UNITED TRUST·BANK

REPORT & ACCOUNTS **2017**

CONTENTS

THE BANK'S PERFORMANCE DELIVERED STRONG GROWTH AND AN EXCELLENT RETURN ON EQUITY

CHAIRMAN'S REPORT

2017 was another year of good progress for United Trust Bank. The Bank's performance delivered strong growth and an excellent return on equity. We also continued to diversify our product range and to reinforce some key internal functions that form the solid platform we need to support further expansion.

The world outside remains uncertain and this is reflected in the UK's economic performance. In particular, the South East property market (especially at the high end) continues to suffer from tax changes and the effects of Brexit negotiations. However, elsewhere activity remains strong and demand for the Bank's products has held up well. 2017 saw the first rise in interest rates for many years. It was only modest and the effects were limited; however recent comments from the Bank of England suggest that this was the first of what might be a number of increases.

The relatively benign credit environment has unsurprisingly continued to attract new entrants to our markets. There are clear signs that this competition has affected margins and returns, especially in areas such as Asset Finance. However in our property lending activities the strength of our team's franchise, the depth of our relationships and the quality of our offering has enabled us to continue to generate profitable growth. It has also been pleasing to see the strong growth in our mortgages portfolio following the Board's decision to make a major investment in this area.

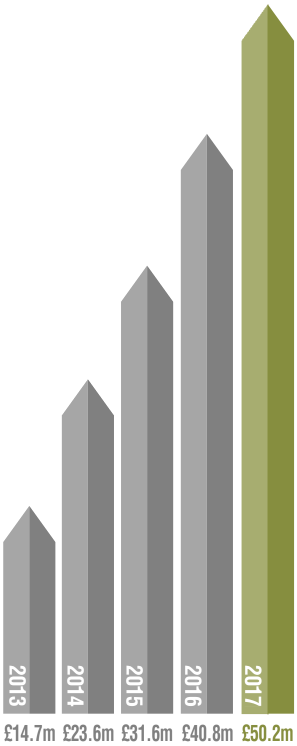
My colleagues and I are pleased to welcome Alice Altemaire to the Board as a new non-executive director. Alice is Vice President of Groupe Renault's global financing arm and an executive committee member of RCI Bank and Services. She adds deep knowledge of the motor vehicle finance sector and has significant treasury and technology experience. We also said farewell and thank you to our colleague Roger Tidyman who retired after 20 successful years with the Bank. Roger remains on the Bank's parent company board as a non-executive director. I would like to thank all my Board colleagues for their commitment over the year. 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 another year of extremely hard work. Our people have had to deal with a lot of change, much of it due to the Bank's growth, and it is a testament to their commitment and the quality of the Bank's management team that we are able to look forward to 2018 with confidence.

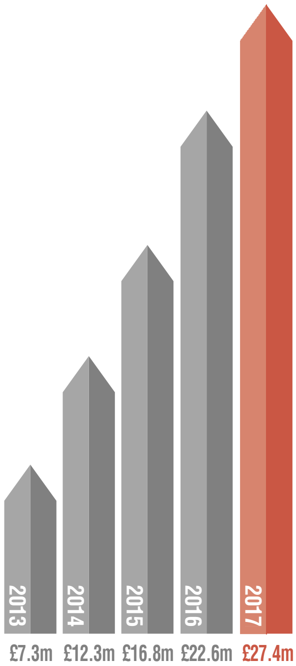
Richard Murley
Chairman

22 February 2018

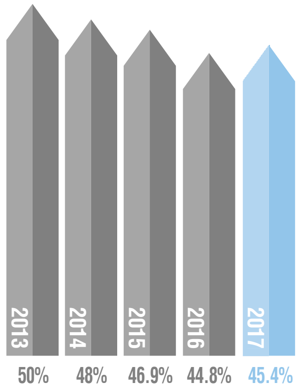
HIGHLIGHTS



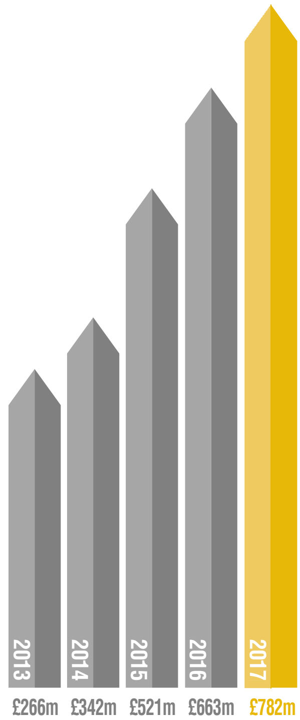
23% £50.2m
OPERATING INCOME



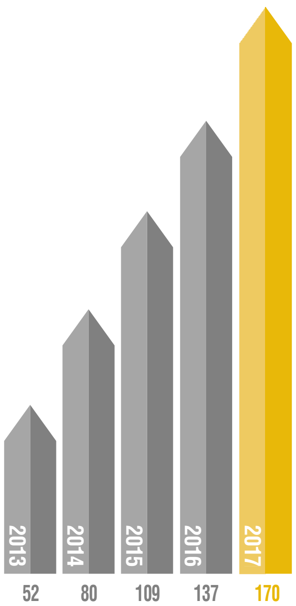
22% £27.4m
OPERATING PROFIT*



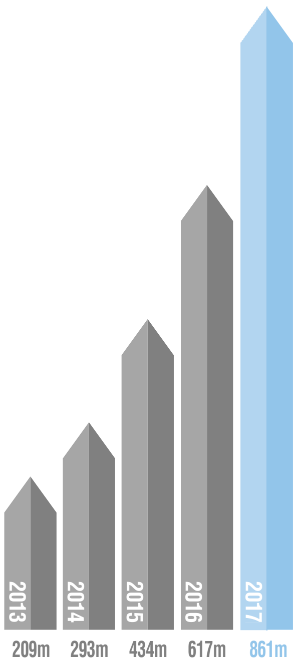
45.4%
COST INCOME RATIO*



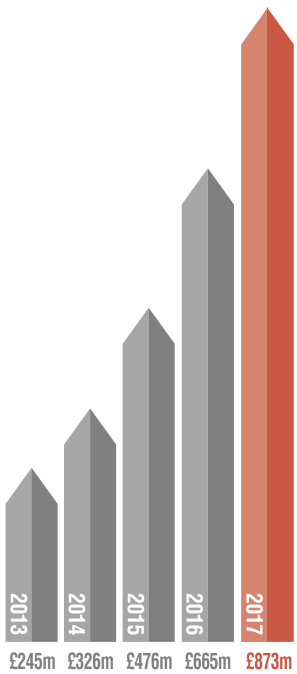
18% £782m
GROSS NEW LENDING



24% 170
STAFF NUMBERS



40% £861m
LOAN BOOK

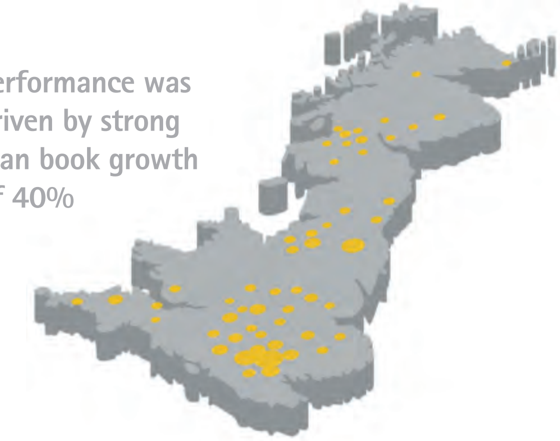


31% £873m
DEPOSIT BOOK

26.7%
RETURN ON EQUITY

* Excludes provision for impairment losses (see page 17).

Performance was driven by strong loan book growth of 40%



STRATEGIC REPORT

It is with great pleasure that we report another solid year of growth at United Trust Bank ("the Bank" or "the Company") with profit before tax increasing 27.4% to £26.4m. The balance sheet exceeded £1bn for the first time, a 32.2% increase, and return on equity was 26.7%.

This performance was driven by strong loan growth of 40% and effective management of the deposit book, which reduced excess liquidity costs, offset by a lowering of the average income margin over cost of funds. The cost to income ratio was steady at 45%, as cost control was balanced against investment to support future growth.

Once again we are grateful to have received a number of awards during the year in both the lending and deposits areas of the business. Our staff continue to participate in the volunteering programme we launched in 2016 and 14 of our staff have successfully completed their banking qualifications through the Chartered Banking Professional Standards Board.

During the year we signed a pioneering "Enable Guarantee" with the British Business Bank, which will help increase our capacity to lend to housebuilders, and in January 2018 we became one of the first six banks to join Hargreaves Lansdown's newly launched Active Savings platform, which allows their clients to efficiently place savings deposits with the Bank.

Staff numbers increased significantly during the year to support existing and forecast growth and, as planned, we occupied an additional floor in our current building. The Bank also entered into its first major business outsourcing relationship with Link Mortgage Services, to administer the growing retail mortgage book on behalf of the Bank.

The economic environment

Political and economic risk remains high across the world. It is high in the UK as a minority government steers through the Brexit negotiations, the implications of which are starting to become clearer. UK economic growth and growth projections have been tempered, while inflation has stabilised. The Bank of England raised its base rate for the first time in 10 years, from 0.25% to 0.50%, returning it to its pre-Brexit vote level, and guided to expect further gradual rises over time.

The outlook for the UK housing market is also uncertain, but there remains a long term housing shortage in the UK, which is supporting builders of the right kinds of property in the right locations. We continue to experience good quality business in these markets, particularly while the Help to Buy scheme is strongly underpinning demand for family homes and apartments.

The Brexit negotiations and future trading model with the EU will dominate the UK's economic outlook during 2018. How this will impact the Bank's business is unclear, but we maintain our conservative credit appetite and have to date been relatively unaffected. We expect to remain active but vigilant lenders to UK borrowers.

Principal activities and business model

The Bank operates as a credit institution, raising capital and deposits and lending these funds to a range of borrowers. It does not provide advice. 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 normally consider, so that it has a strong value added offering to its customers.

TOTAL CUSTOMER DEPOSITS GREW BY 31.3% OVER THE YEAR TO REACH £873M ACROSS OVER 21,000 ACCOUNTS

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

The Bank has continued to invest in systems that improve efficiency and enable relatively unconstrained growth. It has been a steady employer of experienced career credit bankers with considerable market knowledge and practical expertise, augmented with a growing number of graduate hires.

Review of operations

Profit before taxation for the year ended 31 December 2017 was £26.4m (2016: £20.7m) equating to growth of 27.4% over the previous year. The cost income ratio remained stable at 45%, despite some one off project related costs. We continue to invest in our staff and systems to drive and support expected growth.

Gross income was £65.3m, an increase of 19.9% over the previous year. Operating income, comprising net interest income and net fees, increased by 23.1% to £50.2m for the year. Charges for impairment losses were £1.1m (2016: £1.9m) equating to 0.15% of average loan balances (2016: 0.35%). During the year we refined our policy and provisioning approach for the growing mortgage book, to reflect our experience of this book in its first few years of operation.

Total assets grew by 32.2% to £1,014m, exceeding £1bn for the first time. The main drivers for this growth were our property development, mortgage and structured finance divisions. Deposits grew at a slightly moderated rate compared to the increase in the loan book, which helped support the net interest margin.

Net interest income grew by 23.5% to £50.2m (2016: £40.6m). Despite this growth, we did experience margin compression in some sectors due to higher levels of competition. Average deposit rates reduced year on year by approximately 28 basis points.

Our newer mortgage products generate lower interest margins and fees than our traditional lending divisions, but have longer duration, remaining on the books for many years, while requiring significantly lower capital. Accordingly, whilst the Bank's average return will reduce as mortgage lending becomes a larger proportion of the loan book, mortgage lending business provides a very good balance to the book by diversifying risk, underpinning earnings and reducing payment flow volatility.

In September 2017, we successfully raised £15.2m of new capital, comprising £3.0m of equity and £12.2m of Additional Tier 1 capital, which will support the Bank's growth and help meet the increased regulatory buffers that become effective over the coming year.

Treasury

Total customer deposits grew by 31.3% over the year to reach £873m across over 21,000 accounts. A high proportion, 91%, of balances are covered by the FSCS deposit guarantee scheme. While these deposits are mostly from retail customers, we recently launched a new deposits portal aimed at SME accounts, which eases the process of applying for these accounts and, as a consequence, we are increasingly attracting deposits from this sector. In the latter part of 2018, we are intending to introduce online self-service facilities which will enable customers to access and maintain their accounts online.

We continue to maintain a high degree of liquidity and hold most of this liquidity in a Reserve Account at the Bank of England. UTB continues to participate in the Bank of England's Funding for Lending Scheme ("FLS"), which we entered in 2016.

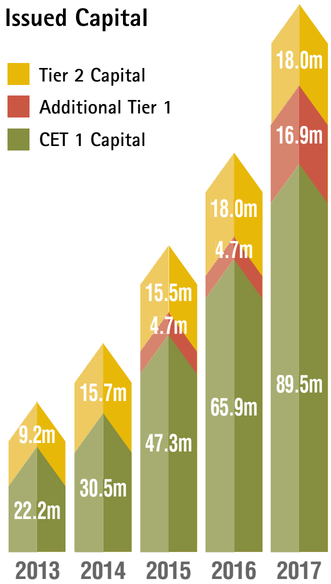
Principal risks and uncertainties

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 11 to 12. At present, the principal risks and uncertainties which management are 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 signs of weakness in the UK housing market. On Brexit, the Bank does not have any direct exposure to non-UK activity and as a UK only operation is relatively isolated from any direct consequences. We have not experienced any noticeable impact on the Bank to date. With regard to the housing market, the Bank has for some considerable time reduced its risk appetite for lending secured against prime London properties but continues to lend against family homes, where we believe there is a shortage of supply.

- 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. Whilst the base rate remains at historic lows, the Bank of England has guided that it is



likely to increase rates gradually over the coming years, but quite which years is not clear. The withdrawal of the FLS and the Term Funding Scheme ("TFS") will mean that all new lending will need to be funded by the market, which may impact deposit rates, and in due course, the FLS and TFS funding will itself need to be refinanced. Less than 3% of the Bank's requirements are funded via FLS / TFS.

- 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 our arrangements to counter this increasingly complex and evolving threat.

- Regulatory requirements: Prudential and conduct regulation of banks continues to evolve at a fast pace. It is often highly prescriptive and covers a wide range of topics, such as capital, liquidity and conduct. To manage the Bank's compliance with new and existing requirements, the Bank employs experienced professionals in the relevant areas, conducts regular 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 at 31 December 2017 was 10.4% (2016: 10.0%) and Total Capital ratio was 14.6% (2016: 13.7%), comfortably in excess of the Bank's Total Capital Requirement of 10.8% (excluding regulatory buffers).

Looking ahead, capital requirements are due to increase as the regulations continue to phase in the Capital Conservation Buffer ("CCB"), which increased to 1.875% on 1 January 2018, and will settle at 2.5% from 1 January 2019. In addition, the Financial Policy Committee of the Bank of England has announced it will introduce the Countercyclical Buffer ("CCyB") from July 2018 at a rate of 0.5%, rising to 1% in November 2018. While we acknowledge the Financial Policy Committee's desire to have a CCyB at a reasonable level so that it can be used as a policy tool in both directions, we question the timing of adding an additional 1% to equity capital requirements when the CCB is also adding a total of 1.25% to these requirements by 1 January 2019 and the FLS and TFS close. The effect of the CCyB buffer during 2018 is to add approximately £9m to the CET1 capital requirement.

The Basel Committee on Banking Supervision published its latest update to the globally negotiated capital standards; these are due to be implemented by 2022.

In addition to this prudential regulation, the Bank (along with the rest of the UK) is in the process of implementing the General Data Protection Regulation, which affects the Bank's systems, contracts and interactions with customers and other parties.

Staffing and management

Staff numbers increased during the year to drive and support future growth. Hires were spread across the Bank, and included sales and business development roles as well as roles in IT, finance, credit, risk and control functions.

Summary

The current year has, once again, been particularly productive with the Bank achieving new milestones. The growth in the Bank's market position has been significant and its brand and market presence continue to increase and support strong new business flows. The past few years have demonstrated growth in infrastructure, brand and capacity while delivering good performance. Over the next few years the Bank will capitalise on that capacity, on its strong capital and liquidity, its experienced staff, the continuing market demand and will focus on product development and effective delivery to customers.

Profitability has continued at very acceptable levels and this is the result of a fully committed, engaged and hard-working employee group. We thank all our staff, our Board of Directors and our customers for their continued support and look forward to another successful year.

Graham Davin
Chief Executive Officer
22 February 2018

DIRECTORS' REPORT

The Directors present their annual report and accounts for the year ended 31 December 2017.

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 short-term working capital financing solutions to the professional services sector. 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
Alice Altemaire joined the Board and Roger Tidyman retired from the Board on 28 September 2017. All other directors served through the year.

A full list of the directors can be found on the page opposite.

Dividend
No dividend has been declared or paid during the current or prior year.

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.

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 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.

Summary
The Bank has completed another year of significant growth and diversification whilst maintaining profitability and return on equity. On behalf of the Board and Management team, I would like to thank our customers and brokers for their support and all our staff, across all departments, for their contribution towards achieving these results. It is our staff's dedication, consistent hard work, focus and passion for getting things right that makes the Bank what it is. It is a privilege to work with such a talented team. We look forward with confidence to the years ahead.

Approved by the Board and signed on its behalf by:

Graham Davin
Chief Executive Officer
22 February 2018

DIRECTORS' INFORMATION

Richard Murley ►

Chairman

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 recently stood down as Chairman of the University College London Hospitals Foundation Trust ("UCLH") and remains a trustee of Crisis UK, the Royal Society for Medicine and Macmillan Cancer Support, and is a member of the Medical research Council and the Panel on Takeovers and Mergers.

Graham Davin ►

Chief Executive Officer

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

Executive Director

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

Executive Director

Jonathan Ayres is the Chief Financial Officer of United Trust Bank, a position he previously held at C. Hoare & Co. and Ecofin. Jonathan 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 and a member of the Legacy BBA Board.

Noel Meredith ►

Executive Director

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 18 years. He has extensive experience in corporate and property lending and heads the Development Finance team.

Alice Altemaire ►

Non-Executive Director

Alice Altemaire is Vice President of Groupe Renault's global financing arm and an executive committee member of RCI Bank and Services. Between 2012 and 2016 Alice was the CFO and Head of the deposit and savings business for RCI Bank UK where she was instrumental in the successful launch of this new savings bank in the UK. Alice also has considerable experience of the global motor finance sector.

◄ Andrew Herd

Non-Executive Director

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.

◄ Tracy Blackwell

Non-Executive Director

Tracy Blackwell is Chief Executive Officer and a Director of Pension Insurance Corporation ("PIC"). Tracy is also CEO and a Director of PIC's parent company, Pension Insurance Corporation Group. Prior to joining PIC, Tracy spent 10 years at Goldman Sachs, including as Head of Risk Management, EMEA at Goldman Sachs Asset Management, working with pension fund and insurance company clients on investment, risk and strategic issues. Tracy is a Trustee and Honourable Treasurer of the Elton John Aids Foundation.

Michael Lewis ►

Non–Executive Director

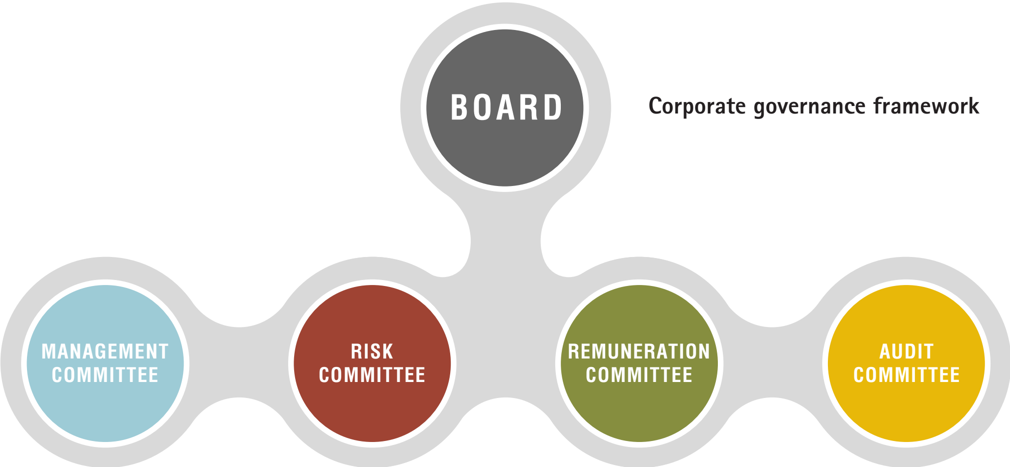
Michael Lewis has been involved in investment management since 1983, having worked at Ivory & Sime and Lombard Odier. He is Chairman of Oceana Investment Corporation Limited (UK), The Foschini Group Limited (South Africa), and Strandbags Holdings Pty Limited (Australia). He is also a Partner of Oceana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

Stephen Lockley ►

Non-Executive Director

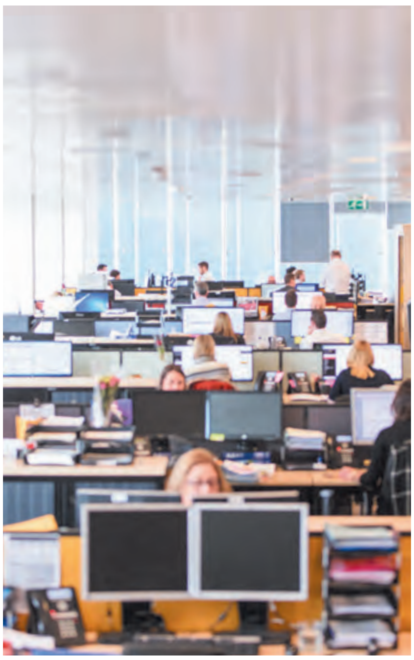
Stephen Lockley is Chief Financial Officer of the international development organisation World Vision International. He is a chartered accountant with many years of experience in financial services and investment banking. During his career, Stephen has been the Group Finance Director of Arbuthnot Banking 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.

CORPORATE GOVERNANCE REPORT



Corporate governance framework

United Trust Bank Limited is an unlisted company and therefore the UK Corporate Governance Code does not apply in full. 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 includes the non-executive chairman, five non-executive directors and four executive directors, as listed on the previous page. 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 eight times during the 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 these policies is the responsibility of the Management Committee who report to the Board.

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

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. 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 where necessary. Any significant judgements in relation to financial reporting are reviewed and challenged by the committee. The committee has assessed Internal Audit resources and is satisfied that these are appropriate to fulfil their responsibilities.

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

Remuneration Committee

The Remuneration Committee is chaired by Michael Lewis, a non-executive director, and includes Richard Murley, the Chairman. The role of this committee is to consider remuneration policy, regulatory obligations

THE BOARD IS RESPONSIBLE FOR ESTABLISHING AND MONITORING THE BANK'S STRATEGY AND RISK APPETITE

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 Chief Executive and Chairman recommend the fees payable to the non-executive directors, which are approved by the Remuneration Committee. The committee meets to consider the annual salary and bonus proposals, and additionally as required.

Risk Committee

The Risk Committee is chaired by Stephen Lockley, a non-executive director, and includes Andrew Herd, a non-executive director. 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 the 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 and advises the Board on, and provides challenge 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.

Management Committee

The Management Committee is chaired by the Chief Executive, Graham Davin, and includes the executive directors of the Bank, the Chief Risk Officer, the Chief Credit Officer and the director of the mortgage division. The directors provide a direct linkage 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 capital, liquidity and performance of the business.

RISK MANAGEMENT REPORT

Risk is inherent in all aspects of the Bank's business. A governance and risk management framework is in place to ensure that all material risks faced by the Bank are identified and measured, and that appropriate controls are in place to ensure that each risk is mitigated to an acceptable degree.

The Board maintains ultimate responsibility for ensuring that an effective risk management framework is in place. The Board has Risk and Audit sub-committees which monitor the risk management framework, internal control environment and that the risk exposures are within the defined risk appetite.

The Bank has established risk management policies that aim to identify the risks faced by the Bank, to set appropriate risk limits in line with the Bank's risk appetite, to establish operational procedures and controls, and to monitor adherence to the limits. Management committees, including the Credit, Operations, Compliance and Asset and Liability Committee ("ALCO"), are responsible for monitoring key risks. The Chief Risk Officer is responsible for overseeing all aspects of risk management policy within the Bank, including its implementation and effectiveness.

The risk management framework is also a key input into the Bank's strategic planning processes to ensure that the future development of the Bank's business does not expose it to an excessive level of risk.

Significant risks are reviewed by the management of the Bank, with the aim of:

- identifying and assessing the risks faced by the Bank;
- assessing the appropriateness of risk measurement policies and practices; and
- assessing and commenting on the adequacy of the Bank's ability to measure, monitor and manage risks.

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the 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. The Bank recognises that its future success as a financial institution depends on its ability to conduct its affairs with prudence and integrity and to safeguard the interests of its stakeholders.

The major categories of risk associated with the Bank's business are:

- Credit risk;
- Concentration risk;
- Liquidity risk;
- Interest rate risk;
- Operational risk;
- Regulatory, Compliance and Conduct risk;
- Reputational risk; and
- Strategic risk.

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. It arises on lending to customers, treasury assets and interbank deposits held with other banks.

The Board seeks to mitigate credit risk by focusing on niche market segments where it has specific expertise; by limiting and spreading its exposures; by maintaining detailed lending policies; and by rigorous underwriting processes.

The Bank's Credit Committee includes executive directors, credit managers and business development managers. The Credit Committee sanctions larger credit exposures and in so doing has to reach a unanimous consensus with a valid quorum before approving a credit exposure. Exposures beyond a certain threshold require additional authorisation. Certain smaller lending exposures may be authorised by delegated authority; the Bank's Credit department oversees such authorisations to ensure they comply with the Bank's credit policies and procedures. Credit limits for all lending, treasury assets and interbank deposits are reviewed regularly.

The Bank has a focused business strategy and has considerable expertise in its chosen sectors. The vast majority of the Bank's lending, excluding treasury assets and interbank deposits which are predominantly with the Bank of England and other UK banks, is secured on assets. On a geographical basis, the credit exposure of the Bank, including contingent liabilities and commitments, is to the UK.

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. 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 characteristics, including sector, region, counterparty and 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.

The Bank operates within the UK and limits its focus to certain sectors. These sectors have been selected due to the Bank's expertise and/or the security and other risk mitigants available.

Although there is diversification within the Bank's portfolios and operations, the Bank's activities do contain an element of concentration:

- While the Bank operates across the UK, the majority of its business is in the South East of England;
- Notwithstanding the range of business activities, the Bank has a sector focus on residential real estate business activities; and
- The Bank has one primary source of liquidity which is the retail and SME deposits market.

Concentration risk arising on treasury assets and interbank deposits is managed and controlled through a counterparty placements policy and limits.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due, or can do so only at excessive cost. It can arise from the withdrawal of customer deposits, the drawdown of existing customer facilities or asset growth.

THE BANK HAS A FOCUSED BUSINESS STRATEGY AND HAS CONSIDERABLE EXPERTISE IN ITS CHOSEN SECTORS

The Bank's liquidity policy ensures prudent management of liquidity and adherence to regulatory guidelines. This policy is developed and implemented by the ALCO. The Bank's Treasury function has responsibility for day-to-day liquidity management.

Limits on potential cash flow mismatches over defined time horizons form the principal basis of liquidity control. Limits are also placed upon the ratio of loans, less capital, to deposits and the value of deposits taken from a single source. The Bank has limited wholesale funding (other than the Funding for Lending Scheme) which reduces its liquidity risk. Procedures are in place to monitor the Bank's daily liquidity position under normal and stressed conditions.

Interest rate risk

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. Interest rate risk exposures are measured weekly and reported to ALCO and the Board.

The Bank finances its loan book, treasury assets and interbank deposits primarily through customer deposits. The ALCO meets regularly to review the risk profile of the Bank's assets and liabilities and rates offered on deposit products. Deposits are spread by duration and between variable and fixed rate products to manage interest rate risk.

The Bank's lending to customers is at interest rates prevailing in the market. Interbank deposits are placed in the market at the best rates available to the Bank. In common with other banks, the Bank earns part of its return by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates and the dates on which the assets and liabilities mature.

At 31 December 2017, the Bank's interest rate gap sensitivity, being the potential benefit on the Bank's economic value, resulting from a +/- 200bps parallel shift in the yield curve, was £4.7m and £13.0m respectively, on the basis that rates can go below 0.0%. Assuming a 0.0% interest rate floor, the benefit was £4.7m and £8.9m respectively. This takes into account appropriate behavioural adjustments.

Operational risk

Operational risk is the risk that the Bank may suffer financial loss as a result of system or process failure, human error, fraud, cyber attack or through inadequate controls and procedures. The Bank has detailed procedure manuals in place and ensures that all operational risks are evaluated and appropriately controlled.

Contingency plans are in place to ensure continuity in the event of any unforeseen serious disruption to business operations. These plans are reviewed and tested regularly to ensure they can be implemented in a timely manner should events dictate.

To give further assurance, the Internal Audit function regularly reviews operational areas to ensure that risks and controls are appropriate and effective.

Regulatory, Compliance and Conduct risk

Regulatory and Compliance risk is the risk that any part of the Bank may fail to meet the requirements or expectations of the regulatory authorities. It can also arise where changes to regulations are not anticipated or managed properly.

Conduct risk is the risk that the Bank's operating model, culture or actions result in unfair outcomes for customers. The Bank's conduct risk is aligned with its strategy and overall risk appetite.

The Compliance Management Committee meets monthly to review compliance obligations, processes and conduct risk. Compliance and conduct reports are reviewed regularly by the Board and Risk Committee and management monitor regulatory pronouncements.

Reputational risk

Reputational risk is the risk that the Bank may suffer reputational damage which may lead to negative publicity, loss of revenue, litigation, loss of clients, loss of key employees or difficulty in recruiting new staff. The Bank is proactive in the development and preservation of its reputation in the market. The Bank maintains effective communication channels with its employees, customers and other stakeholders.

Strategic risk

Strategic risk is the risk that arises from changes in the economic and business environment, adverse business decisions or ineffective or improper implementation of decisions.

The Bank operates in a highly dynamic and diversified economic environment and is currently in a period of significant growth. Strategic risk is mitigated through a well-established planning and budgeting process which includes reporting mechanisms, monitoring of economic developments and outlooks, the assessment of risks inherent in strategic decision and monitoring of the implementation of the strategy. In addition the Bank re-evaluates business plans and budgets in order to reflect the changing economic and business environment.

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

Opinion
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 of United Trust Bank Limited (the "company") 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 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 loan impairment and provisioning.

Materiality
The materiality that we used in the current year was £1.9m which was determined by reference to profit before tax.

Scoping
Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. 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.

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.

Loan impairment and provisioning

Key audit matter description
The company has a significant loan portfolio to customers of £861m (2016: £617m). There is a risk arising from the possibility that the company will incur losses from the failure of customers to meet their obligations.

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 21, judgements in applying accounting policies and critical accounting estimates on page 21 and provision for impairment losses on loans and advances note 10 on page 26.

The judgements are dependent on whether the impairment is required or not and also the level of provisions 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 risk of material misstatement. The audit committee reviews significant judgements in relation to financial reporting.

We focused our significant risk on the Property Development, Bridging and Structured Finance loans on the recoveries list and watch list, as the valuation of impairment in these loan categories is more susceptible to misstatement, whether due to error or fraud. This increased risk arises from complexities in the nature of the loan facilities and reliance on the valuation of collateral, and the fact that these loans tend to be larger in value than in other categories.

The total provision balance as at 31 December 2017 was £2.6m (2016: £3.3m) of which £1.8m 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 assessed the design and implementation of key controls around both the lending and loan impairment cycles across all lending business lines.

- We also tested the operating effectiveness of key controls around the Property Development, Bridging and Structured Finance lending cycles.

- We selected a sample of loans from management's watch list and recoveries 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.

- We selected a sample of loans across the loan portfolio where no impairment indicators had been identified by management to assess they were appropriately accounted for.

- In addition we assessed the appropriateness of the collective impairment provision.

Key observations

We consider management's judgements in relation to the specific provision of £1.8m as at 31 December 2017 to be reasonable. Individually and in aggregate, any differences between our assessment of the provision required for each loan sampled and the actual provision recorded, were below our reporting threshold of £95k.

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:

Materiality

£1.9m (2016: £1.6m).

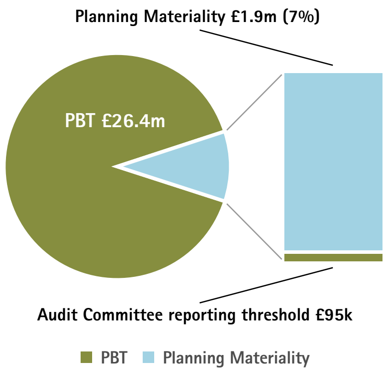
Basis for determining materiality

Materiality has been determined on the basis of 7% of profit before tax. This also equates to 1.9% of equity.

Rationale for the benchmark applied

The Bank 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.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £95k (2016: £76k), 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

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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

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 this matter.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by the board 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 17 years, covering the years ending 2001 to 2017.

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).

Ben Jackson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
22 February 2018

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Interest receivable and similar income	2	**65,188**	54,228
Interest payable and similar charges		**(15,027)**	(13,598)
Net interest income		**50,161**	40,630
Other income		**66**	181
Operating income		**50,227**	40,811
Administrative expenses	3	**(22,351)**	(17,906)
Depreciation	5	**(443)**	(362)
Provision for impairment losses	10	**(1,082)**	(1,863)
Operating profit on ordinary activities before tax		**26,351**	20,680
Tax charge for the year	6	**(5,080)**	(4,001)
Profit after tax retained for the financial year		**21,271**	16,679

The above results are derived wholly from continuing operations. The notes on pages 20 to 34 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Profit for the financial year		**21,271**	16,679
Interest paid on contingent convertible securities		**(919)**	(594)
Tax relating to components of other comprehensive income	6	**177**	119
Other comprehensive income		**(742)**	(475)
Total comprehensive income		**20,529**	16,204

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Assets			
Loans and advances to banks	8	**140,703**	141,347
Loans and advances to customers	9	**861,427**	617,409
Loans to group companies	16	**–**	31
Tangible fixed assets	12	**825**	604
Intangible fixed assets	13	**1,528**	1,396
Other assets	14	**9,416**	6,064
Total assets		**1,013,899**	766,851
Liabilities			
Deposits from customers	15	**872,861**	664,572
Loans from group companies	16	**54**	-
Other liabilities	17	**16,621**	13,596
Long-term subordinated debt	19	**18,048**	18,048
		907,584	696,216
Capital and reserves			
Share capital	20	**9,850**	9,692
Share premium		**16,330**	13,488
Contingent convertible securities	21	**16,851**	4,700
Retained earnings		**63,284**	42,755
Total capital and reserves		**106,315**	70,635
Total equity and liabilities		**1,013,899**	766,851
Memorandum items			
Guarantees and assets pledged as security		**33**	114
Commitments	22	**256,437**	201,195

The notes on pages 20 to 34 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 22 February 2018. They were signed on its behalf by:

Harley Kagan
Group Managing Director
22 February 2018

Jonathan Ayres
Chief Financial Officer
22 February 2018

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Contingent convertible securities	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2015	**9,500**	**11,280**	**4,700**	**26,551**	**52,031**
Profit for the financial year	–	–	–	16,679	16,679
Other comprehensive income	–	–	–	(475)	(475)
Total comprehensive income	**–**	**–**	**–**	**16,204**	**16,204**
Issue of share capital	192	2,208	–	–	2,400
At 31 December 2016	**9,692**	**13,488**	**4,700**	**42,755**	**70,635**
Profit for the financial year	–	–	–	21,271	21,271
Other comprehensive income	–	–	–	(742)	(742)
Total comprehensive income	**–**	**–**	**–**	**20,529**	**20,529**
Issue of share capital	158	2,842	–	–	3,000
Recognition of equity component of contingent convertible securities	–	–	12,200	–	12,200
Expenses of capital issue	–	–	(49)	–	(49)
At 31 December 2017	**9,850**	**16,330**	**16,851**	**63,284**	**106,315**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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") is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 35. The nature of the Bank's operations and principal activities are set out in the Strategic Report on pages 4 to 6.

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, applicable United Kingdom accounting standards.

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

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 14% 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 its business risks set out in the Risk Management Report on pages 11 to 12 to the financial statements.

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
- between 20% and 33% 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 Group 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 Company 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 ownership 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 are 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.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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 in the year. Differences between contributions payable in 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 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, convertible loan notes 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.

(i) Loan book impairments:

Specific provision assessments for individually significant loans involve judgement in relation to estimating future cash flow timings, sale proceeds, and any rental income to be received.

All assets without 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.

(ii) Classification of contingent convertible securities:

The Bank issued £5 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("the Securities") during the year ended 31 December 2015, and a further £12.2 million during the year ended 31 December 2017 (see Note 21 for further detail).

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

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

2. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income	**55,473**	45,206
Fees and commissions received subject to EIR	**12,072**	10,895
Fees and commissions paid subject to EIR	**(2,791)**	(2,348)
Unwinding of discounts on provisions (note 10)	**434**	475
	65,188	54,228

In the current year, fees and commissions that are integral to a loan's interest rate are included in interest and similar income, as they form part of the EIR calculation. The 2016 comparative figures have been reclassified to reflect the current year presentation, resulting in a total of £9.0m of fees and commissions being presented as interest receivable and similar income, instead of "other income".

The unwinding of discounts on provisions represents the present value discounts on provisions previously made, which are unwound over time until the asset is realised.

3. Administrative expenses

		2017 £'000	2016 £'000
Staff costs	- wages and salaries	**13,119**	10,711
	- social security costs	**1,607**	1,333
	- other pension costs	**621**	766
Fees payable to the company's auditor	- audit of company's annual accounts	**91**	74
	- audit of parent company's annual accounts	**8**	6
	- other assurance services	**63**	63
Other administrative expenses		**6,842**	4,953
		22,351	17,906

The average number of people employed by the Bank (including executive directors) during the year was 155 (2016: 127). At the end of the year, the Bank employed 170 people (2016: 137). The staff costs include directors' remuneration set out in note 4.

4. Directors' remuneration

The remuneration of the directors was as follows:	2017 £'000	2016 £'000
Emoluments	**2,372**	2,133
Fair value of options exercised	**-**	328
Company contribution to money purchase pension schemes	**50**	161

The number of directors who:	2017 No.	2016 No.
Are members of money purchase pension schemes	**2**	3
Exercised options over shares	**-**	1

The above amounts for remuneration include the following in respect of the highest paid director:	2017 £'000	2016 £'000
Emoluments and incentive schemes	**742**	572
Other pension costs	**36**	147

During the year to 31 December 2017, the Bank's holding company, UTB Partners Limited, issued no options over its shares to the directors of the Company (2016: 20,000).

5. Operating profit on ordinary activities

Operating profit on ordinary activities is stated after charging:

	2017 £'000	2016 £'000
Auditor's remuneration (note 3)	**162**	143
Depreciation and amortisation	**443**	362
(Gain)/Loss on disposal of property, plant and equipment	**–**	(11)
Operating lease: property	**851**	516

6. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2017 £'000	2016 £'000
Current tax on profit on ordinary activities	**5,486**	4,406
Adjustments in respect of prior year:		
UK corporation tax	**29**	(607)
Total current tax	**5,515**	3,799
Deferred tax:		
Origination and reversal of timing differences	**(231)**	(326)
Effect of (increase)/decrease in tax rate on opening liability	**(204)**	221
Prior year adjustment	**–**	307
Total deferred tax	**(435)**	202
Total tax on profit on ordinary activities	**5,080**	4,001
Total current and deferred tax relating to items of other comprehensive income	**(177)**	(119)

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 percent from 1 April 2020.

During the year, the Bank's taxable profits exceeded £25m. The Bank Surcharge Levy of 8 per cent applies to profits above this level, leading to an additional £146k of tax payable for the year.

The standard rate of tax applied to reported profit on ordinary activities for the year is 19.25 per cent (2016: 20.00 per cent). Deferred taxes at the balance sheet date have been measured using enacted tax rates, including the Bank Surcharge Levy in future years, to the extent it is expected to apply.

During the year beginning 1 January 2017, the net increase of deferred tax assets and liabilities decreased the corporation tax charge for the year by £435k. This is partially due to an increase in deferred tax rate to allow for the Bank Surcharge Levy in future years.

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:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	**26,351**	20,680
Tax charge at 19.25% (2016: 20.00%) thereon:	**5,073**	4,136
Effects of:		
Expenses and provisions not deductible for tax purposes	**36**	20
Tax relief on share based payments	**–**	(76)
Tax rate changes	**(204)**	221
Bank Surcharge Levy	**146**	-
Prior year adjustment	**29**	(300)
Total tax charge for the period	**5,080**	4,001

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 forfeited if the employee leaves the Bank before the options vest.

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

	2017		2016	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	**434,500**	**6.79**	370,500	2.10
Granted during the period	**–**	**–**	111,000	20.00
Exercised during the period	**–**	**–**	(28,600)	1.00
Lapsed during the period	**(6,000)**	**4.17**	(18,400)	1.00
Outstanding at the end of the period	**428,500**	**6.80**	434,500	6.79
Exercisable at the end of the period	**345,750**		271,125	

The options outstanding at 31 December 2017 had a weighted average exercise price of £6.80 and a weighted average remaining contractual life of seven years. No options were granted in the year.

The Company recognised total expenses of £60k (2016: £240k) related to equity-settled share-based payment transactions in 2017.

The inputs into the Black Scholes model were as follows:

	2017	2016
Weighted average share price	**–**	£20.00
Weighted average exercise price	**–**	£20.00
Expected volatility	**–**	20%
Expected life	**–**	10 Years
Risk-free rate at date of grant	**–**	0.5%

Expected volatility was determined at a nominal 20%, 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

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
- Loans and advances to central banks	**115,220**	114,953
- Loans and advances to other banks	**25,483**	26,394
	140,703	141,347

9. Loans and advances to customers

	2017 £'000	2016 £'000
Loan receivables	**772,555**	532,673
Finance lease and hire purchase receivables	**88,872**	84,736
	861,427	617,409

Loan receivables:	2017 £'000	2016 £'000
Amounts falling due:		
- within one year	**507,480**	393,264
- over one year but less than five years	**125,793**	85,052
- more than five years	**141,582**	57,421
	774,855	535,737
Less: provision for impairment losses (see note 10)	**(2,300)**	(3,064)
	772,555	532,673
Of which repayable on demand or short notice	**46,459**	34,568

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

Finance leases and hire purchase receivables:	2017 £'000	2016 £'000
Gross investment in receivables falling due		
- within one year	**42,520**	40,138
- over one year but less than five years	**57,728**	56,443
- more than five years	**7**	21
	100,255	96,602
Less: unearned future finance income	**(11,082)**	(11,660)
Net investment in finance leases and hire purchase receivables	**89,173**	84,942

Net investment in finance leases and hire purchase receivables:	2017 £'000	2016 £'000
- within one year	**36,497**	33,776
- over one year but less than five years	**52,670**	51,146
- more than five years	**6**	20
Net investment in finance leases and hire purchase receivables	**89,173**	84,942
Less: provision for impairment losses on loans and advances (see note 10)	**(301)**	(206)
	88,872	84,736

Net receivable under finance leases and hire purchase contracts comprises:	2017 £'000	2016 £'000
- Finance leases	**14,090**	14,716
- Hire purchase	**75,083**	70,226
	89,173	84,942

10. Provision for impairment losses on loans and advances

The movement in the provision for impairment losses on loans and advances to customers was as follows:

Individual impairments provision:	**2017**	2016
	£'000	£'000
Balance at 1 January	**1,906**	2,780
Charged	**1,716**	2,179
Released	**(12)**	(436)
Net charge recognised in income statement	**1,704**	1,743
Written off provision	**(1,411)**	(2,142)
Unwinding of discount (note 2)	**(434)**	(475)
Balance at 31 December	**1,765**	1,906

Collective impairment provision:	**2017**	2016
	£'000	£'000
Balance at 1 January	**1,364**	951
(Reduction)/increase recognised in income statement	**(528)**	413
Balance at 31 December	**836**	1,364

Total of individual and collective provisions:	**2017**	2016
	£'000	£'000
Individual impairments provision	**1,765**	1,906
Collective impairment provision	**836**	1,364
Balance at 31 December	**2,601**	3,270

Any future recoveries after a loan has been written off are taken to the income statement.

Impairment losses taken to income statement:	**2017**	2016
	£'000	£'000
Individual impairments	**1,704**	1,743
Collective impairment	**(528)**	413
Recoveries during the year	**(94)**	(293)
Amount reflected in income statement	**1,082**	1,863

11. Debt securities

	2017	2016
	£'000	£'000
At 1 January	–	3,209
Sales and maturities	–	(3,000)
Movements in premium/(discount)	–	(209)
At 31 December	–	-

At 31 December 2017 the Bank held £30m (2016: £11m) of treasury bills under the Bank of England's Funding for Lending Scheme, which are held off balance sheet.

12. Tangible fixed assets

Tangible fixed assets comprise:	Leasehold improvements	Computer and office equipment	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2017	298	794	1,092
Additions	217	235	452
At 31 December 2017	515	1,029	1,544
Depreciation:			
At 1 January 2017	50	438	488
Charge	43	188	231
At 31 December 2017	93	626	719
Net book value:			
At 31 December 2016	248	356	604
At 31 December 2017	**422**	**403**	**825**

13. Intangible assets

	2017	2016
	£'000	£'000
Cost:		
At 1 January	**1,857**	1,473
Additions	**344**	384
At 31 December	**2,201**	1,857
Depreciation:		
At 1 January	**461**	281
Charge	**212**	180
At 31 December	**673**	461
Net book value:		
At 31 December	**1,528**	1,396

Intangible assets consist of computer software.

14. Other assets

	2017	2016
	£'000	£'000
Deferred tax asset	1,726	1,291
Accrued interest receivable	1,054	837
Prepayments and deferred expenses	6,617	3,854
Other debtors	19	82
	9,416	6,064

Deferred tax asset:		
As at 1 January	1,291	1,493
Effect of increase in tax rate on opening liability	201	(221)
Origination and reversal of timing differences	234	326
Prior year adjustment	–	(307)
As at 31 December	1,726	1,291

A deferred tax asset of £1,726k has been recognised at 31 December 2017 (2016: £1,291k) mainly representing timing differences on the 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

	2017	2016
	£'000	£'000
Amounts falling due:		
- within one year	542,827	400,052
- over one year but less than five years	330,034	264,520
	872,861	664,572
Of which repayable on demand or short notice	22,487	29,988

16. Loans to group companies

	2017	2016
	£'000	£'000
Repayable on demand:		
- Payable to / (receivable from) parent	54	(31)

17. Other liabilities

	2017	2016
	£'000	£'000
Accrued interest payable	7,354	5,955
Accruals and deferred income	9,267	7,641
	16,621	13,596

18. Financial instruments

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

	2017 £'000	2016 £'000
Financial assets		
Measured at amortised cost:		
- Cash and balances at central banks	**115,220**	114,953
- Loans and advances to other banks	**25,483**	26,394
- Loans and advances to customers	**861,427**	617,409
	1,002,130	758,756
Financial liabilities		
Measured at amortised cost:		
- Deposits from customers	**872,861**	664,572
- Long-term subordinated debt	**18,048**	18,048
	890,909	682,620

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

	2017 £'000	2016 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	**65,188**	54,228
Total interest expense for financial liabilities at amortised cost	**(15,027)**	(13,598)
	50,161	40,630
Impairment losses		
On financial assets measured at amortised cost	**1,082**	1,863
	1,082	1,863

19. Long-term subordinated debt

	2017 £'000	2016 £'000
2013 Tier 2 subordinated debt	**11,608**	11,608
2014 Tier 2 subordinated debt	**2,500**	2,500
2016 Tier 2 subordinated debt	**3,940**	3,940
	18,048	18,048

The 2013 subordinated debt bears interest between 8% and 9% payable semi-annually and is callable at the Company's option from 30 April 2019, with a final redemption date of 30 April 2024.

The 2014 subordinated debt bears interest at 9% payable semi-annually and is callable at the Company'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 Company's option from 30 October 2021, with a final redemption date of 30 October 2026.

20. Called up share capital

	2017	2016
	£'000	£'000
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**9,692**	9,500
Ordinary shares issued during the year	**158**	192
31 December (Ordinary shares of £1 each)	**9,850**	9,692

	2017	2016
	'000	'000
Number of shares:		
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**9,692**	9,500
Ordinary shares issued during the year	**158**	192
31 December (Ordinary shares of £1 each)	**9,850**	9,692

The Bank issued 158,000 shares of £1 each on 22 September 2017 for a total aggregate amount of £3,000,000. The premium arising is reflected in Reserves (see Statement of Changes in Equity).

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

	2017	2016
	£'000	£'000
2015 Contingent convertible securities	**4,700**	4,700
2017 Contingent convertible securities	**12,151**	-
	16,851	4,700

On 31 July 2015 the Company issued £5 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("AT1 Securities"). Net proceeds arising from the issuance, after deducting issuance costs, totalled £4,699,977. These 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. Interest is payable annually in arrears on each interest payment date and commenced on 30 November 2015.

On 29 September 2017 the Company issued further £12.2 million AT1 Securities. Net proceeds arising from the issuance, after deducting issuance costs, totalled £12,151,000. These 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. Interest is payable annually in arrears on each interest payment date and commenced on 30 November 2017.

The AT1 securities are convertible into Ordinary Shares of the Company in the event of the CET1 ratio falling below 7%.

22. Commitments

	2017	2016
	£'000	£'000
Conditional commitments to lend	**256,437**	201,195

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 moved to a new office in the City in 2015. A 10 year lease was signed, generating an operating lease commitment which is reflected in the table below.

In 2017 the Bank occupied additional office space in the same building. The operating lease matched the remaining term on the original lease. This additional operating lease commitment is reflected in the table below.

	2017	2016
	£'000	£'000
Commitments under annual operating leases for leased property expiring in:		
Less than one year	**822**	685
One to two years	**1,198**	747
Two to five years	**3,593**	2,241
Greater than five years	**2,495**	2,303

23. Employee benefits

The Bank operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss for this benefit in the period ended 31 December 2017 was £621k (2016: £766k).

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 such loans granted arises in the United Kingdom.

26. Risk management

Risk is inherent in all aspect 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 11 to 12.

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

- Board and management committees to approve risk 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; and
- Independent internal audit review which acts 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:

- Focusing on niche market segments where it has specific expertise;
- Maintaining detailed lending policies, which include limits on the absolute size of exposures and their loan to value percentage;
- Regularly reviewing credit limits on all lending, treasury and interbank exposures; and
- Through rigorous underwriting processes.

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 and underwriting process, the Bank ensures the quality of the loan book is sound. 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 2017**		At 31 December 2016	
	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	**816,423**	**140,703**	582,105	141,347
Past due but not impaired				
Loans and receivables at amortised cost:				
- Less than three months	**12,996**	**–**	17,854	-
- Three to twelve months	**15,278**	**–**	8,983	-
- One to five years	**–**	**–**	4,450	-
Impaired	**3,844**	**–**	2,494	-
Repossessions	**15,487**	-	4,793	-
Less: provisions	**(2,601)**	**–**	(3,270)	-
	861,427	**140,703**	617,409	141,347

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, albeit the loan to value remains acceptable.

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 characteristics, including sector, region, counterparty and 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. ALCO recommends 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 2017, 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 2017, the Bank's interest rate gap sensitivity, being the potential benefit on the Bank's economic value, resulting from a +/- 200bps parallel shift in the yield curve, was £4.7m and £13.0m respectively, on the basis that rates can go below 0.0%. Assuming a 0.0% interest rate floor, the benefit was £4.7m and £8.9m respectively. This takes into account appropriate behavioural adjustments.

Interest rate re-pricing table

2017	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	200,214	162,076	178,687	256,397	63,753	300	861,427
Loans and advances to banks and financial institutions	140,703	-	-	-	-	-	140,703
Other assets	-	-	-	-	-	11,769	11,769
	340,917	162,076	178,687	256,397	63,753	12,069	1,013,899
Deposits from customers	254,543	84,977	224,515	308,826	-	-	872,861
Other liabilities	-	-	-	-	-	16,621	16,621
Long-term subordinated debt	2,257	-	-	15,791	-	-	18,048
Loans from group companies	54	-	-	-	-	-	54
Shareholders' funds	-	-	-	16,851	-	89,464	106,315
	256,854	84,977	224,515	341,468	-	106,085	1,013,899
Interest rate sensitivity gap	84,063	77,099	(45,828)	(85,071)	63,753	(94,016)	
Cumulative gap	**84,063**	**161,162**	**115,334**	**30,263**	**94,016**	**-**	

2016	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	169,489	114,514	139,353	162,472	31,434	147	617,409
Loans and advances to banks and financial institutions	141,347	-	-	-	-	-	141,347
Loans to group companies	31	-	-	-	-	-	31
Other assets	-	-	-	-	-	8,064	8,064
	310,867	114,514	139,353	162,472	31,434	8,211	766,851
Deposits from customers	218,550	56,574	172,454	216,994	-	-	664,572
Other liabilities	-	-	-	-	-	13,596	13,596
Long-term subordinated debt	2,257	-	-	15,791	-	-	18,048
Shareholders' funds	-	-	-	4,700	-	65,935	70,635
	220,807	56,574	172,454	237,485	-	79,531	766,851
Interest rate sensitivity gap	90,060	57,940	(33,101)	(75,013)	31,434	(71,320)	
Cumulative gap	**90,060**	**148,000**	**114,899**	**39,886**	**71,320**	**-**	

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 II. Under Pillar 1, the Bank calculates its minimum capital requirements based on 8% of risk weighted assets. The PRA then adds an additional requirement to this amount to cover risks under Pillar 2A of Basel II and generates a Total Capital Requirement. The Bank benefits from a surplus of capital resources over and above its Total Capital Requirement. Further industry wide CRD IV buffers are set by both the regulators 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 assessment 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 ("ICAAP") 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 stress testing 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. The ICAAP therefore represents the view of management and the Board, of the risks faced by the Bank.

Regulatory capital resources

	2017	2016
	£'000	£'000
Common equity tier 1 capital		
Called up share capital	**9,850**	9,692
Share premium	**16,330**	13,488
Retained earnings	**63,284**	42,755
Deductions from common equity tier 1 capital		
Intangible assets	**(1,234)**	(1,117)
Common equity tier 1 capital	**88,230**	64,818
Additional tier 1 capital	**16,851**	4,700
Total tier 1 capital	**105,081**	69,518
Tier 2 capital		
Subordinated debt	**18,048**	18,048
Collective provisions	**836**	1,364
Total tier 2 capital	**18,884**	19,412
Total regulatory capital resources	**123,965**	88,930

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 other interests in the shares of any other group company.

29. Subsequent events

There have been no significant events after the date of the statement of financial position.

COMPANY INFORMATION

Bankers
Barclays Bank Plc
Lloyds Bank Plc

Auditor
Deloitte LLP

Legal Advisors
CMS Cameron McKenna 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