UNITED
WE GO FURTHER

UNITED TRUST·BANK

REPORT & ACCOUNTS **2023**

Registration Number: 549690


UNITED
WE GO FURTHER

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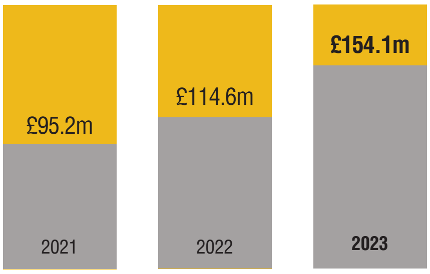
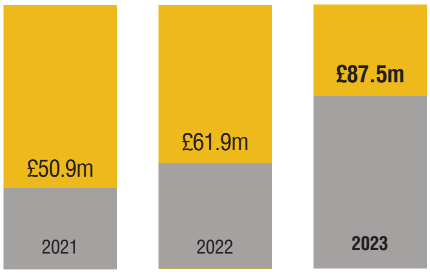
2023 KEY PERFORMANCE INDICATORS

OPERATING INCOME
£154.1m



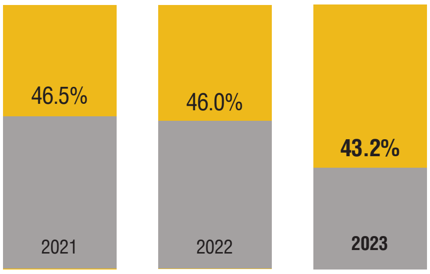
GROWTH IN OPERATING INCOME AS A RESULT OF STRONG LOAN BOOK GROWTH, AND NIM EXPANSION

ADJUSTED OPERATING PROFIT[1]
£87.5m



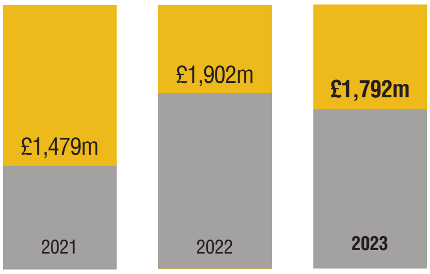
OPERATING PROFIT GROWTH AS A RESULT OF STRONG LOAN BOOK GROWTH AND COST MANAGEMENT

COST INCOME RATIO[1]
43.2%



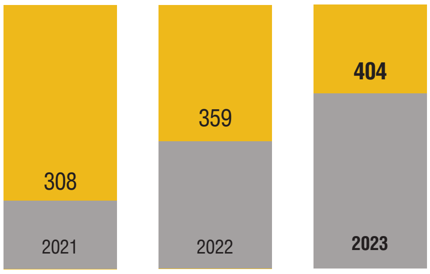
REDUCTION IN COST TO INCOME RATIO DUE TO OPERATING LEVERAGE AND EFFECTIVE COST MANAGEMENT

GROSS NEW LENDING
£1,792m



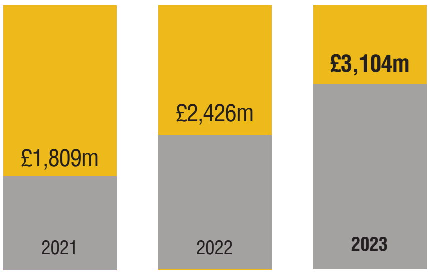
AFTER SIGNIFICANT GROWTH IN Q1-Q3, ORIGINATIONS WERE SLOWED IN Q4, IN RESPONSE TO A HIGHER RISK ECONOMIC ENVIRONMENT AND HOUSING MARKET

STAFF NUMBERS
404



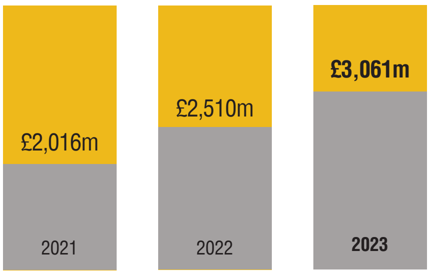
13% INCREASE IN STAFF NUMBERS

LOAN BOOK
£3,104m



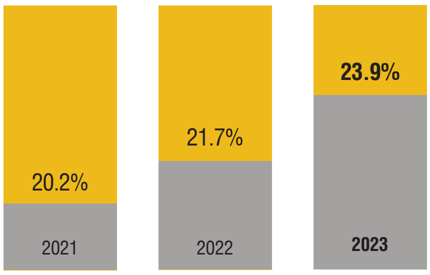
28% LOAN BOOK GROWTH

FUNDING[2]
£3,061m



FUNDING INCREASED BY 22% DRIVEN BY A 27% INCREASE IN CUSTOMER DEPOSIT BALANCES

RETURN ON EQUITY[3]
23.9%



INCREASE IN RETURN ON EQUITY WAS DRIVEN BY OUTSTANDING GROWTH IN PROFITS COMBINED WITH ACTIVE CAPITAL MANAGEMENT

1 Before provision for impairment losses
2 Includes the Term Funding Scheme with additional incentives for SMEs
3 Return on Equity is calculated net of the coupon paid on contingent convertible securities

CHAIR'S REPORT

During 2023, the UK economy was affected by the conflicts in Ukraine and Middle East, higher inflation and interest rates increasing to levels not seen since before 2009. In addition, the banking sector was unsettled by the failures of a number of regional American banks and Credit Suisse. Thankfully these failures proved to be idiosyncratic in nature and were resolved through prompt action by central banks and regulators, although the resolution of Credit Suisse left lasting dislocation in markets for bank loan instruments. By the end of the year, inflation levels had started to reduce and the prospects of interest rate cuts were visible, thereby improving the general economic outlook. Despite this challenging context, the results for the year have once again demonstrated the strength of United Trust Bank's ("UTB", "the Bank") business model. UTB has remained agile and resilient and has made further progress on its strategic priorities, resulting in outstanding performance for 2023.

The Bank has grown significantly and achieved a number of key milestones with profits before tax increasing by 38% to £82.7m and the loan book now exceeding £3bn for the first time. This is as a result of the Bank's long-term strategic focus on the sectors in which it operates, maintaining loan book quality and continued investment in people and technology. The Board is encouraged by the progress made over the last year and is confident that the Bank's business model gives it the flexibility to continue to deliver long-term value and to follow new opportunities.

The Board aims to ensure that the values and culture of the Bank are embedded in all of its activities. Its focus remains on providing excellent customer service and investing to support future growth. In July 2023, the Financial Conduct Authority's Consumer Duty became effective. Following a year-long project, UTB successfully delivered its Consumer Duty implementation plan, which ensures that consumer needs and outcomes remain at the heart of the Bank's operations. The Bank now employs over 400 people and significant continued investment in people and technology is planned for the year ahead.

I would like to extend my thanks to the Board, which remained unchanged in 2023, for their endless support, advice and guidance. As I look around the Board table, I remain confident that the Board's balance of skills and collective experience will continue to successfully guide the Bank through the opportunities, and any challenges, that lie ahead.

Finally, I want to thank the Bank's employees for their hard work and dedication throughout the year. UTB's people have shown themselves to be resilient and passionate and have produced an outstanding set of results in 2023. The year ahead will no doubt bring new uncertainties but I am confident that the team will work together to further support customers and deliver on the Bank's strategy.

Richard Murley
Chair
28 February 2024

CHIEF EXECUTIVE OFFICER'S REPORT

2023 has been another significant year for UTB with a number of new milestones achieved. The world economy has been buffeted by one crisis after another, continuing inflationary pressures and therefore a higher interest rate environment. Consequently economic growth slowed and the UK housing market has stagnated. The Bank has responded to these on-going challenges while continuing to support its customers, its people, suppliers and communities and pleasingly delivered an impressive return on equity of 24%. This success is testament to the quality and commitment of UTB's people as well as its resilient business model. I am pleased to say that the Bank has also made further progress against its strategic priorities as set out on pages 10 and 11.

Performance

The Bank's profit before tax grew 38% to £82.7m, driven by loan book growth and higher interest rates combined with progress in optimising funding costs. Whilst underlying credit performance remains robust, the uncertainty in the macroeconomic environment and housing market has meant these results have been partially offset by higher impairment charges. The capital market for banks has remained subdued, but nevertheless UTB successfully raised £27m of Tier 2 capital in 2023, further strengthening its capital position. Pleasingly, the Bank also extended and expanded its existing Enable Build Guarantee programme with the British Business Bank, which will further increase the Bank's capacity to lend to and support SME housebuilders.

The lending portfolio, which passed the £3bn milestone in the year, has been funded by corresponding growth in deposit balances. The Bank continues to enhance the way it is funded by diversifying its funding options through introducing new products, broadening its customer base and expanding its distribution channels.

Harley Kagan
Chief Executive Officer
28 February 2024

Considered Growth

All of the Bank's lending businesses grew their loan books in a more challenging environment. The Property businesses experienced a slightly subdued housing market in 2023 and worked closely with their customers to ensure that existing schemes remained on track and had dealt with the inflation in building costs. Significant growth was seen across Bridging Finance and Structured Finance due to strong originations and longer average loan tenors. During the year the Bank enhanced its Bridging Finance portal and accelerated its underwriting process for more complex Bridging loans to support its unregulated Bridging business, which is now staffed by a dedicated specialist team. The Bank is also looking to launch new products in the Property Business and the work started in 2023 will be finalised in the forthcoming year. This provides exciting new opportunities.

The Mortgages business saw good demand for both its first and second charge products, which resulted in solid loan book growth, pleasingly passing the £1bn milestone. It also expanded its distribution network and enhanced its digital platform capabilities. The Bank's new Buy-to-Let offering has been well received and is positioned to grow further.

The Asset Finance business saw steady levels of loan book growth in 2023. The Bank implemented a new Asset Finance core technology platform in early 2023 which significantly improved underwriting and operational efficiency. The Bank also entered the Block discounting market in 2023 and plans to expand this segment of the business.

Risks and Uncertainties

2023 began with warnings of the UK being on the brink of recession and, while the country has now recovered to pre-pandemic levels of output, the UK was reportedly the last major economy to do so. Inflation has reduced from a peak of c.11% in Q4 2022 to 4.0% by December 2023, with this trend expected to continue in 2024. The Bank of England increased base rate through 2023 from 3.50% at the start of the year to 5.25% in August, where it has remained. Market expectations are that rates have peaked and will fall in 2024. However, the Bank of England has indicated that interest rates may need to stay "higher for longer", as it prioritises the 2% inflation target. This means the cost of living crisis is likely to continue to be felt by UK borrowers, particularly by households with lower disposable income and those facing expiring fixed rate mortgage arrangements. Despite this environment and increased past due loans, prudent loan to value lending has resulted in impairment charges remaining low at £4.8m for the year, which equates to a cost of risk ratio of 17bps.

The Bank's operational risk profile and operational resilience continues to be an area of focus: key operational resilience themes are technology, cyber security, data and outsourcing risks.

Commitment to a Sustainable Future

The Bank recognises that it has an increasingly important role in helping people and businesses transition to a lower carbon future. The Bank has made steady progress in developing its climate strategy and roadmap, considering both its operational impacts and the implications across its Scope 3 financing activities, where more information can be seen on pages 16 to 20. The Bank celebrates diversity and is committed to maintaining an inclusive culture where all employees can feel proud to work for UTB. Overall diversity has increased across the Bank this year, specifically with greater representation of female leaders. The Bank has enhanced a number of initiatives during the year including its maternity and paternity benefits, a new Menopause policy and Neurodiversity assistance.

UTB ensures that its employees are given the opportunity to contribute to charitable causes. During 2023, the Bank's people came together to support their chosen charity of the year, Mind, who work to empower people to understand their mental health and the help available to them. The Bank also continued to partner with Food Bank Aid to help provide food to those in need, some due to the cost of living crisis. UTB also joined forces with CBI Smart Future Programmes and Think Forward, and continued to support its Apprentice Programme. These initiatives support young people from diverse backgrounds to gain insights and the skills they need to access careers in the banking sector. These are all very exciting initiatives which the Bank is proud to support and enable.

Customers

UTB has been recognised over many years for its excellent customer focus. This is reflected in the 26 industry awards won this year and additional highly commended placings achieved by the Bank and its people, a TrustPilot score of 4.6 out of 5 and consistently low levels of customer complaints. The Bank is committed to delivering good outcomes for customers in line with its values and seeks to continually refine its technology propositions to enhance customer journeys and customer satisfaction. During the year, the Bank successfully upgraded its online deposits platform to accommodate the launch of an ISA portal and provide a platform for future online banking products. Additionally, the Bank delivered a new Asset Finance core technology platform, which has increased efficiency and helped to deliver a smoother borrowing process for customers.

The Bank has successfully implemented a programme directly aligned to the requirements of the FCA's Consumer Duty, with work streams including fair value assessments, enhanced product reviews, customer communications reviews and full analysis of customers' end to end experience. In addition, a new Customer Experience Committee has been established to be the voice of the customer within UTB. The Bank's focus is now on continuing to embed its compliance with the Consumer Duty requirements into the Bank's daily activities.

People

The Bank has continued to focus on employee engagement to support the wellbeing and needs of its colleagues. To acknowledge the motivation and commitment of the Bank's people, the UTB Golden Owl Awards were launched in the year which recognise exemplary individuals within the Bank. I am delighted with the positive scores achieved in the Bank's most recent employee engagement survey, reflecting the Bank's distinctive culture. I am especially pleased given the 13% growth in headcount that the Bank has maintained both a high engagement and response rate, well above the industry average. The Bank is committed to developing its employees, ensuring they are supported through internal training programmes, professional qualifications and enhanced benefit packages. More information can be seen on these strategic priorities on pages 10 to 11.

The Bank's employees play a key role in driving the organisation towards lasting success and I would like to extend my gratitude to all the Bank's people for their dedication and resilience, especially in the face of the financial pressures brought about by the challenging economic climate. I am confident that united, the Bank will go further on delivering on its purpose to help its customers thrive and to create long-term shareholder value.

Outlook

While the economic headwinds in the UK seem to be easing, as inflation falls the cost of living crisis is still real and the Bank will need to carefully navigate its way in 2024. UTB is well placed to continue to develop and grow its business with a fantastic team of people and it looks forward to 2024 with confidence.

Thank you to the UTB team for their contribution, commitment and dedication during the last year. Together as a team we go further.

More information on the Bank's strategy can be seen throughout the rest of the Strategic Report on pages 8 to 20.

BUSINESS MODEL

Principal activities and business model

The Bank operates solely in the UK as a credit institution, raising capital and deposits and lending these funds to a range of borrowers in niche markets. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Bank's strategic focus is on developing and deploying expertise in a set of specialist markets where its market position is defensible and has attractive growth potential.

UNITED, WE GO FURTHER

Purpose

The Bank's purpose is to build a dynamic specialist bank that helps our customers achieve their ambitions and enables our people to thrive

Vision

The Bank's vision is to be a respected, resilient and profitable specialist bank, which employs outstanding people and balances an enterprising and innovative spirit with a commitment to long-term sustainable growth.

Culture

The Bank's values (Integrity, Tenacity, Teamwork, Responsibility and Customer Focus) are embedded in the Bank's culture to encourage and support diversity and inclusion at all levels of the Bank.

Strategic Priorities

The Bank's Strategic priorities support the Bank's business model and enable it to adapt to changes and expectations in the external operating environment. More information can be seen on the progress made in 2023 on pages 10 to 11

STRATEGIC PRIORITIES

The Bank's strategic priorities enable UTB to maintain its focus on doing the basics well and leveraging its unique strengths to accelerate growth. The progress made since launching these strategic priorities is reflected in excellent results for all of our stakeholders, and risk adjusted returns with an ROE of 23.9% achieved in 2023 (2022 21.7%).

People

Recruit, develop and retain the best people and ensure they flourish

- Staff attrition is below the finance industry average of 18.6%
- Supported many of its people to obtain external professional qualifications including ACCA, CeMAP Mortgages, CPSP and CBI Professional Banking
- Joined forces with Think Forward and continued to support the Bank's Apprentice Programme
- Enhanced benefits including additional holiday, pension, menopause clinic, maternity coaching and subsidised health checks

Brand Reputation

Build a brand and culture to be proud of

- TrustPilot ranking of 4.6 achieved by keeping customers at the heart of the Bank's operations
- UTB reignited its 5 values with its Values Champion campaign
- Won 26 industry awards and highly commended placings
- Developed the Bank's strategic brand positioning

Considered Growth

Build a strong niche specialist banking franchise by considered growth in originations

- 28% loan book growth year on year whilst delivering a sector leading ROE of 23.9%
- Controlled lending originations as part of the Bank's considered growth strategy, whilst managing a tougher risk environment
- In line with strategic plans the Bank entered the Block Discounting specialist lending market
- Reduced cost to income ratio to 43.2% through careful cost management

Customer Focus

Improve customer experience and good outcomes through strong relationships

- Increased the number of deposit accounts to 52,000 in 2023, an increase of 21% and increased the number of lending customers to 24,500 in 2023, an increase of 20%
- Consistently low levels of complaints
- Entered new market segments to serve a greater range of customers and support growth strategy.
- Maintained customer offers in turbulent markets, supporting existing client schemes
- Completion of the Bank's Consumer Duty implementation plan by 31 July

Credit Quality

Maintain excellent credit quality and our conservative foundations

- Continuously monitored evolving market conditions and tightened credit appetite timeously where appropriate
- Despite far more challenging market conditions in 2023, credit quality remains reasonable, with tail risk of 5.4% up from 1.8% in 2022
- Impairment charges remained low at £4.8m YTD, equating to a cost of risk ratio of 0.17%

Digital Strategy

Build a scalable user-friendly technology platform that enables growth

- Successfully delivered the deposits online platform upgrade to facilitate the launch of online ISAs and provide a platform for future online banking products
- Ongoing improvements to the Bank's information security people, processes and technology have strengthened its defences and have been validated through independent audit
- Launched new IT Service Management system
- Data programme progressing well to deliver standardised data and simplified reporting
- Enhanced Bridging Finance & Mortgages portals and delivered new Asset Finance platform

Diversified Funding

Enhance the way the Bank is funded to maintain diversification and optimise NIM

- Deposit Solutions, a tailored relationship based proposition for depositors with larger balances, launched in 2023
- On boarded a third deposit aggregator platform
- Increased marketing activities and focus on the business and charity sectors
- Increased mix of ISA balances compared to prior years

FINANCIAL OVERVIEW

Review of results

The Bank's adjusted operating profit before impairment charges increased 41% to £87.5m (2022: £61.9m), reflecting strong loan book growth, higher base rates and considered cost management. The net interest margin, including returns on liquid assets, increased from 4.48% to 4.55%. It is anticipated that as older, lower rate deposits roll off and are replaced with higher rate new deposits, the net interest margin will compress in 2024. Operating income increased by 34% to £154.1m (2022: £114.6m).

Operating expenses before provisions increased by 26% to £66.6m, as a result of significant investment in the Bank's digital strategy and its people, while the cost income ratio decreased to 43.2% in 2023 (2022: 46.0%). Impairment charges increased to £4.8m (2022: £1.8m): whilst underlying credit performance remains resilient. A deteriorating macroeconomic outlook increased the Bank's cost of risk (being the impairment charges divided by the average loan balance over the year) to 17bps (2022: 9bps).

Total assets increased 23% over the year to £3.44bn (2022: £2.80bn) driven by loan book growth and increased cash balances, as the Bank maintained its liquidity position. Total liabilities were up 23% to £3.14bn (2022: £2.56bn) mainly due to an increase in retail customer deposits to fund loan book growth.

Total capital and reserves (excluding contingent convertible securities) increased by 27% to £283m (2022: £222m), reflecting the level of retained profit in the year. Return on average equity increased to 23.9% (2022: 21.7%), which is driven by the Bank's focus on delivering long term value and growth as well as sustainable returns for its shareholders.

Tax Contribution

Appropriate, prudent and transparent tax behaviour is a key component of the Bank's corporate responsibilities. Through strong governance, controls and procedures, the Bank seeks to pay the right amount of tax at the right time and to maintain the Bank's reputation as a fair contributor to the UK economy. The Bank follows the HMRC Code of Practice for Taxation on Banks and is now large enough to be governed by HMRC's Senior Accounting Officer regime ("SAO"), which requires the Chief Financial Officer, the appointed SAO, to attest to the establishment and maintenance of appropriate tax accounting arrangements.

The Bank's tax expense was £19.5m (2022: £14.8m), which corresponds to an effective tax rate of 23.5% (2022: 24.5%), see note 5 for further details.

The table below shows the Bank's tax contribution:

	2023 £m	2022 £m
Corporation tax paid	**20.7**	14.1
Employee related taxes paid (income tax and national insurance contributions)	**19.4**	14.0
	40.1	28.1
Percent of Operating Income	**26.0%**	24.5%

Treasury and Funding

The Bank's funding continues to come primarily from the retail, business and charity savings markets, complemented by wholesale funding from the Bank of England's TFSME scheme. The Bank has increased activity in the ISA, SME and Charity markets and started to repay its TFSME borrowings. It continues to raise balances through deposit aggregator platforms and has recently added Insignis as the Bank's third deposit aggregator platform. Total customer deposit balances increased by 27% to £2.80bn (2022: £2.21bn) across 52,000 accounts. The FSCS scheme covers over 88% of aggregate deposit balances.

The Bank's liquidity reserves, including its liquidity buffer, are held at the Bank of England ("BoE") and in UK Government issued debt, while operational balances are held with UK clearing banks. The Bank continues to use swaps to hedge interest rate risk and in the year has recognised £2.0m of net interest income from swaps.

Capital Management

The Bank's Common Equity Tier 1 ("CET1") ratio was 11.7% (2022: 12.0%) at the end of the year, and its Total Capital Ratio was 15.0% (2022: 14.6%), comfortably exceeding the Bank's Total Capital Requirement ("TCR") (excluding regulatory buffers) of 9.00% (2022: 9.00%). The Bank actively manages loan book growth to maintain appropriate levels of surplus capital.

During the year, the Bank raised a total of £27m of Tier 2 10-year subordinated debt, of which £10m was issued directly to external investors and £17m was issued indirectly via its parent company, UTB Partners Plc, to external investors.

The Financial Policy Committee of the Bank of England increased the Countercyclical Capital Buffer ("CCyB") requirement to 2% in July 2023. The CCyB is in addition to the Capital Conservation Buffer of 2.5%. At the end of 2023, the total amount of capital committed to the combined buffers, which apply to all banks in the UK, was £102m (2022: £61m).

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 34 to 42.

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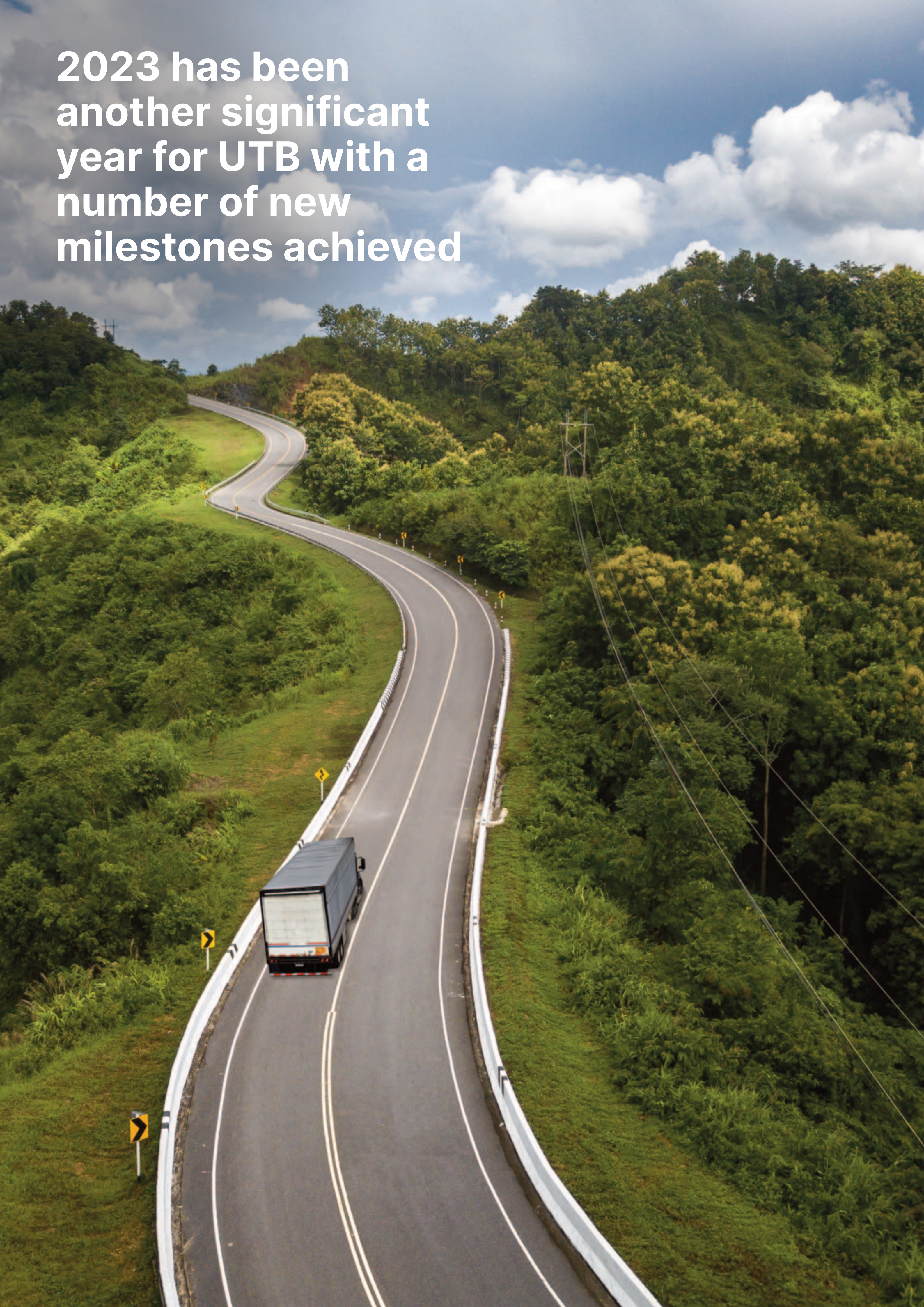
TOTAL ASSETS INCREASED 23% OVER THE YEAR TO £3.44BN

2023 has been another significant year for UTB with a number of new milestones achieved



SECTION 172

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

UTB has a long-term track record of creating value and delivering positive outcomes for all of its stakeholders. The directors work hard to understand and meet the need of its stakeholders, engaging with them and adapting its service and proposition to ensure stakeholder satisfaction. The Bank remains a successful and profitable business, which is privately owned and not subject to the distractions of short term share price fluctuations of the public markets. The Bank's strategy is focused on the long-term, to operate and grow sustainable businesses in segments of the market under-served by the large banks to ensure it maintains long-term relationships and add long lasting value to the wider community in which it operates.

Considerations set out in Section 172 are an important part of the Bank's governance and decision making processes at both Board and Executive level, and more widely throughout the Bank. The Board's terms of references detail the Schedule of Matters Reserved for the Board, which emphasises the importance of the Board decision-making with regards to the relevant factors under Section 172.

The Board is responsible for establishing and overseeing the Bank's values, strategy, purpose and strategic priorities, which are centred around the interest of the Bank's stakeholders. The Board has regular engagement with all of its stakeholders, both directly and indirectly, via the Executive Management Team. The directors are aware of and have effective regard to, the matters set out in Section 172. The Board acknowledges that it may have to take decisions that affect one or more stakeholder groups differently but it seeks to treat any groups which are impacted fairly. Detail on the Board's key activities in the year, can be found on page 26 of the Corporate Governance Report.

The following section details the Bank's key stakeholders, the key Board decisions which have been taken in the year and how each key stakeholder has been considered and engaged with throughout this process. It also considers the long-term value these decisions have for its stakeholders. All Board decisions made consider the regulatory context.

STAKEHOLDERS

Employees

The Bank had 404 employees as at 31 December 2023. The Bank has a diverse and motivated work force, who deliver the highest levels of service to the Bank's customers, clients and partners. The Bank is committed to developing its employees, ensuring they remain supported and engaged.

Stakeholder Engagement

The directors understand the importance of regular engagement with its employees to ensure the Bank attracts, builds and retains a diverse and high calibre talent pool and maintains high levels of employee motivation for their work for the Bank. Some examples of employee engagement include:

- **Employee engagement survey:** UTB conducted its latest employee engagement survey for 2023 to obtain insight from across the business. The Bank achieved high response and engagement rates and the results gave management insights into wellbeing, management, leadership, efficiencies and culture.

- **Regular Engagement:** The Bank maintains engagement with its employees throughout the year through engagement surveys, the appraisal process, senior management-led Town Halls, focus groups, induction programmes, welcome lunches, coffee catch ups and other business forums.

- **Training and mentoring programmes:** These are in place to support the development of all employees and include; management training, interview training and leadership training, plus support for professional qualifications.

Key Decisions

- **Enhanced Benefits Package:** In the year, a new maternity benefit was rolled out for maternity coaching to support employees before and after maternity leave. A new Menopause Policy was introduced which includes the benefit of an individual consultancy session. The Bank also introduced additional holiday allowance, increased pension contribution, introduced Vitality Health benefits and provided financial coaching.

- **Neurodiversity Assistance:** In 2023, the Diversity and Inclusion Committee implemented a new Microsoft tool, 'Read and Write', which supports neuro-diverse employees and helps them in their work.

- **Professional Qualification:** The Bank continued to support staff in attaining a range of qualifications, furthering their professional progression and enhancing their role at UTB. These qualifications include, ACCA, Chartered Banking, Project Management, CeMAP Mortgage Advisor Qualifications and Chartered Governance Institute.

Customers, Clients and Partners

Customers, clients and partners are at the heart of UTB. The Bank's strategy, purpose and values are customer focused and demonstrated through its continuous interaction via regular meetings and customer feedback programmes. The Bank seeks to deliver a responsive service with quick and flexible solutions to responsibly address customer requirements by investing in people and technology and continually adapting to its customers' needs.

Stakeholder Engagement

The Bank has customers, clients and partners across the UK. The Bank's long-term success depends on the strength of its relationships with these groups, its specialist expertise and maintaining high standards of service. Some examples of engagement includes:

- **End-to-end journey:** The Bank engages with its customers, clients and partners throughout their end-to-end journey with the Bank actively seeking their feedback. The Bank uses this feedback to evolve its proposition and offering.

- **Customer Satisfaction Measures:** Throughout the year the directors have regularly reviewed, discussed and challenged the Bank's support for its customers, particularly as part of the Consumer Duty process. This is reflected in the Bank's improved Trustpilot score.

Key Decisions

- **Consumer Duty Implementation:** The Consumer Duty implementation programme directly aligned to the requirements of the FCA's Consumer Duty, with work streams including fair value assessments, enhanced product reviews and enhancing customer communications.

- **Customer Experience Committee:** A new Customer Experience Committee has been established to review key metrics that determine and assess the quality outcome of the customer experience and oversee improvements to customer experience.

- **Digital Transformation:** During the year, the Bank enhanced its online deposits platform to facilitate the launch of its ISA portal, support vulnerable customers and provide a platform for future online banking enhancements. The Bank also expanded its Mortgages distribution network, enhanced its digital platform capabilities and implemented a new core technology platform for Asset Finance.

- **Block Discounting:** The Bank launched a new Block Discounting product as an extension of its Asset Finance portfolio.

Regulators

UTB's culture promotes high standards of compliance and conduct within the Bank and with external parties. In particular, as a regulated bank which holds customer deposits, safety, soundness and adherence to all relevant aspects of regulation is key to the Bank's business model.

Stakeholder Engagement

The Bank maintains a proactive dialogue with the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and has a constructive relationship with HMRC to help ensure the Bank is aligned with the relevant regulatory frameworks:

- **Regulatory engagement:** The directors and staff maintain awareness of current and future regulation through engagement with regulators, industry bodies and specialist advisors, via seminars, online forums, written updates and round table events. This has enabled the Bank to stay on top of increasing regulatory requirements and ensure that it operates to the standard required.

Key Decisions

- **FCA Consumer Duty:** As mentioned previously, the Bank recognises the importance of customer outcomes and recently implemented a number of changes to comply with the requirements of the Consumer Duty and will continue to embed the Consumer Duty regime.

- **Basel 3.1:** The Bank is actively engaged with the PRA and trade bodies regarding the consultation on the implementation of Basel 3.1 which is expected to be implemented in the UK in July 2025.

Communities and Environment

The Bank is committed to contributing lasting value and making a positive impact on the communities in which it operates and the environment more broadly. The Bank has been working on a suitable strategy and climate change roadmap for approaching sustainability issues. More information on climate change can be seen on pages 16 to 20.

Stakeholder Engagement

Engaging with local communities helps the Board and its employees develop their understanding of what needs to be done to achieve a more sustainable future. Examples of community and environment engagement include:

- **Charity work:** During 2023, the Bank continued engagement with Mind, the Bank's Charity of the year, and raised tens of thousands of pounds to support their work. In addition the Bank supported Food Bank Aid to help provide essential groceries to people increasingly dependent on food banks.

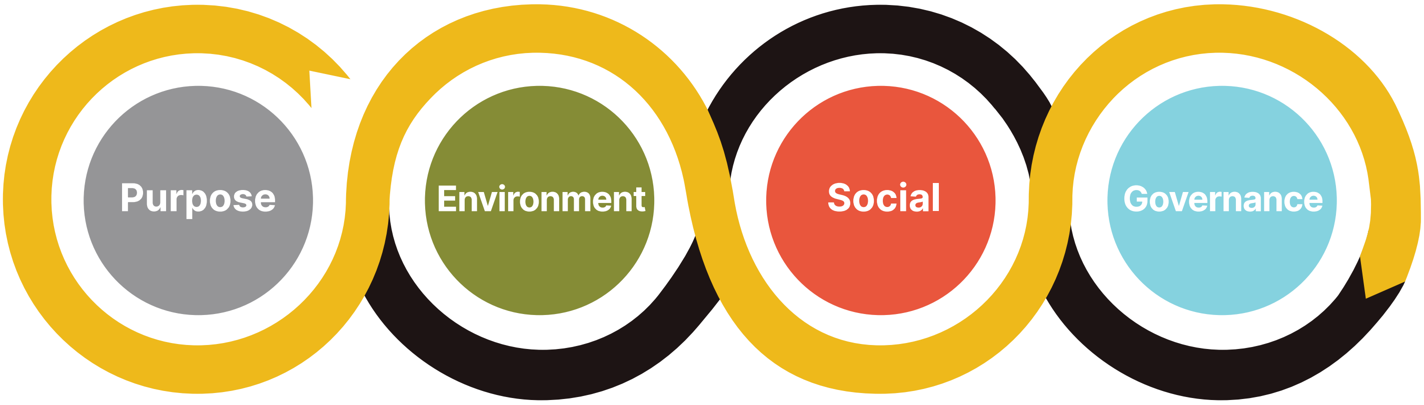
Key Decisions

- **Climate Change Strategy:** In the year the Bank worked with management consultants, Baringa Partners, who provide Climate Change strategy services, to advise on the Bank's Climate Change strategy and roadmap. The Bank also purchased carbon offsets to make the Bank carbon neutral.

SUSTAINABILITY REPORT

The Bank's Environment, Social and Governance ("ESG") strategy is designed to deliver benefits for all its stakeholders. UTB considers ESG as a key part of its business model which helps drive the Bank's long term success. The Bank has clear goals and defined ESG strategic pillars across each area of Environment, Social and Governance, and has focused on those areas where the Bank believes it can deliver the greatest impact.

ESG Strategic Pillars



Goals	The Bank recognises it has a role in supporting the transition of the UK to a net zero economy.	The Bank aims to recruit, retain and develop the best people, whilst promoting financial inclusion for borrowing and ensuring its customers' needs are met.	The Bank is committed to operating under a robust governance framework which underpins the Bank and considers all of its stakeholders.
Strategic Pillars	1. Reduce the Bank's climate change impact 2. Make progress towards the Banks climate change metrics and disclosures 3. Increase sustainability awareness amongst its employees	1. Ensuring consumer needs and successful outcomes remain at the heart of the Bank's operations 2. Build a diverse and engaged workforce 3. Give back to the community through partnerships and charitable donations	1. Maintain effective Board and management structures and processes 2. Ensure robust governance and risk management 3. Transparent and accountable disclosures
2023 Highlights	• Achieved Carbon neutrality through actions to reduce the Bank's carbon footprint and the purchase of carbon offsets • Partnered with external expert advisors, Baringa, to identify and calculate the carbon emissions arising from its financing activities	• Increased diversity with more females in senior roles • Support of the charity Mind and wellbeing activities to support mental health and neurodiversity • Donated £30k to the Bank's chosen charities • Increased the number of days available for employee volunteering commencing 2024	• Board training provided on Consumer Duty regime • Board approval of Climate Change Roadmap • Board training provided on Climate Change

UTB considers ESG as a key part of its business model which helps drive the Bank's long term success

Environment

Reducing carbon emissions per employee to support the transition to a greener future...

Energy and Carbon Reporting - The Bank recognises the importance of addressing the threat of climate change. The Bank reports on energy and carbon emissions to meet the requirements of the Streamlined Energy and Carbon Reporting ("SECR") standards and to improve the information available to the Bank's stakeholders.

The Bank's emissions for 2023 are shown below, as defined by the international Green House Gas ("GHG") Protocol.
To accommodate the growth of the Bank additional office space was acquired. This resulted in increased emissions but the Bank reduced its intensity ratio (tonnes of CO2e per employee) to 0.72 (2022: 0.79) despite the growth in business.

The GHG splits the emissions into three categories:

- Scope 1, Direct emissions – These are GHG emissions caused by activities owned or controlled by the Bank. The Bank owns two vehicles, both of which are electrical. Energy use from both vehicles totalled 2,024 kilowatt hour (kWh) and 0 emissions (tCO2e).
- Scope 2, Indirect emissions – These are GHG emissions which are a consequence of the Bank's activity, but arise from sources it does not own or directly control, e.g. gas and electricity consumption[1].
- Scope 3, Other – Scope 3 includes business travel by a limited number of staff who use their own vehicles. Calculating the volume of these emissions requires knowledge of the emissions of each employee's vehicle, which the Bank does not have records of, so it has calculated the emissions shown below based on average mileage claims submitted by employees. The Bank has begun work on collecting data that will, in due course, enable it to make more detailed disclosures of its Scope 3 emissions, which will include emissions from the Bank's lending activities

Breakdown of UK energy consumption used to calculate emissions (kWh):	Year Ended 31 December 2023	Year Ended 31 December 2022
Company owned or controlled vehicles	2,024	2,885
Electricity	269,861	316,103
Heat, steam and cooling[1]	850,024	757,495
Employee owned vehicles where the Bank pays for the fuel	47,540	35,936
Total gross energy consumed	1,169,449	1,112,419

Breakdown of UK emissions associated with the reported energy use (tCO_2e):	Year Ended 31 December 2023	Year Ended 31 December 2022
Scope 1 (Company owned or controlled vehicles)	-	-
Total Scope 1	-	-
Scope 2		
Electricity	55,311	61,128
Heat, steam and cooling	164,102	157,523
Total Scope 2	219,413	218,651
Scope 3		
Employee owned vehicles where the Bank pays for the fuel	52,584	40,004
Total Scope 3	52,584	40,004
Total gross emissions	271,997	258,655
Intensity ratio		
Tonnes of CO2e per employee	0.72	0.79

1 Includes heat provided by natural gas-fired plant not under the Bank's direct operational control (as a result of occupying multi-tenanted buildings where heating is part of the service costs). For the purposes of SECR this consumption is treated as a Scope 2 emission.

Thoughtful evaluation of where opportunities may arise for the Bank to make a meaningful difference...

Climate Change Strategy

UTB recognises that it has both a direct and indirect impact on the environment through its operations. To help develop the Bank's strategic approach to climate change, the Bank has partnered with expert consultants, Baringa, who have developed a roadmap and methodology to calculate Scope 3 emissions from financing and that in turn will help the Bank shape its approach to reducing these emissions. More information on the governance structure for climate change can be seen on page 20.

Key Climate Change initiatives include:

- Purchasing carbon offsets
- Reducing printing and paper use
- Electric car scheme for employees
- Cycle to work scheme
- Prioritising in office recycling

Risk Management

The Bank's ongoing work to identify the risks and opportunities climate change poses to the Bank's business model remains a key area of strategic focus for the Board and senior management. To manage climate change risks effectively, Baringa has supported the Bank in developing how it identifies, assesses and manages climate-related risks within its risk appetite. Climate change is considered in the Bank's Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP") and Recovery Plan.

In 2021 the PRA's and FCA's risk management working group, the Climate Financial Risk Forum ("CFRF"), published a list of risk categories for banks to consider. The most material risk categories identified and applicable to UTB are credit risk, operational risk and reputational risk. In assessing climate-related risks and opportunities, there are two primary streams from which impacts occur;

Physical risks may arise from different factors including specific weather events such as heatwaves, floods, wildfires and storms as well as long term shifts in climate, including extreme weather and sea level rises. These could result in physical damage to or impairment of the Bank's assets or collateral taken in lending.

Transition risk covers risks arising from government and society's response to climate change risk and from changing to a zero carbon economy. Transition risks may occur as policies are introduced to manage climate change which impact technology, regulation, business operations and the economy more generally.

Credit risk, the Bank's most material risk and the CFRF expects banks to start building data sets with a long-term goal of quantifying climate change risk. Baringa has supported the Bank in the review of its data, where advanced metrics inline with TCFD requirements will be disclosed in 2024. In the short term public data has been collected and used for loan book and scenario analysis.

Loan Book Analysis

While the Bank is exposed to potential credit risk, the Bank considers long term climate impact on its loan book to be minimal due to the general short term behavioural nature of the loan books which are focused entirely within the UK. Nonetheless, potential flood and coastal erosion risk is assessed as part of the underwriting process for property loans and none of the properties securing the Bank's loan book are in locations with very high or high climate risk sensitivity.

Scenario Analysis

Scenario analysis undertaken in 2021 confirmed that due to the general short-dated behavioural tenor of the Bank's lending portfolio, climate risk is not deemed to pose a significant financial risk to UTB in the short-medium term. In 2023, the Bank reviewed its climate change scenario modelling and concluded that the modelling undertaken in 2021 and conclusions drawn from it remain appropriate.

Social

Focus on creating opportunities for its clients, customers and colleagues...

Valuing The Bank's People - The Bank's people are key to its success and great emphasis is placed on recognising and valuing their contributions throughout the year. Some examples include;

- Awarding 3 Golden Owl awards that recognise exemplary staff
- Organised Social Events
- Christmas gifts for all staff and their children
- 2 Wellbeing days per annum
- Easter gifts for staff children
- Approved long service awards to commence in 2024

Listening to the Bank's people - The Bank recognises that employee engagement is essential. Further information can be found on employee engagement in Section 172 on page 14.

Diversity and Inclusion - Diversity and inclusion continues to be an important focus for the Board. The Bank is committed to ensuring that all of its employees can feel proud to work for UTB, regardless of their gender, age, race, ethnicity, disability, religion or belief, sexual orientation, background or neurodiversity.

The Board is committed to:

- Creating a working environment that promotes dignity and respect for every employee and provides support to staff when appropriate.
- Not tolerating any form of intimidation, bullying, or harassment, and disciplining those that breach this policy.
- Ensuring that learning, development and progression opportunities are available to all staff and are based on aptitude and ability.
- Promoting equality in the workplace.
- Encouraging anyone who feels they have been subject to discrimination to raise their concerns so that corrective measures can be applied.

In the year, the Diversity and Inclusion Committee have focused on the following key initiatives;

- Enhanced Maternity/Paternity Policy
- Maternity coaching benefit
- Menopausal advice benefit
- Neurodiversity assistance
- New Apprentice scheme
- Graduate recruitment campaign
- Equality data collection
- CBI Smart Future Programmes
- Networking event for women
- Celebrating Pride
- Joining Women in Business & Finance

Focus on Customers - The Bank continually explores ways to improve the customer experience. UTB ensures regular engagement with its brokers and customers through face-to-face interactions and surveys during key stages of the customer journey. The Bank appreciates that things do not always go to plan and when this happens the Bank aims to be open and put things right quickly and effectively. All of the Bank's customer related achievements can be seen in the Strategic Priorities section of the strategic report on pages 10 to 11.

Giving back to communities - The Bank is committed to having a positive impact on its communities and recognises that employees are often the driving force behind many community and charity activities. In the year the Bank;

- Gave employees volunteering opportunities
- Partnered with ThinkForward and hosted a career insight day for year 10 students from London schools.
- Volunteered at Foodbank Aid
- Donated to the Bank's chosen charity Mind.

Governance

Strong and Robust Governance is fundamental to the Bank's ESG strategy...

Effective Board and Management - The Board oversees the management of ESG related priorities, whilst management is responsible for the delivery. The governance of the Bank's ESG agenda is embedded within the Bank's existing governance framework and includes a range of specialist committees and working groups. ESG related matters regularly feature on the Board's agenda and the Board are frequently provided with training. ESG Board training in the year includes;

- Climate Change Strategy
- Climate Change Roadmap
- Consumer Duty
- People 'deep dive' which details the Bank's support and focus on its employees

Robust Governance and Risk Management - The Bank recognises that the activities of its customers, partners and employees can have ESG impacts. These risks include some of the following areas, and more information can be seen in the Risk Management section on page 34 to 42;

- Cyber security
- Whistleblowing
- Compliance, conduct and ethics
- Financial crime
- Operational resilience
- Outsourcing

Climate Change Governance - The Climate Change Committee reports to the Board periodically, setting out the progress made across all the sub-committees. This helps support the Board's decision-making process and educate key stakeholders on the risks and opportunities that climate change presents. These updates have been supported by externally facilitated training sessions, which focused on the complexities associated with climate change. This includes, the evolving regulatory landscape, specific Board and management responsibilities and best practice trends in the industry.

The Integration of Climate into the Bank's Governance Structure;

Harley Kagan
Chief Executive Officer
28 February 2024


The Bank continually explores ways to improve the customer experience

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS AND COMMITTEE MEMBERSHIP

RICHARD MURLEY
Chair

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 a Senior Advisor. Richard is the Chair of Macmillan Cancer Support and is a member of the Medical Research Council.

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HARLEY KAGAN
Chief Executive Officer

Harley Kagan is the Chief Executive Officer of United Trust Bank Limited and a chartered accountant. He has held a number of key roles at UTB including Chief Commercial Officer and Chief Financial Officer. He has worked extensively in banking and corporate finance, concentrating on acquisitions and disposals and was the Finance Director of the UK Operations of Insinger de Beaufort. He also worked as a strategy consultant with Cap Gemini.

● C

ALICE ALTEMAIRE
Non-Executive Director

Alice Altemaire has been Chief Executive Officer for RCI Bank UK since 2019, the banking arm of Groupe Renault providing savings and motor finance lending to UK customers. Previously, she held responsibilities at RCI Bank and Services group in Paris, as Group Controller, Vice President ("VP") of Accounting and Performance Control, VP of Mobility Services and Innovation and, since 2016, she has been a member of the Executive Committee. Alice has an MBA from ESSEC Business School and a governance certificate from IFA Science Po education.

● C

ANDREW HERD
Non-Executive Director

Andrew Herd is the Managing Director of Lancashire Court Capital Limited, a London-based investment and consultancy business. He is Non-Executive Chair of VGC Developments Limited a UK leisure and gaming operator and a Non-Executive Director of Nexus Group Holdings Limited, a property and publishing group, and Cazoo Group Limited, which buys and sells cars on-line. 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.

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ANDREW WOOSEY
Non-Executive Director

Andrew Woosey is an experienced board member and trustee with significant experience in financial services. He is currently a non-executive director of AIB Group (UK) plc, a Trustee and Committee Chair on the board of the Centre for Economic Policy Research and Chair on the board of Tom's Trust. Andrew is a Senior Advisor and Committee Chair for a number of Bain Capital LLP's portfolio companies. Andrew was previously a partner at Ernst and Young, is a qualified Chartered Accountant and graduated from Cambridge University.

● ● C

GRAHAM DAVIN
Deputy Chair

Graham was CEO of United Trust Bank from 2004 to 2020. 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 the Senior Independent NED of The Foschini Group, a listed multi-brand international retailing group and Chair of Optalitix Limited, an Insurtech SaaS provider.

JONATHAN AYRES
Executive Director

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

MARIA HARRIS
Non-Executive Director

Maria Harris is the former Director of Intermediary Lending at Atom Bank and is now a consultant specialising in fintech and digital transformation in the financial services sector. Maria is a well-known and highly respected figure in the mortgage industry and was responsible for creating and launching Atom Bank's disruptive and award-winning retail mortgages proposition. She chairs the Home Buying & Selling Technology Group, a government and industry collaboration group and the Open Property Data Association. She is a Chartered Fellow with the Chartered Management Institute and holds supporting roles with technology firms including Coadjute.

MARK STOKES
Executive Director

Mark Stokes is the Chief Commercial Officer of United Trust Bank Limited. He has over 20 years' experience at executive committee level and has a broad knowledge of commercial banking including property and asset finance lending into commercial, SME and consumer markets. Before joining UTB, Mark was Managing Director of Commercial Banking at Metro Bank and has held other senior roles at established and challenger banks including RBS, Lloyds Bank Plc and Chartered Trust

SARAH LAESSIG
Non-Executive Director

Sarah Laessig has 25 years' experience in financial services across banking, asset management and pensions. Sarah is Senior Independent Director of National Employment Savings Trust (NEST) Corporation, the UK's largest workplace pension scheme, a non-executive director of JP Morgan Global Growth and Income Investment Trust Plc, and a non-executive board member of Local Pensions Partnership Investments (LPPI), which manages pension fund assets, and a member of the Board of Advisors of data.world, a US based tech company. Sarah was formerly a Commissioner on the Civil Service Commission, an independent regulator that oversees appointments to the Civil Service. Sarah's executive banking career at Citigroup included managing businesses across developed and developing markets. Sarah holds an MBA from the Wharton School of the University of Pennsylvania.

STEPHEN LOCKLEY
Non-Executive Director

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

AUDIT COMMITTEE RISK COMMITTEE MANAGEMENT COMMITTEE REMUNERATION COMMITTEE C CHAIR

DIRECTORS' REPORT

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

The directors present their annual report, together with the financial statements and auditors' report for the year ended 31 December 2023.

Principal activities

The Bank's primary activity is the provision of credit on a secured basis in specialist 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 also finances plant, machinery and wheeled assets to small and medium sized enterprises ("SMEs"). All of the lending activities are funded by the Bank's capital base, a range of fixed and notice period deposit products offered to individuals and SMEs and drawing from the Bank of England's TFSME scheme.

Directors

Shane Bannerton stepped down as Company Secretary on 13 December 2023. Natasha Thomas was appointed as Company Secretary on 13 December 2023. A full list of the directors can be found on pages 22 to 23.

Dividend

No dividend has been declared or paid since year end and up to the date of signing.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and 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, PricewaterhouseCoopers LLP is deemed to continue as auditors'.

Going concern

The directors have, as is appropriate, adopted the going concern basis in preparing the financial statements. The Bank's business activities, together with the factors likely to affect its future development and performance are set out in the Principal Risks and Uncertainties section of the Risk Management Report. In determining the going concern status the directors have considered:

- Business Performance, Strategic Risk, Conduct and Compliance Risk and Operational Resilience
- Capital Risk:
  - The ability of the Bank to conduct its business profitably and generate sufficient revenues to cover costs
  - Sufficiency of capital resources to sustain the Bank's existing and planned business activities and maintain compliance with regulatory requirements
- Liquidity Risk: Adequacy of liquidity to fund the Bank's activities (including FSCS coverage, maturity profile and funding diversification) and to satisfy regulatory requirements
- Credit Risk: The credit quality of the Bank's loan book, based on recent experience and the Bank's credit policies

After considering the review of the Bank's operations and having made suitable enquiries, the directors have a reasonable expectation that the Bank has adequate resources, even under a stress scenario 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.

Directors' indemnities

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

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

Future developments

Likely future developments have been covered in the Risk Management Report on pages 34 to 42.

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 25 to the financial statements.

The Group's (unaudited) Pillar 3 disclosures, Tax Strategy and Modern Slavery Act statement are available on the Bank's website at www.utbank.co.uk.

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

Approved by the Board and signed on its behalf by:

Harley Kagan
Chief Executive Officer
28 February 2024

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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

"

THE BOARD PROMOTES THE IMPORTANCE OF HIGH STANDARDS OF CORPORATE GOVERNANCE AND EFFECTIVE BOARD OVERSIGHT IN SUPPORTING THE BANK'S STRONG PERFORMANCE, GROWTH, DELIVERING ITS STRATEGY AND ACHIEVING SUCCESS FOR ALL ITS STAKEHOLDERS.

BOARD REPORT

Chair's Introduction

On behalf of the Board, I am pleased to introduce the Corporate Governance Report for the year ended 31 December 2023. The report sets out an overview of the Board's roles and responsibilities and its key activities during the year.

UTB firmly believes in the important role that high standards of corporate governance and effective board oversight play in supporting the Bank's performance, the delivery of its strategy and achieving long-term sustainable success for the company's shareholders and other stakeholders. The Board is committed to maintaining a robust and effective governance, control and risk management framework and I am pleased once again this year to see the benefits of that framework.

The Board has been mindful throughout the year of the wider macroeconomic climate within which UTB operates and the impact that this has had on the Bank's customers and employees. The Board regularly considers these external factors when reviewing the Bank's strategy, risks and opportunities for growth.

Board Size and Composition

The Board of Directors of the Bank at the 31 December 2023 comprised of eight non-executive directors, including the Chair and Deputy Chair, and three executive directors as listed on pages 22 to 23. Five of the non-executives are considered to be independent. I chair the Board and am 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.

Board Changes

Shane Bannerton stepped down as Company Secretary on 13 December 2023.
Natasha Thomas was appointed as Company Secretary on 13 December 2023.

Board Responsibilities

The Board is responsible for:

- The overall direction and governance of the Bank and oversight of the Bank's management team.
- Establishing and monitoring the Bank's strategy. Implementation of the strategy is the responsibility of the Bank's Management Committee who report to the Board. The Board has oversight of how management implement the Bank's strategy and retains control through challenge at Board and committee meetings.
- Monitoring risk management, reviewing 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. The Board approves the level of risk that the Bank is willing to accept and is responsible for maintaining an adequate control environment to manage the key risks.
- Overseeing regulatory compliance and internal control systems and processes, and assessing the effectiveness of material controls.
- Ensuring the capital and liquidity resources are sufficient to achieve the Bank's objectives. The Board maintains close oversight of current and future activities through Board reports which include a combination of strategic proposals, financial results, risk and operational reports, budgets, forecasts and reviews of the main risks as documented in the ICAAP and ILAAP reports.
- Changes to the structure, size and composition of the Board.
- Overseeing regulatory compliance with the Financial Conduct Authority's Consumer Duty Regime.
- Undertaking appropriate engagement to understand the views of other stakeholders in accordance with relevant legislative and regulatory requirements and in particular Section 172 of the Companies Act 2006.
- Ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

Board Effectiveness

The Board meets at least six times during a year, based on a defined timetable, and additionally when required. All members of the Board receive accurate and timely information to enable them to effectively 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.

Board Key Activities in 2023

The key areas of the Board's focus during 2023 are set out below:

- Reviewed and approved the Bank's budget and three-year strategic plans.
- Reviewed and approved the Bank's capital, liquidity and recovery plans.
- Reviewed and approved the Bank's Liquidity Risk Management Framework.
- Considered the Bank's response to and the impact of geopolitical uncertainty and volatility in the economic markets and its reduced credit appetite.
- Reviewed an enhancement of the Bank's Operational Resilience Policy and Plan.
- Enhanced the Bank's suite of lending products, including the launch of Block Discounting.
- Reviewed the Bank's funding strategy and enhanced the suite of deposit products offered to the public.
- Engaged with regulators and regulatory developments during the year.
- Reviewed the Bank's Consumer Duty Implementation Plan.
- The Board and its committees spent time on a broad range of sustainability considerations in 2023 including staff retention, development and engagement, Climate Change and Diversity and Inclusion.
- Approved appointment of the Company Secretary.

Richard Murley
Chair
28 February 2024

RISK COMMITTEE REPORT

Risk Committee Chair's Introduction

On behalf of the Committee of the Board, I am pleased to present this report of the Risk Committee for my first year as Chair. The report sets out an overview of the Committee's key responsibilities and the principal areas of risk upon which the Committee has focused on during the year.

Over the last 12 months, the Bank has continued to manage risk effectively notwithstanding the challenges presented by a dynamic and volatile external environment. Economic uncertainty and the impact on the Bank's customers continues to be a priority for the Bank. Items on the Risk Committee agenda have reflected this, including frequent consideration of the economic environment and the Bank's response in a range of areas, including liquidity and capital risk management and credit risk appetite, the considerable work undertaken on implementing the Consumer Duty regime and monitoring the Bank's operational resilience and operational risk indicators.

Further details on the Bank's risk management approach and framework are provided in the Risk Report on pages 34 to 42.

Committee Size and Composition

I was appointed as Chair of the Risk Committee in March 2023 and as a consequence I stepped down as Chair of the Audit Committee. I would like to thank Stephen Lockley who stepped down as Chair of the Risk Committee for his valuable work over the last 9 years. The Risk Committee at year end had three members: two independent non-executive directors, Maria Harris and myself as Chair and non-executive director Andrew Herd who has been on the Board for over 9 years. Other directors and senior members of staff attend the committee meetings. The relevant experience and qualifications of each of the committee members are outlined in the biographies on pages 22 to 23.

Committee Roles and Responsibilities

The Committee plays an important role in setting the tone and culture that promotes effective risk management across the Bank. Its key responsibilities include:

- Advising the Board on the effectiveness of the Bank's risk management framework and compliance and conduct oversight framework, to ensure that key risks are identified, monitored and appropriately managed.
- Ensuring that the risk management function remains independent and adequately resourced.
- Reviewing and monitoring the Bank's risk profile relative to current and future strategy and risk appetite through a continuous process of identification, evaluation and management of all material risks.
- Reviewing the design and implementation of risk policies across the Bank.
- Reviewing the due diligence of any relevant proposed strategic transaction, focusing on the risk aspects and their implications for the risk profile and appetite and to advise the Board prior to the approval of any such the transaction.
- Reviewing and monitoring the appropriateness of the Bank's risk appetite, any emerging risks and risk trends, concentrations of exposures and any requirements for policy change.
- Reviewing the performance of the Bank relative to risk appetite and to receive and review reports from the Chief Risk Officer relating to any significant issues that require or are subject to remedial action.
- Ensuring that rigorous and comprehensive stress testing and scenario testing of the Bank's business is carried out regularly and that appropriate risk mitigation is in place.
- Reviewing, challenging and recommending to the Board for approval, the risk appetite, risk measures and risk limits, taking into account the Bank's capital adequacy (ICAAP), liquidity adequacy (ILAAP), recovery capacity and plan, operational capabilities and the external environment.
- Recommending to the Board annually the financial, credit, concentration, conduct, regulatory, operational and market related authorities, limits and mandates. Identifying, considering, overseeing, challenging and advising the Board on the Bank's exposure to all significant risks to the business.
- In cooperation with the Audit Committee, monitoring any identified control failings and weaknesses that may raise systemic risk issues and the relevant management actions taken to resolve them.
- Reviewing reports on any material breaches of risk limits and the adequacy of proposed actions to address such breaches.
- Reviewing and challenging the Bank's risk culture.
- Reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- Reviewing the results of any reviews of the Bank's activities by regulatory bodies and recommending to the Board any action required.

- Reviewing the activities of the Chief Risk Officer and the effectiveness of the risk function.

- Assessing whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

- To review the results of any thematic reviews, investigations or studies of bank activities by the FCA/PRA, or other regulatory bodies. To recommend to the Board what action should be taken and monitor its implementation.

Risk Committee 2023 Key Activities

- Oversaw ongoing improvements to the Bank's operational resilience and operational risk management processes; culture and conduct frameworks and reporting; and regulatory submissions and returns, including the Recovery Plan, ICAAP and ILAAP.

- Strong focus on the external environment, particularly credit risk and the quality of the loan portfolio. Credit policy and appetite was subject to ongoing review and update in the context of rapidly evolving market conditions, including conflict in Ukraine and the Middle East and economic uncertainty.

- Capital and liquidity management remained a key focus to ensure the Bank remained appropriately funded and capitalised, given the evolving external environment and the successful implementation of the Bank's growth strategy.

- Commenced development of a roadmap for climate change risk management to guide the Bank's approach to addressing the risks associated with climate change. More detail of this risk can be found on page 19.

- Reviewed and approved the Bank's Consumer Duty Implementation Plan.

Andrew Woosey
Non-Executive Director
28 February 2024

AUDIT COMMITTEE REPORT

Chair's Introduction

The Committee has continued to focus on its core roles and responsibilities while ensuring appropriate scrutiny of key risks emerging from economic, geo-political and regulatory change as well as from the Bank's increasing size and complexity. This has necessitated consideration of how these factors impacted the Bank's customers and employees. The Committee has continued to challenge key accounting judgements across the Bank, assessing the integrity and fair presentation of the Bank's and UTB Partners' financial reporting and reviewing effectiveness of the Bank's internal control framework. This has been achieved through active supervision and monitoring of the effectiveness, performance and objectivity of Internal Audit and External Audit processes. The following section details the Audit Committees size and composition, its roles and responsibilities and key activities which have been focused on in the year.

Committee Size and Composition

I joined the Audit Committee in March 2023 and was appointed as Chair, succeeding Andrew Woosey in the role. I would like to thank Andrew Woosey for his valuable work as Chair and am pleased that he remains an independent non-executive member of the Committee along with myself and Sarah Laessig as well as non-executive director Stephen Lockley. The Committee members bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The qualifications of each of the members are outlined in the biographies on pages 22 to 23.

Committee Roles and Responsibilities

The Committee's roles and responsibilities include, amongst other things, the following:

- Reviewing the draft Annual Report and Accounts of UTB and making recommendations to the Board.
- Overseeing the establishment and maintenance of accounting policies and practices, and reviewing the significant qualitative aspects of those accounting practices, including accounting estimates and financial statement and other regulatory disclosures.
- Reviewing the adequacy and effectiveness of processes and systems for internal control taking into account the output of the Bank's Risk Committee.
- Reviewing the results of any relevant reviews, investigations or studies of bank activities by the FCA/PRA, or other regulatory bodies, and recommending to the Board what action should be taken and monitoring that it has been implemented.
- Meeting with the External Auditors to discuss the nature, scope, effectiveness and outcomes of the audit, including approving the engagement letter and any amendments thereto and considering management's response to material observations from the External Auditor.
- Assessing the independence and objectivity of the External Auditors and the effectiveness of their performance annually by taking into consideration: relevant UK law, regulation and professional requirements; the nature and amount of non-audit work undertaken in line with the Bank's Non-Audit Services Policy; and the External Auditor's declarations of independence.
- Reviewing from time to time the choice of External Auditors and making appropriate recommendations to the Board, or approving any changes proposed by management.
- Reviewing any proposals for the External Auditors to undertake non-audit work, which may only be arranged with the prior agreement of the Audit Committee and in accordance with the Bank's Non-Audit Services Policy.
- Monitoring and reviewing the effectiveness of the Internal Audit function including its independence and objectivity by completing the activities set out in the following points.
- Reviewing and approving the Internal Audit plan and budget.
- Reviewing audit reports from the Head of Internal Audit, considering management responses to Internal Audit's findings and agreed audit actions. Additionally monitoring the timely closure of agreed audit actions by management.
- Considering whether the Internal Audit function is adequately and sufficiently resourced.
- Reviewing an annual assessment by Internal Audit of its compliance with global internal audit standards.
- Obtaining an independent and objective External Quality Assessment (EQA) of the Internal Audit function at appropriate intervals, currently recommended by the Institute of Internal Auditors to be at least every five years (this was satisfactorily completed during 2021).
- Considering the major internal and external audit findings and ensuring, via management, that agreed actions are implemented and, where necessary, reporting findings to the Board.
- The Committee also performs certain of the above activities on behalf of its parent, UTB Partners Plc ("UTBP").

Audit Committee 2023 Key Activities

- Reviewed accounting policies and accounting methodologies where there have been significant changes or where they are particularly material and require annual review.

- Reviewed and approved key approaches, policies and certifications of the Bank, including:
  - Approach to the assessment and confirmation of going concern.
  - Loan Loss Provisioning Policy.
  - Non-Audit Services Policy including assessing what services are required, why these are appropriate and why it is in the interests of the Bank to purchase those services from the External Auditors. An example includes Non-Audit services as part of the BBB Enable guarantee extension and expansion.
  - Model Risk Management Policy, including establishment of a process for oversight of its implementation.
  - Tax Strategy and Policy and Senior Accounting Officer Certification.

- Challenged key accounting judgements and key estimates such as loan loss provisioning.

- Monitored status of Internal Audit's 2023 annual audit plan, and reviewed and approved the proposed 2024 annual audit plan.

- Reviewed and approved the audit effectiveness questionnaire to ensure the Audit Committee has assessed and safeguarded the independence and effectiveness of the external audit process.

- Reviewed and approved Internal Audit's report on Operational Resilience, prepared in response to the PRA's request as part of a thematic sample of banks and building societies.

Alice Altemaire
Non-Executive Director
28 February 2024

REMUNERATION COMMITTEE REPORT

Chair's Introduction

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Committee Report for the 2023 financial year. The following section details the Remuneration Committee's size and composition, its role and responsibilities and key activities which have been a focus during the year.

Committee Size and Composition

The Remuneration Committee comprises of two independent non-executive directors, Sarah Laessig and me as Chair, and the Board Deputy Chair Graham Davin. The qualifications of each of the members are outlined in the biographies on pages 22 to 23.

Committee Roles and Responsibilities

- Approving the remuneration policy and staff reward framework for all staff.
- Approving the remuneration and other terms of service of Executive Directors, Senior Management Function staff and Material Risk Takers, including awards under the long-term incentive plan.
- Ensuring that the remuneration policy is structured to align reward to corporate and individual performance, corporate purpose and promote the long-term success of the Bank, within its stated risk appetite and risk management framework.
- Ensuring that there is a robust framework in place to attract, retain, develop and motivate employees to achieve their goals and the objectives of the Bank.
- Providing oversight of the Diversity and Inclusion framework and gender pay gap to ensure equal pay across the Company.
- Ensuring the remuneration policy is in accordance with the regulatory framework as set out in the Remuneration Code.

Remuneration Committee 2023 Key Activities

The key areas of the Committee's focus during 2023 are set out below:

- Approved the remuneration policy.
- Reviewed the talent and succession plan.
- Oversaw the Diversity and Inclusion framework and actions agreed by the Diversity and Inclusion Committee.
- Oversaw the project to review and enhance the Bank's performance management, job architecture and remuneration frameworks.
- Oversaw the Bank's Gender Pay Gap report.
- Approved the award of long-term incentive plan share options to senior staff.

RA Murley

Richard Murley
Chair
28 February 2024

RISK MANAGEMENT REPORT

APPROACH TO RISK MANAGEMENT

UTB's risk appetite and approach to risk management

UTB's management team sets the overall level and types of risk that it is willing to accept, in order to fulfil its strategic objectives, in a comprehensive risk appetite statement which is then approved by the Board. The Bank creates value by assuming risk and, as part of its annual strategic review process, the Board considers its key objectives and defines how much risk the Bank is willing to accept. The Board and management monitor and review risk appetite throughout the year in the context of emerging risks and changes in the external environment. In 2023 the challenging economic market with high interest rates and inflation, pressures in the banking sector and ongoing global conflict has caused strain for the Bank's customers and the wider financial market, which has been a key area of focus for UTB.

Practical implementation of the Board's risk appetite is achieved via a risk management framework and suite of policies. Business units are responsible for adhering to risk appetite, and the independent Risk department is responsible for monitoring adherence to and for reporting performance against risk appetite.

The Bank's Chief Risk Officer ("CRO") reports performance regularly to the Board, Board Risk Committee and executive management, presenting commentary on performance against key risk indicators and developments in the risk environment, supported by a comprehensive risk dashboard and other management information.

Risk Management Framework

UTB's Risk Management objectives include enabling the Board to understand the risks to which the Bank may be exposed and ensuring that comprehensive risk information is captured and reported to the Board. The identification and measurement of risks allows senior management to ensure that the risks they take on are within the risk appetite set by the Board.

The risk management framework and the governance arrangements provide a clear organisational structure with defined lines of responsibility and appropriate processes to identify, manage, monitor and report the risks to which the Bank is or may become exposed. It provides the overarching framework under which all subsidiary risk frameworks, policies, and procedures are developed.

The framework seeks to ensure that the risks to which the Bank is or may become exposed are appropriately identified and that those risks which the Bank decides to assume are managed so that the Bank is not subject to material unexpected loss. It also describes the interactions between the different risk processes within the Bank such as the risk appetite statement, stress testing, the ICAAP, the ILAAP and recovery planning.

The risk management framework provides an enterprise-wide view of UTB's approach to risk management, setting out how risk information is used within the Bank's decision-making and the risk management strategy, risk appetite, risk culture and risk governance. The framework supports business activities through continuous monitoring and management against the Board's defined risk appetite.

Risk Culture

The Board considers a robust risk-aware culture to be fundamental to sound risk management. The Risk Management Framework emphasises the importance of this embedded culture throughout UTB, which provides protection for customers, creditors, investors and other stakeholders.

Business decisions are taken within the context of this culture and are "risk-informed". They adhere to the Bank's risk appetite and policies and are monitored, controlled and reported to the appropriate level for oversight, as defined in the Bank's governance arrangements. The Board sets a clear expectation that business decisions:

- take account of risks;
- are compliant with approved policies;
- are within the defined risk appetite;
- can be monitored; and
- are reported to the appropriate level for oversight.

UTB monitors performance against key culture and conduct metrics, using a Culture and Conduct Risk dashboard, periodically reporting progress and compliance with key metrics to executive management and the Board Risk Committee.

The Bank's risk culture is evident in:

- a clear "tone from the top" reflecting a strong governance culture and ethics;
- a clear business strategy that is communicated and understood throughout the Bank;
- a risk appetite that is in line with the business strategy and embedded in the day-to-day management of the Bank;
- clear and well understood frameworks and policies;
- clear and risk-informed decision making with personal accountability;
- open channels of communication throughout the Bank to freely raise, discuss, understand, challenge and address issues;
- appropriate and ongoing training for all employees engaged in taking and controlling risk;
- no tolerance for ethical breaches, and prompt management of any that do occur; and
- effective performance measurement processes to promote prudent risk management, address poor risk management and avoid conflicts of interest.

UTB has well-defined values which are communicated to all staff and their importance is emphasised and reinforced through coaching, training and performance objectives. All colleagues are aware of the need for sound risk management and their part in it and they are encouraged to identify, address and report risk incidents promptly. Management analyse historical incidents in order to draw conclusions, promote and share good practice and learn lessons from poor practice, "near miss" incidents and actual errors.

The Bank seeks to avoid conflicts of interest in reward structures and to develop compensation structures that encourage prudent risk taking, compliant with regulatory requirements.

Risk Governance

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

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the Bank's Risk Committee and the Board and Audit Committee where appropriate. The Audit Committee is assisted by Internal Audit, which undertakes reviews of risk management controls and procedures on a risk-based periodic basis or as required. The Risk Committee is assisted by second line monitoring teams, covering Compliance, Financial Crime, Credit Quality and Operational Risk.

Committee Responsibilities

Details of the Bank's Board and main committees (Audit Committee, Risk Committee, and Remuneration Committee) are set out on pages 26 to 32.

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

Management Committee	The Management Committee is chaired by the Chief Executive Officer and includes the Chief Commercial Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Operating Officer, the Chief Technology Officer and the Director of Human Resources. The executive directors provide a direct link to the Board. The committee meets at least 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 performance of the Bank, its response to market conditions, major projects, key personnel, Consumer Duty, Operational Resilience, Climate Change, Diversity and Inclusion and significant events. It does not focus on day-to-day operations which are delegated to other committees and are the responsibility of line managers. It considers all exceptional items and reviews the risk profile, capital, liquidity and performance of the business.
Credit Policy Review Committee ("CPRC"), Credit Committee and Watchlist & Recoveries Committee	The Management Committee has delegated responsibility to the Credit Policy Review Committee for monitoring the Bank's exposure to credit risk and that the Credit Policy is appropriately applied as part of the lending process. The CPRC meets bi-monthly. The CPRC is chaired by the CRO and has two sub-committees, the Credit Committee and the Watchlist and Recoveries Committee. The Credit Committee meets daily, if required, to consider individual lending transactions in accordance with lending authorities delegated by Management Committee and the Board. The purpose of the credit committee meetings is to consider credit proposals on specific transactions and make credit decisions. Decisions include whether to approve new or increased lending proposals; material variations in terms and conditions; annual reviews where applicable; and credit strategy on existing exposures in the light of factors including material new information, a deterioration in credit quality or a request to extend or change credit terms and conditions. Asset Finance and Mortgage applications are approved by delegated authorities. The Watchlist and Recoveries Committee is also a sub-committee of the CPRC. It meets monthly to review emerging and current high risk credit exposures and to ensure that adequate loss provisions are charged.
Asset and Liability Committee ("ALCO")	The Management Committee has delegated responsibility to ALCO for monitoring, the Bank's exposure to capital, liquidity and interest rate risk. ALCO meets at least monthly and ensures that the Bank adheres to the capital, liquidity and interest rate risk appetites and policies, as approved by the Board. It is also responsible for ensuring that policies are in line with regulatory requirements. ALCO is chaired by the CFO. The committee is also responsible for the effective management of the Bank's assets and liabilities mix and profile, anticipating the impact of future business activity and management actions.
Business Management Committees	The Business Management Committees exist for each of the lending and deposits business units. These committees review the management information provided by the business, including monthly and YTD performance; key risk metrics; MI on third parties such as brokers, valuers and solicitors; conduct, compliance and operational risk dashboards and MI; and new product and process proposals. In some cases these meetings are the relevant forum for approval of proposals, in other situations this meeting performs a review function prior to the request being elevated to a forum such as the Management Committee, a Board Committee or the Board itself for approval.
Change Management Committee	The Change Management Committee provides governance, prioritisation and approval of material business and technology changes. Change Management Committee is chaired by the CTO. The Committee acts as an escalation forum for all project steering committees and reviews status reports, key issues and project risks. The committee considers the risk to the overall change agenda, in conjunction with the Risk division, for material changes and advises on appropriate modifications to schedule.
Compliance and Conduct Management Committee	The Compliance and Conduct Management Committee is responsible for overseeing compliance with non-prudential regulatory requirements and conduct risk. The committee is chaired by the Compliance Director. The purpose of the committee is to assess and monitor the Bank's compliance with internal, legal and regulatory requirements in terms of Conduct, Financial Crime, Data Protection and Regulatory Compliance and to advise executive management and the Board on these matters.
Climate Change Committee	The Climate Change Committee seeks to ensure that the Bank has identified its risk exposure to climate change, embedded that risk into the risk management framework and processes and articulated the risk in terms of recognising the potential future impact of climate change. The committee is chaired by the COO.
Customer Experience Committee	A new Customer Experience Committee has been established to ensure the Bank continues to service its customers in a way that delivers consistently good products, services, and outcomes, and preserves the Bank's good reputation. Additionally, the Customer Experience Committee will make certain that regulatory expectations, including the Consumer Duty, are being met or where they are not, that appropriate corrective action is being taken. The Committee is authorised by the Management Committee and Chaired by the Chief Operating Officer.

Three lines of defence

In line with industry best practice, the Bank follows a "three lines of defence" model which is integral to the risk management framework. All three lines of defence contribute towards the management of risk through effective management and oversight to ensure compliance with Board risk appetite, regulatory and policy requirements.

First line of defence

The first line of defence comprises the operating departments and staff who are the risk owners with responsibility for identifying and managing the risks arising within their areas. Departments are responsible for managing risks by operating within risk appetite, approved policies and by implementing and maintaining appropriate and effective systems and controls. Policies are approved by authorised committees in line with their terms of reference and are reviewed at least annually with any material changes requiring approval at committee level.

Each department's management is responsible for understanding risk within their business and for measuring, assessing and controlling risks. To assist in meeting this requirement, each business unit has its own operational processes and procedures, documented to set out how they conform to approved policies and controls.

First line businesses have their own quality control processes to monitor and assess adherence to approved procedures. Their staff constitute the Bank's first line of defence and are expected to be aware of and own the risks relating to their activities. A regularly updated Risk Control Self-Assessment ("RCSA") process identifies the risks within each business unit, assesses and rates the likelihood and impact of each risk and identifies and rates the effectiveness of the relevant controls.

Second line of defence

The second line of defence comprises an independent risk management function which provides governance and oversight. The risk function monitors and controls adherence to regulatory requirements and the Bank's policies and appetite, providing challenge and guidance as required.

The second line of defence is responsible for communicating the risk strategy, risk framework and defined risk appetite to the departments. It independently monitors and conducts assurance programmes on the key activities of the first line of defence and the effectiveness of controls.

The second line of defence also performs stress testing to assess the Bank's risk exposures and their potential impact under a range of adverse scenarios. The main functions of the second line of defence are in relation to financial, capital, credit, liquidity, interest rate, operational, conduct and compliance risk. The Compliance Director, the Head of Credit and the Head of Prudential Risk report to the Chief Risk Officer who reports to the Chief Executive Officer and the Chair of the Risk Committee. UTB employs an experienced team of risk management specialists in each department within the risk management function. The risk management function does not have volume or sales targets and works proactively with business units to identify, challenge, measure, manage, monitor and report the risks arising within the business.

Third line of defence

The third line of defence comprises the independent internal audit function, which provides independent and objective third line assurance to the UTB Board and Management over whether significant risks are identified and appropriately reported to the Board and Management; whether those risks are adequately controlled; and, challenges Management to improve the effectiveness of governance, risk management and internal controls. Internal Audit is overseen by the Audit Committee and reports functionally to the Chair of the Audit Committee and administratively to the Chief Executive Officer.

The third line of defence's scope and programme of work is agreed with the Audit Committee to provide an independent assessment of the internal control framework of the Bank. It can review both activities in the first line such as adherence to policy and controls, and activities in the second line such as policy setting, monitoring and related controls.

Scenario Analysis and Stress testing

The Board takes a forward-looking view of strategic, capital and liquidity planning as part of its ICAAP, ILAAP and Recovery Plan. Sensitivity analysis, scenario analysis and reverse stress testing are used in these processes.

Stress testing and scenario analysis are risk management techniques used to evaluate the potential effects on the Bank's financial resources, following a specific event and/or movement in a set of risk drivers. They focus on extreme but plausible scenario events and provide a useful risk management tool in assessing the adequacy of the Bank's capital and liquidity resources and potential responses to each scenario.

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

Risk Management Strategy

The purpose of the risk management strategy is to:

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

The level of risk that the Bank can assume and the strategy are informed by:

- the results of stress tests and scenario analysis; and
- the Bank's risk capacity.

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

The Board sets out the risk that can be assumed in each risk category by way of:

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

The Bank's Board approved risk appetite is documented in the risk appetite statement which details monitoring and escalation levels for risk metrics, including capital and liquidity. The risk appetite statement is reviewed at least annually or whenever there is a material change in the Bank's risk appetite, its activities or the market or economic environment within which it operates.

RISKS AND UNCERTAINTIES

Principal Risks and Uncertainties

Management and the Board carry out regular and ongoing reviews of the main risks and uncertainties facing UTB. The key risk categories are those risks which could threaten the achievement of the Bank's strategic objectives, its business model or financial performance. They are determined by management and the Board with the aid of the corporate risk register. For each key risk category, a risk appetite is defined and the Bank's exposure to this risk category is managed and reported against the defined appetite. Details of the key risks, their mitigation and changes in risk profile during 2023 are provided below:

Risk Category	Mitigation	Update on risk profile in 2023
Business performance and strategic risk The risk arising from changes in the business environment, the Bank's business model and improper implementation of the Bank's strategy and business decisions	• Well established planning, budgeting and stress testing processes • Regular reporting and assessment of performance against budget • Monitoring of economic metrics, developments, industries and economic outlook • Annual review and update of the business plan • Regular assessment of risks inherent in strategic decisions	The Bank continued to achieve its strategic and business objectives within a challenging external environment of heightened risk. 2023 began in an economic environment dominated by expectations that the UK was likely to enter recession, having avoided this outcome in H2 2022. Both the Bank of England and the IMF forecast that the UK would enter recession during 2023, that inflation would fall sharply from Q2 2023 and that interest rates would begin to fall during H2 2023. During the course of the year, this combination of forecast outcomes did not occur, with inflation proving more resilient than expected and the Bank of England forecasting that interest rates are unlikely to reduce in H1 2024. Given the external environment at the beginning of 2023, UTB's strategic plan was implemented in an environment which supported strong growth in the Structured Finance and Bridging Finance lending units. Conversely, but as expected, Property Development has experienced more challenging conditions for originations. In light of the economic outlook, specific restrictions on credit appetite that had been put in place in Q3 2022 were augmented in Q3 2023 by additional appetite restrictions across all lending units. Overall loan book growth during the first three quarters of 2023 was strong, distributed across all lending units but at differing rates of growth. In the context of more difficult trading conditions, the strategy of focused tightening of credit appetite slowed loan book growth in the final quarter of 2023, with total loan book growth of 28%. The growth in the lending portfolio has been funded within strategy by a corresponding growth in deposit balances. The Deposits business unit continues to benefit from increasingly more efficient processes and closely co-ordinates deposit-raising activities with lending unit cashflow projections. In addition to deposit funding the Bank had £260m of drawings from the Bank of England under the TFSME scheme at year end, which was fully collateralised by Asset Finance loans and first charge mortgages. The Bank has started repaying the TFSME scheme, and repaid a total of £40m in 2023. In 2023, the Bank entered the Block Discounting market as an extension of the Bank's Asset Finance business. The strategy and credit policies for this product were reviewed and approved by Risk Committee and the Board in 2023. In summary, UTB's strategic risk profile was materially unchanged in 2023, although the external environment has become more challenging over the course of the year. In the year UTB launched Deposit Solutions, a tailored relationship based proposition for depositors with larger balances. Otherwise, the Bank has offered similar deposit and lending products in the same market segments and geographic areas. The Bank continues to review the economic outlook and to test its financial robustness by carrying out regular stress testing in the context of potential adverse economic conditions. More information on stress testing can be found in the Risk Management section on page 36.

THE BANK CONTINUED TO ACHIEVE ITS STRATEGIC AND BUSINESS OBJECTIVES WITHIN A CHALLENGING EXTERNAL ENVIRONMENT OF HEIGHTENED RISK

Risk Category	Mitigation	Update on risk profile in 2023
Capital risk The risk of having insufficient capital to meet regulatory requirements and to support the Bank's business plan	• The Bank maintains a prudent capital base • Regular stress testing and forward looking management of capital resources and requirements and management of loan book growth within projected capital resources • Annual assessment of capital adequacy through the ICAAP process • Active monitoring of changing regulatory requirements	The Bank continued to maintain a prudent level and mix of capital resources. The Bank maintained its capital ratios in excess of regulatory requirements throughout 2023. At 31 December 2023, the CET1 ratio was 11.7% (2022: 12.0%) and the total capital ratio was 15.0% (2022: 14.6%). Due to the challenges faced in the banking sector and the uncertain economic environment, investor appetite remained supressed for bank loan capital transactions during 2023. In this context the Bank managed loan book growth to prudently maintain capital levels above buffers. During the year, the Bank raised a total of £27m of Tier 2 10-year subordinated debt, of which £10m was issued to external investors and £17m was issued via the Bank's parent company UTB Partners Plc, to external investors. The Bank continued to use a number of government-backed lending schemes during 2023, including the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Recovery Loan Scheme ("RLS") although there was no additional lending under these schemes in 2023, these schemes all provide the Bank with a capital benefit. In the year the Bank extended and expanded its existing Enable Build Guarantee securitisation programme with the British Business Bank, which increase the Bank's capacity to lend to housebuilders. The Bank of England increased the Countercyclical Capital Buffer ("CCyB") to 2% in July 2023.
Liquidity and funding risk The risk of the Bank being unable to meet its obligations as they fall due or do so only at excessive cost	• The Bank's activities are predominantly funded through the stable retail deposit market, with most deposits covered by the Financial Services Compensation Scheme, and through drawings from the TFSME scheme • Regular liquidity scenario analysis and stress testing is performed • Forward looking management of liquidity requirements • Annual assessment of liquidity adequacy through the ILAAP process. The Bank manages its liquidity in alignment with internal and regulatory requirements • Maintenance of prudent levels of liquidity • Established policies and detailed limits to manage liquidity risks • Maintenance of a diverse funding profile • Limited wholesale funding (TFSME and capital instruments) • Access to the Bank of England's Discount Window Facility • The Board approves UTB's liquidity risk management strategy and ALCO meets at least monthly to review liquidity risk in comparison with appetite and early warning indicators • Liquidity metrics are monitored daily by Treasury and the Bank's senior management	The Bank maintained a stable funding base and suitable levels of liquidity to fund the business. The cost of deposits continued to increase during H1 2023 in line with market-wide rising interest rates. As market sentiment moved towards the view that interest rates were close to peaking during Q2 and Q3, it became progressively easier to raise longer-term deposits. The Bank uses swaps to mitigate interest rate risk and has also been able to raise longer-term deposits to achieve natural hedging. The Deposits team has been able to meet the Bank's growing funding requirements throughout the year. UTB has added additional Asset Finance and First Charge Mortgage loans to the Single Collateral Pool to replace Gilts and Treasury Bills as collateral for its drawings under the Bank of England's TFSME scheme. By August 2023, the Bank had fully collateralised the scheme drawings with Asset Finance and Mortgage loans. The Bank has now begun the process of progressively reducing drawings under the TFSME scheme.

Risk Category	Mitigation	Update on risk profile in 2023
Credit risk The risk of financial loss from borrowers who are unable or unwilling to meet their financial obligations in full when due (including concentration risk to groups of borrowers, industry sectors or geographic regions). Credit Risk is one of the Bank's most significant risks.	• The Bank operates in markets of which it has a good understanding and significant expertise • Established policies and procedures that are regularly reviewed and updated • Diversified and fully secured exposures • Well defined risk-based delegated underwriting authorities • Verified borrower credit worthiness and track record • Regular review of portfolio performance and risk appetite • Forward looking assessment of market dynamics • Conservative lending criteria expressed through credit risk rating scores • Established detailed limits to manage exposures including concentration risks	In the year, the Bank's loan book grew by 28%. This reflected a strong level of originations, particularly during Q1–Q3 2023. During Q4, originations were slowed, reflecting more challenging market conditions, which included a small reduction in houses prices and the Bank's consequent decision to reduce credit appetite. Tail risk in the overall portfolio (i.e. higher risk credit exposures) is one of the Bank's key credit risk metrics and in the year has increased to 5.4% which remains comfortably within risk appetite and mainly reflects more difficult property market conditions. Mortgage arrears levels have increased but there has been limited impact on provisions given the Bank's strong LTV's. Loan loss provisions have remained within appetite during 2023, however total provisions charge increased to £4.8m compared to £1.8m in 2022. The 2023 charge was mainly the result of additional charges on the Property Development and Mortgages portfolio, where there is increasing tail risk and arrears. For more information on provisions for impairment losses on loans and advances, see note 9 on page 58. Uncertainty in the economy will continue to put pressure on UK borrowers, particularly households with lower disposable income and those with expiring fixed rate borrowing arrangements. In response to this uncertainty, management continue to monitor the market and credit appetite accordingly.
Market Risk For the Bank, Market Risk is primarily limited to interest rate risk, namely the risk that the value of the Bank's assets and liabilities, or its profitability, will fluctuate due to changes in interest rates. The Bank has no material exposure to foreign currencies.	• Regular ALCO meetings to review the structure of the balance sheet and the results of interest rate stress testing • Management of interest rate risk through careful management of the repricing profile of assets and liabilities and the use of interest rate swaps • Management of basis risk through the management of the structure of the balance sheet	Market interest rate risk increased in the first three quarters of 2023, following rapid rise in base rates. Since August 2023, the Bank of England has chosen to keep base rate at 5.25% and it is expected that this will start to decrease during 2024. The net interest margin improved in 2023 as the Bank benefited from rising rates on its assets and optimised its funding costs. The Bank has a simple and transparent balance sheet and has historically managed interest rate risk through controlling the maturity profile of customer deposits raised. The Bank also uses swaps to manage interest rate risk, and at year end these had a total notional value of £170m. An analysis of the Bank's sensitivity to interest rate exposure is shown in note 25 on pages 66 to 67.

Risk Category	Mitigation	Update on risk profile in 2023
Operational risk Operational risk is the risk of loss arising from inadequate or failed processes, people and systems or from external events. Operational risks include cyber risk and risks related to operational resilience and the use of outsource service providers. Cyber risk is the risk of the Bank's information technology systems being penetrated to steal data or otherwise cause harm or disruption.	• Established policies and procedures that are regularly reviewed and updated • Experienced staff employed • Formal and on the job training provided • Ongoing Risk Control Self-Assessment process to ensure that risks are identified and managed effectively • Independent assurance testing • Regular risk incident reporting • Specialist cyber risk tools deployed across the Bank • Dedicated cyber security staff and resources who manage a range of preventative, detective and recovery measures • Phishing and cyber training provided to all staff • Established and tested Disaster Recovery and Business Continuity Plan arrangements	UTB has continued to see high levels of cyber threats which, together with the volume of change projects have contributed to a high level of inherent operational risk. The nature of these threats, together with the types of incidents that have occurred, have highlighted the requirement for ongoing vigilance testing and review of UTB's cyber defences. The Bank continues to do this through the implementation of a suite of both preventative and detective measures. The Bank has increased central operational resourcing under the Chief Operating Officer, to support first line operational risk management with particular focus on improving the quantity and relevance of management information, enhancing the risk registers and the investigation of thematic and/or systemic issues arising from operational incidents. The Bank has continued to develop and improve systems and processes to support its growth. Significant projects are governed by the Change Management Committee, chaired by the Chief Technology Officer. Enhancements were also made, and continue to be made, to the Operational Resilience framework during 2023. The Bank has strengthened all resilience related policies, used scenario testing to identify improvements to its resiliency and carried out remediation where required. Updates were also made to the Bank's Outsource provider register with regards to material service providers.
Conduct and compliance risk The risk of financial loss, regulatory sanctions, or loss of reputation as a result of failure to comply with applicable laws and regulations and standards of good practice, including the risk of poor outcomes for customers.	• Employment of experienced professionals in relevant areas supplemented with the use of external specialists where appropriate • Three Lines of Defence • Regular monitoring of risks by the Compliance and Conduct Management Committee • Effective horizon scanning process to identify regulatory change • Straight forward and uncomplicated products • Regular monitoring of customer outcomes through assurance testing and compliance reviews • Established Conduct Risk Framework which includes Vulnerable Customers and Complaints • Regular culture and conduct risk reporting and a comprehensive and evolving governance framework • Regular staff training provided • Product Governance Policy & Product Price and Fair Value Framework • Intermediary Approval and Oversight Policy • Established processes for anti-money laundering, sanctions and fraud checking at relationship inception and in-life • Established Data Protection Framework • An active and open dialogue with its regulators	The Bank continues to offer straightforward and uncomplicated products and to conduct regular monitoring of customer outcomes. Staff awareness training is regularly updated in key areas of conduct and compliance, including anti-money laundering, data protection and conduct. Whilst there has been no change in the nature of the products offered, market conditions remained volatile due to the economic and geo-political environment. In response, the Bank has continued to enhance its processes, increased the levels of training and maintained high levels of oversight. The Bank has implemented several changes during 2023 in response to regulatory consultation, guidance and policy statements, with the key change being the implementation of Consumer Duty. Particular attention has been given to enhancing the Bank's support for vulnerable customers. Prudential regulation developments have in recent years been progressed around operational resilience and outsourcing, with enhancements and embedding continuing through 2023 and onwards.

EMERGING RISKS

In addition to the risks described above, the Board also considers emerging risks, those forward-looking risks whose impact and/or likelihood cannot be readily quantified. Specific emerging risks include:

Economic Uncertainty

The macroeconomic environment remains uncertain which is driven by a number of risks including, domestic inflationary pressures, high interest rates and reductions in property market transaction volumes and prices. The Bank continues to plan for a variety of different economic outcomes through scenario analysis and the stress testing of its performance and financial position to ensure the Bank has the resources and capability to continue to perform effectively. The Bank's strong financial and capital position should enable the Bank to absorb short-term economic downturns and respond to any change in market demand. The Bank continues to monitor this closely.

Geopolitical Uncertainty

Global economic sentiment remains fragile and susceptible to military developments in Ukraine, the Middle East and elsewhere, to disruption in the Chinese property market and to the US electoral cycle. The Bank continued to closely monitor changes in the geopolitical landscape that could have an impact on the Bank and its operations, its customers, supply chain and its employees both directly or indirectly and the Bank regularly tests its financial and operational resilience under different scenarios. The Bank operates entirely within the UK so the direct impact of geopolitical events is usually limited.

Inflation and Interest Rates

At the beginning of 2023, rising inflation and higher interest rates prompted a cost of living squeeze and an increased risk of recession. Inflation started to fall in 2023 and interest rates are expected to have peaked at 5.25%, however it is anticipated that rates may stay higher for longer than the market is currently projecting. Consequently high rates may continue to affect UK borrowers, particularly those with lower household income and expiring fixed rate borrowing arrangements. The Bank continues to monitor the effects of inflation and interest rates on its customers. The Bank anticipates that these factors will continue to affect the property market during 2024. The Bank considers its lending policies, in particular its loan to value appetite, will help to mitigate against losses on lending to the property sector.

IT and Cyber Risk

IT and Cyber risk is a continually evolving threat which regularly presents new challenges. In 2023, despite industry wide heightened cyber risks, UTB recorded fewer cyber-incidents than in 2022. Feedback from recently completed penetration testing is that UTB has a secure network with only a small number of minor findings to address. Phishing tests have seen good outcomes, with a low level of staff not detecting simulated phishing emails. The Bank continues to address cyber risk through the implementation of a suite of both preventative and detective measures.

Climate Change

Climate change risks include the financial, operational and reputational risks arising due to climate and weather-related events and the political and social response to this threat. Climate change represents an area of increasing focus, both within the Bank and across the industry more broadly. The Bank's Climate Change committee oversees the analysis and assessments of climate change related risk posed to the Bank. The Bank has prepared climate change scenario analysis that supports the conclusion included in the Bank's ICAAP that climate change is not a key financial risk for UTB. In the year the Bank continued to purchase carbon offsets. Details on the Bank's approach to climate change risk can be found on pages 16 to 20.

Regulatory and Legal Change

A continued increase in regulatory and legal change has been witnessed in recent years, in particular the Consumer Duty Regime and the upcoming Basel 3.1 regulations. It is anticipated that this will continue, including potential regulatory and legal deviations between the UK and EU following the UK departure from the EU. The Bank manages an established horizon scanning and monitoring framework to determine any regulatory and legal changes that could materially impact the Bank, including regulatory and legal reform and changes in regulatory practice. The Bank engages regularly with its regulators the PRA and FCA, as well as industry bodies and external advisers to further understand any likely changes.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, United Trust Bank Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2023; the Income Statement, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 3, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope	• The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud and error).
Key audit matters	• Loan impairment and provisioning
Materiality	• Overall materiality: £4.1 million (2022: £2.5 million) based on 5% of Profit on ordinary activities before tax. • Performance materiality: £3.0 million (2022: £1.9 million).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Accounting for effective interest rate (EIR), which was a key audit matter last year, is no longer included because of the reduced level of change in underlying processes and our assessment of the level of estimation uncertainty being lower than in the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Refer to note 8: Loans and advances to customers and note 9: Provision for impairment losses on loans and advances to customers. The company has an impairment provision of £8.1m to account for incurred impairment losses on the loan book. The provision is split between collective provision of £2.8m to account for losses that have not yet been individually identified, and an individual impairment provision of £5.3m to cover losses on individually impaired loans. We focus on this area given the judgements and degree of estimation uncertainty involved in the impairment assessment. While our audit testing covers both the collective and specific provisions, the highest degree of estimation uncertainty is considered to be the level of provision required for individually impaired loans in the property development portfolio. These loans are considered by management on a case-by-case basis using discounted cash flow models that require assumptions over future costs/property sale values which can result in subjectivity in the estimate.	• We evaluated the design and implementation of the key controls over the loan impairment process. • We evaluated the conceptual soundness of the impairment methodology to assess whether it is in compliance with the requirements of FRS 102. • For a sample of loans that were individually impaired, including the most significant exposures, we evaluated the reasonableness of the assumptions used in the discounted cash flow model given the borrowers' circumstances. • We assessed the reasonableness of the valuations of collateral by reviewing third party valuations (where available) and comparable recent sales. • We tested the completeness of the individually assessed provision by selecting a sample of the property portfolio that was not individually assessed for impairment. Our work over these exposures included obtaining evidence over the collateral held, confirming that monitoring of the development project was performed and assessing whether there were any indications that the loan should be considered individually impaired. • We assessed the completeness of the collective provision. This included considering the results of our testing of the non-impaired book, and our target and sample testing of the watchlist. • We evaluated the adequacy of the disclosure relating to impairment of loans and advances to customers. Based on the procedures we performed, and the evidence obtained we concluded that the estimates and judgements in determining loan impairment were reasonable. We are also satisfied that these disclosures are appropriate and in compliance with the accounting requirements.

<u>How we tailored the audit scope</u>

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

We performed a risk assessment, giving consideration to relevant external and internal factors, including macroeconomic risk, climate change, relevant accounting and regulatory developments, as well as the company's strategy.

Key management and business activities, including the financial reporting processes and the core systems, are located in London. The structure of our audit reflects the nature of the company and its operations, with all work performed by one team based in London.

<u>The impact of climate risk on our audit</u>

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures, did not identify any material impact as a result of climate risk on the company's financial statements. These procedures included consideration of the impact of climate risk on loan provisioning.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

Materiality

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

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

Overall company materiality	£4.1 million (2022: £2.5 million)
How we determined it	5% of Profit on ordinary activities before tax
Rationale for benchmark applied	Profit on ordinary activities before tax is considered a primary measure used by the shareholders in assessing the performance of the company and is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £3.0 million (2022: £1.9 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (2022: £0.15 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of the directors' going concern assessment, including consideration of the impact of current economic environment;
- Evaluation of management's financial forecasts and the accuracy of the budgeting process through a comparison of the 2023 budget and the actual results;
- Assessing the reasonableness of management's severe but plausible stress test scenarios and considering whether management actions that can be deployed to increase regulatory capital, if required, are reasonable. We considered whether it was reasonable to assume the company would continue to operate above required regulatory capital and liquidity minima during times of stress;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We also substantiated the liquid resources held, and liquidity facilities available to the company, for example, with the Bank of England; and
- Reading and evaluating the adequacy of the disclosure made in the financial statements in relation to going concern and checked the consistency of the disclosures with our knowledge of the company based on our audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) or the Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate reported financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- performing enquiries of the Audit Committee, senior management (including risk and compliance), and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- review of key correspondence with regulatory authorities in relation to compliance and regulatory matters;
- incorporating unpredictability into the nature, timing and/or extent of our testing;
- challenging assumptions and judgements made by management in their estimation of the provisioning on loans and advances to customers and effective interest rate assumptions and assessing whether these were indicative of management bias; and
- identifying and testing selected journal entries including those posted by unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UNITED TRUST BANK LIMITED

often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 21 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2022 to 31 December 2023.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 February 2024

Income Statement
For The Year Ended 31 December 2023

	Note	2023 £'000	2022 £'000
Interest receivable and similar income	2	**259,393**	153,034
Interest payable and similar charges		**(105,094)**	(38,374)
Net interest income		**154,299**	114,660
Other charges		**(153)**	(18)
Operating income		**154,146**	114,642
Administrative expenses	3	**(65,369)**	(51,245)
Depreciation and amortisation		**(1,256)**	(1,452)
Provision for impairment losses	9	**(4,782)**	(1,789)
Profit on ordinary activities before tax	4	**82,739**	60,156
Tax charge for the year	5	**(19,465)**	(14,761)
Profit after tax retained for the financial year		**63,274**	45,395

The above results are derived wholly from continuing operations. The notes on pages 52 to 68 form an integral part of these financial statements.

Statement of Comprehensive Income
For The Year Ended 31 December 2023

	2023 £'000	2022 £'000
Profit for the financial year	**63,274**	45,395
Total comprehensive income	**63,274**	45,395

Statement of Financial Position
At 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Loans and advances to central banks	7	**241,996**	243,506
Loans and advances to other banks	7	**52,696**	25,356
Loans and advances to customers	8	**3,104,356**	2,426,021
Loans to group companies	17	**369**	205
Debt securities	10	**19,510**	84,783
Derivative financial instruments	11	**2,039**	3,561
Equity shares	12	**1,000**	1,000
Tangible fixed assets	13	**1,003**	812
Intangible assets	14	**5,288**	4,092
Other assets	15	**11,911**	8,981
Total assets		**3,440,168**	2,798,317
Liabilities			
Deposits from customers	16	**2,797,361**	2,208,300
Loans from central banks	16	**263,441**	302,135
Loans from group companies	17	**1,522**	1,879
Derivative financial instruments	11	**1,329**	96
Other liabilities	18	**20,076**	17,474
Long-term subordinated debt	20	**56,640**	29,324
Total liabilities		**3,140,369**	2,559,208
Capital and Reserves			
Share capital	21	**10,350**	10,350
Share premium		**25,680**	25,680
Contingent convertible securities	22	**16,851**	16,851
Retained earnings		**246,918**	186,228
Total capital and reserves		**299,799**	239,109
Total equity and liabilities		**3,440,168**	2,798,317

The notes on pages 52 to 68 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 28 February 2024. They were signed on its behalf by:

Harley Kagan
Chief Executive Officer
28 February 2024

Jonathan Ayres
Chief Financial Officer
28 February 2024

Statement of Changes in Equity
For The Year Ended 31 December 2023

	Share capital £'000	Share premium £'000	Contingent convertible securities £'000	Retained earnings £'000	Total £'000
At 1 January 2022	**10,350**	**25,680**	**16,851**	**142,751**	**195,632**
Profit for the financial year	-	-	-	45,395	45,395
Coupon payable on contingent convertible securities	-	-	-	(1,918)	(1,918)
Share based payments charge	-	-	-	619	619
Share based payments recharged to parent	-	-	-	(619)	(619)
At 31 December 2022	**10,350**	**25,680**	**16,851**	**186,228**	**239,109**
Profit for the financial year	-	-	-	63,274	63,274
Coupon payable on contingent convertible securities	-	-	-	(2,584)	(2,584)
Share based payments charge	-	-	-	744	744
Share based payments recharged to parent	-	-	-	(744)	(744)
At 31 December 2023	**10,350**	**25,680**	**16,851**	**246,918**	**299,799**

1. Accounting policies

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

a. General information and basis of accounting
United Trust Bank Limited ("the Bank" or "the Company") is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 69. The nature of the Bank's operations and principal activities are set out in the Strategic Report on pages 8 to 12 and Directors Report on pages 24 to 25.

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

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

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

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

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 Principal Risks and Uncertainties section of the Strategic Report. In determining the going concern status the directors have considered:

- Business Performance, Strategic Risk, Conduct and Compliance Risk and Operational Resilience
- Capital Risk:
    - The ability of the Bank to conduct its business profitably and generate sufficient revenues to cover costs
    - Sufficiency of capital resources to sustain the Bank's existing and planned business activities and maintain compliance with regulatory requirement
- Liquidity Risk: Adequacy of liquidity to fund the Bank's activities (including FSCS coverage, maturity profile and funding diversification) and to satisfy regulatory requirements
- Credit Risk: The credit quality of the Bank's loan book, based on recent experience and the Bank's credit policies

After considering the review of the Bank's operations and having made suitable enquiries, the directors have a reasonable expectation that the Bank has adequate resources, even under severe but plausible stress scenario, 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 along with fee income and expense 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. Fees subject to EIR include product arrangement fees, redemption fees and broker commissions.

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 year 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 year end and that are expected to apply to the reversal of the timing difference.

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

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

Leasehold improvements
- over the remaining life of the lease

Motor vehicles
- 20% per annum

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

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, which is generally 7 years. Intangible assets are reviewed for impairment on an annual basis.

g. Leases
Classification: A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The Bank as a lessor: Finance leases are recognised on the balance sheet at an amount equal to the gross investment in the lease discounted at its implicit interest rate. The gross investment in the lease is the aggregate of a) the minimum lease payments receivable by the lessor under a finance lease; and b) any unguaranteed residual value accruing to the lessor. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

The Bank as a 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
With the exception of derivative financial instruments (see note 1(j) and equity instruments (see note 1(h)(ii)), all financial assets and financial liabilities are basic financial instruments and 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
Initial recognition
Basic 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.

Subsequent recognition
Basic financial assets and liabilities are subsequently measured at amortised cost less impairment. Amortised cost is measured using the EIR method. For non-interest bearing financial instruments payable or receivable within one year on normal business terms, amortised cost is measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Derecognition
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.

The Bank holds an investment in equity shares which are not publicly traded and the fair value cannot be measured reliably. As a result the asset is measured at cost less impairment.

(iii) Participation in the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME")

The Bank is a participant in the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME"). This scheme allowed participants to borrow cash from the Bank of England against collateral, in the form of certain eligible loans and UK Government debt, placed with the Bank of England.

Loans and UK Government debt over which the Bank transfers its rights to the collateral thereon to the Bank of England are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership including all cash flows arising from the loans and UK Government debt and exposure to credit risk. The cash received against the transferred assets is recognised as an asset within the statement of financial position, with the corresponding obligation to return it recognised as a liability at amortised cost within 'Loans from central banks'. Interest is accrued over the life of the agreement on an EIR basis.

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.

The Bank conducts regular assessment of financial assets for objective evidence of impairment. If there is evidence for impairment then an impairment loss is immediately recognised in the profit and loss account. The key trigger for impairment is when the borrower is experiencing difficulties which threaten their ability to fulfil the credit obligation to the Bank. This could be due to, but not limited to, payment arrears, material breach of covenants, material overruns, adverse trends in operations, or a deterioration in security value or quality.

Specific provision assessments involves two different methods for calculation. The first method used for the Property business and Asset Finance business is an estimation in relation to the future cash flow timings, future sale proceeds, expected costs associated with sales and any rental income to be received. The second method, which is used for the Mortgages business for calculating specific provisions is a model based approach in which each loan within the Mortgages book is individually modelled to assess impairment.

All assets that are not considered for a specific provision are assessed collectively. Collective provisions are calculated using agreed rates based on historic experience.

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. Derivative financial instruments

The Bank holds interest rate swap derivative contracts which have a different accounting treatment to basic financial instruments.

Initial Recognition

A derivative financial instrument is recognised when the Bank becomes party to the contractual provisions of the instrument. Derivatives are initially recognised at fair value on the date a derivative contract is entered into.

Subsequent recognition

Derivative financial instruments are subsequently re-measured to their fair value at the end of each reporting year.

Hedge accounting

The Bank designates derivatives as hedging instruments by hedging the fair value of recognised assets or liabilities or firm commitments (fair value hedges)

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an ongoing basis, the Company documents whether a hedging relationship meets the hedge effectiveness requirements under IAS 39 and whether there continues to be an economic relationship between the hedged item and the hedging instrument.

Interest rate swaps are held to mitigate interest rate risk and hedge accounting is therefore applied. The hedge relationship is designated as fair value hedge which is the hedge of exposure to changes in fair value of a recognised asset and liabilities or firm commitments attributable to interest rate risk and could affect profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate assets is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate assets attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other charges. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

k. Pension costs and other post-retirement benefits

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

l. Share-based payments

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

The fair value of any options granted is assessed using the Black Scholes pricing model based on the option strike price and an estimate of the share price of the Bank's parent company and the option strike price. 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 active trading in them.

m. Capital and subordinated debt raising expenses

Qualifying costs attributable to the issuance of capital 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.

n. 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.

The resulting accounting estimates will often, by definition, not equal the related actual results. Where such differences arise, the estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Significant estimates

Loan book impairments:

Provision assessments for individually significant loans may require estimation in relation to the future cash flow timings, future sale proceeds, expected costs associated with sales and any rental income to be received. Should actual cash flows differ from those that have been estimated, the carrying value of individually significant loans could be materially different. See note 9 for further information.

Other estimates

EIR behavioural life:

Revenue recognition profiles under EIR accounting methodology may be impacted by behavioural assumptions surrounding the expected life of the loans in the portfolio. Should actual maturities differ from those that have been estimated, the carrying value of the loans on the balance sheet and income recognised in an accounting period could be different although it is unlikely to have a material impact.

Judgements

Classification of contingent convertible securities:

The classification of the contingent convertible securities is a judgement made by management. The Bank had £16.9 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities in issue at 31 December 2023 (the "AT1 Securities"), see note 22 for further details.

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

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

2. Interest receivable and similar income

	2023	2022
	£'000	£'000
Interest charged to customers	243,674	141,843
Fees and commissions income on EIR basis	26,814	21,903
Fees and commissions expense on EIR basis	(11,095)	(10,712)
Interest receivable and similar income	259,393	153,034

3. Administrative expenses

	2023	2022
	£'000	£'000
Staff costs:		
- wages and salaries	35,623	27,905
- share based payments	744	619
- social security costs	5,131	4,431
- pension costs	2,821	2,026
- other staff costs	1,780	1,554
Fees payable to the Company's auditors:		
- audit of Company's annual financial statements	419	354
- audit of parent company's annual financial statements	30	19
Total audit fee	449	373
- audit related assurance services	117	30
- other assurance services	25	-
Total non-audit fee	142	30
Total fees payable to company's auditor	591	403
Loss on disposal of tangible and intangible assets	123	100
Operating Leases: Property	1,173	1,022
Other administrative expenses	17,383	13,185
	65,369	51,245

The average number of people employed by the Bank (including executive directors) during the year was 378 (2022: 326). At the end of the year, the Bank employed 404 people (2022: 359). Staff costs include directors' remuneration set out in note 4.

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

	2023	2022
	Average No.	Average No.
Lending	239	222
Treasury and central services	139	104
	378	326

4. Directors' remuneration

	2023	2022
	£'000	£'000
The remuneration of the directors was as follows:		
- emoluments	2,927	2,564
- company contribution to money purchase pension schemes	33	8

One director (the highest paid) exercised share options in the parent's shares during the year (2022: none).	2023	2022
	No.	No.
The number of directors who:		
Are members of money purchase pension schemes	3	2

	2023	2022
	£'000	£'000
The above amounts for remuneration include the following in respect of the highest paid director:		
- emoluments and incentive schemes	1,252	1,078
- other pension costs	8	4

5. Tax charge for the year

Analysis of tax charge on ordinary activities

	2023	2022
	£'000	£'000
Current tax on profit on ordinary activities	**19,969**	14,423
Adjustments in respect of prior year:		
- UK corporation tax	**(578)**	589
Total current tax	**19,391**	15,012
Deferred tax:		
- origination and reversal of timing differences	**161**	(293)
- effect of (decrease)/increase in tax rate on opening asset	**(52)**	42
- prior year adjustment	**(35)**	-
Total deferred tax for the year	**74**	(251)
Total tax on profit on ordinary activities	**19,465**	14,761

Following the enactment of the Finance Bill 2022, there were two key announcements that affected UTB. The UK Corporation Tax rate for non-ring fencing entities increased from 19% to 25%, and the UK Bank Surcharge Levy reduced from 8% to 3% with an increased surcharge allowance of £100m of taxable profits, these rates were applicable from 1 April 2023.

The blended rate of tax applied to reported profits on ordinary activities for the year was 23.5% (2022: 19.0%), and the banking surcharge was applied at a blended rate of 2% (2022: 8%). The Banking Surcharge Levy was not payable by the Bank post 1 April 2023 to the end of the accounting period given that the taxable profits were below the revised surcharge allowance.

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:

	2023	2022
	£'000	£'000
Profit on ordinary activities before tax	**82,739**	60,156
Tax charge at 23.5% (2022: 19:00%) thereon:	**19,444**	11,430
Effects of:		
- expenses and provisions not deductible for tax purposes	**193**	31
- tax rate changes on deferred tax balances	**(52)**	42
- other timing differences	**(5)**	167
- Bank Surcharge Levy	**1,105**	2,866
- prior year adjustment	**(613)**	589
- tax on items recognised in equity	**(607)**	(364)
Total tax charge for the Year	**19,465**	14,761

6. Share-based payments

Equity-settled share option schemes

The Bank's parent company has two share option schemes for a number of the Bank's directors and employees. For both schemes the vesting period is four years; the options expire if they remain unexercised after a period of ten years from the date of grant; and unexercised options are forfeit if the employee leaves the Bank before the options vest. One scheme contains a performance condition linked to return on equity over the vesting period.

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

	2023		2022	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**482,625**	**24.49**	435,625	20.28
Granted during the year	**52,900**	**1.00**	64,750	38.00
Exercised during the year	**(84,000)**	**1.23**	(10,000)	10.13
Lapsed during the year	**(13,150)**	**34.86**	(7,750)	34.13
Outstanding at the end of the year	**438,375**	**25.80**	482,625	24.49
Exercisable at the end of the year	**314,844**		343,813	

The parent company, UTB Partners Plc has acquired, via the UTB Employee Benefit Trust (the "EBT"), 405,000 shares to settle the issuance of options shown above. The options outstanding at 31 December 2023 had a weighted average exercise price of £25.80 (2022: £24.49) and a weighted average remaining contractual life of seven years.

There were 52,900 options granted in 2023 (2022: 64,750). The inputs into the Black Scholes model for options granted in 2023 were as follows:

	2023	2022
Weighted average share price	£50.81	£38.00
Weighted average exercise price	£1.00	£38.00
Expected volatility	32%	25%
Expected life	6 Years	6 Years
Risk-free rate at date of grant	4.95%	1.22%

Expected volatility for 2023 options granted was determined at 32%, 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 assessed, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural factors. See note 3 for share-based payments expense charged to profit and loss.

7. Loans and advances to banks

	2023	2022
	£'000	£'000
Amounts falling due within one year:		
- Loans and advances to central banks	**241,996**	243,506
- Loans and advances to other banks	**52,696**	25,356
	294,692	268,862

8. Loans and advances to customers

	2023 £'000	2022 £'000
Property portfolio loan receivables	**1,652,191**	1,311,193
Mortgages portfolio loan receivables	**1,063,658**	791,863
Asset Finance portfolio loan receivables	**7,479**	3,568
Finance lease and hire purchase receivables	**381,028**	319,397
	3,104,356	2,426,021

£493m of mortgage portfolio and finance lease receivables (2022: £340m) were pledged as collateral to the Bank of England in relation to drawings against the Bank of England's Term Funding Scheme with additional incentives for SMEs – see Note 16.

The following tables set out the maturity analysis of loan receivable split by asset class.

Property portfolio loan receivables	2023 £'000	2022 £'000
Amounts falling due:		
- on demand	**86,477**	19,097
- within one year	**1,064,485**	833,000
- over one year but less than five years	**505,549**	462,068
	1,656,511	1,314,165
Less: provision for impairment losses (see note 9)	**(4,320)**	(2,972)
	1,652,191	1,311,193

Mortgages portfolio loan receivables	2023 £'000	2022 £'000
Amounts falling due:		
- on demand	**1,774**	1,275
- within one year	**46,018**	39,282
- over one year but less than five years	**174,922**	149,795
- more than five years	**843,153**	602,496
	1,065,867	792,848
Less: provision for impairment losses (see note 9)	**(2,209)**	(985)
	1,063,658	791,863

Asset Finance portfolio loan receivables	2023 £'000	2022 £'000
Amounts falling due:		
- within one year	**7,479**	3,568
	7,479	3,568
Less: provision for impairment losses (see note 9)	**–**	-
	7,479	3,568

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

Asset Finance portfolio finance lease and hire purchase receivables

	2023 £'000	2022 £'000
Gross investment in receivables falling due:		
- within one year	**124,542**	115,407
- over one year but less than five years	**321,884**	252,208
- more than five years	**2,445**	756
	448,871	368,371
Less: unearned future finance income	**(66,248)**	(48,023)
Net investment in finance lease and hire purchase receivables	**382,623**	320,348

	2023	2022
	£'000	£'000
Net investment in finance lease and hire purchase receivables:		
- within one year	**112,993**	94,300
- over one year but less than five years	**268,498**	225,346
- more than five years	**1,132**	702
Net investment in finance lease and hire purchase receivables	**382,623**	320,348
Less: provision for impairment losses on finance lease and hire purchase receivables (see note 9)	**(1,595)**	(951)
	381,028	319,397

	2023	2022
	£'000	£'000
Net receivable under finance leases and hire purchase contracts comprises:		
- Finance leases	**14,944**	13,839
- Hire purchase	**367,679**	306,509
	382,623	320,348

9. Provision for impairment losses on loans and advances to customers

The charge for impairment losses is made up as follows:

Impairment losses taken to income statement	2023	2022
	£'000	£'000
Individual impairments	**4,636**	1,826
Collective impairment	**484**	478
Unwind of discounting and recovery of loans previously written off	**(338)**	(515)
	4,782	1,789

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

Individual impairments provision	2023	2022
	£'000	£'000
Balance at 1 January	**2,618**	7,471
Charged	**4,740**	2,513
Released	**(104)**	(687)
Increase recognised in income statement	**4,636**	1,826
Utilised during the year	**(1,904)**	(6,679)
At 31 December	**5,350**	2,618

Collective impairment provision	2023	2022
	£'000	£'000
Balance at 1 January	**2,290**	1,812
Increase recognised in income statement	**484**	478
At 31 December	**2,774**	2,290

Balance at 31 December	2023	2024
	£'000	£'000
Individual impairment provision of which:		
- Property portfolio	**2,313**	1,349
- Mortgages portfolio	**2,209**	985
- Asset Finance portfolio	**828**	284
	5,350	2,618
Collective impairment provision of which:		
- Property portfolio	**2,007**	1,623
- Asset Finance portfolio	**767**	667
	2,774	2,290

10. Debt securities

	2023	2022
	£'000	£'000
Issued by public bodies:		
– government securities	19,510	84,783
	19,510	84,783

	2023	2022
	£'000	£'000
Maturity of debt securities:		
– due within one year	19,510	84,783
	19,510	84,783

As at 31 December 2023, none (2022: £85m) of the debt securities were pledged as collateral to the Bank of England in relation to drawings against the Bank of England's Term Funding Scheme with additional incentives for SMEs – see Note 16 None of the debt securities were encumbered at 31 December 2023 (2022: £73m).

11. Derivative financial instruments

The Bank holds interest rate swap derivative contracts that are designated as hedging instruments. Loans and advances to customers on the balance sheet contain the hedged items. The following table shows the notional and fair values of these instruments.

Derivatives designated in fair value hedge relationship

	2023	2022
	£'000	£'000
Net carrying amount	710	3,465
Carrying amount of hedged items	169,587	86,554
Notional amount	170,000	90,000
Cumulative fair value adjustment on the hedged item	(413)	(3,446)
Change in fair value in year for calculating ineffectiveness (hedged item)	3,033	(3,446)
Change in fair value in year for calculating ineffectiveness (hedging instrument)	(3,018)	3,470
Hedge ineffectiveness in the year	(15)	(24)

12. Equity shares

	2023	2022
	£'000	£'000
Equity shares	1,000	1,000
	1,000	1,000

The Bank owns 15.5% (2022: 15.7%) of the equity share capital of Optalitix Limited. Optalitix Limited is a software development company producing products for the insurance and banking industry and is a supplier to the Bank. The address of the registered office of Optalitix Limited is 7 Granard Business Centre, Bunns Lane, Mill Hill, London, NW7 2DQ.

13. Tangible fixed assets

	Leasehold Improvements	Computer and Office Equipment	Motor Vehicle	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost:				
1 January 2023	1,300	1,546	31	2,877
Additions	230	383	100	713
Disposals	(156)	(276)	(31)	(463)
31 December 2023	1,374	1,653	100	3,127
Accumulated Depreciation:				
1 January 2023	933	1,110	22	2,065
Charge	136	235	13	384
Disposals	(26)	(276)	(23)	(325)
31 December 2023	1,043	1,069	12	2,124
Net book value:				
31 December 2022	367	436	9	812
31 December 2023	**331**	**584**	**88**	**1,003**

14. Intangible assets

	2023
	£'000
Cost:	
1 January 2023	**6,899**
Additions	**2,068**
Disposals	**–**
31 December 2023	**8,967**
Accumulated Amortisation:	
1 January 2023	**2,807**
Charge	**872**
Disposals	**–**
31 December 2023	**3,679**
Net book value:	
31 December 2022	**4,092**
31 December 2023	**5,288**

Intangible assets consist of purchased computer software and own developed software.

15. Other assets

	2023 £'000	2022 £'000
Deferred tax asset	**2,911**	2,985
Prepayments and deferred expenses	**9,000**	5,996
	11,911	8,981

	2023 £'000	2022 £'000
Deferred tax asset:		
As at 1 January	**2,985**	2,734
Origination and reversal of timing differences	**(161)**	293
Effect of increase/(decrease) in tax rate on opening asset	**52**	(42)
Prior year adjustment	**35**	-
As at 31 December	**2,911**	2,985

A deferred tax asset of £2.9m has been recognised at 31 December 2023 (2022: £3.0m) mainly representing timing differences on finance lease receivables and share based payments. 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.

16. Financial liabilities

	2023 £'000	2022 £'000
Deposits from customers falling due:		
- on demand	**15,872**	23,585
- within one year	**1,864,110**	1,542,531
- over one year but less than five years	**869,806**	631,629
- over five years	**47,573**	10,555
Loans from central banks	**263,441**	302,135
	3,060,802	2,510,435

Loans from central banks represents amounts drawn (including accrued interest) under the Bank of England's Term Funding Scheme with additional incentives for SMEs which are repayable by 31 October 2025.

17. Loans to and from group companies

	2023 £'000	2022 £'000
Amounts owed to group companies	**1,522**	1,879
Amounts owed by group companies	**(369)**	(205)
	1,153	1,674

Loans to and from group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand. In addition to the above, the Bank also issued £17m long-term subordinated debt to parent company UTB Partners Plc in 2023, see note 20 for further details.

18. Other liabilities

	2023 £'000	2022 £'000
Accrued interest payable	**238**	225
Accruals and deferred income	**19,838**	17,249
	20,076	17,474

19. Financial instruments

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

	2023 £'000	2022 £'000
Financial assets		
Measured at amortised cost:		
- cash and balances at central banks	**241,996**	243,506
- loans and advances to other banks	**52,696**	25,356
- loans and advances to customers	**3,104,356**	2,426,021
- loans to group companies	**369**	205
- debt securities	**19,510**	84,783
Measured at fair value:		
- derivative financial instruments	**2,039**	3,561
	3,420,966	2,783,432
Financial liabilities		
Measured at amortised cost:		
- deposits from customers	**2,797,361**	2,208,300
- loans from central banks	**263,441**	302,135
- loans from group companies	**1,522**	1,879
- long-term subordinated debt	**56,640**	29,324
Measured at fair value:		
- derivative financial instruments	**1,329**	96
	3,120,293	2,541,734

Fair value hierarchy
Fair value estimates of derivatives are based on relevant market information and information about the financial instruments. The fair value is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, spot and forward rates. As a result, the Bank has determined that its derivative valuations are classified in level 2 of the fair value hierarchy.

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

	2023 £'000	2022 £'000
Interest income and expense		
Total interest income on financial assets at amortised cost	**259,393**	153,034
Total interest expense on financial liabilities at amortised cost	**(105,094)**	(38,374)
	154,299	114,660
Impairment losses		
On financial assets measured at amortised cost	**4,782**	1,789
	4,782	1,789

20. Long-term subordinated debt

	2023 £'000	2022 £'000
2019 Subordinated debt	**20,341**	20,306
2020 Subordinated debt	**9,060**	9,018
2023 Subordinated debt	**27,239**	-
	56,640	29,324

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

The 2020 subordinated debt bears interest at 9.0% payable annually and is callable at the Bank's option from 30 November 2025, with a final redemption date of 31 May 2031.

The January and February 2023 subordinated debt bears interest at 9.25% payable annually and is callable at the Bank's option from 11 January 2028 and 15 February 2028 respectively, with a final redemption date of 30 September 2033.

The June 2023 subordinated debt bears interest at 11.0% payable annually and is callable at the Bank's option from 23 June 2028, with a final redemption date of 30 September 2033.

The September 2023 subordinated debt was issued to parent company UTB Partners Plc. The debt bears interest at 12.95% payable semi-annually and is callable at the Bank's option from 5 September 2028, with a final redemption date of 31 March 2034.

21. Share capital

	2023	2022
	£'000	£'000
Value of shares		
Issued, allotted, called up and fully paid:		
1 January (Ordinary shares of £1 each)	**10,350**	10,350
31 December (Ordinary shares of £1 each)	**10,350**	10,350

Number of shares

	2023	2022
	'000	'000
Issued, allotted, called up and fully paid:		
1 January (Ordinary shares of £1 each)	**10,350**	10,350
31 December (Ordinary shares of £1 each)	**10,350**	10,350

The Bank issued no shares in the year.

The Bank's other reserves are as follows:

- The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.
- Contingent convertible securities - see note 22.
- The retained earnings reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

22. Contingent convertible securities

	2023	2022
	£'000	£'000
2015 contingent convertible securities	**4,700**	4,700
2017 contingent convertible securities	**12,151**	12,151
	16,851	16,851

The interest rates on the Contingent Convertible Securities ("AT1 Securities") reset every 30 November at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificates. The 2015 Contingent Convertible Securities currently pay interest at a rate of 16.760% per annum and the 2017 Contingent Convertible Securities currently pay interest at a rate of 15.404% per annum.

The AT1 Securities are convertible into ordinary shares of the Company in the event of the CET1 capital ratio of the Bank falling below 7 percent , see note 1(n).

23. Commitments and guarantees and assets pledged as security

	2023	2022
	£'000	£'000
Conditional commitments to lend	**537,397**	647,901
Guarantees and assets pledged as security	**–**	77

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.

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

	2023	2022
	£'000	£'000
Commitments under annual operating leases for leased property expiring in:		
- less than one year	**1,673**	1,597
- one to two years	**762**	1,666
- two to five years	**4,201**	139
	6,636	3,402

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 its parent company, UTB Partners Plc, whose consolidated financial statements are publicly available.

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank's related parties include:

Directors
Details of the directors' remuneration are stated in note 4.

At 31 December 2023, the Bank held £0.1m in deposits accounts for some key management personnel and their close family members. Such deposits are held in the normal course of business.

Optalitix Limited
Details of the relationship with Optalitix Limited are set out in note 12. Mr Graham Davin, a Director of the Company, is the Chair of Optalitix Limited. During the year Optalitix Limited provided services to the Bank of £1,041k (2022: £776k). As at 31 December 2023 the balance owed by the Bank to Optalitix Limited was nil (2022: nil).

25. Risk management

Risk is inherent in all aspects of the Bank's business and effective risk management is a core objective for the Bank. Further details of the Bank's risk management framework can be found in the Risk Management Report on pages 34 to 42.

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

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

Further details on the Bank's principal risks are considered below. The Bank does not have a trading book but does have exposure to interest rate risk from its interest bearing assets and liabilities and through the use of interest rate swaps. The Bank reduced interest rate risk through its hedging strategy.

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 primarily arises from lending transactions.

The Bank seeks to mitigate credit risk by:

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

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

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

The Bank further mitigates credit risk through secured lending, holding collateral against loans to customers. The principal types of collateral held are residential and commercial property and charges over business equipment assets or vehicles.

The Bank acknowledges that there are circumstances where the borrower is in financial difficulty but it is not in the best interests of either the Bank or the borrower to take default action. Accordingly, where the circumstances suggest that the better customer outcome is for the Bank to permit a modification or concession that will over a period of time have the potential to improve the customer outcome and where the Bank in consequence is not taking a materially increased risk in so doing, the Bank will be prepared to offer forbearance.

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

Distribution of loans and advances to customers by credit quality

	2023	2022
	£'000	£'000
Neither past due nor impaired	**2,891,134**	2,351,271
Of which forborne	**12,272**	6,651
Past due but not impaired		
Loans and receivables at amortised cost:		
- one month or less	**77,382**	34,069
- over one month to three months	**54,376**	16,965
- over three months to twelve months	**39,738**	12,080
- over twelve months	**3,340**	1,416
Indvidiually impaired loans	**46,510**	15,128
Of which repossessions	**17,312**	6,422
Less: provisions	**(8,124)**	(4,908)
	3,104,356	2,426,021

Included within Neither past due nor impaired are £84.5m of loans (2022: £18.6m) that are tracked on the Bank's Watch and Recoveries List. Whilst these loans continue to perform, they are given additional attention, oversight and supervision due to changes in borrower circumstances.

Past due but not impaired loans are where customer payment has not been made as it contractually falls due and the account is therefore in arrears. Past due loans are subject to close oversight, sufficient collateral is secured against the loans resulting in loan to value coverage remaining within appetite and no criteria for impairment being met.

Individually impaired loans are where a provision for impairment has been recognised (see note 1(i) for further details).

The Bank will repossess collateral where other reasonable attempts to resolve the situation have failed. Repossessions are included within Loans and Advances to customers. The Bank's maintains recoveries procedures to ensure the assets are disposed as soon as possible after possession for the best price achievable.

Prior year comparatives have been updated to reflect the current year presentation of credit quality as described above.

Analysis of Loan to Value ratios ("LTV") on loans and advances to customers, excluding finance lease and hire purchase receivables is shown below.

	50% or lower	**>50% to 60%**	**>60% to 70%**	**>70% to 80%**	**>80% to 90%**	**Over 90%**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
December 2023	661,435	614,418	842,535	439,085	138,467	26,438	2,722,378
December 2022	464,246	463,267	771,286	333,492	73,822	900	2,107,013

The purchase value of assets relating to finance lease and hire purchase receivables was £593m (2022: £482m).

Maximum exposure to credit risk
The Bank's maximum exposure to credit risk is £3,958m (2022: £3,431m) which consists the carrying amount of financial instruments assets (note 19) plus the undrawn commitments (note 23).

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

The Bank assesses and monitors its exposure to a range of criteria, including sector, region, counterparty and concentration in security type. Concentration risk, which for the Bank is to the UK residential property market, is managed and controlled through the use of appropriate limits for each business area and there are currently no large exposures above these limits. Reported exposures against concentration limits are regularly monitored and reviewed. Concentration risk of treasury assets and interbank deposits is managed and controlled through policies and limits.

Liquidity risk
Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.

The ALCO recommends to the Board the policies to mitigate this risk and regularly reviews the profile of the Bank's assets and liabilities to ensure that it is positioned prudently and in compliance with agreed policies and limits, taking into account prevailing market conditions, and projections for business growth. The Bank maintains a liquid asset buffer primarily consisting of deposits at the Bank of England. This buffer is in excess of the minimum set by the PRA's liquidity framework.

The tables below analyse the Bank's undiscounted financial liabilities into relevant maturity groupings based on their contractual maturities or callable dates where applicable.

Undiscounted financial liabilities

2023	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits from customers	388,316	370,931	727,301	993,490	501,857	2,981,895
Loans from central banks	3,441	3,413	6,825	271,065	-	284,744
Other liabilities	19,838	-	238	-	-	20,076
Long-term subordinated debt	2,009	-	23,667	48,919	-	74,595
Loans from group companies	1,522	-	-	-	-	1,522
Derivative financial instruments	(1,031)	-	-	550	2,036	1,555
Total	414,095	374,344	758,031	1,314,024	503,893	3,364,387

2022	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits from customers	406,979	400,385	787,501	683,859	12,220	2,290,944
Loans from central banks	2,135	3,000	6,000	321,657	-	332,792
Other liabilities	16,626	-	225	623	-	17,474
Long-term subordinated debt	753	-	1,560	32,188	-	34,501
Loans from group companies	1,879	-	-	-	-	1,879
Derivative financial instruments	14	-	-	(26)	125	113
Total	428,386	403,385	795,286	1,038,301	12,345	2,677,703

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. The Bank manages interest rate risk through controlling the profile of its liabilities (funding) and through the use of interest rate swaps.

The Bank seeks to mitigate interest rate risk through regular review of:
- The structure of the balance sheet;
- Results of stress testing; and
- Management of the repricing profile of assets and liabilities.

A positive interest rate sensitivity gap means 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. Where appropriate, loans with interest rate floors have been shown in the column matching their re-pricing date.

The impact of changes in interest rates has been assessed in terms of economic value of equity (EVE). EVE is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This is a long-term economic measure used to assess the degree of interest rate risk exposure.

As at 31 December 2023, the estimate that a 200bps upward and downward movement in interest rates would have impacted the economic value of equity (EVE) is as follows:

	2023	2022
	£'000	£'000
EVE Sensitivity +200bps	**4.0**	(5.0)
EVE Sensitivity -200bps	**(2.8)**	6.1

Interest rate re-pricing table

2023	**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	1,152,032	233,286	411,195	1,296,732	1,127	9,984	3,104,356
Loans and advances to banks	294,692	-	-	-	-	-	294,692
Loans to group companies	-	-	-	-	-	369	369
Debt Securities	-	19,499	-	-	-	11	19,510
Other assets	2,039	-	-	-	-	19,202	21,241
	1,448,763	252,785	411,195	1,296,732	1,127	29,566	3,440,168
Deposits from customers	784,215	356,575	695,826	869,806	47,573	43,366	2,797,361
Loans from central banks	263,441	-	-	-	-	-	263,441
Other liabilities	1,329	-	-	-	-	20,076	21,405
Long-term subordinated debt	-	-	-	38,850	17,000	790	56,640
Loans from group companies	-	-	-	-	-	1,522	1,522
Total Capital and Reserves	-	-	16,851	-	-	282,948	299,799
	1,048,985	356,575	712,677	908,656	64,573	348,702	3,440,168
Net derivative financial instruments	170,000	-	-	(170,000)	-	-	
Interest rate sensitivity gap	569,778	(103,790)	(301,482)	218,076	(63,446)	(319,136)	
Cumulative gap	**569,778**	**465,988**	**164,506**	**382,582**	**319,136**	**-**	

Interest rate re-pricing table

2022	**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	1,025,749	121,259	327,132	947,653	700	3,528	2,426,021
Loans and advances to banks	268,862	-	-	-	-	-	268,862
Loans to group companies	-	-	-	-	-	205	205
Debt Securities	49,738	-	34,467	-	-	578	84,783
Other assets	3,561	-	-	-	-	14,885	18,446
	1,347,910	121,259	361,599	947,653	700	19,196	2,798,317
Deposits from customers	518,383	283,090	746,967	631,629	10,555	17,676	2,208,300
Loans from central banks	302,135	-	-	-	-	-	302,135
Other liabilities	96	-	-	-	-	17,474	17,570
Long-term subordinated debt	-	-	-	29,000	-	324	29,324
Loans from group companies	-	-	-	-	-	1,879	1,879
Total Capital and Reserves	-	-	16,851	-	-	222,258	239,109
	820,614	283,090	763,818	660,629	10,555	259,611	2,798,317
Net derivative financial	90,000	-	-	(90,000)	-	-	-
Interest rate sensitivity gap	617,296	(161,831)	(402,219)	197,024	(9,855)	(240,415)	
Cumulative gap	**617,296**	**455,465**	**53,246**	**250,270**	**240,415**	**-**	

26. Capital management

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

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

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk management process. The Group's Pillar 3 disclosures, which are unaudited, 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 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 a range of scenario analysis and stress tests of these plans. This process is designed to ensure that adequate capital is retained by the Bank to meet not only its current requirements, but also to cover the medium term and requirements in less benign markets. The ICAAP therefore represents the view of management and the Board, of the risks faced by the Bank and the appropriate amount of capital that the Bank should hold to protect against those risks.

Regulatory capital resources

	2023	2022
	£'000	£'000
Common equity tier 1 capital		
Called up share capital	**10,350**	10,350
Share premium	**25,680**	25,680
Retained earnings	**246,918**	186,228
Deductions from common equity tier 1 capital		
Intangible assets	**(3,966)**	(3,084)
Other deductions	**(12,012)**	(11,205)
Common equity tier 1 capital	**266,970**	207,969
Additional tier 1 capital	**16,851**	16,851
Total tier 1 capital	**283,821**	224,820
Tier 2 capital		
Subordinated debt	**55,163**	28,811
Collective provisions	**2,774**	2,290
Total tier 2 capital	**57,937**	31,101
Total regulatory capital resources	**341,758**	255,921

Other deductions from common equity tier 1 capital relates to the British Business Bank's Enable Guarantee. The Enable Guarantee provides unfunded credit protection for qualifying loans within the Bank's property development loan book. Its effect is to partially offset the Bank's exposure to qualifying loans; the Bank remains exposed to the unguaranteed portion and to a 'first loss' element of the guaranteed portion. This latter exposure constitutes a synthetic securitisation position under the Capital Requirements Regulation (CRR).

27. Ultimate controlling company

UTB Partners Plc 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 Plc, which is the smallest and largest group into which the Bank is consolidated, can be obtained from UTB Partners Plc, One Ropemaker Street, London EC2Y 9AW. The directors have no interests in the shares of any group company other than UTB Partners Plc. Mr Graham Davin, a Director, and his family are directly and potentially interested in 56.2% of the issued share capital of the Company.

28. Subsequent events

There have been no significant events after the date of the Statement of Financial Position up to the date of signing that require disclosure in accordance with FRS 102.

COMPANY INFORMATION

Bankers
Barclays Bank Plc
Lloyds Bank Plc

Independent Auditors
PricewaterhouseCoopers LLP

Legal Advisors
CMS Cameron McKenna
Nabarro Olswang LLP

Company Secretary
Natasha Thomas

Registered Office
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Country of Incorporation
United Kingdom

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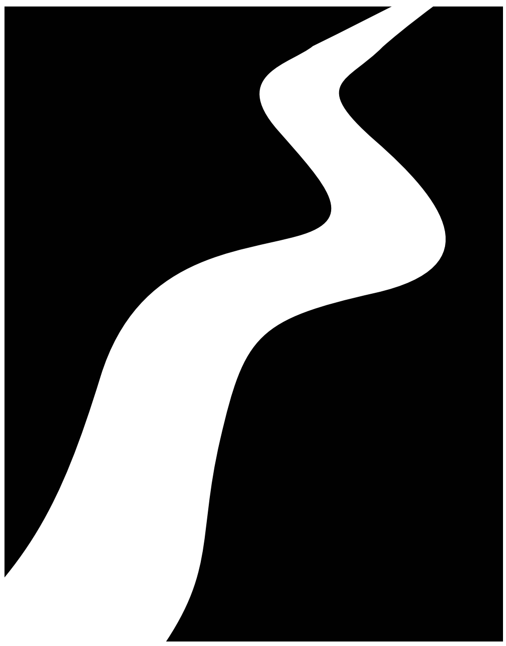

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