Report & Accounts | 2004

UNITED TRUST·BANK

Contents

'United Trust Bank is a British Merchant Bank based in London. We are an owner-managed business where the executives have committed their own money and reputation to the Bank's continued success.

We are committed to generating profits for our customers and ourselves by focussed and responsive attention to detail and market opportunities.

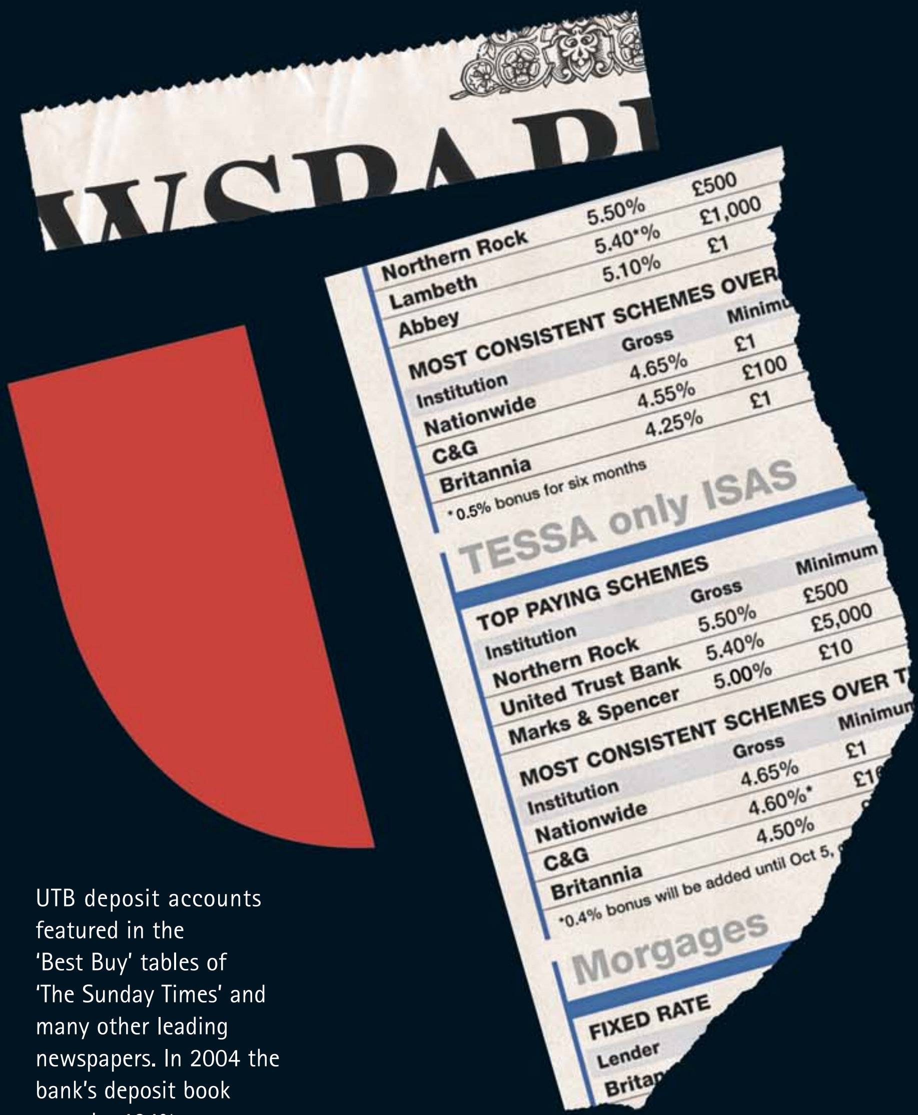
The year under review witnessed a continued strong growth of the Bank's underlying business. The results for the year reflect the high value added nature of the business' lending and deposit operations.'

Operating income (£'000)

Profit after tax (£'000)

Total assets* (£'000)

* Following the change in shareholding, total assets in 2002 and 2003 has been adjusted to remove the acquisition of the securities and trading subsidiaries that were acquired on the 31 December 2002 and reversed with effect from 31 December 2003.



UTB deposit accounts featured in the 'Best Buy' tables of 'The Sunday Times' and many other leading newspapers. In 2004 the bank's deposit book grew by 104%.

I am pleased to report an improved performance in the Bank's underlying growth in the past year. At the same time, our transition to a new ownership structure, the restructuring of our balance sheet and the establishment of our new brand were successfully completed.

Our expanded management team has generated a growth in assets, a widened deposit base and enhanced liquidity.

In 2004 the UK economy completed its tenth year of steady growth with restrained inflation and low interest rates. Throughout the year there has been an increasing concern with regard to overheating in the property market. However, the Bank of England's timely rises in interest rates, and continued focus on the potential damage of excessive property price rises, have slowed the market and moderated prices. This adjustment may still have some way to go but, at the time of writing, it looks as if the market will achieve a 'soft landing'.

We have reinforced the Board of Directors with the appointment of Andrew Herd and I welcome his increased involvement in our affairs. We now have a very strong and stable platform on which to build our existing lines of business as well as considering diversification when good opportunities present themselves.

On behalf of the Board I would like to thank all members of staff for their commitment, drive and enthusiastic support during these changes. As a Board, we look forward, with great confidence, to the year ahead.

Nicholas Clegg
Non-Executive Chairman
21 February 2004

United Trust Bank has significantly widened its deposit base and demonstrated its ability to attract new deposits

The Past Year has been notable for the attention that house prices have received from economists, the media and the public; and for their perceived influence on the Bank of England's MPC when setting base rates. While housing affordability has deteriorated, particularly in the latter half of the year, United Trust Bank has continued to find significant numbers of profitable deal proposals that meet our credit criteria.

Review

Against a backdrop of solid operational growth during 2004, the Bank achieved all of its objectives arising from the change in shareholding that took place with effect from January 2004.

Our results, for the year to 31 December 2004, exhibit strong growth in gross income. Net interest income grew by 22% over the previous year and gross interest income by 42%, reflecting both the increased scale of operations and the benefit of higher interest rates on free capital. Fees continued to grow during the year with a good balance between arrangement and extension fees, and redemption fees, which are linked to final underlying house sale prices. Overall, fees grew by 48% over the year.

Our re-branding and marketing efforts, which the market received well, supported this fee growth, as did our increased number of client facing employees. The full effect of new staff lags their employment as we assemble a new client base. We therefore expect to see increased costs ahead of new business generation well into the next year.

Our results exhibit strong growth in gross income. Net interest income grew by 22% over the previous year and gross interest income by 42%

We believe that our investments in people and infrastructure during 2004 will provide fundamental value for years to come. There have been no material changes in non-personnel costs other than rent, which has gone up modestly but has delivered more than double the space and markedly improved conditions.

In anticipation of deteriorating credit markets, the Bank increased its provision for bad debts in accordance with its policy. The effect of this increase has been to charge a substantial provision to current years' earnings. Net provisions at year end now stand at over £1m.

Asset growth has been satisfactory at 16%. This, however, does not reflect the change in the structure of the assets following the reduction in capital of £13m, which we implemented in March 2004 as a mechanism to return the broking subsidiaries to Insinger de Beaufort. Customer loan balances are up a third and surplus short term cash balances have more than doubled. The Bank continues its policy of maintaining a material part of its assets in cash and liquid securities.

The Bank has significantly widened its deposit base and demonstrated its ability to attract new deposits. The Bank has raised its profile as a provider of attractive term deposit products and the market response to our deposit offering has been encouraging. Funds in retail accounts increased to slightly under £50m and individual accounts increased more than fourfold.

As part of the reorganisation, the Directors declared and paid a dividend of £669,710 (2003: nil), in April 2004. Net of this payment, the Banks capital base provides sufficient capacity to support growth targets for the next few years.

Return on average capital pre tax is 9.4% (2003: 11.7%) and after tax is 8.5% (2003: 7.3%). These returns are acceptable during the current early stage of the Bank's development, especially in the light of the investment and changes made during the period.

Development and projects during 2004

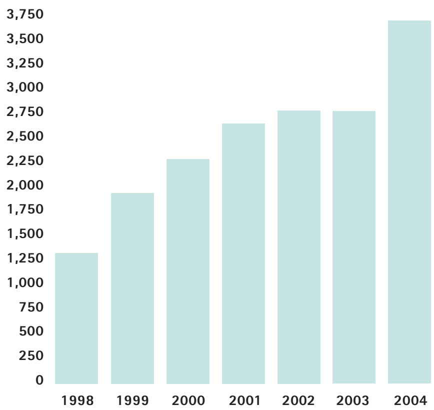
It is instructive to review the large number of completed projects during the year, some of which we described in our last annual report.

Regulatory Approval: The transaction leading to the acquisition by the executive directors of a 72% interest in the Bank depended on the FSA granting approval to the deal and the incoming controlling shareholders. We obtained this approval on 5 March 2004.

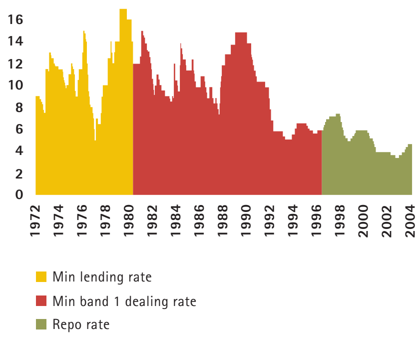
Reduction in Capital: At the date of the acquisition of the Bank by the Executive Directors, the Bank held all of Insinger de Beaufort's broking and advisory businesses operating within the UK. A complex and protracted process was necessary to extract these businesses, before we could complete the transaction. The Bank sold its two subsidiary companies to the Insinger de Beaufort Group for £13m. The Bank then repurchased 9,700,000 ordinary shares of £1 each for £13m and consequently reduced its capital by a corresponding amount. We completed this process on 30 April 2004.

Name Change and Brand: In May 2004, the Bank reverted to its original name, United Trust Bank and adopted its new logo; a shield made up from the outline form of its initials. Client acceptance was immediate and positive. The new design is progressive and modern whilst at the same time expresses our solid standing. The new branding increased our acceptance in the retail deposit market

Operating income (£'000)



Bank of England base rate (%)
(Source: Bank of England)



and was key to developing our ability to fund growth for the future. The market response has exceeded our hopes. Visits to our website grew throughout the year and now generate a fair amount of new business.

Systems and relocation: We recently completed our move to 80 Haymarket, on the corner of Pall Mall in the West End. This has repositioned the business in its market and we now have a solid platform for expansion. The response from staff and customers has been overwhelmingly positive. The move provided an ideal opportunity to review and update the entire systems and telecoms infrastructure, which we have now completed at modest expense.

The extent of the changes during the year has been transformational, so rendering the Bank almost unrecognisable. However, the support of our clients through this growth period has been exceptional.

Personnel, Directors and Financial Interests

Other than the recruitment of additional staff, there have been no material changes in personnel for another year. The experiences of the year and the benefits of infrastructure changes have left us energised and focused on customer and product growth for the year ahead.

As at the date of this report, the executive directors had a direct, indirect and attributed interest of 72% in the Bank, as set out in the notes.

Auditors

A resolution to re-appoint Deloitte & Touché LLP as auditors will be put to the shareholders during the year.

Prospects

The Bank is now in a good position to capture a larger share of its existing markets. Our emphasis will continue to be on recruiting experienced loan officers who bring knowledge of potential new clients and new areas of the country to the Bank. We expect to continue deposit raising activities well ahead of loan asset growth. We also have appropriate relationships in place to earn positive net yields on surplus cash balances. This relieves us of any pressure to lend in the residential property market where we anticipate prices possibly declining in 2005.

We also plan to search out and establish new areas of trading and business to diversify our income base. We are additionally exploring a number of possibilities related to the existing core property business.

The past year was rewarding for the success we had in meeting all our major objectives, while at the same time achieving material growth in the underlying business and maintaining profitability within targets. We trust that we will review 2005 with a similar degree of comfort.

Graham Davin
Chief Executive Officer
21 February 2005

Nicholas Clegg
Chairman
Nicholas Clegg, 68, was previously a director of Hill Samuel Co Ltd, Co-Chairman of Daiwa Europe Ltd and Chairman of Daiwa Europe Bank plc. He has served as a Director of the International Primary Markets Association and a senior adviser to the Bank of England on banking supervision. He was also a supervisory Director of Bank Insinger de Beaufort NV and Insinger de Beaufort Holdings.

Graham Davin
Chief Executive Officer
Graham Davin, 49, is the principal stakeholder of United Trust Bank and led the buy-out syndicate. He was a founding partner of the Insinger de Beaufort Group and a Director of its listed parent and its Dutch Bank. He was previously Chief Financial Officer and Head of Corporate Finance of Investec Bank and a main board Director of Investec for 16 years.

Harley Kagan
Chief Financial Officer
Harley Kagan, 35, is the Chief Financial Officer of United Trust Bank, a chartered accountant, and a member of the buy-out syndicate. He was previously the Finance Director of the UK Operations of Insinger de Beaufort. He has worked extensively in Corporate Finance, concentrating on acquisitions and disposals, and as a strategy consultant with Cap Gemini.

Roger Tidyman
Managing Director
Roger Tidyman, 55, is the Managing Director of United Trust Bank and a member of the buy-out syndicate. He is a Chartered Banker and was previously Banking Director of BHF-Bank AG's London business following senior positions in Kleinwort Benson and HSBC Investment Bank.

Ehsan Mani
Non-Executive Director
Ehsan Mani, 60, is currently a Director of United National Bank having been involved in real estate projects and investments in the United Kingdom for many years. He is a chartered accountant and the President of the International Cricket Council. He has also been a member of the Pakistan Governments' Prime Minister Inspection Commission and of the Advisory Body of the Task Force for Human Development.

Barry Townsley CBE
Non-Executive Director
Barry Townsley, 58, was the founder and senior partner of Townsley & Co. He is currently Deputy Chairman of Corporate Finance at Dawnay Day and Vice President of the Weizmann Institute Foundation. He is a founder member and principal Sponsor of the Stockley Academy and Vice Chairman of the Serpentine Gallery.

Andrew Herd
Non-Executive Director
Andrew Herd, 46, is an independent business consultant specialising in the financial institutions and leisure sectors. Andrew, who is a chartered accountant, worked as a merchant banker for many years. He was previously Managing Director and Head of Financial Institutions at SG Hambros having had senior roles with Paribas Capital Markets and Morgan Grenfell.

Jasper Allen
Non-Executive Director
Jasper Allen, 53, is Head of Corporate Finance at Insinger de Beaufort and represents the Insinger Group's interest in United Trust Bank. He was previously a Director of Smith New Court Corporate Finance and English Trust, working in stockbroking and corporate finance.

United Trust Bank is a British Merchant Bank based in London, and authorised and regulated by the Financial Services Authority. This is an owner-managed business, where we have committed our own money and reputation to the Bank's continued success.

Creating value

Our years with the business have enabled us to build a strong bank with the express aim of creating value for our clients and our shareholders. We have built up our client base, our funding partners and a very experienced management team; as such we continue to offer larger loans and a wider range of specialist services to our highly exacting clients.

The management team

The management team consists of business professionals and financial specialists with experience of starting, buying and building companies. Between us we have held senior positions in large national and international financial organisations. Our work has taken us to many different countries and we have conducted successful cross border transactions.

Effective funding solutions

Our Structured Finance team can advise on, arrange, provide and place debt finance for projects and corporate activity. Clients can secure this finance against any combination of assets, cash flow, debtor books, and equity. We work with our clients to determine the best funding solutions, based on their term needs: and seek to control costs through focussed effort and efficient use of the funding market.

We specialise in funding UK property developers and builders in the residential marketplace, where we have a well earned reputation for expertise, speed and flexibility. Our clients and competitors also know us to be reliable in changing markets. A detailed understanding of this market ensures we are able to respond quickly and imaginatively, sometimes providing commitments in as little as a day. Our specialist knowledge enables us to offer higher levels of commitment to value, so helping our clients improve their return on equity and achieve more with their capital. Clients range from private developers converting or renovating one dwelling, to corporate developers with multi-unit schemes.

Loan facilities are available for:

- Residential property development (new build, conversions, extensions)
- Commercial property development (part speculative)
- Property trading (acquisition, refurbishment for on sale/refinance)
- Planning gain finance (and bank development)
- Bridging finance (open and closed)
- Investment portfolios (income producing)

For clients who want to leverage existing capital, we can also offer certain specialist liquidity facilities. These can be in the form of additional working capital secured against existing assets, or the gearing of securities portfolios. These services are available to selected institutions, corporates and private clients.

Best interest rates

United Trust Bank is committed to providing our clients with competitive interest rates, no hidden charges, straightforward products and a high level of personal and professional service. The regular appearance of our deposit products in the 'Best Buy' tables underlines this commitment.

All clients have direct access to a dedicated team of deposit administrators; in stark contrast to the impersonal world of bank call centres. In recognition of this, the Bank received an award from Business Moneyfacts in the category of 'Best Business Investment Account Provider'.

The Bank subscribes to the Banking Code and the Business Banking Code, is covered by the Financial Ombudsman Service, and is a member of the Financial Services Compensation Scheme.

To see our latest interest rates, visit our website: www.utbank.co.uk

What gives us our edge?

Our value added services demand detailed knowledge of select markets in order to respond quickly to clients' financial plans. To be successful, clients expect high levels of competent service, including the ability to deal simply and intelligently with numerous variables, financial structures, and the mitigation of risk. Only a specialist team built up over time, such as ours, can offer this sort of service and so help clients make the most of market opportunities.

'We remain totally committed to lending to good developers. We are seeking to increase our exposure and share of the UK's growing property development market'

Despite a spate of gloomy housing statistics and surveys over the closing months of 2004, it is important to keep the current situation in perspective. We are seeing the end of a decade of house price increases in the United Kingdom. However, as the Barker report confirmed, there is still a very significant imbalance in the supply of the right type of housing in the most needed places.

The likely movement of house prices in 2005 is down rather than up given the last ten years of house price inflation. The UK house price to earnings ratio is now almost 6:1, well above the long run average of 3.6:1.

Interest rates and employment

Last year we highlighted that the two key determinants of demand for housing are interest rates and employment. Five successive interest rate increases have succeeded in deflating a potential housing bubble in the UK. The market is indicating that interest rates are as likely to fall as to increase in 2005. With wage inflation running at 4.5% a year and good employment prospects continuing, we expect a soft landing as affordability improves from its present stretched levels.

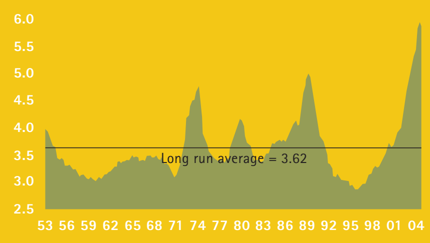
When will the house price to earnings ratio return to its long term average?

If house prices remained flat then it would be 2012 before we saw a return to the long term average. However, if house prices fell by 4% a year, it would restore the ratio by September 2008.

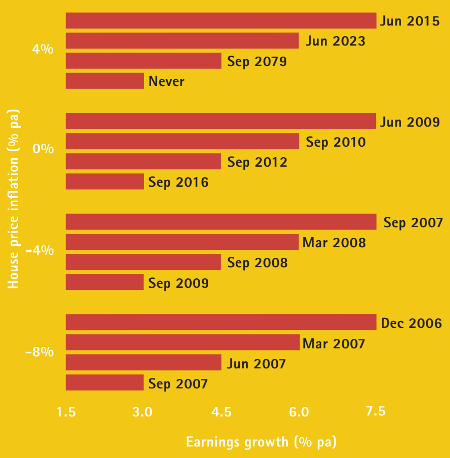
This ratio is not immutable. There are good grounds to say that house price deflation will be less than 4% a year in the near future; given the poor performance of other asset classes in recent years, the continued imbalance of supply and demand, and the tax breaks for personal pensioners investing in residential property from 2006. In our view, there will be small price reductions in 2005 and house builders will need to be diligent to maintain their historic profit margins. The selection of location and building product for known demand will be even more important than usual in 2005.

We remain totally committed to lending to good developers. We are seeking to increase our exposure and share of the UK's growing property development market; particularly in areas with prospects for high employment growth and where affordability is better. We have recruited more business development managers experienced in the market and all of our marketers are generating good new opportunities for us. Much of our business arises from satisfied customers borrowing for their next development: but pleasingly in 2004, over 53% of the facilities we offered and saw drawn down were for clients new to the Bank.

The house price to earnings ratio
(Source: Nationwide ONS)



When will the house price to earnings ratio return to long term average?
(Source: Nationwide ONS)



Planning gain followed by development

Our client identified a former petrol station and car sales lot in the West Midlands as an attractive potential residential development site. They negotiated the purchase on the basis of completion with the existing planning permission, although the borrower was able to establish that the Local Authority were receptive to the idea of residential development on the site. We assisted with a loan of 50% of the site's value without planning for housing.

Once our client had obtained planning consent for 15 flats (9,600sq ft) we were able to increase the loan to 80% of original site purchase price. We also provided 100% of the build costs and rolled up interest.

Funding:
Planning – £175,000
Development – £1,231,000

Percentage of costs:
Planning – 50%
Development – 87%

Projected Value:
£1,900,000

Funding high percentage of costs

Established clients with a good record of redeveloping historic buildings, asked us to help them buy a large Grade 1 listed country house. Although planning consent was in place for conversion to a number of residential apartments, our customers did not feel that the planning consent maximised the potential of the property. A number of covenants also restricted development activity. Having analysed the market we agreed with this view.

Relying to a modest extent on other security, we were able to provide 100% of the purchase price. We also helped our clients improve the planning consent and resolve a number of other issues. As a result, site value has increased in value from £1.2m to £1.9m and we are now fully funding the development of 12 dwellings representing phase 1 of the redevelopment.

Funding:
Site Purchase – £1,000,000
Development – £2,300,000

Percentage of costs:
Site Purchase – 100%
Development – 100%

Projected Value:
£4,630,000

Fast residential bridge to help buy a business

Our client needed funds urgently to complete the purchase of a small business. In the medium term, they were to refinance this by re-mortgaging their home. We were quickly able to provide a short term bridging loan that refinanced the existing mortgage and provided additional funds for the business purchase. They completed the business purchase within 10 days of our funding offer.

Funding:
£82,000

Percentage of Value:
43%

Value:
£190,000

Flexibility provides equity release to next development

We were funding a seafront development of six apartments in Somerset on a conventional basis, when our clients obtained planning to build five starter homes on a site they already owned in Lincolnshire.

The funding proposal for the new Lincolnshire project, was outside our normal parameters. Additionally the principals wished to make a start on the new Lincolnshire site before the completion of loan formalities.

The good level of reservations in Somerset, at prices in excess of valuation, enabled us to release 'equity' funding to prime the new Lincolnshire development.

Funding is now on a standard basis following sales in Somerset and we are supporting the next project for these clients.

Funding:
Somerset – £576,000
Lincolnshire – £300,000

Percentage of costs:
Somerset – 77%
Lincolnshire – 78%

Projected values:
Somerset – £1,000,000
Lincolnshire – £500,000

Refinance and restructure of another bank's inflexible facility

Our client, a residential developer, had bought a challenging potential building site some years ago and then added value by obtaining detailed planning permission for 58 apartments. After achieving planning, his clearing bankers provided what turned out to be an inflexible development facility. Improved specifications required additional funding, which the bank would not finance.

We assessed the position and recognised the potential. Our client refinanced the existing lender and used our facility to fund 100% of building works and interest capitalisation. They phased the scheme and have almost completed the first phase of 17 units with significant reservations.

We have since increased our funding assistance to enable our client to develop an associated car park and a courtyard, and we re-imbursed expenditure on preliminaries in respect of phases 2 and 3. We are now preparing to fund the construction of another 38 apartments following a recent further planning enhancement. As phase one sells out, the scheme could see an element of self-financing or release of equity for the next project.

Funding:
£2,306,000

Percentage of costs:
93%

Projected value:
£4,200,000

Structured Finance enables us to satisfy the needs of two clients

A family client used a bridging loan from us, against the expected sale of a closed business premises, to inject equity funds into a joint venture residential development. This developer, who was also our client, was in danger of losing the targeted development as the site vendor was pushing hard for an exchange and the developer was short of equity. We advanced the joint venture the balance of funds to acquire the site, together with 100% of the building costs and interest capitalisation.

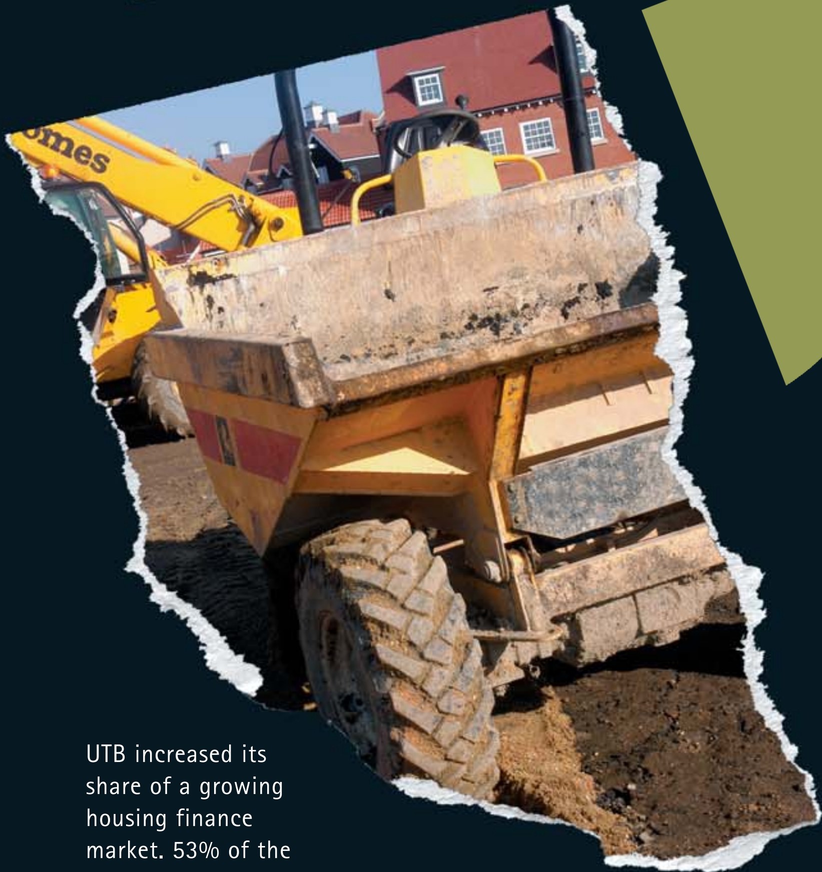
Following the sale of the closed business premises, we permitted our family client to withdraw the surplus equity proceeds for their personal use; and they are currently enjoying the experience of their first new build project as a developer.

We recognised the needs of both clients, and structured and funded a joint venture that satisfied both of them. The developer gained a profitable opportunity and an equity partner. The family started a new business.

Funding:
£357,000 for the bridging
£1,500,000 for the follow up development

Percentage of costs:
100%

Projected value:
£2,500,000



UTB increased its share of a growing housing finance market. 53% of the facilities drawn down in 2004 were provided to new customers. In 2004 the bank's loan book grew by 34%.

Our specialisation and thorough market knowledge enables us to provide a greater percentage of costs than less specialised competitors. Our planning gain facilities are proving very attractive to active builders preparing their land banks for development.

The case studies on pages 9 and 10 demonstrate how we provide our clients with a higher return on their equity and leave them with resources to take advantage of other development opportunities as they arise.

Board of Directors

Non-Executive Chairman
Nicholas Clegg

Non-Executive Directors
Andrew Herd*
Barry Townsley CBE
Ehsan Mani
Jasper Allen

Executive Directors
Graham Davin
Harley Kagan
Roger Tidyman

Company Secretary
Harley Kagan

Registered Office
80 Haymarket
London SW1Y 4TE

Registered Number
549690

Senior Executives

Structured Finance
Clive Adams
Jeff Dominy
Michael Campion
Noel Meredith
Simon Boulcott

Deposits and Treasury
Jeff Wannell
Steve Hollaway

Operations
Edward Bradford
Ian Andrews
Valerie Biles

Finance, Administration and Audit
Alan Gillett
Andrew Pollins
Charlotte Hazelton
Karen Franklin

Professional Advisors

Bankers
Barclays Bank Plc
50 Pall Mall
PO Box No 15162
London SW14 1QB

Auditors
Deloitte & Touche LLP
London

Legal Advisors
Nabarro Nathanson
Lacon House
Theobolds Road
London WC1X 8RW

Authorised under the Financial Services and Markets Act 2000 and authorised and regulated by the Financial Services Authority

* Andrew Herd was appointed to the board on the 30 April 2004 and David Howard and Christopher Spence retired from the board on the 5th February 2004

Statement of directors' responsibilities in respect of the financial statements

United Kingdom company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of United Trust Bank Limited

We have audited the financial statements of United Trust Bank Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report and other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors, London
21 February 2005

	Notes	2004 £'000	2003 £'000
Interest receivable			
Interest receivable and similar income		**3,556**	2,509
Interest payable and similar charges		**(1,662)**	(958)
Net interest income		**1,894**	1,551
Fees and commissions		**1,740**	1,178
Operating income		**3,634**	2,729
Administrative expenses	2	**(2,165)**	(1,580)
Depreciation	4	**(49)**	(24)
Credit/(Provision) for bad and doubtful debts	8	**(416)**	252
Operating profit on ordinary activities before tax		**1,004**	1,377
Taxation	5	**(85)**	(541)
Profit on ordinary activities after tax retained for the year	19	**919**	836

The notes on pages 16 to 22 form an integral part of these financial statements

The Company has no recognised gains and losses for the current or preceding financial year other than as stated in the profit and loss account.

All results derive from continuing operations. The notes on pages 16 to 22 form an integral part of these financial statements.

	Notes	2004 £'000	2003 £'000
Loans and advances to banks	6	**21,651**	11,456
Loans and advances to financial institutions	6	**2,000**	-
Loans and advances to customers	7	**36,098**	27,012
Loans to group companies	9	**–**	129
Shares in group undertakings	10	**–**	13,000
Tangible fixed assets	11	**249**	138
Other assets	12	**1,235**	840
Total assets		**61,233**	52,575
Deposits from banks	13	**–**	38
Deposits from customers	14	**47,485**	23,216
Due to group companies	15	**1,107**	4,854
Other liabilities	16	**1,702**	778
		50,294	28,886
Capital and reserves			
Share capital	17	**6,500**	16,200
Share premium account	18	**3,520**	3,520
Profit and loss account	18	**919**	3,969
Equity shareholders' funds	19	**10,939**	23,689
Total liabilities		**61,233**	52,575
Memorandum items			
Guarantees and assets pledged as security		**83**	51
Commitments	20	**24,411**	19,109

The notes on pages 16 to 22 form an integral part of these financial statements

Signed on behalf of the Board of Directors

H Kagan
Director
21 February 2005

C R Tidyman
Director
21 February 2005

1. Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied by the Company throughout the year and in the preceding year is set out below:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups, applicable United Kingdom accounting standards and the Statements of Recommended Practice issued by the British Bankers' Association.

Group accounts

In accordance with the s228 of the companies Act 1985, no group accounts are produced as the company is a wholly owned subsidiary of UTB Partners Limited, incorporated in the United Kingdom.

Cash flow statements

The Company utilises the exemption under FRS 1 (Revised) not to present a cash flow statement on the basis that it is a wholly owned subsidiary of a group whose financial statements are publicly available.

Income recognition

Interest income is recognised in the profit and loss account as it accrues, other than interest of doubtful collectability which is excluded from interest income.

Front-end fees receivable for the continuing service of advances are recognised on the basis of work done and those in lieu of interest are recognised over the period of the advance or risk exposure. Redemption fees are recognised when the contractual terms are met.

Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted..

Investments in group undertakings

Fixed asset investments are shown at cost. The carrying values of investments in group undertakings are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be fully recoverable.

United Trust Bank increased its share of the growing housing market

Investment in shares

Investments in shares are valued at cost less any impairment in value.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. 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:

Office equipment	between 15% and 20% per annum
Computer equipment and software	between 15% and 33% per annum
Leasehold improvements	over the life of the lease

Leases

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.

Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are based on the year end appraisal of loans and advances. Specific provisions have been made in respect of all identified impaired advances. A general provision has been made in respect of losses which although not yet specifically identified, are known from experience to be present in any portfolio of bank advances.

Loans and advances are written down to estimated realisable value when there is no realistic prospect of recovery. Interest of doubtful collectability is held in suspense.

Pension costs and other post retirement benefits

The Company maintains a policy of supporting the defined contribution pension schemes of its employees. The amounts charged to the profit and loss account in respect of pension costs are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

2. Administrative expenses

	2004 £'000	2003 £'000
Staff costs*		
– wages and salaries	**1,261**	847
– social security costs	**123**	104
– other pension costs	**41**	88
Auditors remuneration		
– audit work	**35**	35
– non audit work	**6**	5
Other administrative expenses	**699**	501
	2,165	1,580

The average monthly number of people employed by the Company during the year was 17 (2003 – 13). At the end of the year, the group employed 18 people.
*Including directors' remuneration set out in Note 3.

3. Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2004 £'000	2003 £'000
Emoluments	**704**	338
Company contributions to money purchase pension schemes	**16**	69
	720	407

Pensions

The number of directors who were members of pension schemes was as follows:

	2004 No	2003 No
Money purchase schemes	**2**	2

The above amounts for remuneration include the following in respect of the highest paid director:

	2004 £'000	2003 £'000
Emoluments and incentive schemes	**222**	239
Company contributions to money purchase schemes	**16**	66
	238	305

4. Operating profit

Is stated after charging:

	2004 £'000	2003 £'000
Depreciation	**49**	24
Operating lease: property	**124**	95

5. Tax on profit on ordinary activities

i) Analysis of tax charge on ordinary activities

	2004 £'000	2003 £'000
Corporation tax	**394**	306
Group relief	**–**	235
Deferred Tax – origination of timing difference	**(309)**	-
	85	541

The Group Relief provided to United Trust Bank Limited for 2003 by its previous shareholder, has increased from £235k to £541k due to the taxable losses available to and the election of its previous shareholder.

5. Tax on profit on ordinary activities (continued)

ii) Factors affecting tax charge for the year

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK: 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax:	**1,004**	1,377
Tax charge/(credit) at 30% thereon:	**301**	413
Effects of:		
Expenses not deductible for tax purposes	**134**	124
Capital allowances in excess of depreciation	**(10)**	(5)
Group relief	**(39)**	-
Prior years	**8**	9
Tax charge for the year	**394**	541

6. Loans and Advances to Banks and Financial Institutions

	2004 £'000	2003 £'000
Remaining maturity three months or less:		
Loans & advances to Banks	**21,651**	11,456
Loans & advances to Financial Institutions	**2,000**	-
	23,651	11,456

7. Loans and Advances to Customers

	2004 £'000	2003 £'000
Remaining maturity:		
- three months or less	**22,540**	17,714
- one year or less but over three months	**14,507**	9,707
- five years or less but over one year	**196**	320
	37,243	27,741
General and specific bad and doubtful debt provisions (see note 8)	**(1,145)**	(729)
	36,098	27,012
Of which repayable on demand or short notice	**2,495**	5,400

8. Provision for Bad and Doubtful Debts

	2004 Specific £'000	2004 General £'000	2004 Total £'000	2003 Specific £'000	2003 General £'000	2003 Total £'000
At 1 January	**115**	**614**	**729**	–	204	204
Charge	**100**	**431**	**531**	115	410	525
Amounts written off/(recovered)	**(115)**	**–**	**(115)**	–	–	–
At 31 December	**100**	**1,045**	**1,145**	115	614	729

In 2003 a bad debt previously written off, of £777k was recovered. This amount together with the charge of £525k above, resulted in the credit to the profit and loss account of £252k in that year.

	2004 £'000	2003 £'000
Interest in Suspense		
At 1 January	**59**	–
Interest suspended during the year	**67**	59
At 31 December	**126**	59

9. Loans to Group Companies

	2004 £'000	2003 £'000
Remaining maturity three months or less:		
- Loans to group banks	**–**	129
	–	129

10. Shares in Group Undertakings

	2004 £'000	2003 £'000
Cost:		
At 1 January	**13,000**	13,000
Disposals	**(13,000)**	-
At 31 December	**–**	13,000

The Company sold its two subsidiary companies, Insinger de Beaufort and Insinger de Beaufort (ACD) Limited, back to Insinger de Beaufort (UK) Limited for £13 million. The Company immediately thereafter reduced its capital by £13 million (see note 18 & 19).

11. Tangible Fixed Assets

Tangible fixed assets comprise:

	Leasehold improvements £'000	Computer equipment & software £'000	Office equipment £'000	Total £'000
Cost:				
At 1 January 2004	**70**	**154**	51	275
Additions	**25**	**47**	112	184
Write offs	**(70)**	**(25)**	(50)	(145)
At 31 December 2004	**25**	**176**	113	314
Accumulated depreciation:				
At 1 January 2004	**54**	**35**	48	137
Charge	**–**	**46**	3	49
Write offs	**(54)**	**(19)**	(48)	(121)
At 31 December 2004	**–**	**62**	3	65
Net book value:				
At 1 January 2004	**16**	**119**	3	138
At 31 December 2004	**25**	**114**	110	249

We plan to search out and establish new areas of trading and business to diversify our income base

12. Other Assets

	2004 £'000	2003 £'000
Deferred tax asset	**309**	-
Corporation tax repayable	**17**	252
Accrued interest receivable	**715**	569
Other Debtors	**175**	-
Prepayments	**19**	19
	1,235	840

A deferred tax asset of £309k has been recognised at 31 December 2004 (2003: £ Nil). This asset which relates to the provisions set out in note 8, has been recognised in the financial statements following the change in ownership structure that took place this year.

13. Deposits from Banks

	2004 £'000	2003 £'000
Bank overdraft	**–**	38
	–	38

14. Deposits from Customers

	2004 £'000	2003 £'000
Remaining maturity		
- three months or less	**19,114**	13,782
- one year or less but over three months	**25,455**	9,434
- five years or less but over one year	**2,916**	-
	47,485	23,216
Of which repayable on demand or short notice	**65**	71

15. Due to Group Companies

	2004 £'000	2003 £'000
Group Relief	**545**	235
Deposits repayable on demand or short notice		
- Holding company	**266**	290
- Other associate companies	**296**	4,329
	1,107	4,854

Interest of £8k (2003: £Nil) was paid to the Company's holding company on deposits held. Group Relief in 2003 related to the Company's previous shareholder group. The Company is no longer part of that group.

16. Other liabilities

	2004 £'000	2003 £'000
Accrued interest payable	**936**	251
Accruals and deferred income	**766**	527
	1,702	778

17. Share Capital

	2004 £'000	2003 £'000
Authorised:		
Ordinary shares of £1 each	**25,000**	25,000
Issued, allotted and fully paid:		
At 1 January	**16,200**	15,000
Issued during the year	**–**	1,200
Repurchase and cancellation	**(9,700)**	-
At 31 December	**6,500**	16,200

Our new branding increased our acceptance in the retail deposit market and was key to developing our ability to fund growth for the future

The Company repurchased 9,700,000 ordinary shares of £1 each in the capital of the Company, in terms of the buyback agreement between the Company and Insinger de Beaufort (UK) Limited.

18. Reserves

	2004 £'000	2003 £'000
Share premium account		
At 1 January	**3,520**	3,020
Arising on shares issued during the year	**–**	500
At 31 December	**3,520**	3,520
Profit and loss account		
At 1 January	**3,969**	3,133
Repurchase of Ordinary Shares	**(3,300)**	-
Dividend	**(669)**	-
Retained profit for year	**919**	836
At 31 December	**919**	3,969

19. Reconciliation of Movements in Shareholders' Funds

	2004 £'000	2003 £'000
Profit attributable to shareholders	**919**	836
Increase in share capital	**–**	1,700
Repurchase of shares	**(13,000)**	-
Dividend	**(669)**	-
Net increase/(decrease) in equity shareholders' funds	**(12,750)**	2,536
Opening shareholders' funds	**23,689**	21,153
Closing shareholders' funds	**10,939**	23,689

20. Commitments

	2004 £'000	2003 £'000
Commitments to lend:		
- up to and including one year	**24,297**	18,458
- over one year	**114**	651
	24,411	19,109
Commitments under annual operating leases for property expiring:		
Within one year	**–**	51
In two to five years	**174**	-
After five years	**–**	-
	174	51

21. Related Party Transactions

Under Financial Reporting Standard 8 the Company is exempt from the requirement to disclose transactions with related parties on the grounds that it is a wholly owned subsidiary of a European Union company whose consolidated accounts are publicly available.

22. Financial Instruments

The Company's financial instruments comprise borrowings from other banks, customer accounts, loans to customers and cash held at other banks. All these arise as a result of the Company's normal operations.

The Company does not trade in derivative contracts. All transactions are in sterling.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The directors review and agree policies for managing each of these risks and these are summarised below. The policies have remained unchanged throughout the year.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market rate.

The Company finances its loan book and money market deposits primarily through customer deposits. The Asset and Liability Committee meets regularly to review the rates offered on the various deposit products. The deposits are spread between variable and fixed rate deposits.

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

The table below summarises by time band the interest rate sensitivity gaps as at 31 December 2004.

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. A positive gap position 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 banding period. The vast majority of the Loans and Advances dealt with in the table below contain interest rate floors. These cannot easily be dealt with in a gap table but the table is prepared on the basis that floors are not activated. The table may over-state the economic interest rate mis-match in some circumstances.

22. Financial Instruments (continued)

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	Non-interest bearing £'000	Total £'000
Loans and advances to customers	36,098	–	–	–	–	36,098
Loans and advances to banks and financial institutions	23,651	–	–	–	–	23,651
Other assets	–	–	–	–	1,484	1,484
	59,749	–	–	–	1,484	61,233
Customer deposits	32,739	1,753	10,077	2,916	–	47,485
Due to group companies	266	–	–	–	841	1,107
Other liabilities	–	–	–	–	1,702	1,702
Shareholders' funds	–	–	–	–	10,939	10,939
	33,005	1,753	10,077	2,916	13,482	61,233
Interest rate sensitivity gap	26,744	(1,753)	(10,077)	(2,916)	(11,998)	
Cumulative gap	26,744	24,991	14,914	11,998	–	

Our move to new premises provided an ideal opportunity to review and update our entire systems and telecoms infrastructure

The fair values of financial assets and liabilities approximate to book values.

Liquidity risk

Liquidity risk is the risk that an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations.

The Company is required to comply with liquidity guidelines laid down by the Financial Services Authority in its role as regulator. In common with other financial institutions, the Company has borrowing facilities with other banks to give it short term flexibility in managing its liquidity.

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract.

The Company manages its credit risk by limiting its exposure to certain sectors of business, by carrying out due diligence on its customers and where appropriate vetting business plans. The Company also takes appropriate security to protect itself in the event of a default.

23. Ultimate Controlling Company

UTB Partners Limited is the Company's immediate parent and owns 100% of the Company, and is recognised by the directors as the Company's ultimate controlling company. The direct, indirect or attributed interest of the directors in the shares of UTB Partners Limited are disclosed in the accounts of that Company. The directors have no other interest in the shares of any other group company.

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