Board, joined the Risk Committee from 1 February 2020.

The Risk Committee is responsible for advising the Board on the Bank's risk management framework. The committee considers the Bank's risk profile relative to current and future strategy and risk appetite and identifies any risk trends, concentrations of exposures and any requirements for policy change. The risk profile of the Bank is reviewed and monitored through a continuous process of identification, evaluation and management of all material risks including any longer term strategic threats to the Bank.

The committee also reviews, challenges and recommends to the Board for approval, the risk appetite, risk measures and risk limits, taking into account the Bank's capital and liquidity adequacy, the Bank's operational capabilities and the external financial environment. It considers, oversees, challenges and advises the Board on the Bank's exposure to all significant risks to the business. It ensures that current and forward looking aspects of risk exposure are considered, especially for risks that could undermine the strategy, reputation or long term viability of the Bank.

The Risk Committee is also responsible for monitoring and reviewing the effectiveness of the Compliance function including its independence, objectivity and resourcing.

Remuneration Committee

The Remuneration Committee is chaired by Michael Lewis, a non-executive director, and includes Richard Murley, the Chairman of the Board. Sarah Laessig, who recently joined the Board, joined the Remuneration Committee from 1 February 2020.

The role of this committee is to consider remuneration policy, regulatory obligations and specifically to approve the remuneration and other terms of service of executive directors and senior managers.

The committee ensures that the remuneration policy is managed in a way which is appropriate to the Bank's size, internal organisation and the nature, scope and complexity of the Bank's activities. This policy provides a framework to attract, retain and motivate employees to achieve the objectives of the Bank within its stated risk appetite and risk management framework. The committee also ensures the remuneration policy is in accordance with the regulatory framework as set out in the Remuneration Code.

The Chairman of the Board and Chief Executive Officer recommends the fees payable to the non-executive directors. The Remuneration Committee approves the annual salary and bonus proposals for executive directors and staff. The committee meets semi-annually and additionally when required.

Management Committee

The Management Committee is chaired by the Chief Executive Officer, Graham Davin, and includes the other executive directors of the Bank, the Chief Risk Officer, the Chief Operating Officer, the director of the Mortgage Division and the Head of Human Resources. The executive directors provide a direct link to the Board. The committee meets monthly to discuss and implement the strategy of the Bank, as approved by the Board, and to oversee the effective monitoring and control mechanisms within the Bank.

The committee considers the major projects of the Bank, its response to market conditions, key personnel and significant events. It does not focus on day-to-day operations which are delegated to other committees and are the responsibility of line managers. It considers all exceptional items and reviews the risk profile, capital, liquidity and performance of the business.

Risk is inherent in all aspects of the Bank's business. The Bank's risk management framework is designed to support business activities within the Board's defined risk appetite. The risk management framework and the governance arrangements are designed to ensure that there is a clear organisational structure with defined lines of responsibility and appropriate processes to identify, manage, monitor and report the risks which the Bank is or may become exposed to. It also ensures that the risks which the Bank is or may become exposed to are appropriately identified and that those which the Bank decides to assume, are managed so that the Bank is not subject to material unexpected loss.

Risk management framework

The Bank's risk management framework incorporates its approach to risk management and covers the risk management strategy, risk appetite, risk culture and risk governance. It details the risk management process and how different elements of the risk framework such as the risk appetite, stress testing, the ICAAP, the ILAAP and recovery planning link to each other.

The risk management framework:

- is the overarching framework under which all risk frameworks, policies, and procedures are developed;
- sets out the standards under which risk is managed and applies to all risks taken and managed by the Bank;
- sets out the roles of the Board as ultimately responsible for the risk and control environment of the Bank, as well as the executive management committee structures, roles and responsibilities with respect to risk management;
- confirms that the Bank follows the three lines of defence model and sets out the role of each line; and
- recognises the importance of having a robust risk aware culture.

Risk management strategy

The purpose of the risk management strategy is to:

- identify key and emerging risks;
- set the Bank's risk appetite and ensure that business plans are consistent with it;
- take risk-informed decisions within the defined risk appetite;
- ensure that the risk appetite and business plans are supported by effective risk controls, technology, and people capabilities;
- monitor and report the level of key risks against the defined risk appetite;
- manage the Bank's risk profile to ensure that the business strategy can withstand a range of adverse conditions identified in stress testing;
- manage risk within the business units with effective independent oversight;
- ensure a sound risk control environment and risk-aware culture; and
- inform the Bank's compensation practices to reward only prudent risk taking within the risk appetite.

Risk appetite statement

The Bank creates value by assuming risk. As part of its annual strategy and budget setting process the Board considers its key objectives and defines how much risk the Bank is willing to assume in relation to its business strategy. The level of risk that the Bank can assume and the strategy are informed by:

- the results of stress tests and scenario analysis that are performed by the finance and risk departments; and
- the Bank's risk capacity.

The Bank's risk appetite aligns with its strategic objectives. The process ensures that its strategic objectives are "risk-informed" and aligned with the risk assumed.

The Board expresses the risk that can be assumed in each risk category as follows:

- a high level risk appetite statement defining the acceptable impact of the risk on the achievement of the Bank's goals and business objectives;
- granular statements detailing the type and level of specific risks that the Bank is willing to accept, tolerate, or avoid in the pursuit of its objectives; and
- risk limits, and tolerances (quantitative or qualitative measures) that relate to individual business activities.

The Bank's Board approved risk appetite is documented in the risk appetite statement which is maintained and updated by the Chief Risk Officer.

The risk appetite statement details monitoring and escalation levels for risk metrics, including capital and liquidity, as follows:

- Appetite Early Warning Level
- Appetite Level
- Recovery Early Warning Level
- Recovery Level

The escalation levels ensure that the Bank can promptly identify a deteriorating position and take corrective action.

The risk appetite statement is reviewed at least annually or whenever there is a material change in the Bank's risk appetite, its activities or the market or economic environment within which it operates.

Management is responsible for proposing and the Board is responsible for reviewing and approving the risk appetite statement.

Business units are responsible for adhering to the risk appetite. The risk appetite statement is communicated to all business units and cascaded to all staff.

Risk culture

The Board requires that a sound risk management culture is embedded throughout the Bank in all business operations so that when business decisions are made they:

- take account of risks (i.e. they are "risk-informed");
- are compliant with approved policies;
- are within the defined risk appetite;
- can be monitored; and
- are reported to the appropriate level for oversight.

The Bank's risk culture can be illustrated through the following:

- a clear "tone from the top" reflecting a strong governance culture and ethics;
- a clear business strategy that is communicated and understood throughout the Bank;
- a risk appetite that is in line with the business strategy and embedded in the day-to-day management of the Bank;
- clear and well understood frameworks and policies;

- clear and risk informed decision making with personal accountability;
- open channels of communication throughout the Bank to freely raise, challenge and address issues;
- appropriate and ongoing training for all employees engaged in taking and controlling risk;
- no tolerance for ethical breaches; and
- effective performance measurement processes to promote prudent risk management, address poor risk management and avoid conflicts of interest.

The above means that all staff contribute to the operation of the framework, and that they are aware of the need for risk management and their part in it. All staff are encouraged to identify, address and report risk incidents promptly.

We translate risk strategy into operational objectives and assign risk management responsibilities throughout the organisation.

We have defined values which are communicated to all staff and form part of the annual staff performance appraisal and remuneration process.

We analyse historical incidents in order to draw conclusions, promote and share good practice and learn lessons from poor practice, "near miss" incidents and actual errors.

We avoid conflicts of interest in reward structures and develop compensation structures that encourage and promote "prudent" risk taking.

We monitor business decisions and processes to ensure that they continue to be compliant with regulatory requirements.

Risk governance

The Board has ultimate responsibility for ensuring that an effective risk management framework is in place. The Board is responsible for a) approving the overall policy in relation to the types and level of risk that the Bank is permitted to assume in the pursuit of its business objectives; and b) maintaining a sufficient control environment to manage its key risks. The Board's Risk and Audit sub-committees monitor the risk management framework, the internal control environment and that risk exposures are within the defined risk appetite.

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the Bank's Risk Committee and the Board and Audit Committee where appropriate.

The Audit Committee is assisted by Internal Audit, which undertakes regular and ad-hoc reviews of risk management controls and procedures.

Committee responsibilities

Details of the Bank's Board and main committees (Audit Committee, Risk Committee, Remuneration Committee and Management Committee) are set out on pages 10 and 11.

Details of the Bank's other senior committees are listed below:

Credit Committee	The Credit Committee is responsible for overseeing all credit decisions, including those sanctioned by delegated authority. It ensures credit risk is mitigated to an acceptable level. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that the credit policy is prudent, taking into account changing market trends. In respect of loans sanctioned by delegated authority, the Bank's credit department provides oversight to ensure such sanctioning complies with the Bank's credit policies and procedures.
Asset & Liability Committee ("ALCO")	ALCO meets monthly and ensures that the Bank adheres to the capital, liquidity and interest rate risk appetites and policies, as approved by the Board. It is also responsible for ensuring that the policies that are implemented are in line with regulatory requirements. The committee is also responsible for the effective management of the Bank's assets and liabilities mix and profile, anticipating the impact of future business activity and management actions.
Compliance Committee	The Compliance Committee is responsible for overseeing compliance with non-prudential regulatory requirements and conduct risk.
Operations Committee	The Operations Committee reviews business performance, operations and key issues. It is a forum for business units to share information.

Three lines of defence

The Bank's risk management framework relies on the "three lines of defence" model. All three lines of defence contribute towards the effective management of risk.

First line of defence

The first line of defence comprises the business units that "own" the risk and are responsible for identifying and managing the risks arising within their areas of responsibility. Business units manage risks by operating within approved policies and implementing and maintaining appropriate and effective systems and controls. Policies are approved by authorised committees in line with their terms of reference and are reviewed at least annually with any material changes requiring approval at committee level.

Business units have their own operational process and procedure manuals that document how they conform to approved policies and controls. Similarly they have their own quality control programmes to monitor and assess their adherence to approved procedures. Employees within business units are considered as the first line of defence and are expected to be aware of and own the risks relating to their activities. Face to face training provided by the second line of defence and online training ensures that first line of defence staff are risk aware at all times. The first line of defence is also responsible for maintaining and updating their own departmental risk registers.

Second line of defence

The second line of defence comprises governance and oversight and includes the credit, compliance and risk committees and departments. The second line of defence is responsible for communicating the risk strategy, risk framework and defined risk appetite to the business units, and independently monitors and reviews the activities of the first line of defence against the defined risk appetite. The second line of defence also performs stress testing to assess the Bank's risk exposures and their potential impact under a range of adverse scenarios. The second line of defence prepares reports and analyses the risks faced by the Bank for each key risk. The main functions of the second line of defence are in relation to financial, capital, credit, liquidity, interest rate, operational, conduct and compliance risk. The Head of Compliance, the Head of Risk and the Head of Credit report to the Chief Risk Officer who reports to the Chief Executive Officer and the Chairman of the Risk Committee.

The second line of defence does not have volume or sales targets, which are specifically excluded from their objectives. The second line of defence develops assurance programmes to review the results of the first line's quality control programmes and also adherence to and effectiveness of policies and controls. Proposals to the Board and the Risk Committee are reviewed and commented on by the second line of defence.

The second line of defence promotes a close working relationship with the first line of defence based on mutual trust, and the ability to support and challenge. The risk function works proactively with business units to identify, challenge, measure, manage, monitor and report the risks arising within the business.

This is achieved by:

- analysing portfolio characteristics, loss drivers, assumptions and internal and external factors to determine the impact and likelihood of potential risks;
- performing scenario analysis to determine best and worst case outcomes, challenging assumptions, considering the interrelationships between risks and changes in expectations; and
- examining events, potential weaknesses in systems, processes and governance arrangements and proposing early warning signals, trigger levels and controls.

Third line of defence

The third line of defence comprises Internal Audit, who provide independent assurance, and are overseen by the Audit Committee. The Head of Internal Audit reports directly to the non-executive Chair of the Audit Committee and administratively to the Chief Executive Officer, and is independent of the first and second lines of defence. The third line sets its own programme of work and has access to the activities of both the first and second lines. It can review adherence to policy and controls in the first line, the monitoring of activity in the second line, and the setting of policy and controls in the second line.

The third line of defence's scope and programme of work is agreed with the Audit Committee to provide an independent assessment of the internal control framework of the Bank.

Stress testing

The Board takes a forward-looking view of strategic, capital and liquidity planning as part of the ICAAP and ILAAP processes. One of the approaches used to facilitate this forward looking perspective in risk management is sensitivity analysis, scenario analysis and reverse stress testing.

Stress testing and scenario analysis are forward-looking risk management techniques used to evaluate the potential effects on the Bank's financial resources, following a specific event and/or movement in a set of risk drivers. They focus on low probability but plausible events that may have actually happened in the past.

Stress testing and scenario analysis is used to understand potential vulnerabilities to exceptional events and potential actions that could be taken to mitigate against the effects of those events. Stress scenarios cover a range of drivers that can create extraordinary losses in banking book positions that may arise as a result of a market event, a credit event or any other risk such as concentration or operational risk. These drivers include low-probability high-impact events in all major risk categories.

Stress testing and scenario analysis help identify and analyse the impact of risks on the Bank's financial resources, and provide context when reviewing and setting risk appetite.

The Bank's stress testing policy includes:

- sensitivity analysis of specific risk drivers;
- scenario analysis which refers to varying a range of parameters at the same time; and
- reverse stress testing which identifies the conditions and severity of a stress event that would result in the Bank's business model becoming unviable or would result in the Bank reaching the point of failure.

Stress testing is used as part of:

- ICAAP to assess the adequacy of the Bank's capital;
- ILAAP to assess the adequacy of the Bank's liquidity reserves;
- Recovery Planning to assess the effectiveness and adequacy of recovery options; and
- to support strategic decision making.

The Bank's stress testing policy is reviewed and approved by the Board annually or more frequently if required. The Board considers and approves the stress testing parameters used in the ICAAP, ILAAP and in recovery planning.

Key risk categories

Key risk categories are determined by reviewing the risk register and identifying the risks that could threaten the achievement of the Bank's strategic objectives, its business model or financial performance. For each key risk category a risk appetite is defined and the Bank's exposure to this risk category is managed and reported against the defined risk appetite.

In the table below, we present a summary of the key risks together with their mitigation and a status update for 2019.

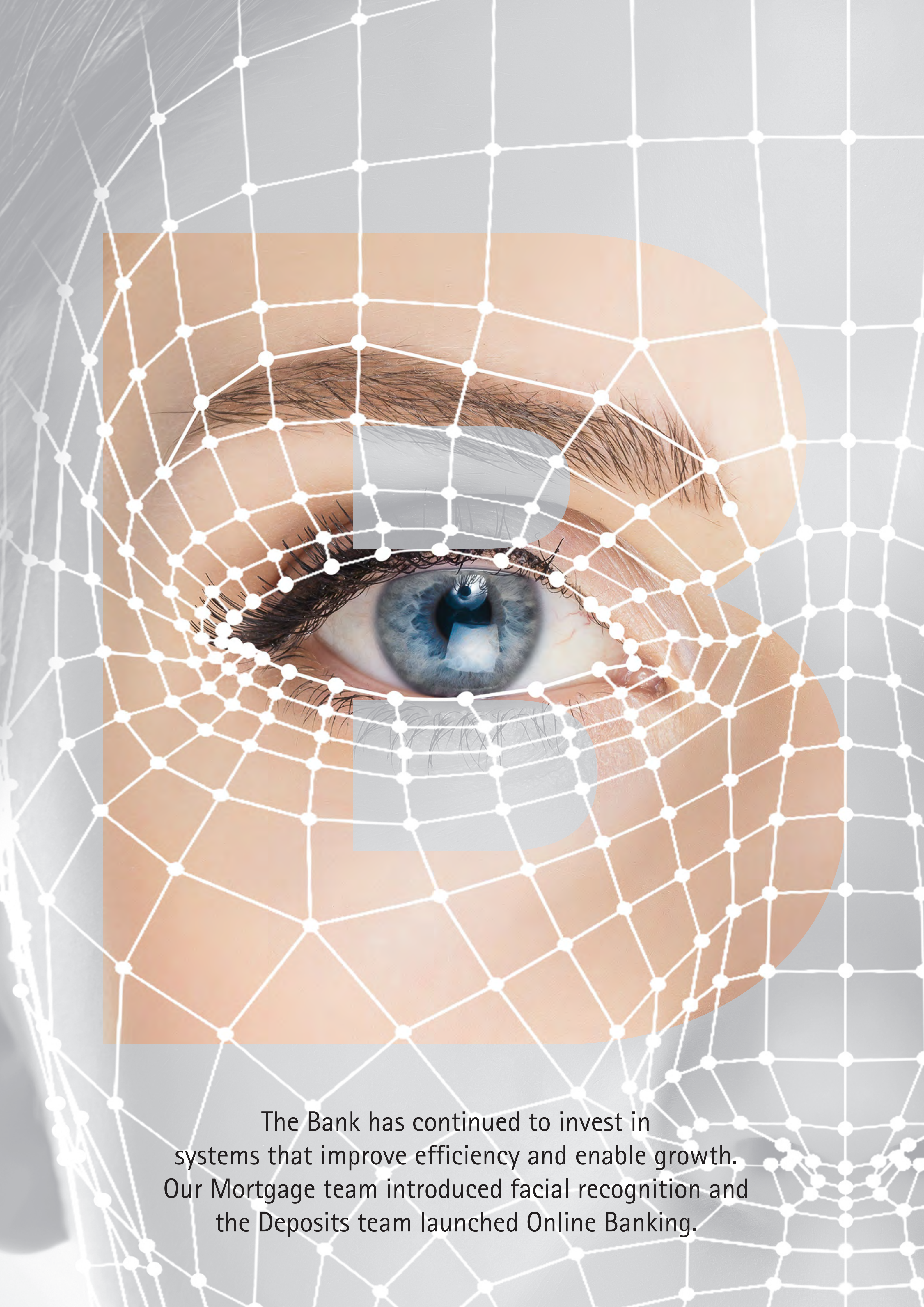
Risk category	Mitigation	Status update
Business performance and strategic risk The risk arising from business decisions and improper implementation of decisions.	• Well established planning, budgeting and stress testing processes • Regular reporting of performance against budget • Monitoring of economic metrics, developments, industries and economic outlook • Annual review and update of business plan • Regular assessment of risks inherent in strategic decisions	**Stable** The Bank continues to achieve its business objectives.
Capital risk The risk of having insufficient capital to meet regulatory requirements and to support the Bank's growth plans.	• The Bank maintains a prudent capital base and has a consistent record of profitability • Regular stress testing and forward looking management of capital requirements • Annual assessment of capital adequacy through the ICAAP process • Maintenance of prudent levels of capital buffers • Active monitoring of changing regulatory requirements	**Stable** The Bank continues to maintain a prudent level and mix of capital resources.
Liquidity and funding risk The risk of the Bank being unable to meet its obligations as they fall due or do so only at excessive cost.	• The Bank is funded through the stable retail deposit market with most deposits covered by the Financial Services Compensation Scheme • Regular liquidity stress testing performed and forward looking management of liquidity requirements • Annual assessment of liquidity adequacy through the ILAAP process • Maintenance of prudent levels of liquidity • Established policies and detailed limits to manage liquidity risks • Diverse funding profile • Limited wholesale funding (FLS and capital instruments) • Access to the Discount Window Facility	**Stable** The Bank continues to maintain a stable funding base and prudent levels of liquidity.
Credit risk (including concentration risk to groups of borrowers, industry sectors or geographic regions) The risk of financial loss from borrowers who are unable or unwilling to meet their financial obligations to the Bank.	• The Bank operates in markets where it has a good understanding and significant expertise • Established policies and procedures that are regularly reviewed and updated • Diversified and fully secured exposures • Well defined risk-based delegated underwriting authorities • Verified borrower credit worthiness and track record • Regular review of portfolio performance and risk appetite • Forward looking assessment of market dynamics • Conservative lending criteria expressed through credit risk rating scores • Established detailed limits to manage exposures including concentration risks	**Stable** The Bank's markets have continued to perform, although sentiment was affected by political and macro-economic factors which contributed to a slower housing market, however this is expected to recover in the new year. Our key credit metric, tail risk, has improved in the year.
Interest rate risk The risk of loss arising from interest rate changes and the use of different reference rates for pricing assets and liabilities.	• Regular ALCO meetings to review the structure of the balance sheet and the results of interest rate stress testing • Management of interest rate risk through careful management of the repricing profile of assets and liabilities • Management of basis risk through the management of the structure of the balance sheet	**Stable** The Bank's exposure to interest rate changes has remained stable and is positioned to benefit from potential interest rate movements.
Operational risk The risk of loss arising from inadequate or failed processes, people and systems or from external events.	• Established policies and procedures that are regularly reviewed and updated • Experienced staff employed • Formal and on the job training provided • Ongoing Risk and Control Self-Assessment process to ensure that risks are identified and managed effectively • Independent assurance testing • Regular risk incident reporting • Specialist cyber risk tools deployed across the Bank • Phishing and cyber training provided to all staff • New governance risk and control system deployed across the Bank • Established and regularly tested Disaster Recovery and Business Continuity Plan arrangements	**Stable** While the Bank continues to increase the scale of its operations and to rely on a small number of third party service providers, operational risk has remained well-controlled with no material change in incidents reported. The Bank continues to be vigilant and closely monitor threats of cybercrime. Overall, operational risk is considered to be stable.

Risk category	Mitigation	Status update
Compliance risk The risk of financial loss, regulatory sanctions, or loss of reputation as a result of failure to comply with applicable laws and regulations and standards of good practice.	• Regular monitoring of risks by the Compliance Committee • Effective horizon scanning process to identify regulatory change • Straight forward and uncomplicated products • Regular monitoring of customer outcomes through assurance testing and compliance reviews • Regular culture and conduct risk reporting • Regular staff training provided • Established processes for anti-money laundering, sanctions and fraud checking at relationship inception and in-life • Established Data Protection Framework	**Stable** The Bank continues to offer straightforward and uncomplicated products and to conduct regular monitoring of customer outcomes. Staff awareness training is regularly updated in areas such as anti-money laundering, data protection and conduct. As such, compliance risk is assessed as stable.

Emerging risks

Emerging risks refer to those forward-looking risks whose impact and/or likelihood cannot be readily quantified and which have not yet crystallised. Our key emerging risks are:

Risk category	Mitigation	Status update
Brexit	Until the final UK-EU terms of departure and form of trade agreement has been settled, uncertainty will be significant and may result in reduced economic activity, reduced investment, reduced consumer spending and a slow-down in the property market. As the Bank only operates in the UK, the potential impact is likely to be through second order effects on the UK economy	We closely monitor negotiations and the potential impact on the business. The Bank only operates in Sterling within the UK but is exposed to second order effects of Brexit on the UK economy. We assess the potential impact through stress testing.
Cyber attack	Cyber incidents continue to be reported across all industries. A cyber-attack on the Bank would be likely to attract bad publicity and cause reputational damage and potentially a regulatory fine	We have strengthened the Bank's cyber defences, deployed cyber risk tools and trained our staff to minimise the likelihood of a cyber incident. We are improving our operational resilience.
Geo-political crisis	Negative political and economic developments across the globe (e.g. increased tension between China and the US and in the middle east) could indirectly have an adverse impact on the UK economy. The Bank is potentially affected indirectly via the influence on trade, inflation and consumer demand	We monitor global economic developments and ensure that we are properly funded and capitalised to withstand potential adverse impacts. We have performed various stress scenarios and understand how the Bank performs under stress and have developed metrics to promptly identify changes in the economic environment.
Climate change	Climate change risks include the financial, operational and reputational risks arising as society moves towards a carbon neutral and zero carbon model and the risks of potential losses due to climate and weather related events	The Bank is in the process of developing and integrating climate change risk considerations into its main risk management framework. Activities include: identifying and assessing physical and transition risks, educating the Board and staff, setting risk tolerances and reporting through management information. The Bank expects to further enhance its Governance, Strategy and Risk Management in respect of climate change risk over the coming years, as the risk and understanding of it evolve.



The Bank has continued to invest in systems that improve efficiency and enable growth. Our Mortgage team introduced facial recognition and the Deposits team launched Online Banking.

DIRECTORS' REPORT

The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 December 2019.

Principal activities

The Bank's primary activity is the provision of credit on a secured basis in niche markets within the United Kingdom. The Bank provides short to medium-term property loans for both the development of residential dwellings and the bridging of and investment in completed properties and property portfolios, as well as regulated mortgage products. The Bank finances plant, machinery and wheeled assets to small and medium sized enterprises ("SMEs") and motor finance to retail customers. All of the lending activities are funded by the Bank's capital base and a range of fixed and notice period deposit products offered to individuals and SMEs.

Directors

In the year Alice Altemaire and Tracy Blackwell resigned from the Board on the 30 June 2019 and 23 December 2019 respectively. Maria Harris and Sarah Laessig were appointed to the Board on the 26 September 2019. A full list of the directors can be found on pages 19 and 20.

Dividend

In the year a dividend of £10 million was paid to the Bank's parent, UTB Partners Limited. No dividend has been declared or paid since year end and up to the date of signing.

Auditor and directors' confirmation

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

- So far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- The director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish the Company's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006. Pursuant to Section 386 of the Companies Act 1985, an elective resolution was passed on 25 March 2004 dispensing with the requirement to appoint auditors annually. This election was in force immediately before 1 October 2007. Accordingly, Deloitte LLP are deemed to continue as auditor.

Going concern

The directors have, as is appropriate, adopted the going concern basis in preparing the financial statements. Further details regarding the going concern basis can be found in the accounting policies in the notes to the financial statements.

Directors' indemnities

The Articles permit the Bank, subject to the provisions of UK legislation, to indemnify to any extent any person who is or was a director, or a director of an associated company, against any loss or liability, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust, in relation to the Bank or any associated company.

The Bank maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its directors.

Future developments

Likely future developments have been covered in the Strategic Report on page 4 to 8.

Financial risk management

The disclosures required to be included in the Directors' Report in respect of the Company's exposure to financial risk and its financial risk management policies are given in note 26 to the accounts.

The Bank's Pillar 3 disclosures and Modern Slavery Act statement are available on the Bank's website at www.utbank.co.uk.

Events after the date of the Statement of Financial Position

There have been no significant events after the date of the Statement of Financial Position.

Approved by the Board and signed on its behalf by:

Graham Davin
Chief Executive Officer
25 February 2020

BOARD OF DIRECTORS AND COMMITTEE MEMBERSHIP

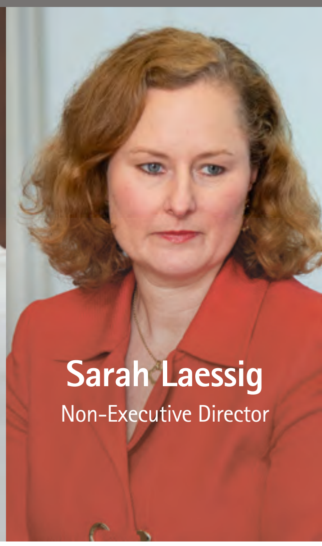
Richard Murley studied law at Oxford University and began his career at Linklaters & Paines before moving into investment banking with Kleinwort Benson and Goldman Sachs. Following a two-year secondment as Director General of The Takeover Panel, he joined NM Rothschild & Son where he is an Executive Vice Chairman. Richard is the Chair of Macmillan Cancer Support and a trustee of the Epilepsy Society and the Royal Society for Medicine, and is a member of the Medical Research Council and The Takeover Panel.

Graham Davin is the principal stakeholder of United Trust Bank. He began his career at Arthur Andersen and was previously Chief Financial Officer and Head of Corporate Finance of Investec Bank and a main board director of Investec for 16 years. He was a founding partner of the Insinger de Beaufort Group and a director of its listed parent and its Dutch bank. He is a non-executive director of The Foschini Group, a listed multi-brand retailing group.

Harley Kagan is the Group Managing Director of United Trust Bank, and a chartered accountant. He was previously the Finance Director of United Trust Bank and the UK Operations of Insinger de Beaufort. He has worked extensively in banking and corporate finance, concentrating on acquisitions and disposals, and as a strategy consultant with Cap Gemini.

Jonathan Ayres is the Chief Financial Officer of United Trust Bank, a position he previously held at C. Hoare & Co. and Ecofin. He qualified as a chartered accountant with Price Waterhouse where he specialised in banks and fund managers before becoming an equity analyst at Goldman Sachs. He studied Computer Science at Cambridge University. He is the Chair of UK Finance's Specialist Banks Working Group.

Noel Meredith is a career banker. He joined Midland Bank after graduating from Cambridge University. He was previously at County Bank and Svenska Handelsbanken and has been at United Trust Bank for 20 years. He has extensive experience in corporate and property lending and heads the Development Finance team.



Maria Harris is the former Director of Intermediary Lending at Atom Bank and is now a consultant specialising in fintech and digital transformation in the financial services sector. Maria is a well-known and highly respected figure in the mortgage industry and was responsible for creating and launching Atom Bank's disruptive and award-winning retail mortgages proposition and instrumental in growing the loan book. She is a Chartered Fellow with the Chartered Management Institute and holds supporting roles with a number of charitable enterprises in the North East.

Andrew Herd is the Managing Director of Lancashire Court Capital Limited, a London-based investment and consultancy business and of VGC Developments Limited a UK leisure and gaming operator. He is a Non-Executive Director of Nexus Group Holdings Limited. He is a chartered accountant and worked as a merchant banker for many years. He was Managing Director and Head of Financial Institutions at SG Hambros and held senior roles with Paribas Capital Markets and Morgan Grenfell.

C

Sarah Laessig is an experienced financial services senior executive and non-executive director. She had a 17 year executive career at Citigroup, managing businesses across developed and developing markets. Sarah is a NED on the boards of Local Pensions Partnership and Valoot Technologies and is a Director of Citigroup (UK) Pension Trustees. Sarah is also a Commissioner on the Civil Service Commission, an independent regulator that oversees appointments to the Civil Service. Sarah holds an MBA from the Wharton School of the University of Pennsylvania and a Financial Times Non-Executive Director Diploma.

Michael Lewis has been involved in investment management since 1983, having worked at Ivory & Sime and Lombard Odier. He is Chairman of Strandbags Holdings Pty Limited, The Foschini Group Limited and Oceana Investment Corporation Limited (UK). He is also a Director of Lefic SARL.

C

Stephen Lockley is Chief Administrative & Finance Officer of the international development organisation World Vision International. He is a chartered accountant with many years of experience in financial services and investment banking. During his career, Stephen has been the Group Finance Director of Arbuthnot Banking Group PLC, CEO of Arbuthnot Latham Private Bankers, CFO of VisionFund International, a director at Charterhouse Bank and a Non-Executive Director of an investment fund and an insurance company.

C

AUDIT COMMITTEE   RISK COMMITTEE   MANAGEMENT COMMITTEE   REMUNERATION COMMITTEE   C CHAIR

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

Report on the audit of the financial statements

In our opinion the financial statements of United Trust Bank Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: Individual loan impairment and provisioning.
Materiality	The materiality that we used in the current year was £2.0m, which was determined on the basis of profit before tax.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes to our audit approach compared to the prior year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

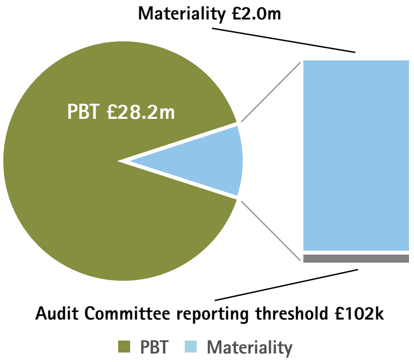
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Loan impairment and provisioning	
Key audit matter description	The Company has a significant loan portfolio to customers of £1,243m (2018: £1,035m). There is a risk arising from the possibility that the company will incur losses from the failure of customers to meet their obligations. Individual loan impairment and provisioning is one of the most significant estimates made by the company's directors and management in preparing financial statements. Refer to the summary of significant accounting policies in relation to the impairment of assets on page 30, judgements in applying accounting policies and critical accounting estimates on page 30 and provision for impairment losses on loans and advances note 10 on page 35. The significant judgements include whether an impairment is required or not, and the level of provision required for loans that are considered to be impaired. These are considered on a case-by-case basis, and therefore, there is an inherent degree of subjectivity, and a corresponding increased risk of material misstatement. The Audit Committee reviews significant judgements in relation to financial reporting. We pinpointed our key audit matter on the valuation and completeness of individual provisions in relation to certain Property Development and Structured Finance loans, specifically: loans that are impaired; loans for which management have identified an impairment trigger; or loans that are on management's "watch list". The valuation of impairment in these loan categories is more susceptible to misstatement, whether due to fraud or error. The increased risk arises from complexities in the nature of the loan facilities and reliance on valuation of collateral, and the fact that these loans tend to be individually larger in value than in other categories. The total provision balance as at 31 December 2019 was £6.5m (2018: £5.4m), of which £5.4m (2018: £4.5m) related to individual impairments. These are disclosed in note 10 of the accompanying financial statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of the relevant controls over the individual loan impairment process. • We reviewed the Company's loan impairment and provisioning policy to assess whether it was in compliance with the requirements of Financial Reporting Standard 102. • For Property Development and Structured Finance, we tested all loans that were impaired, all loans for which management have identified an impairment trigger and all loans that were on management's "watch list". These were reviewed on a case by case basis to assess the reasonableness of management's assumptions, including an assessment of underlying security valuations where relevant and challenging other evidence supporting the forecast recoverability. • We selected a sample of loans and we involved our Deloitte Real Estate specialists to examine the Director's valuations of specific properties which are secured as collateral and to determine whether the valuation was within a reasonable range based on latest market information. • We selected a sample of loans across the loan portfolio where no impairment indicators had been identified by management to assess whether they were appropriately accounted for. • We also considered the impact of Brexit on the estimation uncertainty inherent in individual loan impairment.
Key observations	We consider management's judgements in relation to the individual impairment provision of £5.4m as at 31 December 2019 to be appropriate.

Materiality	£2.0m (2018: £2.2m)
Basis for determining materiality	Materiality has been determined on the basis of 7% of profit before tax (2018 : 7% of profit before tax).
Rationale for the benchmark applied	The Company is wholly owned by UTB Partners Limited, which holds its shares in United Trust Bank Limited with a view to realising returns on its investment. The Company is profit generating and as such profit before tax is a key benchmark for assessing the company's performance.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2019 audit.

In determining performance materiality we considered factors including our assessment of the company's overall control environment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £102k (2018: £110k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team

Our risk assessment included considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This includes risks identified by us, by management and by internal audit, and those driven by changes in the business environment and new or complex accounting requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with provisions of laws and regulations, our procedures included the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board on 25 February 2020;
- results of our enquiries of management, internal audit, compliance department, risk committee and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT and Deloitte Real Estate regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, the Prudential Regulation Authority Rulebook and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's capital, liquidity and conduct requirements.

Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 2001 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 2001 to 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Ben Jackson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25 February 2020

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	Restated 2018 £'000
Interest receivable and similar income	2	87,350	80,550
Interest payable and similar charges		(22,458)	(19,377)
Net interest income		64,892	61,173
Other income		(26)	47
Operating income		64,866	61,220
Administrative expenses	3	(31,513)	(26,355)
Depreciation and amortisation	5	(620)	(511)
Provision for impairment losses	10	(4,484)	(2,919)
Operating profit on ordinary activities before tax		28,249	31,435
Tax charge for the year	6	(5,271)	(5,889)
Profit after tax retained for the financial year		22,978	25,546

The above results are derived wholly from continuing operations. The notes on pages 29 to 43 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	Restated 2018 £'000
Profit for the financial year		22,978	25,546
Other comprehensive income		-	-
Total comprehensive income		22,978	25,546

The prior year results have been restated to move coupons paid on the contingent convertible securities of £1,858k from the Statement of Comprehensive Income to the Statement of Changes in Equity, as they are classified as equity, and to move the related tax credit of £376k to the Income Statement, in line with changes to FRS 102. This restatement has no impact on the Statement of Financial Position but increases 2018 profit after tax from £25,170k to £25,546k. As a result of this restatement, there are no recognised gains or losses for the current or preceding financial year other than those presented in the Income Statement.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Assets			
Loans and advances to banks	8	**149,554**	138,436
Loans and advances to customers	9	**1,242,622**	1,034,963
Tangible fixed assets	12	**776**	774
Intangible assets	13	**2,681**	2,200
Other assets	14	**10,984**	10,048
Total assets		**1,406,617**	1,186,421
Liabilities			
Deposits from customers	15	**1,217,024**	1,017,370
Loans from group companies	16	**261**	34
Other liabilities	17	**11,571**	10,817
Long-term subordinated debt	19	**26,787**	18,347
Total Liabilities		**1,255,643**	1,046,568
Capital and reserves			
Share capital	20	**10,350**	10,350
Share premium		**25,680**	25,680
Contingent convertible securities	21	**16,851**	16,851
Retained earnings		**98,093**	86,972
Total capital and reserves		**150,974**	139,853
Total equity and liabilities		**1,406,617**	1,186,421
Memorandum items			
Guarantees and assets pledged as security		**15**	33
Commitments	22	**383,678**	281,446

The notes on pages 29 to 43 form an integral part of these financial statements.

The financial statements of United Trust Bank Limited were approved by the Board of Directors and authorised for issue on 25 February 2020. They were signed on its behalf by:

Harley Kagan
Group Managing Director
25 February 2020

Jonathan Ayres
Chief Financial Officer
25 February 2020

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £'000	Share premium £'000	Contingent convertible securities £'000	Retained earnings £'000	Total £'000
At 31 December 2017	**9,850**	**16,330**	**16,851**	**63,284**	**106,315**
Profit for the financial year	–	–	–	25,546	25,546
Issue of share capital	500	9,500	–	–	10,000
Expenses of capital issue	–	(150)	–	–	(150)
Coupon paid on contingent convertible securities	–	–	–	(1,858)	(1,858)
At 31 December 2018 (Restated)	**10,350**	**25,680**	**16,851**	**86,972**	**139,853**
Profit for the financial year	–	–	–	22,978	22,978
Dividend paid	–	–	–	(10,000)	(10,000)
Coupon paid on contingent convertible securities	–	–	–	(1,857)	(1,857)
At 31 December 2019	**10,350**	**25,680**	**16,851**	**98,093**	**150,974**

The prior year has been restated to move coupons paid on contingent convertible securities of £1,858k from Other Comprehensive Income to Retained Earnings in the Statement of Changes in Equity, as they are classified as equity. There is no impact on total Retained Earnings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding years.

a. General information and basis of accounting

United Trust Bank Limited ("the Bank" or "the Company") is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 44. The nature of the Bank's operations and principal activities are set out in the Strategic Report on pages 4 to 8 and Directors Report on page 18.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with:

- Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council; and
- the provisions of Statutory Instrument No 410 "Large and Medium sized companies and groups" – schedule 2 part 1, relating to banking groups.

The functional currency of the Bank is Pounds Sterling, as that is the currency of the primary economic environment in which the Bank operates and the currency of the transactions the Bank undertakes.

The Bank meets the definition of a Qualifying Entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it. Exemptions have been taken in relation to the presentation of a cash flow statement, remuneration of key management personnel and outstanding share capital.

b. Going concern

The Bank's business activities, together with the factors likely to affect its future development and performance are set out in the Strategic Report. The Bank currently has considerable liquid financial resources with approximately 11% of total assets in cash or cash equivalents. The directors continue to keep the Bank's loan book under review and take action where necessary to recover debts. The directors believe that the Bank is well placed to manage risks set out in the Strategic Report and the Risk Management Report.

After considering the review of the Bank's operations included in the Strategic Report and having made suitable enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus the Bank continues to adopt the going concern basis of accounting in preparing the annual financial statements.

c. Income recognition

Interest income and interest expense for all interest bearing financial instruments are recognised in the income statement using the Effective Interest Rate ("EIR") method. The EIR is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

The EIR calculation includes all fees paid or received between parties to a contract that are an integral part of the interest rate, and are shown as interest income.

d. Taxation

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

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

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

Deferred tax is recognised on all timing differences at the reporting date. Deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or future taxable profits.

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

e. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer and office equipment
- between 10% and 33% per annum

Leasehold improvements
- over the remaining life of the lease

Motor vehicles
- 20% per annum

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

f. Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Company and will generate future economic benefits.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is generally 10 years. Intangible assets are reviewed for impairment on an annual basis.

g. Leases: the Bank as lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

h. Financial instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

(i) Financial assets and liabilities

All of the Bank's financial assets and liabilities are initially measured at transaction value (including transaction costs).

Financial assets and liabilities are only offset in the statement of financial position when there exists a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when: a) the contractual rights to the cash flows from the financial asset expire or are settled; b) the Bank transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or c) the Bank, despite having retained some, but not all, of the significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the contractual obligations are discharged, cancelled or expire.

(ii) Equity instruments

Equity instruments issued by the Bank are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Financial instruments that include no contractual obligation to deliver cash or another financial asset are classified as equity.

The Bank's contingent convertible securities are perpetual and were issued with terms that include discretion over the payment of interest, and have therefore been included as equity.

(iii) Participation in the Bank of England's Funding for Lending Scheme

The Company is a participant in the Bank of England's Funding for Lending Scheme. This scheme allows participants to borrow treasury bills from the Bank of England against collateral, in the form of certain eligible loans and advances, which is placed with the Bank of England. The treasury bills received under the scheme can subsequently be used by the Bank to raise liquidity and they may be sold by the Bank or placed under a sale and repurchase agreement.

In the former case, when only treasury bills have been borrowed, the transactions are accounted for off balance sheet, since the Bank retains substantially all of the risks and rewards of ownership of the loans pledged as collateral and, similarly, the Bank of England retains the risks and rewards of the borrowed treasury bills.

Should the treasury bills be the subject of a sale and repurchase agreement, the cash received and liability to the counterparty under the agreement will be recorded on the balance sheet.

i. Impairment of assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash receipts, discounted at the asset's original effective interest rate.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

j. Pension costs and other post-retirement benefits

The Bank operates defined contribution retirement benefit schemes for all qualifying employees. The amount charged to the profit and loss account in respect of pension costs is the value of contributions payable during the year. Differences between contributions payable during the year and contributions actually paid are included within accruals or prepayments in the balance sheet.

k. Share-based payments

The Bank's parent company, UTB Partners Limited, issues equity-settled share options to certain directors and employees of the Bank. Equity-settled share option payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of any options granted is assessed based on the net asset value of the Bank's parent company and the option price, and is compared to the Black Scholes pricing model.

The expected life used in the model is based on management's best estimate, which considers non-transferability, exercise restrictions and behavioural factors. The volatility measure is also based on management's best estimate, as the shares are unlisted and there is no trading.

l. Capital and subordinated debt raising expenses

Qualifying costs attributable to the issuance of capital, contingent convertible securities and subordinated debt are netted against issue proceeds. They include any incremental costs that are directly attributable to issuing the instruments, such as advisory and underwriting fees.

m. Judgements in applying accounting policies and critical accounting estimates

In the application of the Bank's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

Estimates

(i) Loan book impairments:

Specific provision assessments for individually significant loans involve estimation in relation to the future cash flow timings, future sale proceeds, expected costs associated with sales and any rental income to be received. In particular, given the uncertainty around Brexit, there is a risk that there may be changes to these estimates that could lead to a material adjustment to the individual provision in the next financial year. The individual impairments provision was £4.5m as at 31 December 2018, as disclosed in note 10.

All assets that are not considered for a specific provision are assessed collectively. Collective provisions are calculated using agreed rates based on historic experience. Judgement is exercised in deciding how to apply historic experience to current market conditions and the current profile of the book.

Judgements

(ii) Classification of contingent convertible securities:

The classification of the contingent convertible securities is a judgement made by management. The Bank had £17.2 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities in issue at 31 December 2019 (the "AT1 Securities", see note 21 for further details).

The AT1 Securities are perpetual and have no fixed redemption date. Interest is payable on the AT1 Securities annually in arrears and is non-cumulative. The Company has the full discretion to cancel any interest scheduled to be paid on the AT1 Securities. The AT1 Securities are convertible into Ordinary shares of the Company in the event of the Company's CET1 ratio falling below 7 per cent.

The AT1 Securities (net of the associated issuance costs) have been classified as equity within the statement of financial position. The decision to classify the AT1 Securities as equity required management to consider the individual terms attached to the AT1 Securities, including the conversion clauses. This decision is supported by external legal and professional advice.

2. Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest income	**76,524**	69,212
Fees and commissions received subject to EIR	**14,557**	14,439
Fees and commissions paid subject to EIR	**(3,731)**	(3,101)
	87,350	80,550

"EIR" represents the Effective Interest Rate described in note 1c.

3. Administrative expenses

	2019	2018
	£'000	£'000
Staff costs:		
- wages and salaries	17,654	15,430
- social security costs	2,374	2,047
- other pension costs	1,071	493
Fees payable to the Company's auditor:		
- audit of Company's annual accounts	185	108
- audit of parent company's annual accounts	15	8
Total audit fee	200	116
- audit related assurance services	12	22
- other assurance services	47	30
Total non-audit fee	59	52
Total fees payable to company's auditor	259	168
Other administrative expenses	10,155	8,217
	31,513	26,355

The average number of people employed by the Bank (including executive directors) during the year was 216 (2018: 186). At the end of the year, the Bank employed 221 people (2018: 204). Staff costs include directors' remuneration set out in note 4.

The average number of people employed by the Bank is analysed below:

	2019	2018
	Average No.	Average No.
Lending	151	123
Treasury and central services	65	63
	216	186

4. Directors' remuneration

	2019	2018
	£'000	£'000
The remuneration of the directors was as follows:		
- Emoluments	2,696	2,580
- Fair value of options exercised	817	-
- Company contribution to money purchase pension schemes	14	15

	2019	2018
	No.	No.
The number of directors who:		
Are members of money purchase pension schemes	2	2
Exercised share options	2	-

	2019	2018
	£'000	£'000
The above amounts for remuneration include the following in respect of the highest paid director:		
- Emoluments and incentive schemes	876	813
- Fair value of options exercised	484	-
- Other pension costs	7	6

During the year to 31 December 2019, the Bank's holding company, UTB Partners Limited, did not issue any options over its shares to the directors of the Company (2018: nil).

5. Operating profit on ordinary activities

Operating profit on ordinary activities is stated after charging:

	2019 £'000	2018 £'000
Auditor's remuneration (note 3)	**259**	168
Depreciation and amortisation	**620**	511
Operating leases: property	**1,230**	1,041

6. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2019 £'000	2018 £'000
Current tax on profit on ordinary activities	**5,464**	6,368
Adjustments in respect of prior year:		
- UK corporation tax	**(215)**	(114)
Total current tax	**5,249**	6,254
Deferred tax:		
- Origination and reversal of timing differences	**(26)**	(273)
- Effect of (increase)/decrease in tax rate on opening asset	48	(92)
Total deferred tax for the year (note 14)	**22**	(365)
Total tax on profit on ordinary activities	**5,271**	5,889

Changes to the UK corporation tax rates were substantively enacted as part of Finance Act 2015 (on 26 October 2015) and Finance Act 2016 (on 7 September 2016). These included a reduction in the UK corporation tax rate to 19 per cent with effect from 1 April 2017 and a further reduction to 17 per cent from 1 April 2020.

The UK's Bank Surcharge Levy of 8 per cent applies to taxable profits above £25m, leading to an additional £204k of tax payable in 2019 (2018: £479k).

The standard rate of tax applied to reported profit on ordinary activities for the year is 19.00 per cent (2018: 19.00 per cent). Deferred taxes at the balance sheet date have been measured using enacted tax rates, including the UK's Bank Surcharge Levy, to the extent it is expected to apply.

During the year beginning 1 January 2019, the net decrease in deferred tax assets and liabilities increased the corporation tax charge for the year by £22k (2018: £365k lower corporation tax charge).

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	**28,249**	31,435
Tax charge at 19.00% (2018: 19:00%) thereon:	**5,367**	5,973
Effects of:		
- Expenses and provisions not deductible for tax purposes	**173**	27
- Tax rate changes on deferred tax balances	**102**	(100)
- Bank Surcharge Levy	**204**	479
- Prior year adjustment	**(215)**	(114)
Tax on items recognised in equity	**(360)**	(376)
Total tax charge for the period	**5,271**	5,889

7. Share-based payments

Equity-settled share option schemes

The Bank's parent company has a share option scheme for a number of the Bank's directors and employees. The vesting period is between one to four years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Unexercised options are forfeit if the employee leaves the Bank before the options vest.

Details of the share options outstanding during the year are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	**458,250**	**11.12**	428,500	6.80
Granted during the period	**–**	**–**	61,750	38.00
Options not taken up	**(2,750)**	**38.00**	-	-
Exercised during the period	**(57,870)**	**5.12**	-	-
Lapsed during the period	**(13,617)**	**21.14**	(32,000)	5.25
Outstanding at the end of the period	**384,013**	**11.47**	458,250	11.12
Exercisable at the end of the period	**342,388**		359,500	

The options outstanding at 31 December 2019 had a weighted average exercise price of £11.47 and a weighted average remaining contractual life of six years. No options were granted in the year.

There were no options granted in 2019. The inputs into the Black Scholes model for options granted in 2018 were as follows:

	2018
Weighted average share price	£38.00
Weighted average exercise price	£38.00
Expected volatility	25%
Expected life	6 Years
Risk-free rate at date of grant	0.75%

Expected volatility for 2018 options granted was determined at a nominal 25%, based on management's best estimate, as the shares are unlisted and there is no trading. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

8. Loans and advances to banks

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
- Loans and advances to central banks	**128,732**	116,927
- Loans and advances to other banks	**20,822**	21,509
	149,554	138,436

9. Loans and advances to customers

	2019	2018
	£'000	£'000
Loan receivables	**1,131,701**	938,804
Finance lease and hire purchase receivables	**110,921**	96,159
	1,242,622	1,034,963

In the prior year, accrued interest on loans to customers was presented within other assets in the statement of financial position. A restatement has been made to reflect this interest within the carrying value of the financial asset. The effect is to reduce other assets by £1,105k and increase loans and advances to customers by the same amount.

The impact of the reclassification on the financial statements has no impact on the income statement.

Loan receivables	2019	2018
	£'000	£'000
Amounts falling due:		
- within one year	**597,019**	589,280
- over one year but less than five years	**289,203**	149,824
- more than five years	**251,703**	204,886
	1,137,925	943,990
Less: provision for impairment losses (see note 10)	**(6,224)**	(5,186)
	1,131,701	938,804
Of which repayable on demand or short notice	**53,208**	70,450

The above analysis may not reflect actual experience of repayments, as loans can be repaid early.

Finance leases and hire purchase receivables	2019	2018
	£'000	£'000
Gross investment in receivables falling due:		
- within one year	**51,308**	44,956
- over one year but less than five years	**72,886**	63,344
- more than five years	**409**	111
	124,603	108,411
Less: unearned future finance income	**(13,447)**	(12,062)
Net investment in finance leases and hire purchase receivables	**111,156**	96,349

Net investment in finance leases and hire purchase receivables:		
- within one year	**44,110**	38,203
- over one year but less than five years	**66,642**	58,039
- more than five years	**404**	107
Net investment in finance leases and hire purchase receivables	**111,156**	96,349
Less: provision for impairment losses on loans and advances (see note 10)	**(235)**	(190)
	110,921	96,159

Net receivable under finance leases and hire purchase contracts comprises:		
- Finance leases	**11,599**	12,435
- Hire purchase	**99,557**	83,914
	111,156	96,349

10. Provision for impairment losses on loans and advances

The charge for impairment losses is made up as follows:

Impairment losses taken to income statement	2019 £'000	2018 £'000
Individual impairments	4,671	3,354
Collective impairment	177	68
Unwind of discounting and recovery of loans previously written off	(364)	(503)
	4,484	2,919

Any recoveries of loans written-off in previous years are taken to the income statement. The movement in the provision for impairment losses on loans and advances to customers was as follows:

Individual impairments provision	2019 £'000	2018 £'000
Balance at 1 January	4,472	1,765
Charged	4,671	3,891
Released	–	(537)
Increase recognised in income statement	4,671	3,354
Utilised during the year	(3,765)	(647)
At 31 December	5,378	4,472

Collective impairment provision	2019 £'000	2018 £'000
Balance at 1 January	904	836
Increase / (reduction) recognised in income statement	177	68
At 31 December	1,081	904

Total impairment provisions	2019 £'000	2018 £'000
Individual impairments provision	5,378	4,472
Collective impairment provision	1,081	904
At 31 December	6,459	5,376

11. Debt securities

At 31 December 2019 the Bank held £35m (2018: £35m) of Treasury Bills under the Bank of England's Funding for Lending Scheme. These are held off balance sheet.

12. Tangible fixed assets

Tangible fixed assets comprise:	**Leasehold improvements**	**Computer and office equipment**	**Motor vehicle**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost:				
At 1 January 2019	561	1,170	–	1,731
Additions	117	117	31	265
At 31 December 2019	678	1,287	31	1,996
Depreciation:				
At 1 January 2019	145	812	–	957
Charge	65	194	4	263
At 31 December 2019	210	1,006	4	1,220
Net book value:				
At 31 December 2018	416	358	–	774
At 31 December 2019	**468**	**281**	**27**	**776**

13. Intangible assets

	2019	2018
	£'000	£'000
Cost:		
At 1 January	**3,146**	2,201
Additions	**838**	945
At 31 December	**3,984**	3,146
Amortisation:		
At 1 January	**946**	673
Charge	**357**	273
At 31 December	**1,303**	946
Net book value:		
At 31 December	**2,681**	2,200

Intangible assets consist of purchased computer software.

14. Other assets

	2019	2018
	£'000	£'000
Deferred tax asset	**2,069**	2,091
Prepayments, deferred expenses and other debtors	**8,915**	7,957
	10,984	10,048

Deferred tax asset:		
As at 1 January	**2,091**	1,726
Effect of increase in tax rate on opening asset	**(48)**	92
Origination and reversal of timing differences	**26**	273
As at 31 December	**2,069**	2,091

See Note 9 for reclassification of accrued interest in prior year.

A deferred tax asset of £2,069k has been recognised at 31 December 2019 (2018: £2,091k) mainly representing timing differences on finance lease receivables, share based payments and collective provisions. The directors are of the opinion, based on recent and forecast performance of the Bank, that when these timing differences reverse, the expected level of future profits will be sufficient to recover the tax benefit deferred.

15. Deposits from customers

	2019	2018
	£'000	£'000
Amounts falling due:		
- within one year	**809,543**	734,083
- over one year but less than five years	**407,481**	283,287
	1,217,024	1,017,370
Of which repayable on demand or short notice	**12,752**	13,729

In the prior year, accrued interest on deposits was presented within other liabilities in the statement of financial position. A restatement has been made to reflect this interest within the carrying value of the financial liability. The effect is to reduce other liabilities by £8,861k and increase deposits from customers by the same amount.

The impact of the reclassification on the financial statements has no impact on the income statement.

16. Loans from group companies

	2019	2018
	£'000	£'000
Repayable on demand:		
- Payable to parent	**261**	34

17. Other liabilities

	2019	2018
	£'000	£'000
Accrued interest payable	**166**	163
Accruals and deferred income	**11,405**	10,654
	11,571	10,817

In the prior year, accrued interest on deposits from customers and subordinated debt had been presented within other liabilities in the Statement of Financial Position. A restatement has been made to reflect this interest within the carrying value of the financial liability. The effect is to reduce other liabilities by £9,131k and increase deposits from customers and subordinated debt by £8,861k and £270k respectively.

The impact of the reclassification on the financial statements is presentational and has no impact on the income statement.

18. Financial instruments

The carrying values of the Bank's financial assets and liabilities are summarised by category below:

	2019 £'000	2018 £'000
Financial assets		
Measured at amortised cost:		
- Cash and balances at central banks	**128,703**	116,927
- Loans and advances to other banks	**20,851**	21,509
- Loans and advances to customers	**1,242,622**	1,034,963
	1,392,176	1,173,399
Financial liabilities		
Measured at amortised cost:		
- Deposits from customers	**1,217,024**	1,017,370
- Long-term subordinated debt	**26,787**	18,347
	1,243,811	1,035,717

The Bank's income, expenses, gains and losses in respect of financial instruments are summarised below:

	2019 £'000	2018 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	**87,350**	80,550
Total interest expense for financial liabilities at amortised cost	**(22,458)**	(19,377)
	64,892	61,173
Impairment losses		
On financial assets measured at amortised cost	**4,484**	2,919
	4,484	2,919

19. Long-term subordinated debt

	2019 £'000	2018 £'000
2013 Subordinated debt	**–**	11,782
2014 Subordinated debt	**2,538**	2,538
2016 Subordinated debt	**4,039**	4,027
2019 Subordinated debt	**20,210**	-
	26,787	18,347

The balance of the 2013 Subordinated debt was redeemed in 2019.

The 2014 Subordinated debt bears interest at 9% payable semi-annually and is callable at the Bank's option from 30 April 2020, with a final redemption date of 30 April 2025.

The 2016 Subordinated debt bears interest at 8.5% payable semi-annually and is callable at the Bank's option from 30 October 2021, with a final redemption date of 30 October 2026.

The 2019 Subordinated debt bears interest at 7.5% payable semi-annually and is callable at the Bank's option from 30 September 2024, with a final redemption date of 31 March 2030.

20. Called up share capital

	2019	2018
	£'000	£'000
Value of shares		
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**10,350**	9,850
Ordinary shares issued during the year	**–**	500
31 December (Ordinary shares of £1 each)	**10,350**	10,350

	2019	2018
	'000	'000
Number of shares		
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**10,350**	9,850
Ordinary shares issued during the year	**–**	500
31 December (Ordinary shares of £1 each)	**10,350**	10,350

The Bank issued no shares in the year.

The Bank's other reserves are as follows:

- The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.
- The contingent convertible securities reserve represents the equity component of contingent convertible securities.
- The retained earnings reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

21. Contingent convertible securities

	2019	2018
	£'000	£'000
2015 Contingent convertible securities	**4,700**	4,700
2017 Contingent convertible securities	**12,151**	12,151
	16,851	16,851

The 2015 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("AT1 Securities") bear interest at an initial rate of 11.85% per annum until 31 July 2020 and thereafter at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate.

The 2017 AT1 Securities bear interest at an initial rate of 10.375% per annum until 20 November 2022 and thereafter at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate.

The AT1 Securities are convertible into ordinary shares of the Company in the event of the CET1 ratio of the Bank falling below 7 per cent.

22. Commitments

	2019	2018
	£'000	£'000
Conditional commitments to lend	383,678	281,446

Commitments to lend comprise lending approvals subject to conditional performance undertakings by customers. These can be cancelled if the customer is in breach of the terms and conditions of their facilities. Property Development facilities may only be drawn subject to certification of construction work by independent parties.

The Bank operates from two floors of an office building in London and one in the Manchester area. The operating lease commitments are shown below:

	2019	2018
	£'000	£'000
Commitments under annual operating leases for leased property expiring in:		
- less than one year	1,226	1,219
- one to two years	1,219	1,198
- two to five years	3,593	3,593
- greater than five years	100	1,297

23. Employee benefits

The Bank operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the Income Statement for this benefit in the period ended 31 December 2019 was £1,071k (2018: £493k).

24. Related party transactions

Under FRS 102 Section 33 the Company is exempt from the requirement to disclose intragroup transactions with related parties on the grounds that the Bank is wholly owned by the parent company, UTB Partners Limited, whose consolidated accounts are publicly available. Details of the directors' remuneration are stated in note 4.

25. Segmental information

The Company operates in one segment of business which is lending; all income on loans granted arises in the United Kingdom.

26. Risk management

Risk is inherent in all aspects of the Bank's business and effective risk management is a core objective for the Bank. Further details of the Bank's risk management framework can be found in the Risk Management Report on pages 12 to 16.

The principal methods used to manage risks identified by the Bank include:

- Board and management committees to approve risk appetite limits and policies, and to monitor adherence to them;
- Management information that analyses the level of risk exposure at relevant points in time;
- Departmental policies, procedures and mandates to limit the extent to which individuals can commit the Bank to accepting additional risk;
- Risk and compliance reviews that act as a 'second line of defence' that ensure that mitigating controls are designed and are operating effectively; and
- Independent internal audit reviews which act as a 'third line of defence' to ensure policies and procedures have been complied with.

Further details on the Bank's principal risks are considered below. The Bank does not have a trading book and as such exposure to market risk is immaterial.

Credit risk
Credit risk is the risk that counterparties will be unable or unwilling to meet their obligations to the Bank as they fall due. Credit risk arises from lending transactions.

The Bank seeks to mitigate credit risk by:

- Operating in markets where it has significant understanding and expertise;
- Diversifying and fully securing exposures, with conservative lending criteria;
- Defining risk-based delegated underwriting authorities;
- Verifying borrower credit worthiness and track record;
- Regularly reviewing portfolio performance and risk appetite;
- Operating a forward looking assessment of market dynamics; and
- Establishing detailed limits to manage exposures including concentration risks.

The Bank's Credit Committee sanctions larger credit limits and ensures credit risk is mitigated to an acceptable level. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that the Bank's approved credit appetite is adhered to. In respect of credit limits sanctioned by delegated authority, the Bank's credit department provides oversight to ensure such sanctioning complies with the Bank's credit policies and procedures.

Through its robust credit, underwriting and oversight process, the Bank ensures the quality of the loan book is within the Bank's risk appetite. It closely manages its concentration risk to single borrowers and sectors, obtaining strong security cover and/or additional recourse on the majority of its lending facilities, thereby observing the Bank's prudent credit risk appetite.

Provisions for bad and doubtful debts are based on the appraisal of loans and advances by the Credit Committee. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

Distribution of loans and advances by credit quality

	At 31 December 2019		At 31 December 2018	
	Loans and advances to customers	**Loans and advances to banks**	Loans and advances to customers	Loans and advances to banks
	£'000	**£'000**	£'000	£'000
Neither past due nor impaired	**1,169,221**	**149,554**	954,239	138,436
Past due but not impaired				
Loans and receivables at amortised cost:				
- less than three months	**16,586**	**-**	16,962	-
- three to twelve months	**13,512**	**-**	7,977	-
- one to five years	**454**	**-**	170	-
Forbearance	**12,938**	**-**	20,473	-
Impaired	**1,505**	**-**	2,957	-
Repossessions	**34,865**	-	37,561	-
Less: provisions	**(6,459)**	**-**	(5,376)	-
	1,242,622	**149,554**	1,034,963	138,436

The past due loans are subject to close oversight. In the main they relate to transactions that have reached maturity and the Bank has decided not to extend the facility, even though the loan to value may remain at an acceptable level.

Concentration risk
Concentration risk arises from having high or excessive exposures to one sector, geographical area, counterparty or group of counterparties which can lead to correlated losses in the event of an adverse movement in the strength or creditworthiness of the borrower(s) or security. Concentrations can arise from large individual exposures or a number of exposures to a group of related counterparties.

The Bank assesses and monitors its exposure to a range of criteria, including sector, region, counterparty and concentration in security type. Concentration risk is managed and controlled through the use of appropriate limits for each business area. Reported exposures against concentration limits are regularly monitored and reviewed.

Concentration risk of treasury assets and interbank deposits is managed and controlled through policies and limits.

Liquidity risk
Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The ALCO recommends to the Board the policies to mitigate this risk and regularly reviews the profile of the Bank's assets and liabilities to ensure that it is positioned prudently and in compliance with agreed policies and limits, taking into account prevailing market conditions, and projections for business growth.

The Bank maintains a liquid asset buffer consisting of deposits at the Bank of England. This buffer is in excess of the minimum set by the PRA's liquidity framework.

Interest rate risk
Interest rate risk is the risk that the value of the Bank's assets and liabilities or profitability will fluctuate in response to changes in interest rates.

A positive interest rate sensitivity gap existed at 31 December 2019, meaning more assets than liabilities re-price during a given period. A positive gap tends to benefit net interest income in an environment where interest rates are rising. However, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivity within the re-pricing period.

The vast majority of loans and advances dealt with in the following table are made at fixed rates or benefit from interest rate floors. Due to their non-linear nature, the effect of interest rate floors cannot be accurately shown in the following table. Where appropriate, loans with interest rate floors have been shown in the column matching their re-pricing date.

At 31 December 2019, the Bank's interest rate gap sensitivity, being the potential benefit to the Bank's economic value, resulting from a +/- 200bps parallel shift in the yield curve, was £5.2m and £17.1m respectively, on the basis that rates can go below 0.0%. Assuming a 0.0% interest rate floor, the benefit was £5.2m and £11.1m respectively. This takes into account appropriate behavioural adjustments.

Interest rate re-pricing table

2019	**Not more than three months**	**More than three months but not more than six months**	**More than six months but not more than one year**	**More than one year but less than five years**	**More than five years**	**Non-interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customers	293,333	156,754	204,963	529,335	58,237	-	1,242,622
Loans and advances to banks	149,554	-	-	-	-	-	149,554
Other assets	-	-	-	-	-	14,441	14,441
	442,887	156,754	204,963	529,335	58,237	14,441	1,406,617
Deposits from customers	325,540	146,883	337,660	391,555	15,386	-	1,217,024
Other liabilities	-	-	-	-	-	11,571	11,571
Long-term subordinated debt	-	2,538	-	24,249	-	-	26,787
Loans from group companies	261	-	-	-	-	-	261
Total capital and reserves	-	-	4,700	12,151	-	134,123	150,974
	325,801	149,421	342,360	427,955	15,386	145,694	1,406,617
Interest rate sensitivity gap	117,086	7,333	(137,397)	101,380	42,851	(131,253)	
Cumulative gap	**117,086**	**124,419**	**(12,978)**	**88,402**	**131,253**	**-**	

2018	**Not more than three months**	**More than three months but not more than six months**	**More than six months but not more than one year**	**More than one year but less than five years**	**More than five years**	**Non-interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customers	306,471	160,655	185,563	313,736	68,112	426	1,034,963
Loans and advances to banks and financial institutions	136,433	2,003	-	-	-	-	138,436
Other assets	-	-	-	-	-	13,022	13,022
	442,904	162,658	185,563	313,736	68,112	13,448	1,186,421
Deposits from customers	280,983	133,062	320,556	282,769	-	-	1,017,370
Other liabilities	-	-	-	-	-	10,817	10,817
Long-term subordinated debt	2,291	-	9,491	6,565	-	-	18,347
Loans from group companies	34	-	-	-	-	-	34
Total capital and reserves	-	-	-	16,851	-	123,002	139,853
	283,308	133,062	330,047	306,185	-	133,819	1,186,421
Interest rate sensitivity gap	159,596	29,596	(144,484)	7,551	68,112	(120,371)	
Cumulative gap	**159,596**	**189,192**	**44,708**	**52,259**	**120,371**	**-**	

The fair values of financial assets and liabilities are approximately equal to their book values.

27. Capital management

The Bank maintains a strong capital base to support its lending activities and to comply with its capital requirements at all times.

Capital management is based on the three 'pillars' of Basel III. Under Pillar 1, the Bank calculates its minimum capital requirements based on 8% of risk weighted assets plus an amount in respect of operational risk. The PRA then adds an additional requirement to this amount to cover risks under Pillar 2A of Basel III and generates a Total Capital Requirement. The Bank benefits from a surplus of capital resources over and above its Total Capital Requirement. Further capital is held to meet industry wide Pillar 2B buffers which are set by the Bank of England and the Capital Requirements Regulation. The table below shows the composition of the Bank's regulatory capital resources.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk management process. The Bank's Pillar 3 disclosures can be found on its website at www.utbank.co.uk.

Capital adequacy is monitored by the Board, Management Committee, ALCO and management, and is reported to the PRA on a quarterly basis. Capital forecasts, covering a 3-year period, are prepared on an annual basis as part of the Bank's annual budgeting cycle. During the year, additional re-forecasts are also reviewed by the Board to take into account the effects of events that were not reflected in the original budgets.

On an annual basis, the Bank undertakes an Internal Capital Adequacy Assessment Process which is an internal assessment of its capital needs. This internal process is designed to consider all material risks which the Bank faces and determines whether additional capital is required to ensure the Bank is adequately capitalised.

Included within the ICAAP are capital projections, which reflect not only the Bank's chosen strategy and potential growth prospects, but also the results of a range of stress tests of these plans. This process is designed to ensure that adequate capital is retained by the Bank to meet not only its current requirements, but also to cover the medium term and requirements in less benign markets. The ICAAP therefore represents the view of management and the Board, of the risks faced by the Bank and the appropriate amount of capital that the Bank should hold to protect against those risks.

Regulatory capital resources

	2019	2018
	£'000	£'000
Common equity tier 1 capital		
Called up share capital	**10,350**	10,350
Share premium	**25,680**	25,680
Retained earnings	**98,093**	86,972
Deductions from common equity tier 1 capital		
Intangible assets	**(2,118)**	(1,738)
Other deductions	**(6,748)**	(6,554)
Common equity tier 1 capital	**125,257**	114,710
Additional tier 1 capital	**16,851**	16,851
Total tier 1 capital	**142,108**	131,561
Tier 2 capital		
Subordinated debt	**26,312**	18,077
Collective provisions	**1,081**	904
Total tier 2 capital	**27,393**	18,981
Total regulatory capital resources	**169,501**	150,542

Other deductions from common equity tier 1 capital relates to the first loss element of the British Business Bank's Enable Guarantee that became effective in 2018.

28. Ultimate controlling company

UTB Partners Limited is the Bank's immediate parent, owns 100% of the Bank and is recognised by the directors as the Bank's ultimate controlling company. Financial statements for UTB Partners Limited, which is the smallest and largest group into which the Bank is consolidated, can be obtained from UTB Partners Limited, One Ropemaker Street, London EC2Y 9AW. The directors have no interests in the shares of any group company other than UTB Partners Limited.

29. Subsequent events

There have been no significant events after the date of the Statement of Financial Position up to the date of signing.

COMPANY INFORMATION

Bankers
Barclays Bank Plc
Lloyds Bank Plc

Auditor
Deloitte LLP

Legal Advisors
CMS Cameron McKenna
Nabarro Olswang LLP

Company Secretary
Shane Bannerton

Registered Office
One Ropemaker Street
London EC2Y 9AW

Registered Number
549690

Website
www.utbank.co.uk

Country of Incorporation
United Kingdom

UNITED TRUST·BANK

Report & Accounts 2019