

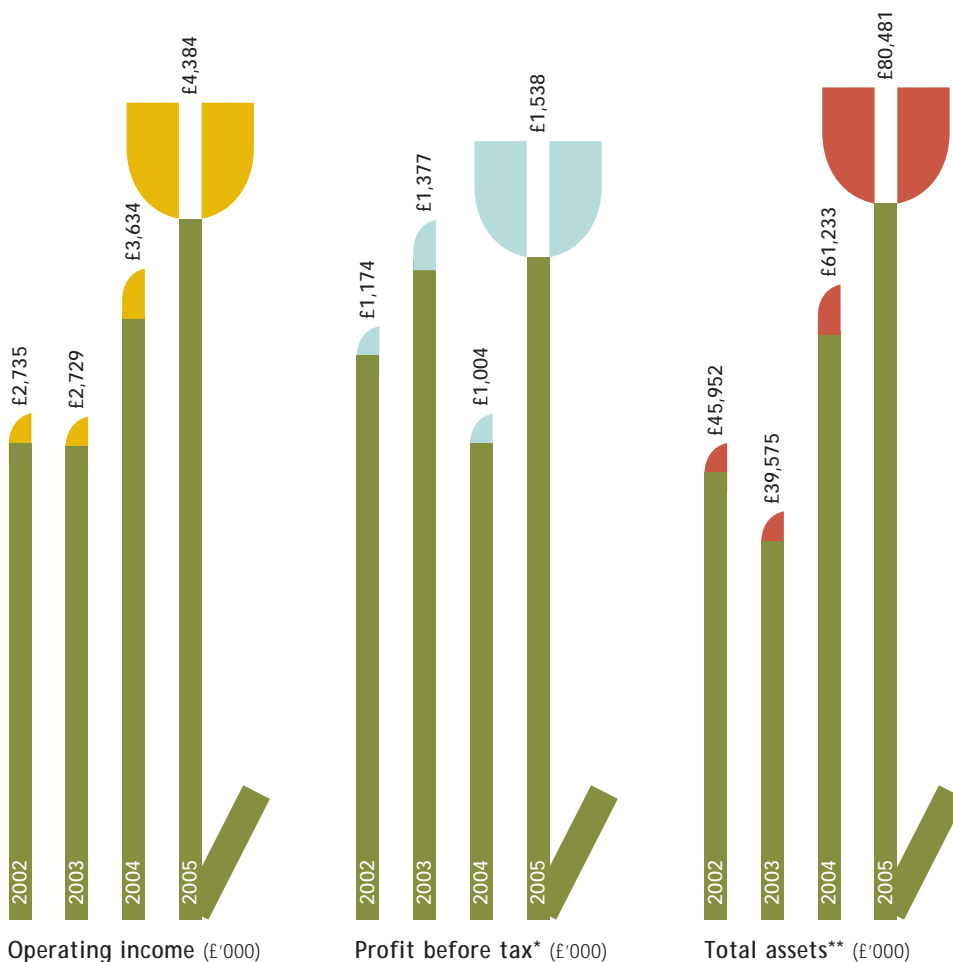
## **Contents**

|  |    |
|--|----|
| Financial highlights   | 1  |
| Chairman's statement   | 2  |
| Directors' report  | 4  |
| The board  | 6  |
| Our business   | 7  |
| Our market view  | 8  |
| Bridging loans   | 9  |
| Case studies   | 10 |
| Corporate information  | 12 |
| Statement of directors' responsibilities<br>and independent auditors' report | 13 |
| Profit and loss account  | 14 |
| Balance sheet  | 15 |
| Notes to the financial statements  | 16 |

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.

This year we strengthened the key resources in our bank: staff, deposit base, infrastructure and information technology – as well as our capital. We are in an excellent position to expand and diversify our business.



\* On ordinary activities before tax and exceptional items.

\*\* Total Assets & Equity Shareholders funds in 2002 and 2003 have been adjusted to remove the £13m relating to the acquisition of the securities and trading subsidiaries that were acquired on the 31 December 2002 and reversed with effect from 31 December 2003.

### Continued growth

Growth in the assets and substance of the Bank, as well as the strength of the underlying business, has been our focus during the year.

With the increasing recognition of our brand and the impetus gained through relocation to our new Haymarket offices, the Bank has seen growth across all core activities, resulting in an overall increase in profit before tax of 21%.



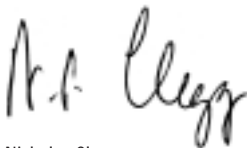
The year under review which ended 31 December 2005 is the first complete period of the Bank trading in its new livery from its new offices and I am pleased to report not only continued growth but also improved performance.

Despite concerns in the UK about the high level of consumer debt and evidence of a slowdown in consumer spending, the conditions generally were benign. Short term interest rates remain low with the base rate moving from 4.75% to 4.5% through the year and the FTSE All Share Index performed well, ending the year 22% higher. The 'soft landing' for the property market mentioned in last year's report appears to have been achieved.

Globally an underlying sense of optimism prevailed. This was led by the exceptional performance of Asian economies, dominated by India and China, and despite concerns about significant imbalances in international payment flows.

In this environment, the key resources in our bank were strengthened: staff, deposit base, infrastructure and information technology, as well as our capital and we are in an excellent position to continue to expand and diversify our business.

On behalf of the Board I would again like to thank all staff for their exceptional dedication and enthusiasm. Led by a strong management team and supported by the active interest shown by my colleagues on the Board, we together face the future with great confidence.



Nicholas Clegg  
Non-Executive Chairman  
27 February 2006



United Trust Bank  
has grown its  
deposit book 37%  
to £65 million

## The Bank has delivered a strong performance from continued focus on growth in its core property funding business in the face of testing market conditions.



Our results exhibit strong growth in gross income. Net interest income grew by 31% over the previous year

The reduction in house price inflation in the UK over the past year seems to have been assisted by the effective and timely management of interest rates by the Bank of England's Monetary Policy Committee. United Trust Bank ('UTB') had planned for a small level of price depreciation across the country. The reality, however, proved to be slightly better. At the year end, even though inflation continues to run modestly ahead of target, policy setters appear to now be more concerned with fading growth than with inflation. This conjures up a rather mixed interest rate picture.

### Review of operations

Operating results were most encouraging. Net interest income grew by 31% with increased loan turnover across all regions. This was after the cost of maintaining substantial cash balances in the money market and short term investment products. The Bank has chosen to maintain surplus liquidity and to smooth out its deposit raising activities throughout the year in anticipation of growing loan balances.

Fee income also grew by 9% primarily through increasing new deal arrangement fees. This is encouraging and is a strong indicator of asset growth to come. However, the lengthening of the loan book, due to slower sales, had a moderating impact on fees in the current year.

In a tighter sales market, quick action and a supportive approach has seen the Bank fully repaid. Throughout the year we continued to advocate that developers should, if necessary, drop prices early to maintain sales momentum and keep operations efficient, so redeploying their capital.

Overall, expenditure for 2005 was 21% higher reflecting mainly increased staff costs to manage the larger volumes and the investments made in information technology. There were no other material increases in expenditure.

UTB provides for Bad Debts under a policy that grades all deals written based on their return and sets aside a provision as loans are made. This has resulted in a provision of £1.25 million at year end, amounting to 10% of capital. The Bank is currently above its long term target of 2% of loans outstanding and it intends to progressively stabilise the provision at that level.

The resultant operating profit before tax and bad debt provisions of £1.7 million is 21% above that achieved in the prior year and is therefore most acceptable.

### Treasury

The Bank has continued to emphasise its deposit raising programmes. The principal objective in 2005 was to smooth out the maturity profile of the deposit book. This was achieved. Retention rates for maturing deposits are consistently high reflecting the growing confidence in the Bank's products. The experience of an increasing deposit base continues to underpin our confidence to grow the business.

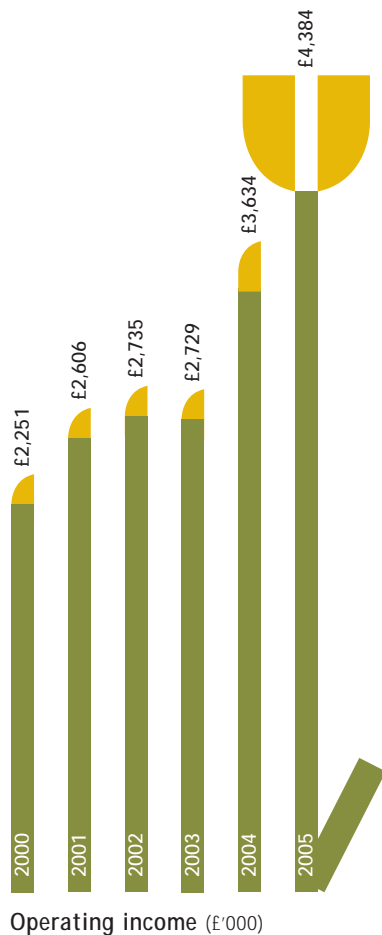
The average maturity of the Treasury book has lengthened with the addition of a three year linked rate deposit product. A substantial portion of the book is currently in fixed term accounts, and as such, the Treasury book closely matches the maturity profile of the loan book. The ability to manage and match term risk so satisfactorily without the use of additional complexity reduces the cost of funding and simplifies management. This practice will continue during 2006.

### Infrastructure, marketing and information technology

The Bank operated for the full year from its new premises on the 11th floor of 80 Haymarket, London. The new environment has been valuable in supporting growth throughout the year, and the location and quality has significantly improved the Bank's ability to employ staff.

The brand establishment programme continued with selective advertising in the property press, charity magazines, a presence at the appropriate trade fairs and the use of billboards on financed developments. The growing awareness of the brand is encouraging and the humorous and intelligent use of the logo elements has resulted in UTB's shield being used as the petals of a flower, the glass of a champagne flute and the ribbon on gift wrapping. The coming year will see the logo applied to residential housing and construction in what hopefully will become an anticipated and recognisable theme.

During 2005, a firm-wide customer relationship system was commissioned and installed as well as an electronic filing system. These are significant developments in three aspects: firstly the systems materially improve the ability to manage business continuity as all information is electronic and available remotely; secondly client relationship managers are free to work without being in the office and thirdly, material efficiencies in information processing and marketing are achieved. The cost of these developments has been fully provided for during 2005.



Operating income (£'000)

**Capital, capacity and compliance**

The Bank's capital grew by 12% to slightly more than £12m at year end. The risk asset ratio decreased from 23% at the end of 2004 to 20% at the end of the current year and continues to provide capacity for growth. In the near future, the Bank will consider raising additional capital. The Bank also continues to work with new partners to increase asset syndication facilities which reduces the need for own capital.

Notwithstanding the volume of FSA communications to the industry during the year, the emphasis on Basel II, Treating Customers Fairly and Fraud have all been accommodated comfortably within the Bank policies and plans. Changes brought about by MIFID will have only marginal effect, and the focus in the Bank's activities ensures that its compliance risks are well understood and covered.

**Events subsequent to year end**

During January 2006 the Group's 25% shareholder, Insinger de Beaufort, offered its shares for sale. Shares constituting 15% are due to be repurchased by the Group and cancelled, and shares constituting 10% are to be placed. In order to give effect to this the Bank has declared a dividend of £1.9 million to enable the cancellation of the shares by its parent. The transaction is due to complete during April 2006.

Additionally, Deutsche Bank has agreed to provide UTB a line of subordinated debt finance with a 10 year maturity and an amount of £3 million on this facility is to be drawn. The debt will rank as Lower Tier 2 Capital, thereby maintaining the Bank's ratios and providing for significant growth over years to come. The support of a global bank such as Deutsche Bank is most encouraging.

All these transactions were approved by the Bank, its parent and shareholders on 27 February 2006.

**Auditors**

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

**Growth, partnership and staff**

The Bank has forecast for increasing income in 2006 and has taken on extra front office staff. This will inevitably result in costs being reflected ahead of income, providing a drag on earnings growth.

An emphasis on doing deals with specialist partners will characterise 2006, as management seeks to leverage the Bank's skills and capacity with large institutions. This emphasis on partnerships will extend to acquisitions, to fund providers and to key staff.

The transformation of UTB that has occurred in the past two years could only have been achieved with the goodwill and support of the Board and the commitment and diligence of our staff, who have contributed so materially to the results.

The directors extend their appreciation to all those who help make this business a success.

Graham Davin  
Chief Executive Officer  
27 February 2006



**Nicholas Clegg**  
Chairman

Nicholas Clegg, 69, 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 member of the supervisory board of Bank Insingher de Beaufort NV and a Director of Insingher de Beaufort Holdings.



**Graham Davin**  
Chief Executive  
Officer

Graham Davin, 50, is the principal stakeholder of United Trust Bank. He was a founding partner of the Insingher 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, 36, is the Chief Financial Officer of United Trust Bank, and a chartered accountant. He was previously the Finance Director of the UK Operations of Insingher 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, 56, is the Managing Director of United Trust Bank. 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, 61, 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 Government's Prime Minister's Inspection Commission and of the Advisory Body of the Task Force for Human Development.



**Barry Townsley CBE**  
Non-Executive  
Director

Barry Townsley, 59, was the founder and senior partner of Townsley & Co. He is currently Chairman of Dawnay, Day Townsley. He is a founder member and principal Sponsor of the Stockley Academy, Chairman of the Oxford Childrens Hospital campaign, Vice Chairman of the Serpentine Gallery and Vice President of the Weizmann Institute Foundation.



**Andrew Herd**  
Non-Executive  
Director

Andrew Herd, 47, is a senior executive of Aspinalls, the Anglo-Australian leisure and entertainment group. He is a chartered accountant and worked as a merchant banker for many years. Andrew 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, 54, is Head of Corporate Finance at Insingher de Beaufort and represents the Insingher 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 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 carefully 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 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:**

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

For clients who want to leverage existing capital, we can also offer 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.

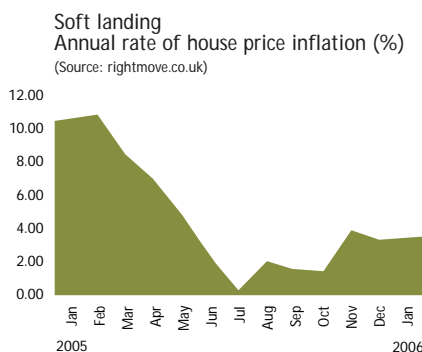
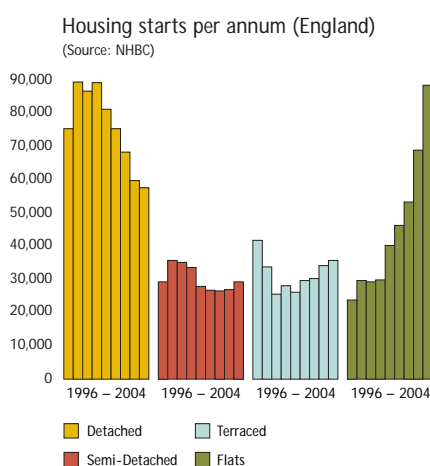
All clients have direct access to a dedicated team of deposit administrators; in stark contrast to the impersonal world of bank call centres. The Bank subscribes to the Banking Code and the Business Banking Code, is covered by the Financial Ombudsman Service, and is a member of the Financial Services Compensation Scheme.

Our latest interest rates are on our website: [www.utbank.co.uk](http://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.

House price forecasters are more optimistic now than they were at this time last year. As we predicted, the landing appears generally to have been soft. UK prices have increased modestly, by less than wage inflation in 2005, allowing housing affordability to improve slightly over last year.



We maintain our view that the key determinants of housing demand are interest rates and employment. The former are forecast to change little in 2006 whilst the latter, although modestly decreasing, is still relatively strong.

However generalisations camouflage the performance of particular housing markets. 2005 was characterised by a low level of housing transactions. Stretched affordability led to less first time buyers, whose average age is now 34. Less first time buyers led to less activity all the way up the chain. Government planning policy on density and brown field development has led house builders to build more expensive flats and apartments than first and second time buyer demand merits. Several large city centres are now oversupplied with luxury apartments and prices of these units have been reducing as a result.

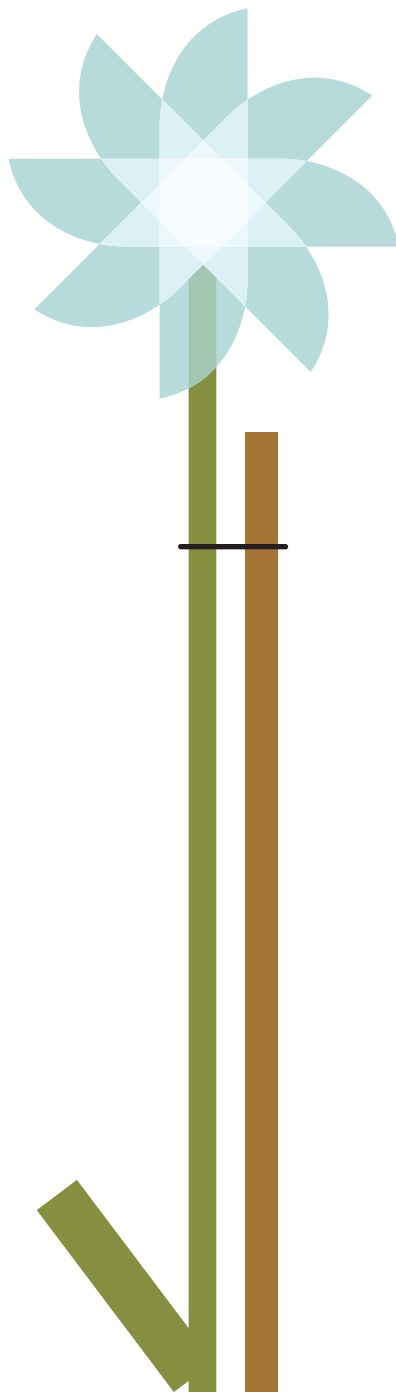
In 2005 we increased our support for our existing customers and financed an increasing number and percentage of new customers. As a consequence our loan book has grown by 46%. We intend to continue to grow our absolute and relative share of the marketplace for housing development finance both organically and otherwise.

To do so we have recruited a further three business developers, one in Scotland, one in the North of England and one in the South East, to add to our strong team of five experienced bankers. To enable us to fund larger developments for our bigger customers we arrange, lead and manage syndicates composed of significant institutions.

The Government response to the Barker Review was published in December 2005. Household formation is predicted to be at least 190,000 per year until 2021, whereas net annual house building is running at about 150,000. The Government wishes to increase this building to 200,000 net annual additions by 2016 to satisfy the excess demand. In our view this imbalance of supply and demand underpins housing prices generally in 2006.

We aim to finance the better builders and developers who are satisfying this surplus demand by building well designed product in appropriate locations. Although the sales market is showing signs of improvement, in the current year, builders and developers will need to continue to buy land well and ensure all the elements of the process are well and carefully managed, so as to sell well. They will need a specialised funding partner to optimise their return on equity in a market where super profits from inflation are no longer available.

Our specialisation enables us to be speedy and flexible in assessing residential development projects quickly and responding to any project problems which may occur in a flexible and constructive manner. United Trust Bank is committed to helping both our existing customers and those builders and developers new to us, in order to meet these significant shortfalls in housing supply, in 2006 and in years to come.



### **Bridging finance**

Our specialist and thorough knowledge of the property sector has enabled us to launch into the bridging loan market. The new product, complete with fast availability of funds and a competitive rate, is already proving attractive and take-up is set to increase as we begin our spring advertising campaign.

## Enhancement of planning to increase value

Our customer, a residential developer, had a wasting option to buy a collection of farm buildings in a delightful rural village location. Outline planning permission was in place for the conversion of three large barns to residential units with some additional new houses on the site.

The Bank funding enabled our customer to exercise the option to purchase. Thereafter we worked with the customer and professionals to alter the planning consent to increase the size of the units and to enhance the layout of the scheme creating a very saleable and profitable rural development.

Funding:  
£1,300,000

Percentage of costs:  
Construction 100%  
Total scheme 83%

Projected value:  
£2,400,000

## Equity funding 100% of costs

We were approached by a new customer who was experiencing difficulties funding a planned development of nine apartments in West Yorkshire.

The customer was a businessman with property development experience but undertaking his first venture personally. He had employed a first class team of professionals and a known contractor. However, notwithstanding our initial debt funding offer, the customer could not find the appropriate equity at a crucial stage of the purchase process.

The Bank moved quickly to evaluate the equity risks and offered further funding. This arrangement met our customer's requirements and allowed the property to be purchased and developed.

Our customer is now actively searching for other development opportunities and looking for equity and debt funding from us.

Funding:  
£720,000

Percentage of costs:  
100%

Projected value:  
£1,200,000

## Significant commitment to active customer

Our customer is an active developer operating several projects simultaneously in the Midlands. The Bank is already actively funding two projects, one a development of town houses, the other a flat development with total funding of £1.4m. This funding represented 60% of the anticipated completed value and 86% of total costs. These projects are progressing well and likely to complete during the first half of 2006.

The customer was keen to secure a further site for another project and begin work there. This third project is a larger development combining both flats and houses on the same site. The required facility for the new project equated to 65% of Gross Development Value and provided approximately 85% of costs within a facility of £2.1m. Our aggregate exposure to the customer increased to £3.5m spread across three sites and provides for continuity of development activity.

Funding:  
£3,500,000

Percentage of costs:  
86%

Projected value:  
£5,560,000

## Fast prime rate bridging finance

We were approached by the daughter on behalf of her elderly mother, who had the opportunity to purchase a new apartment in a sheltered development at favourable terms if she could complete quickly. Whilst her mother had a considerable asset in the form of her existing house, she had no funds to complete the purchase of the apartment and not enough time to sell her house. The Bank was able to provide 90% of the purchase price of the apartment against the security of her existing home and the new apartment with repayment to come from the sale of the house in due course.

Funding:  
£198,000

Percentage of costs:  
90%

## Planning gain facility

Our client owned a hotel together with an adjacent house in extensive grounds. There was no associated debt. The hotel was no longer viable and had been closed, but was a suitable site for change of use to residential. The proposed development involved the conversion of the hotel to apartments and new dwellings in the grounds of both the hotel and the house.

At the same time, our client required funds for another land purchase and the Bank was able to assist by advancing £500,000 at 55% of the combined market value of both sites before the proposed planning change. The customer is working with property consultants to obtain the required change of use and density of development. Once suitable planning use has been obtained we expect to provide development finance.

Funding:  
£500,000

Projected value:  
£909,091

## Last minute flexibility enables contractors to become profitable developers

Our clients, experienced contractors, were about to undertake their first development of 12 apartments. At the eleventh hour, they ran short of a part of the purchase consideration. The Bank agreed to increase funding levels against additional security. This was undertaken as a stopgap pending the injection of funds from the refinance of additional security or from an anticipated enhancement of the planning consent.

The Bank therefore provided 92% of the purchase price and 100% funding of build costs, together with interest roll up for this experienced contractor. The development is progressing well and the planning enhancement is expected to be confirmed shortly.

Funding:  
Site purchase £820,000  
Development £920,000

Percentage of costs:  
Site purchase 92%  
Development 100%

Projected value:  
£2,710,000

**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

**Key employees**

**Structured Finance**

Clive Adams

Jeff Dominy

Michael Campion

Noel Meredith

Simon Boulcott

**Deposits and Treasury**

Caroline Hoti

Jennifer Laurie

Steve Hollaway

**Operations**

Edward Bradford

Ian Andrews

Valerie Biles

**Finance, Administration  
and Audit**

Alan Gillett

Andrew Pollins

Emma Hyatt

Karen Franklin

Kate Clarke

**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 Financial Services and Markets Act 2000 and authorised and regulated by the Financial Services Authority. Members of the British Bankers' Association and Subscribers to the Banking Code and the Business Banking Code.

## 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:

- 1 select suitable accounting policies and then apply them consistently;
- 1 make judgements and estimates that are reasonable and prudent;
- 1 state whether applicable accounting standards have been followed; and
- 1 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 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 25. 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 International Standards on Auditing (UK and Ireland).

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. We also report to you 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 the 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 material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 circumstances of the company, 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

- 1 the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2005 and of its profit for the year then ended;
- 1 the financial statements have been properly prepared in accordance with the Companies Act 1985;



Deloitte & Touche LLP  
Chartered Accountants and  
Registered Auditors, London  
27 February 2006

|   | Notes | 2005<br>£'000 | 2004<br>£'000 |
|---|-------|---------------|---------------|
| <b>Interest receivable</b>                                |       |               |               |
| Interest receivable and similar income                    |       | 5,561         | 3,556         |
| Interest payable and similar charges                      |       | (3,071)       | (1,662)       |
| <b>Net interest income</b>                                |       |               |               |
| Fees and commissions                                      |       | 1,894         | 1,740         |
| <b>Operating income</b>                                   |       |               |               |
| Administrative expenses                                   | 2     | (2,581)       | (2,165)       |
| Depreciation  | 4     | (89)          | (49)          |
| Provision for bad and doubtful debts                      | 8     | (176)         | (416)         |
| <b>Operating profit on ordinary activities before tax</b> |       |               |               |
| Tax on profit on ordinary activities                      | 5     | (416)         | (85)          |
| <b>Profit after tax retained for the financial year</b>   |       |               |               |
|   | 19    | 1,122         | 919           |



The notes on pages 16 to 24 form an integral part of these financial statements

There are no recognised gains or 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 24 form an integral part of these financial statements.

|  | Notes | 2005<br>£'000 | 2004<br>£'000 |
|--|-------|---------------|---------------|
| Loans and advances to banks                  | 6     | 20,800        | 21,651        |
| Loans and advances to financial institutions | 6     | 1,031         | 2,000         |
| Loans and advances to customers              | 7     | 51,532        | 36,098        |
| Loans to group companies                     | 9     | 466           | -             |
| Debt securities                              | 11    | 4,872         | -             |
| Tangible fixed assets                        | 12    | 190           | 249           |
| Other assets                                 | 13    | 1,590         | 1,235         |
| <b>Total assets</b>                          |       | <b>80,481</b> | <b>61,233</b> |
| Deposits from customers                      | 14    | 65,136        | 47,485        |
| Due to group companies                       | 15    | 841           | 1,107         |
| Derivatives                                  | 23    | 26            | -             |
| Other liabilities                            | 16    | 2,417         | 1,702         |
|  |       | <b>68,420</b> | <b>50,294</b> |
| <b>Capital and reserves</b>                  |       |               |               |
| Share capital                                | 17    | 6,500         | 6,500         |
| Share premium account                        | 18    | 3,520         | 3,520         |
| Profit and loss account                      | 18    | 2,041         | 919           |
| Equity shareholders' funds                   | 19    | 12,061        | 10,939        |
| <b>Total liabilities</b>                     |       | <b>80,481</b> | <b>61,233</b> |
| <b>Memorandum items</b>                      |       |               |               |
| Guarantees and assets pledged as security    |       | 138           | 83            |
| Commitments                                  | 20    | 32,092        | 24,411        |



The notes on pages 16 to 24 form an integral part of these financial statements

Signed on behalf of the Board of Directors

H Kagan  
Director  
27 February 2006

C R Tidyman  
Director  
27 February 2006

## 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 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

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.

### Debt securities and equity shares

Shares and securities intended for use on a continuing basis in the group's activities are classified as investment securities. Such shares and securities are stated at cost less provision for any impairment in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts on a level yield basis over the period to maturity and is included in interest receivable.

Debt securities held for the purpose of hedging are valued on the same basis as the assets or liabilities which are being hedged.

### Financial instruments

Financial instruments in the non-trading book, including loans and investment securities, are stated at amortised cost. Income and expenses on non-trading instruments are amortised over the life of the instrument, with adjustments made to reflect changes in estimated premiums and discounts.

### Derivatives

Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. Where the group has entered into legally binding netting agreements, positive and negative fair values of derivatives are offset within the balance sheet totals.

### Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into the local reporting currency at market rates of exchange ruling at the balance sheet date. All foreign currency transactions are translated into the local reporting currency at the exchange rates ruling at the time of the transaction.

All gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as exchange gains or losses in the profit and loss account.

### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. 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    |



United Trust Bank  
continues to increase its  
share of the property  
development market

**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 off 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**

|                               | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------|---------------|---------------|
| Staff costs*                  |               |               |
| – wages and salaries          | 1,490         | 1,261         |
| – social security costs       | 167           | 123           |
| – other pension costs         | 68            | 41            |
| Auditors remuneration         |               |               |
| – audit work                  | 38            | 35            |
| – non audit work              | 18            | 6             |
| Other administrative expenses | 800           | 699           |
|                               | <b>2,581</b>  | <b>2,165</b>  |

The average monthly number of people employed by the Company (including Executive Directors) during the year was 19 (2004 – 17). At the end of the year, the group employed 19 people.

\*Including directors' remuneration set out in Note 3.

**3. Directors' remuneration****Remuneration**

The remuneration of the directors was as follows:

|   | 2005<br>£'000 | 2004<br>£'000 |
|---|---------------|---------------|
| Emoluments  | 730           | 704           |
| Company contributions to money purchase pension schemes | 24            | 16            |
|   | <b>754</b>    | <b>720</b>    |

**Pensions**

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

|                        | 2005<br>No | 2004<br>No |
|------------------------|------------|------------|
| Money purchase schemes | 2          | 2          |

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

|   | 2005<br>£'000 | 2004<br>£'000 |
|---|---------------|---------------|
| Emoluments and incentive schemes                | 256           | 222           |
| Company contributions to money purchase schemes | -             | 16            |
|   | <b>256</b>    | <b>238</b>    |

**4. Operating profit**

Is stated after charging:

|                           | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------|---------------|---------------|
| Depreciation              | 89            | 49            |
| Operating lease: property | 181           | 124           |

## 5. Tax on profit on ordinary activities

|  |               |               |
|--|---------------|---------------|
| i) Analysis of tax charge on ordinary activities | 2005<br>£'000 | 2004<br>£'000 |
| Corporation tax                                  | 478           | 394           |
| Deferred Tax – origination of timing difference  | (62)          | (309)         |
|  | 416           | 85            |

### 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% (2004: 30%). The differences are explained below:

|  |               |               |
|--|---------------|---------------|
|  | 2005<br>£'000 | 2004<br>£'000 |
| Profit on ordinary activities before tax:    | 1,538         | 1,004         |
| Tax charge/(credit) at 30% thereon:          | 461           | 301           |
| Effects of:                                  |               |               |
| Expenses not deductible for tax purposes     | 72            | 134           |
| Capital allowances in excess of depreciation | -             | (10)          |
| Group relief                                 | (51)          | (39)          |
| Prior years                                  | (4)           | 8             |
| Tax charge for the year                      | 478           | 394           |

## 6. Loans and advances to banks and financial institutions

|  |               |               |
|--|---------------|---------------|
|  | 2005<br>£'000 | 2004<br>£'000 |
| Remaining maturity three months or less:   |               |               |
| Loans & advances to banks                  | 20,800        | 21,651        |
| Loans & advances to financial institutions | 1,031         | 2,000         |
|  | 21,831        | 23,651        |

## 7. Loans and advances to customers

|  |               |               |
|--|---------------|---------------|
|  | 2005<br>£'000 | 2004<br>£'000 |
| Remaining maturity:  |               |               |
| - three months or less   | 38,677        | 22,540        |
| - one year or less but over three months                           | 13,745        | 14,507        |
| - five years or less but over one year                             | 363           | 196           |
|  | 52,785        | 37,243        |
| General and specific bad and doubtful debt provisions (see note 8) | (1,253)       | (1,145)       |
|  | 51,532        | 36,098        |
| Of which repayable on demand or short notice                       | 6,139         | 2,495         |

## 8. Provision for bad and doubtful debts

|                     | 2005<br>Specific<br>£'000 | 2005<br>General<br>£'000 | 2005<br>Total<br>£'000 | 2004<br>Specific<br>£'000 | 2004<br>General<br>£'000 | 2004<br>Total<br>£'000 |
|---------------------|---------------------------|--------------------------|------------------------|---------------------------|--------------------------|------------------------|
| At 1 January        | 100                       | 1,045                    | 1,145                  | 115                       | 614                      | 729                    |
| Charge              | -                         | 208                      | 208                    | 100                       | 431                      | 531                    |
| Release             | (32)                      | -                        | (32)                   | (115)                     | -                        | (115)                  |
| Amounts written off | (68)                      | -                        | (68)                   | -                         | -                        | -                      |
| At 31 December      | -                         | 1,253                    | 1,253                  | 100                       | 1,045                    | 1,145                  |

|   |               |               |
|---|---------------|---------------|
|   | 2005<br>£'000 | 2004<br>£'000 |
| Interest in Suspense                          |               |               |
| At 1 January                                  | 126           | 59            |
| Interest suspended/(released) during the year | (126)         | 67            |
| At 31 December                                | -             | 126           |

## 9. Loans to group companies

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Remaining maturity three months or less: |               |               |
| - Loans to parent                        | 466           | -             |
|  | <b>466</b>    | -             |

## 10. Shares in group undertakings

|                | 2005<br>£'000 | 2004<br>£'000 |
|----------------|---------------|---------------|
| Cost:          |               |               |
| At 1 January   | -             | 13,000        |
| (Disposals)    | -             | (13,000)      |
| At 31 December | -             | -             |

In 2004 the Company sold two subsidiary companies, to Insinger de Beaufort (UK) Limited for £13 million. The Company immediately thereafter reduced its capital by £13 million (see note 17 & 18).

## 11. Debt securities

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Issued by public bodies                    |               |               |
| - government securities                    | 609           | -             |
| Issued by other issuers                    |               |               |
| - listed debt securities                   | 4,263         | -             |
|  | <b>4,872</b>  | -             |
| At 1 January                               | -             | -             |
| Additions                                  | 6,075         | -             |
| Matured or sold                            | (1,246)       | -             |
| Amortisation of discounts and premiums     | (20)          | -             |
| Exchange Movements                         | 63            | -             |
| At 31 December                             | <b>4,872</b>  | -             |
| Maturity of debt securities                |               |               |
| Due within one year                        | 1,133         | -             |
| Due one year and over                      | 3,739         | -             |
|  | <b>4,872</b>  | -             |
| Unamortised net premium on debt securities | 47            | -             |
| Fair value of debt securities              |               |               |
| Issued by public bodies                    |               |               |
| - government securities                    | 606           | -             |
| Issued by other issuers                    |               |               |
| - listed debt securities                   | 4,253         | -             |
|  | <b>4,859</b>  | -             |



We are in an excellent position to expand and diversify our business

## 12. Tangible fixed assets

Tangible fixed assets comprise:

|                           | Leasehold<br>improvements<br>£'000 | Computer<br>equipment<br>& software<br>£'000 | Office<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------|------------------------------------|--|------------------------------|----------------|
| Cost:                     |                                    |  |                              |                |
| At 1 January 2005         | 25                                 | 176  | 113                          | 314            |
| Additions                 | -                                  | 15   | 15                           | 30             |
| At 31 December 2005       | <b>25</b>                          | <b>191</b>                                   | <b>128</b>                   | <b>344</b>     |
| Accumulated depreciation: |                                    |  |                              |                |
| At 1 January 2005         | -                                  | 62   | 3                            | 65             |
| Charge                    | 5                                  | 53   | 31                           | 89             |
| At 31 December 2005       | <b>5</b>                           | <b>115</b>                                   | <b>34</b>                    | <b>154</b>     |
| Net book value:           |                                    |  |                              |                |
| At 1 January 2005         | 25                                 | 114  | 110                          | 249            |
| At 31 December 2005       | <b>20</b>                          | <b>76</b>                                    | <b>94</b>                    | <b>190</b>     |

**13. Other assets**

|                             | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------|---------------|---------------|
| Deferred tax asset          | 371           | 309           |
| Corporation tax repayable   | -             | 17            |
| Accrued interest receivable | 1,160         | 715           |
| Other Debtors               | 1             | 175           |
| Prepayments                 | 58            | 19            |
|                             | <b>1,590</b>  | <b>1,235</b>  |

**14. Deposits from customers**

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Remaining maturity                           |               |               |
| - three months or less                       | 21,732        | 19,114        |
| - one year or less but over three months     | 37,041        | 25,455        |
| - five years or less but over one year       | 6,363         | 2,916         |
|  | <b>65,136</b> | <b>47,485</b> |
| Of which repayable on demand or short notice | 191           | 65            |

**15. Due to group companies**

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Group Relief                                 | -             | 545           |
| Deposits repayable on demand or short notice |               |               |
| - Holding company                            | -             | 266           |
| - Other associate companies                  | 841           | 296           |
|  | <b>841</b>    | <b>1,107</b>  |

Interest of £5k (2004: £8k) was paid to the Company's parent on deposits held.

**16. Other liabilities**

|                              | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------|---------------|---------------|
| Accrued interest payable     | 1,515         | 936           |
| Accruals and deferred income | 678           | 766           |
| Corporation tax payable      | 224           | -             |
|                              | <b>2,417</b>  | <b>1,702</b>  |

**17. Share capital**

|                                  | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------|---------------|---------------|
| Authorised:                      |               |               |
| Ordinary shares of £1 each       | 25,000        | 25,000        |
| Issued, allotted and fully paid: |               |               |
| At 1 January                     | 6,500         | 16,200        |
| Repurchase and cancellation      | -             | (9,700)       |
| At 31 December                   | <b>6,500</b>  | <b>6,500</b>  |

In 2004 the Company repurchased 9,700,000 ordinary shares of £1 each in the capital of the Company for a purchase consideration of £13 million.

**18. Reserves**

|                                | 2005<br>£'000 | 2004<br>£'000 |
|--------------------------------|---------------|---------------|
| <b>Share premium account</b>   |               |               |
| At 1 January and 31 December   | <b>3,520</b>  | <b>3,520</b>  |
| <b>Profit and loss account</b> |               |               |
| At 1 January                   | 919           | 3,969         |
| Repurchase of Ordinary Shares  | -             | (3,300)       |
| Dividend                       | -             | (669)         |
| Retained profit for year       | 1,122         | 919           |
| At 31 December                 | <b>2,041</b>  | <b>919</b>    |



Deutsche Bank has agreed to provide the Bank with £10m of subordinated debt

**19. Reconciliation of movements in shareholders' funds**

|   | 2005<br>£'000 | 2004<br>£'000 |
|---|---------------|---------------|
| Profit attributable to shareholders                   | 1,122         | 919           |
| Repurchase of shares                                  | -             | (13,000)      |
| Dividend  | -             | (669)         |
| Net increase/(decrease) in equity shareholders' funds | 1,122         | (12,750)      |
| Opening shareholders' funds                           | 10,939        | 23,689        |
| Closing shareholders' funds                           | 12,061        | 10,939        |

**20. Commitments**

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Commitments to lend:   |               |               |
| - up to and including one year                                   | 31,219        | 24,297        |
| - over one year  | 873           | 114           |
|  | 32,092        | 24,411        |
| Commitments under annual operating leases for property expiring: |               |               |
| In two to five years   | 175           | 174           |
|  | 175           | 174           |

**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**

Financial Instruments held for non-trading book purposes and for which a liquid and active market exists:

|                           | 2005<br>Carrying<br>Value<br>£'000 | 2004<br>Mark-to<br>Market<br>Value<br>£'000 |
|---------------------------|------------------------------------|---|
| Assets:                   |                                    |   |
| Debt Securities (note 11) | 4,872                              | 4,859                                       |
|                           | 4,872                              | 4,859                                       |

Where possible, mark-to-market values have been estimated using market prices for those financial instruments. For unlisted debt investments, where market prices are not available, the fair values have been estimated by management

**23. Derivatives**

The Bank enters into derivative contracts, for non-trading purposes only, to hedge currency risk.

In the table below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cashflows which would have occurred had the rights and obligations arising from that instrument been closed out by the company in an orderly market transaction at the balance sheet date. The replacement cost, which is considered to be the fair value, represents the cost of replacing contracts with positive values calculated at market rates current at the balance sheet date. The credit risk weighted amount, which is calculated according to rules set by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future credit exposure and the nature of the counterparty.

The nominal principal amounts and maturity profiles of non-trading derivatives held at 31st December 2005 are as follows:

|                            | Up to one<br>Year | One to<br>five years | Total |
|----------------------------|-------------------|----------------------|-------|
| Foreign Exchange Contracts | 2,922             | -                    | 2,922 |
|                            | 2,922             | -                    | 2,922 |

### 23. Derivatives (continued)

The risk weighted amount & replacement cost of these contracts at 31 December 2005 (2004: £ nil) are as follows:

|                            | Credit risk weighted amount | Replacement cost |
|----------------------------|-----------------------------|------------------|
| Foreign Exchange Contracts | 29                          | 10               |

The negative or positive fair values of these contracts are as follows:

|                            | 2005 | 2004 |
|----------------------------|------|------|
| Foreign Exchange Contracts | (26) | -    |



A firm-wide customer relationship system was commissioned and installed enabling material efficiencies in information processing and marketing

### 24. Risk management

#### Detailed risk management commentary

Significant risks faced by the Bank are reviewed by the Executive Committee which comprises of the Executive Directors of the Bank. The key duties of the Executive Committee are:

- 1 To review the appropriateness of risk measurement policies and practices.
- 1 To review and comment on the adequacy of the Bank's controls to measure, monitor and manage risk based on information provided or obtained.

Any significant and/or material breaches of prescribed controls are reported to the Board. The company recognises that it is key to its future success as a financial institution to conduct its affairs with prudence and integrity and to safeguard the interests of the stakeholders.

The predominant types of risk that the company faces are credit risk, liquidity risk, interest rate risk and operational risk. Additional significant risks are legal risk and regulatory risk.

The Board of Directors are responsible for risk management and approves policy statements defining credit risk and liquidity risk. These policy statements establish the Bank's appetite for risk and set out the parameters within which it operates. Implementation of these policies is the responsibility of the Executive Committee who report to the Board. The main committees of the Company are:

#### Audit committee

A Non-Executive Director chairs this committee. It reviews and sets the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via the Executive Committee, that recommendations are implemented where necessary. It also reviews the annual financial statements.

#### Credit committee

This forum sanctions all counterparty limits. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that credit policy is prudent, taking into account changing market trends.

#### Asset and liability committee

This forum sets the policy for liquidity and interest rate mismatch. It regularly reviews the Bank's balance sheet to ensure that it is positioned prudently and meets the agreed policies taking into account prevailing markets, and projections of business growth.

The responsibility for day to day control and monitoring of policies, procedures and limits is the responsibility of the Executive Committee.

Regular reports and information are given to the Executive Committee and the Board, to ensure they fully understand the risk and to demonstrate proper and prudent measurement, monitoring and management of risk.

It is important that all company risks are regularly considered. Any change to business objectives can cause a change to the risk profile of the business. Consequently, under the guidance of the Executive Committee, the business regularly reviews its objectives, assess the risks to prevent these objectives being achieved, and ensure there is defined ownership of the risks and defined ownership of the corresponding controls.

The likelihood and impact of any risk is assessed and appropriate controls are designed to be effective, taking into account the severity of the risk faced. The output from these processes is provided to Internal Audit, to enable them to give assurance as part of the audit work plan that controls are working properly and all risks have been properly identified.

The major risks associated with the Bank's business are:

- 1 Credit risk
- 1 Liquidity risk
- 1 Currency risk
- 1 Legal risk
- 1 Regulatory & Compliance risk
- 1 Operational risk
- 1 Reputational risk
- 1 Interest Rate risk

#### Credit risk

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

The Bank's Credit Committee includes the Executive Directors and the Business Development Managers. The Credit Committee has to reach a unanimous consensus before authorising a credit exposure and each approval is signed by a valid quorum. Additionally exposures beyond a certain threshold require additional authorisations. Credit limits on all lending, including treasury and interbank lines are reviewed at least annually.

The arrears policy is strictly controlled and regular reviews are held to evaluate the necessity and adequacy of specific provisions and whether the suspension of interest charged to the customer is required.

The Bank has a focused business strategy and has considerable expertise in its chosen sectors. The vast majority of the Bank's lending, excluding interbank placements, which are predominantly with UK banks, is secured on assets. On a geographical basis, at least 95% of the credit exposure of the Bank, including contingent liabilities and commitments, is to the UK.

#### Liquidity risk

This risk arises from the inability of the Bank to meet its obligations as they fall due. It can arise from the withdrawal of customer deposits, the drawdown of existing customer facilities and asset growth.

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

Limits on potential cash flow mismatches over defined time horizons form the principal basis of liquidity control. Limits are also placed upon the value of deposits taken from a single source, both monthly and in aggregate. A dedicated system is used to monitor and stress test the Bank's liquidity position against different scenarios.

#### Currency risk

Non-trading currency risk exposure arises principally from the Bank's investments in Debt Securities.

The Bank's currency exposures at 31 December 2005 (2004: nil) were as follows:

| Currency exposure | Debt Securities |
|-------------------|-----------------|
| US Dollar         | 1,723           |
| Euro              | 598             |
| Swiss Franc       | 395             |
| Canadian Dollar   | 133             |
| Norwegian Krone   | 89              |
|                   | 2,938           |

The Bank does enter into derivative contracts for non-trading purposes only, to hedge currency risk (see Note 23).

#### Legal risk

Legal and documentation risk is defined as the risk that contracts entered into by the Bank with its clients will not be enforceable, especially with respect to events of default by a client. This could lead to a situation where the documentation will not give the rights and remedies anticipated when the transaction was entered into, particularly when security arrangements have been agreed.

To mitigate legal risk, the Bank uses independent external legal advisors to ensure documentation gives the appropriate rights and remedies.

#### Regulatory & compliance risk

This is the risk that any part of the Bank fails to meet the requirements or expectations of the regulatory authorities. It can also arise where changes to regulations are not anticipated or managed properly. Compliance reports are reviewed regularly by the Board and Audit Committee and management regularly evaluates regulatory pronouncements.

#### Operational risk

This is the exposure to financial or other damage arising through system or process failure, human error, and fraud or through inadequate controls and procedures. The Bank has a detailed procedures manual in place and ensures that all operational risks are evaluated and appropriately controlled.

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

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

#### Interest rate risk

Interest rate risk is the risk that the value of the Bank's assets 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 2005.

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.

|  | 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 | Non-interest bearing | Total  |
|--|----------------------------|---|---|---|----------------------|--------|
|  | £'000                      | £'000   | £'000   | £'000                                       | £'000                | £'000  |
| Loans and advances to customers                        | 50,695                     | 601   | 83  | 153   | -                    | 51,532 |
| Loans and advances to banks and financial institutions | 21,831                     | -   | -   | -   | -                    | 21,831 |
| Loans to Groups Companies                              | -                          | -   | -   | -   | 466                  | 466    |
| Debt securities  | 1,500                      | 306   | 1,376   | 1,690                                       | -                    | 4,872  |
| Equity shares  | -                          | -   | -   | -   | -                    | -      |
| Other assets   | -                          | -   | -   | -   | 1,780                | 1,780  |
|  | 74,026                     | 907   | 1,459   | 1,843                                       | 2,246                | 80,481 |
| Customer deposits                                      | 34,077                     | 7,446   | 19,795  | 3,818                                       | -                    | 65,136 |
| Due to group companies                                 | 841                        | -   | -   | -   | -                    | 841    |
| Other liabilities                                      | -                          | -   | -   | -   | 2,443                | 2,443  |
| Shareholders' funds                                    | -                          | -   | -   | -   | 12,061               | 12,061 |
|  | 34,918                     | 7,446   | 19,795  | 3,818                                       | 14,504               | 80,481 |
| Interest rate sensitivity gap                          | 39,108                     | (6,539)   | (18,336)  | (1,975)                                     | (12,258)             |        |
| <b>Cumulative gap</b>                                  | <b>39,108</b>              | <b>32,569</b>                                       | <b>14,233</b>                                   | <b>12,258</b>                               | <b>-</b>             |        |

|  | 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 | Non-interest bearing | Total  |
|--|----------------------------|---|---|---|----------------------|--------|
|  | £'000                      | £'000   | £'000   | £'000                                       | £'000                | £'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)             |        |
| <b>Cumulative gap</b>                                  | <b>26,744</b>              | <b>24,991</b>                                       | <b>14,914</b>                                   | <b>11,998</b>                               | <b>-</b>             |        |

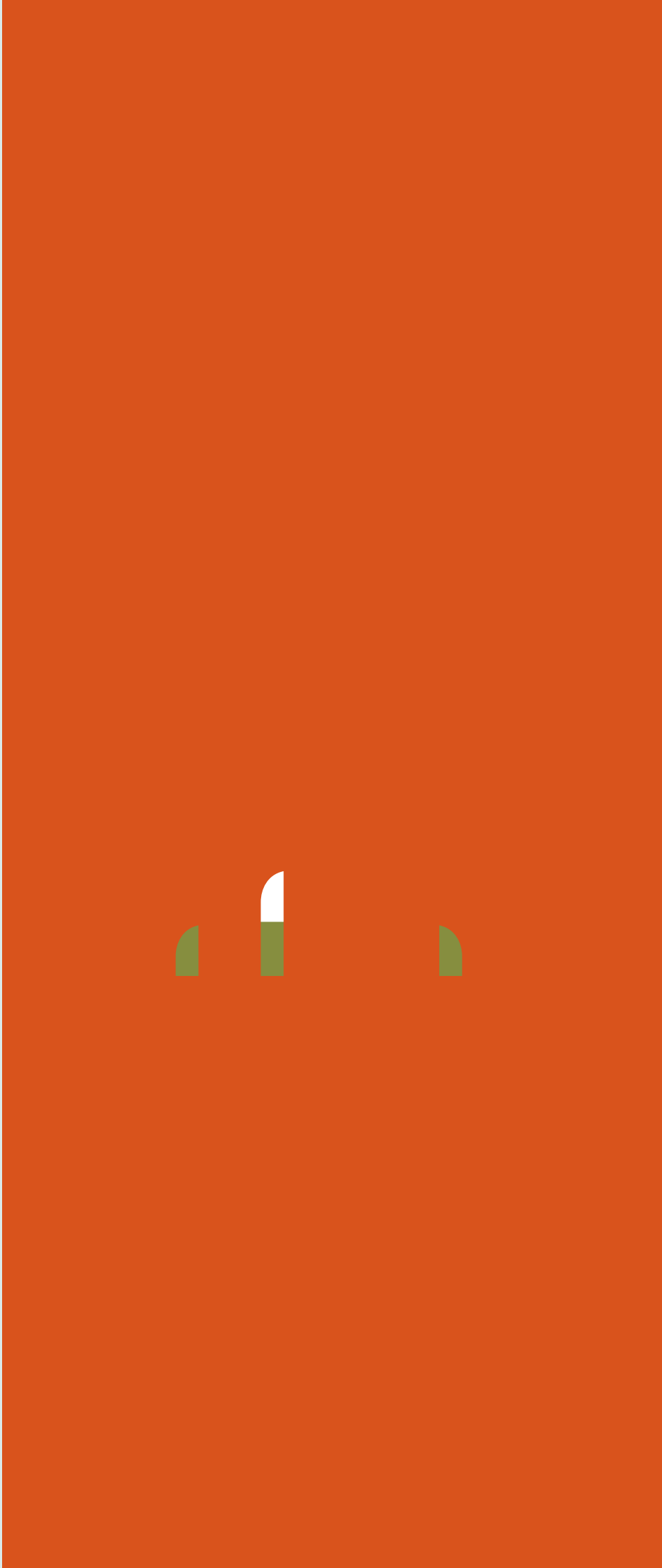
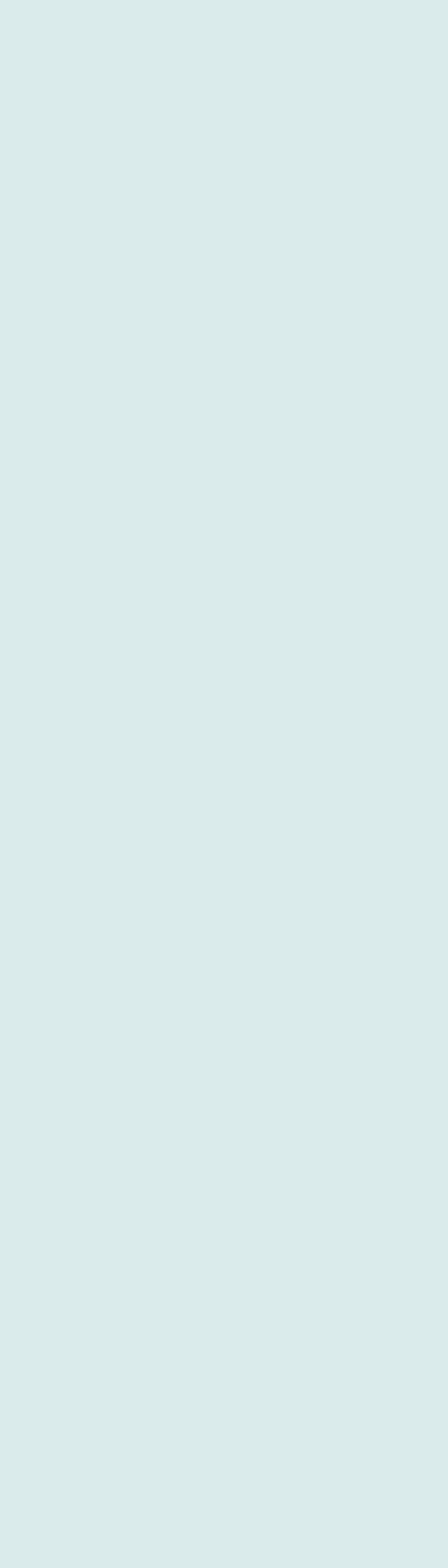
The fair values of financial assets and liabilities approximate to book values.

## 25. Ultimate controlling company

UTB Partners Limited is the Company's immediate parent, owns 100% of the Company, and is recognised by the directors as the Company's ultimate controlling company. Financial statements for UTB Partners Limited can be obtained from UTB Partners Limited, 80 Haymarket, London SW1Y 4TE. 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.



In a tighter sales market, quick action and a supportive approach has seen the Bank fully repaid





Telephone 020 7190 5555  
Fax 020 7190 5550  
Email [info@utbank.co.uk](mailto:info@utbank.co.uk)  
Website [www.utbank.co.uk](http://www.utbank.co.uk)

United Trust Bank Limited  
80 Haymarket  
London SW1Y 4TE