united trust bank report & accounts **2016**

United Trust·Bank

Chairman's Report

It is a pleasure to be able to record another year of strong progress in my first report as Chairman. I would like to begin by paying tribute to my predecessor, Nick Clegg, who retired from the Board of United Trust Bank in August 2016. Nick brought great wisdom and integrity to the role and led the Board with distinction throughout his 15 years in the post. We are fortunate that he has agreed to remain as Chairman of the Bank's holding company.

Last year's progress was made against an unfamiliar and increasingly challenging external environment. Threats to global stability appear to be more numerous and serious than they have been for many years, with attendant risks for national economies and markets. In the UK, the vote for Brexit last June has greatly increased the risks of an economic slowdown or worse in the medium term. The new Government faces a series of crucial decisions in 2017 and is beginning to articulate its position. The chosen course will have a fundamental impact on the prospects for the UK economy and hence for the sectors in which we operate.

Within the property sector, the changes to stamp duty have also had an impact, particularly at the higher end of the market. Although there must be a risk that the long bull market in property, notably in the South of England, is coming to an end, the underlying shortage of housing provides grounds for optimism.

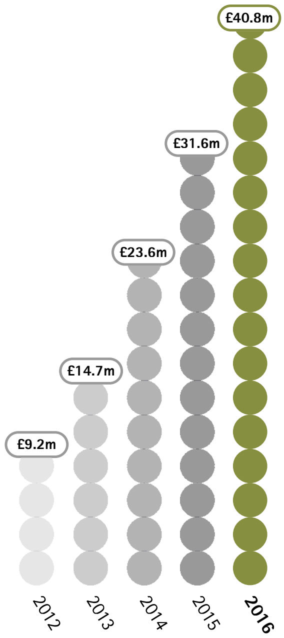
The good news is that there remains strong demand for the Bank's products and so there are still many opportunities to continue to grow the business. It will be important to continue to balance a drive for further growth with discipline in our decision making and further reinforcement of the functions needed to support an ever-larger volume of client activity.

I am fortunate to have joined a very strong group of Directors and would like to thank them for their hard work and contribution. I have also been struck by the quality of the management and staff who are highly motivated and well led. It is good to see the new recruits settling in well and contributing to the franchise. The Board is very grateful to everyone for their efforts which have led to the Bank's success. It is of course our staff's commitment and talents, as well as the growing reputation of United Trust Bank, which enable us to view the future with confidence.

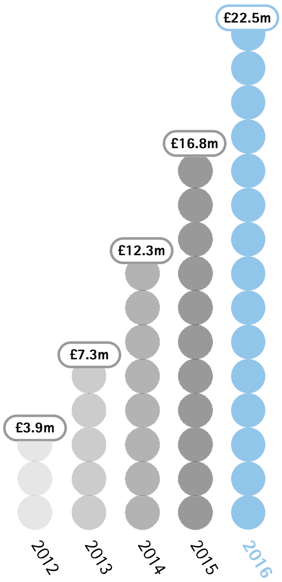
Richard Murley
Non-Executive Chairman
23 February 2017

Our staff are our business.
The Bank recruited experienced
people across its divisions.

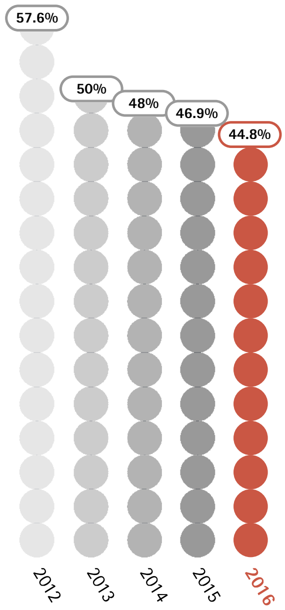
Highlights



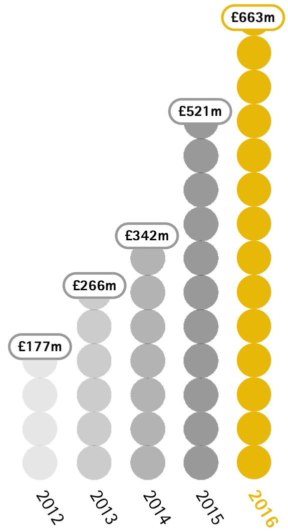
29.1%
40.8m
OPERATING INCOME



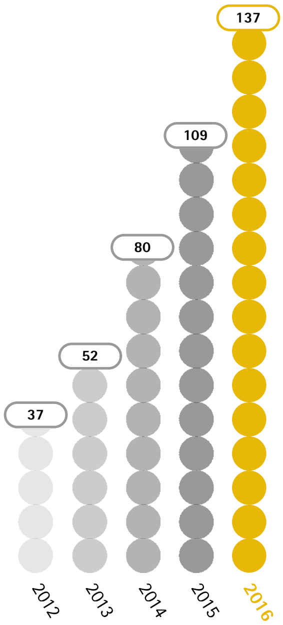
34%
22.5m
OPERATING PROFIT



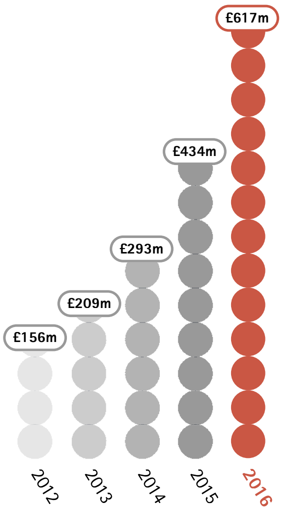
44.8%
COST INCOME RATIO



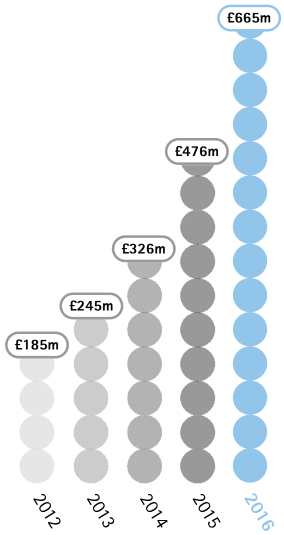
27.3%
663m
GROSS NEW LENDING



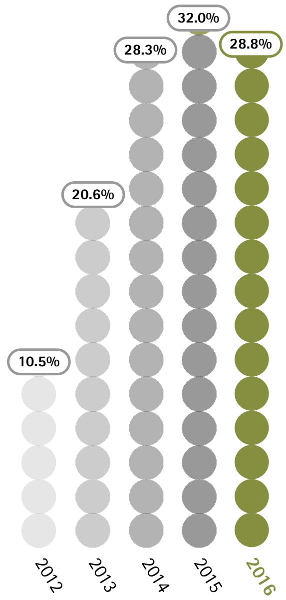
25.7%
137
STAFF NUMBERS



42.2%
617m
LOAN BOOK



39.7%
665m
DEPOSIT BOOK



28.8%
RETURN ON EQUITY

Strategic Report

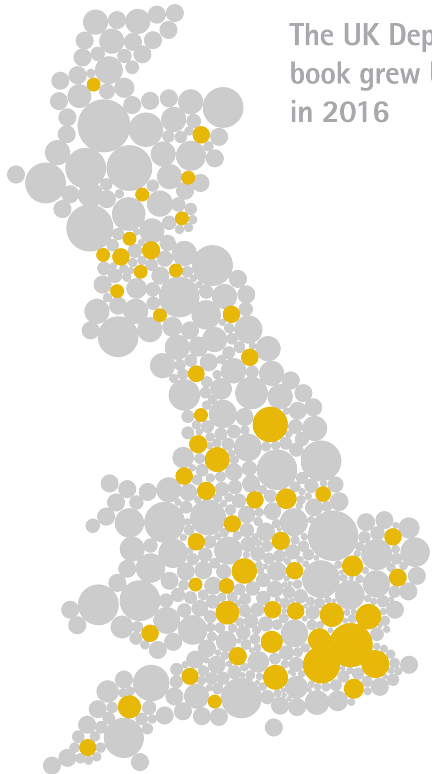
2016 was another year of strong growth for United Trust Bank ("the Bank" or "the Company") with profit before tax at £20.7m, 36% higher than in 2015, and the balance sheet reaching £767m, a 39% increase. Return on average capital ("ROE") was 29%.

This performance was driven by strong growth in all business lines, including those which were launched in 2015, while funding and operational costs were well controlled, leading to a cost to income ratio of 45%. Investment in technology continued during the year, with the launch of a broker facing MCD compliant lending portal and a business oriented deposit portal.

During the year the Bank was nominated for and won a number of industry awards, recognising the importance we place on our customers and products. None of this would have been achieved without a dedicated and competent team.

During 2016 we launched our new Company Values Programme to further support the maintenance of a strong culture within the firm. We launched an Employee Volunteering Programme (through Tower Hamlets Education Business Partnership) partnering with a local primary school, where our staff support the school's reading programme. The Bank also joined the Chartered Banker Professional Standards Board ("CBPSB") and we are working towards Foundation standard for all staff. Through the Chartered Banker Institute, we offer a range of banking qualifications to all staff, with 24% of our staff embarking on a qualification in the first year.

Headcount growth has continued and in January 2017 we committed to take additional space in our current office building during the second quarter of 2017.



The UK Deposits book grew by 40% in 2016

The Economic Environment

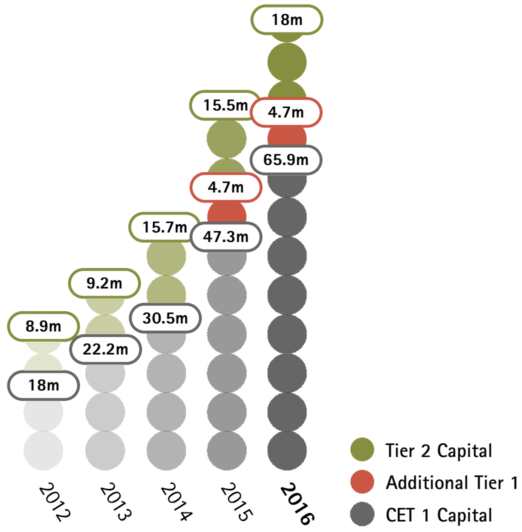
The global political and economic situation is undergoing significant change with the election of Donald Trump as US president, Russia re-emerging as a significant power, continuing instability in the Middle East, and an apparent slowdown in China's economic growth trajectory. This is to name only a few significant political and economic developments. The longer term trends of climate change, wealth concentration and mass immigration continue.

In the UK, the economic environment in 2016 was a year of two halves. Prior to the referendum on EU membership on 23 June, market forecasters were predicting a rise in the Bank of England Base Rate and a strengthening outlook for the UK economy – UK employment rate hit a record high of 74.5% in mid-2016.

Since the referendum, and the vote to leave the EU, the picture has changed. By year end Sterling had weakened by 14%, Base Rate had been lowered from 0.5% to 0.25%, quantitative easing had been extended, UK borrowing and inflation forecasts had been increased and forecast economic growth rates lowered. The overriding theme is uncertainty.

One seemingly immutable fact is that there is a long term housing shortage in the UK. And while changes to stamp duty and taxation of buy to let properties and second homes do appear to have affected prices in certain markets, for the right property types, the supply shortage and low interest rates are supporting prices and building activity. A survey by the Federation

Total assets on the balance sheet grew by 39% to £767m, reflecting strong growth across all business lines



of Master Builders in September 2016 indicated SME builders were unaffected by the economic conditions and, as a UK lender supporting residential house builders, this matches our experience to date. Nevertheless we remain vigilant for signs of deterioration.

How 2017 will unfold remains to be seen. A key event will be the potential triggering of "Article 50" by the UK, being the formal mechanism for leaving the EU. This is expected in March and, in theory, will start a two year countdown for the UK to sever its ties with the EU. Quite what will replace the existing arrangements will be the subject of significant and intense negotiation, the outcome of which is at present unknown.

Notwithstanding that, 2016 was a turbulent year for politics and the economy in the UK. To date, the Bank has been relatively unaffected and we remain an active lender.

Principal Activities and Business Model

The Bank operates as a credit institution, raising capital and deposits and lending these funds out to a range of borrowers. It does not provide advice. The focus has been on developing expertise in a set of niche markets so that the Bank's market position is defensible. The Bank concentrates on providing excellent service and specialised lending products of a size that is generally smaller than that which clearing banks would normally consider, so that it has a strong value added offering to SME customers.

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

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

Review of Operations

Profit before taxation for the year ended 31 December 2016 was £20.7m (2015: £15.2m) equating to growth of 36% over the previous year. The cost to income ratio reduced from 47% to 45% as income growth exceeded investment in people and systems. Gross income was £56.3m, an increase of 33% over the year. Operating income, comprising net interest and net fees, increased by 29% to £40.8m for the year. Operating profit before taxation and provisions rose by 34% to £22.5m (2015: £16.8m). Provisions for bad and doubtful debts were £1.9m (2015: £1.6m), equating to 0.35% of average loan balances (2015: 0.45%).

Net interest income grew by 34% to £31.6m (2015: £23.5m) although average interest rates achieved did fall for a number of reasons. Firstly, market lending rates were generally lower during the year and rates in some sectors fell further due to heightened competition. Secondly, the mix of the Bank's loan book is changing: the specialist mortgage book represents an increasing proportion of the overall loan book and, as these mortgage loans are at lower rates than those of existing businesses, the average rate is falling.

Fee income, as a percentage of loans, has been falling for similar reasons as fee rates vary across the different lending sectors. Deposit rates also fell, but not by the same amount as the fall in lending rates.

Total assets on the balance sheet grew by 39% to £767m, reflecting strong organic growth across all business lines, particularly in the specialist mortgage business, which was launched in late 2015 and comprised over 10% of the total loan book at year end. Deposits increased to fund the increased loan book, albeit we held excess cash balances for much of the year. A more efficient level of funding in 2017 should help support the net interest margin.

To support growth in the loan book and in anticipation of forthcoming increases in regulatory capital buffers, the Bank raised £2.4m equity capital and a net £3.6m of Tier 2 capital during the year.

Return on Equity was 29%

Treasury

Total customer deposits grew by 40% over the year to reach £665m across 42% more accounts. The £75,000 FSCS deposit protection limit covered 88% of deposit balances (this limit increased to £85,000 on 30 January 2017). The mix of deposits is mostly fixed term fixed rate from retail customers, as in prior years. In December, the Bank launched a new deposit portal for business customers, with a view to providing term accounts to these customers and diversifying the deposit customer base.

The Bank maintains a high degree of liquidity and holds most of this surplus liquidity in a reserve account at the Bank of England. During the year, the Bank drew its first amount through the Bank of England's Funding for Lending Scheme. This scheme is likely to be used to provide additional funding during 2017.

Staffing and Management

2016 saw an important change, as our Non-executive Chairman Nick Clegg retired after 15 years, during which time he oversaw the growth of the Bank from a balance sheet of just £26m to £767m. I and my colleagues are extremely grateful to Nick for the wisdom, judgement and deep knowledge that he contributed to developing the Bank over this period. We are delighted to welcome our new chair, Richard Murley, who has settled into the Bank's routine so effortlessly. Aside from chairing the Bank, Richard is also Chairman of University College London Hospitals Foundation Trust and he is Executive Vice Chairman of NM Rothschild & Son. Richard is a qualified solicitor and was Director General of the Takeover Panel from 2003 to 2005. He brings a fresh pair of eyes to the Bank, risk skills honed in the medical care sector and significant merger and acquisition experience.

In addition, to support its growth, the Bank recruited experienced talent across its divisions, in particular new business development managers.

Regulation

Including the audited results for the current year, the Bank's Common Equity Tier 1 ("CET1") capital ratio at 31 December 2016 was 10.3% (2015: 9.5%), its Tier 1 capital ratio was 11.0% (2015: 10.5%) and its total eligible capital ratio was 14.1% (2015: 13.7%). Return on total assets was 2.4% (2015: 2.7%).

The regulatory changes introduced in prior years are well embedded. Tier 1 capital requirements, in aggregate, are now at levels considered acceptable for the perceived risks. The Capital Conservation Buffer is being phased in, starting at 0.625% on 1 January 2016 and increasing by this amount each year until it stabilises at 2.5% from 1 January 2019. This buffer must be funded with CET1 capital.

Dialogue continues among firms, regulators, governments and the Basel Committee on Banking Supervision, on revising the Standardised Approach to credit risk, but at present no finalised framework has been published. The 150% risk weight for property development lending set out in the EU Capital Requirements Regulation continues to be an impediment to the Government's desire to encourage lending to the construction sector.

The Mortgage Credit Directive came into effect on 21 March 2016, harmonising the regulation of first and second charge mortgage lending. The Bank was well prepared for this, both in methodology and systems, and we saw a significant increase in second charge lending volumes after March.

Summary

The Bank has closed an excellent year of growth, profitability and development and is well positioned for the future. On behalf of the Board and management team, I would like to thank all of our staff for their hard work and our customers for their support. We look forward with confidence to the years ahead.

Graham Davin
Chief Executive Officer
23 February 2017

Directors' Report

The Directors present their annual report and accounts for the year ended 31 December 2016.

Principal Activities

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

Directors

Richard Murley joined the Board in August 2016, replacing Nick Clegg as Chairman.

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

Dividend

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

Auditor and Directors' Confirmation

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

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

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

Going Concern

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

Financial Risk Management

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

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

Prospects and Staff

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

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

Approved by the Board and signed on its behalf by:

Graham Davin
Chief Executive Officer
23 February 2017

Directors' Information

Richard Murley

Chairman

Richard Murley studied law at Oxford University and began his career at Linklaters & Paines before moving into investment banking with Kleinwort Benson and Goldman Sachs. Following a two-year secondment as Director General of The Takeover Panel, he joined NM Rothschild & Son where he is an Executive Vice Chairman. Richard is also Chairman of the University College London Hospitals Foundation Trust ("UCLH") and a trustee of the national homeless charity, Crisis.

Graham Davin

Chief Executive Officer

Graham Davin is the principal stakeholder of United Trust 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. He was a founding partner of the Insinger de Beaufort Group and a Director of its listed parent and its Dutch bank. He is a non-executive director of The Foschini Group, a listed multi-brand retailing group.

Harley Kagan

Executive Director

Harley Kagan is the Group Managing Director of United Trust Bank, and a chartered accountant. He was previously the Finance Director of 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.

Jonathan Ayres

Executive Director

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

Noel Meredith

Executive Director

Noel Meredith is a career banker. He joined Midland Bank after graduating from Cambridge University. He was previously at County Bank and Svenska Handelsbanken and has been at United Trust Bank for 17 years. He has extensive experience in corporate and property lending and heads the Development Finance team.

Roger Tidyman

Executive Director

Roger Tidyman is a Managing Director of United Trust Bank. He is a chartered banker and was previously Head of Banking and Director of BHF-Bank AG's London business following senior positions in Kleinwort Benson and HSBC Investment Bank.

Andrew Herd

Non-Executive Director

Andrew Herd is the Managing Director of Lancashire Court Capital Limited, a London-based investment and consultancy business. He was previously an Executive Director of Aspers Group, the Anglo-Australian leisure and entertainment company. He is a chartered accountant and worked as a merchant banker for many years. He was Managing Director and Head of Financial Institutions at SG Hambros and held senior roles with Paribas Capital Markets and Morgan Grenfell.

Tracy Blackwell

Non-Executive Director

Tracy Blackwell is the Chief Executive Officer and a Director at Pension Insurance Corporation ("PIC"). Prior to PIC, she was an Executive Director at Goldman Sachs, principally working with pension funds and insurance company clients across Europe. She set up Goldman Sachs Asset Management's risk management capability and was the former Head of Risk Management in Europe and Asia.

Michael Lewis

Non-Executive Director

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

Stephen Lockley

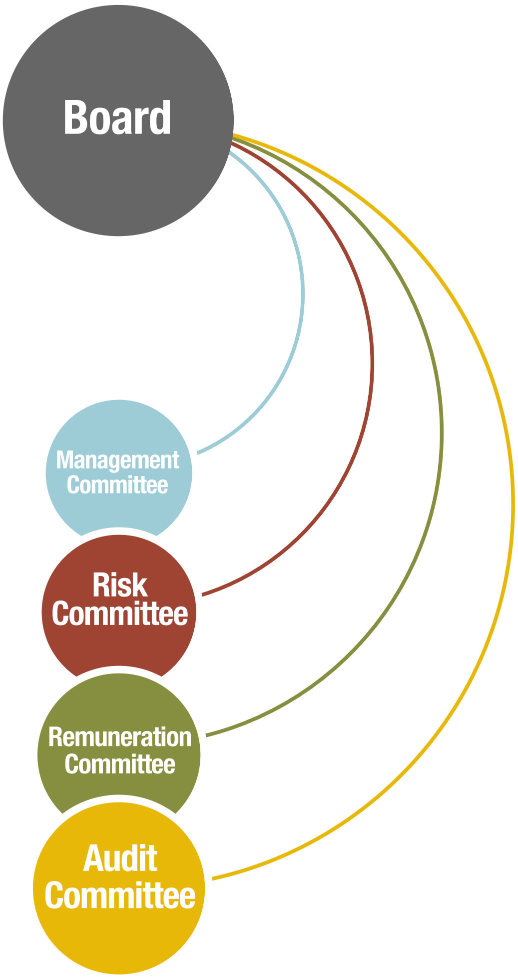
Non-Executive Director

Stephen Lockley is Chief Financial Officer of the international development organisation World Vision International. He is a chartered accountant with many years of experience in financial services and investment banking. During his career, Stephen has been the Group Finance Director of Arbuthnot Banking Group plc, CFO of VisionFund International, a Director at Charterhouse Bank and a Non-Executive Director of investment fund EuroDekania.

Corporate Governance Report

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

Corporate Governance Framework



The Board

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

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

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

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

Audit Committee

The Audit Committee is chaired by Andrew Herd, a non-executive director, and includes Stephen Lockley, another non-executive director. Mr Herd and Mr Lockley are both chartered accountants. The committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via management, that recommendations are implemented where necessary. Any significant judgements in relation to financial reporting are reviewed and challenged by the committee.
The committee has assessed Internal Audit resources and is

The size and composition of the Board is kept under review to ensure an appropriate balance of skills and experience is represented

satisfied that these are appropriate to fulfil their responsibilities.

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

Remuneration Committee

The Remuneration Committee is chaired by Michael Lewis, a non-executive director, and includes Richard Murley, the Chairman. The role of this committee is to consider remuneration policy, regulatory obligations and specifically to approve the remuneration and other terms of service of executive directors and senior managers.

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

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

Risk Committee

The Risk Committee is chaired by Stephen Lockley, a non-executive director, and includes Andrew Herd, a non-executive director. The Risk Committee is responsible for advising the Board on the Bank's risk management framework.

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

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

Management Committee

The Management Committee is chaired by the Chief Executive, Graham Davin, and includes the executive directors of the Bank and the Chief Risk Officer and thus provides a direct linkage to the Board. The committee meets monthly to discuss and implement the strategy of the Bank, as approved by the Board, and to oversee the effective monitoring and control mechanisms within the Bank.

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

Risk Management Report

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

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

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

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

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

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

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the Audit and Risk Committees and the Board. The Audit Committee is assisted by Internal Audit, which undertakes regular and ad hoc reviews of risk management controls and procedures. The Bank recognises that its future success as a financial institution depends on its ability to conduct its affairs with prudence and integrity and to safeguard the interests of its stakeholders.

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

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

Credit risk

Credit risk is the risk that counterparties will be unable or unwilling to meet their obligations to the Bank as they fall due. It arises from lending transactions. The Board seeks to mitigate credit risk by focusing on: niche market segments where it has specific expertise; through limiting and spreading its exposures; by maintaining detailed lending policies; and through rigorous underwriting processes.

The Bank's Credit Committee includes executive directors, credit managers and business development managers. The Credit Committee sanctions the majority of credit limits and in so doing has to reach a unanimous consensus by a valid quorum before authorising a credit exposure. Exposures beyond a certain threshold require additional authorisations. Credit limits on all lending, including treasury and interbank lines, are reviewed regularly. Exposures within a certain threshold can be authorised by delegated authority. In such circumstances, the Bank's Credit department provides oversight to ensure such sanctioning complies with the Bank's credit policies and procedures.

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

The Bank seeks to mitigate credit risk by focusing on niche market segments where it has specific expertise

predominantly with the Bank of England and UK banks, is secured on assets. On a geographical basis, the credit exposure of the Bank, including contingent liabilities and commitments, is predominantly to the UK.

Concentration risk

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

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

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

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

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

Concentration risk of Treasury assets is managed and controlled through a counterparty placements policy and limits.

Liquidity risk

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

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

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

Interest rate risk

Interest rate risk is the risk that the value of the Bank's assets and liabilities or profitability will fluctuate because of changes in interest rates. Interest rate risk exposures are measured weekly and reported to ALCO and the Board.

The Bank finances its loan book and money market deposits primarily through customer deposits. The ALCO meets regularly to review the rates offered on deposit products. Deposits are spread between variable and fixed rate to manage interest rate risk.

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

The Bank is proactive in the development and preservation of its reputation in the market

Operational risk

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

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

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

Regulatory, Compliance and Conduct risk

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

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

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

Reputational risk

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

Strategic risk

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

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

Statement of directors' responsibilities in respect of the financial statements

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

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report to the members of united trust bank limited

We have audited the financial statements of United Trust Bank Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Alan Chaudhuri

Alan Chaudhuri (Senior Statutory Auditor) for and on behalf of Deloitte LLP Chartered Accountants and Statutory Auditor. London, United Kingdom 23 February 2017

Income statement for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Interest receivable and similar income		45,206	33,156
Interest payable and similar charges		(13,598)	(9,653)
Net interest income		31,608	23,503
Other income	2	9,203	8,118
Operating income		40,811	31,621
Administrative expenses	3	(17,906)	(14,552)
Depreciation	5	(362)	(276)
Provision for impairment losses	10	(1,863)	(1,593)
Operating profit on ordinary activities before tax		20,680	15,200
Tax charge for the year	6	(4,001)	(2,916)
Profit after tax retained for the financial year		16,679	12,284

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

Statement of comprehensive income for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	16,679	12,284
Interest paid on contingent convertible securities	(594)	(251)
Tax relating to components of other comprehensive income	119	51
Other comprehensive income	(475)	(200)
Total comprehensive income	16,204	12,084

Statement of financial position at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Loans and advances to banks	8	**141,347**	108,932
Loans and advances to customers	9	**617,409**	434,005
Loans to group companies	11	**31**	-
Debt securities	12	**-**	3,209
Tangible fixed assets	13	**604**	681
Intangible fixed assets	14	**1,396**	1,192
Other assets	15	**6,064**	4,707
Total assets		**766,851**	552,726
Liabilities			
Deposits from customers	16	**664,572**	475,660
Loans from group companies	11	**-**	436
Other liabilities	17	**13,596**	10,099
Long-term subordinated debt	19	**18,048**	14,500
		696,216	500,695
Capital and reserves			
Share capital	20	**9,692**	9,500
Share premium		**13,488**	11,280
Contingent convertible securities	21	**4,700**	4,700
Retained earnings		**42,755**	26,551
Total capital and reserves		**70,635**	52,031
Total equity and liabilities		**766,851**	552,726
Memorandum items:			
Guarantees and assets pledged as security		**114**	134
Commitments	22	**201,195**	167,247

The notes on pages 20 to 34 form an integral part of these financial statements.

The financial statements of United Trust Bank Limited were approved by the Board of Directors and authorised for issue on 23 February 2017. They were signed on its behalf by:

Harley Kagan Director
23 February 2017

Jonathan Ayres Director
23 February 2017

Statement of changes in equity for the year ended 31 December 2016

	Share Capital	Share Premium	Contingent Convertible Securities	Retained Earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2014	**9,000**	**7,020**	**–**	**14,467**	**30,487**
Profit for the financial year	–	–	–	12,284	12,284
Other comprehensive income	–	–	–	(200)	(200)
Total comprehensive income	**–**	**–**	**–**	**12,084**	**12,084**
Issue of share capital	500	4,500	–	–	5,000
Recognition of equity component of contingent convertible securities	–	–	5,000	–	5,000
Expenses of capital issue	–	(240)	(300)	–	(540)
At 31 December 2015	**9,500**	**11,280**	**4,700**	**26,551**	**52,031**
Profit for the financial year	–	–	–	16,679	16,679
Other comprehensive income	–	–	–	(475)	(475)
Total comprehensive income	**–**	**–**	**–**	**16,204**	**16,204**
Issue of share capital	192	2,208	–	–	2,400
At 31 December 2016	**9,692**	**13,488**	**4,700**	**42,755**	**70,635**

Notes to the financial statements for the year ended 31 December 2016

1. Accounting policies

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

a. General information and basis of accounting

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

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

- Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council;
- the provisions of Statutory Instrument No 410 "Large and Medium sized companies and groups" – schedule 2 part 1, relating to banking groups, applicable United Kingdom accounting standards; and
- the Statements of Recommended Practice issued by the British Bankers' Association.

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

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

b. Going concern

The Bank's business activities, together with the factors likely to affect its future development and performance are set out in the Strategic Report. The Bank currently has considerable liquid financial resources with approximately 18% of total assets in cash or cash equivalents. The directors continue to keep the Bank's loan book under review and take action where necessary to recover assets. The directors believe that the Bank is well placed to manage its business risks set out in the Risk Management Report on pages 11 to 14 to the financial statements.

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

c. Income recognition

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

Fees and commissions which are an integral part of the EIR of a financial instrument are amortised over the expected life of the loan.

d. Taxation

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

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

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

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

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

e. Tangible fixed assets

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

Computer and office equipment	-	between 10% and 33% per annum
Leasehold improvements	-	over the life of the lease
Motor vehicles	-	between 20% and 33% per annum

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

f. Intangible assets

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

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

g. Leases

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

(ii) The Bank as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

h. Financial instruments

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

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

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

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

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

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

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

Financial instruments that include no contractual obligation to deliver cash or another financial asset are classified as equity. The Bank's contingent convertible securities are perpetual and were issued with terms that include discretion over the payment of interest, and have therefore been included as equity.

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

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

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

i. Impairment of assets

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

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

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

j. Pension costs and other post-retirement benefits

The Bank maintains a policy of supporting the defined contribution pension schemes of its employees. The amount charged to the profit and loss account in respect of pension costs is the value of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within accruals or prepayments in the balance sheet.

k. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

l. Share-based payments

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

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

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

m. Capital and subordinated debt raising expenses

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

n. Judgements in applying accounting policies and critical accounting estimates

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

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

(i) Loan book impairments:
Specific provision assessments for individually significant loans involve judgement in relation to estimating future cash flow timings, sale proceeds, and any rental income to be received.

All assets without a specific provision are assessed collectively. Collective provisions are calculated using agreed rates based on historic experience. Judgement is exercised in deciding how to apply historic experience to current market conditions and the current profile of the book.

(ii) Classification of contingent convertible securities:
The Bank issued £5 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("The Securities") during the year ended 31 December 2015 (see Note 21 for further detail).

The Securities are perpetual and have no fixed redemption date. Interest is payable on the Securities annually in arrears and is non-cumulative. The Company has the full discretion to cancel any interest scheduled to be paid on the Securities. The Securities are convertible into Ordinary Shares of the Company in the event of the Company's Common Equity Tier 1 ("CET1") ratio falling below 7 per cent.

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

2. Other Income

	2016 £'000	2015 £'000
Fees and commissions received	**11,074**	9,088
Fees and commissions paid	**(2,346)**	(1,638)
Unwinding of discounts on provisions (note 10)	**475**	668
	9,203	8,118

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

3. Administrative expenses

		2016 £'000	2015 £'000
Staff costs	- wages and salaries	**10,711**	9,850
	- social security costs	**1,333**	1,111
	- other pension costs	**766**	438
Auditor's remuneration	- audit of annual accounts	**80**	118
	- tax services	**–**	31
	- other services	**63**	26
Other administrative expenses		**4,953**	2,978
		17,906	14,552

The average number of people employed by the Bank (including executive directors) during the year was 127 (2015: 100). At the end of the year, the Bank employed 137 people (2015: 109). The staff costs include directors' remuneration set out in note 4.

4. Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2016 £'000	2015 £'000
Emoluments	**2,133**	2,425
Fair value of options exercised	**328**	242
Company contribution to money purchase pension schemes	**161**	15

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

	2016 No.	2015 No.
Are members of money purchase pension schemes	**3**	2
Exercised options over shares	**1**	2

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

	2016 £'000	2015 £'000
Emoluments and incentive schemes	**572**	1,212
Fair value of options exercised	**–**	205
Other pension costs	**147**	3

During the year to 31 December 2016, the Bank's holding company, UTB Partners Limited, issued 20,000 options over its shares to the directors of the Company (2015: nil), with a strike price equal to market price.

5. Operating profit on ordinary activities

Operating profit on ordinary activities is stated after charging:

	2016	2015
	£'000	£'000
Auditor's remuneration (note 3)	**143**	175
Depreciation and amortisation	**362**	276
(Gain)/Loss on disposal of property, plant and equipment	**(11)**	(34)
Operating lease: property	**516**	488

6. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2016	2015
	£'000	£'000
Current tax on profit on ordinary activities	**4,406**	3,679
Adjustments in respect of prior year:		
UK corporation tax	**(607)**	(273)
Total current tax	**3,799**	3,406
Deferred tax:		
Origination and reversal of timing differences	**(326)**	(490)
Effect of decrease in tax rate on opening asset	**221**	-
Prior year adjustment	**307**	-
Total deferred tax	**202**	(490)
Total tax on profit on ordinary activities	**4,001**	2,916
Total current and deferred tax relating to items of other comprehensive income	**(119)**	(51)

The standard rate of tax applied to reported profit on ordinary activities is 20 per cent (2015: 20.25 per cent). Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20 per cent with effect from 1 April 2015. This reduction in the tax rate impacted the current tax charge in 2015 and 2016.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Act 2015 (on 26 October 2015) and Finance Act 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

During the year beginning 1 January 2016, the net reversal of deferred tax assets and liabilities increases the corporation tax charge for the year by £202k. This is due to an increase in capital allowances relating to fixed asset additions and finance lease additions.

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

	2016	2015
	£'000	£'000
Profit on ordinary activities before tax	**20,680**	15,200
Tax charge at 20.00% (2015: 20.25%) thereon:	**4,136**	3,078
Effects of:		
Expenses and provisions not deductible for tax purposes	**20**	47
Excess tax relief on share based payments	**(76)**	13
Tax rate changes	**221**	-
Prior year adjustment	**(300)**	(273)
Total tax charge for the period	**4,001**	2,865

7. Share-based payments

Equity-settled share option schemes

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

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

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	**370,500**	**2.10**	368,000	1.80
Granted during the period	**111,000**	**20.00**	20,000	5.90
Exercisable during the period	**(28,600)**	**1.00**	(17,500)	1.00
Lapsed during the period	**(18,400)**	**1.00**	-	-
Outstanding at the end of the period	**434,500**	**6.79**	370,500	2.10
Exercisable at the end of the period	**271,125**		237,830	

The options outstanding at 31 December 2016 had a weighted average exercise price of £6.79 and a weighted average remaining contractual life of eight years. Options were granted on 21 March 2016. The aggregate of the estimated fair values of the options granted on this date was nil. In 2015, options were granted on 15 January 2015 and 11 February 2015. The aggregate of the estimated fair values of the options granted on these dates was £72,000.

The Company recognised total expenses of £240,000 (2015: £548,000) related to equity-settled share-based payment transactions in 2016.

The inputs into the Black Scholes model are as follows:

	2016	2015
Weighted average share price	**£20.00**	£9.50
Weighted average exercise price	**£20.00**	£5.90
Expected volatility	**20%**	20%
Expected life	**10 Years**	10 Years
Risk-free rate at date of grant	**0.5%**	0.5%

Expected volatility was determined at a nominal 20%, based on management's best estimate, as the shares are unlisted and there is no trading. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

8. Loans and advances to banks and building societies

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
- Loans and advances to central banks	**114,953**	74,044
- Loans and advances to other banks	**26,394**	34,888
	141,347	108,932

9. Loans and advances to customers

	2016 £'000	2015 £'000
Loan receivables	**532,673**	359,901
Finance lease and hire purchase receivables	**84,736**	74,104
	617,409	434,005

Loan receivables	2016 £'000	2015 £'000
Amounts falling due:		
- within one year	**393,264**	316,011
- over one year but less than five years	**85,052**	39,652
- more than five years	**57,421**	7,836
	535,737	363,499
Less: provision for impairment losses on loans and advances (see note 10)	**(3,064)**	(3,598)
	532,673	359,901
Of which repayable on demand or short notice	**34,568**	18,649

The above analysis may not reflect actual experience of repayments, since many loans are repaid early.

Finance leases and hire purchase receivables:	2016 £'000	2015 £'000
Gross investment in receivables falling due:		
- within one year	**40,138**	37,385
- over one year but less than five years	**56,443**	47,897
- more than five years	**21**	-
	96,602	85,282
Less: unearned future finance income	**(11,660)**	(11,045)
Net investment in finance leases and hire purchase receivables	**84,942**	74,237

Net investment in finance leases and hire purchase receivables:		
- within one year	**33,776**	31,419
- over one year but less than five years	**51,146**	42,818
- more than five years	**20**	-
Net investment in finance leases and hire purchase receivables	**84,942**	74,237
Less: provision for impairment losses on loans and advances (see note 10)	**(206)**	(133)
	84,736	74,104

The amount receivable under finance leases and hire purchase contracts comprises:	2016 £'000	2015 £'000
- Finance leases	**14,716**	12,100
- Hire purchase	**70,226**	62,137
	84,942	74,237

10. Provision for impairment losses on loans and advances

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

Individual impairments provision:	2016 £'000	2015 £'000
Balance at 1 January	**2,780**	2,689
Charged	**2,179**	1,750
Released	**(436)**	(70)
Amounts recognised in income statement	**1,743**	1,680
Written off	**(2,142)**	(921)
Unwinding of discount (note 2)	**(475)**	(668)
At 31 December	**1,906**	2,780

Collective impairments provision:	2016 £'000	2015 £'000
Balance at 1 January	**951**	1,167
Increase/(Reduction) recognised in income statement	**413**	(216)
At 31 December	**1,364**	951

Balance at 31 December:		
Individual impairments provision	**1,906**	2,780
Collective impairment provision	**1,364**	951
	3,270	3,731

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

Impairment losses taken to income statement:	2016 £'000	2015 £'000
Individual impairments	**1,743**	1,680
Collective impairment	**413**	(216)
Charge/(recoveries) during the year	**(293)**	129
	1,863	1,593

11. Loans to group companies

	2016 £'000	2015 £'000
Repayable on demand:		
- Receivable from / (Payable to) parent	**31**	(436)

12. Debt securities

	2016	2015
	£'000	£'000
Issued by public bodies:		
- government securities	**–**	3,209
	–	3,209
At 1 January	**3,209**	17,052
Additions	**–**	11,000
Sales and maturities	**(3,000)**	(25,000)
Movements in premium/(discount)	**(209)**	157
At 31 December	**–**	3,209
Maturity of debt securities:		
- due one year and over	**–**	3,209
	–	3,209
Fair value of debt securities:		
Issued by public bodies:		
- government securities	**–**	3,233
	–	3,233

At 31 December 2016 the Bank held £11m (2015: nil) of treasury bills under the Bank of England's Funding for Lending Scheme, which are held off balance sheet.

13. Tangible fixed assets

Tangible fixed assets comprise:	**Leasehold improvements**	**Computer and office equipment**	**Motor vehicles**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost:				
At 1 January 2016	298	688	18	1,004
Additions	–	106	–	106
Disposals	–	–	(18)	(18)
At 31 December 2016	298	794	–	1,092
Depreciation:				
At 1 January 2016	20	285	18	323
Charge	30	153	–	183
Disposals	–	–	(18)	(18)
At 31 December 2016	50	438	–	488
Net book value:				
At 31 December 2015	278	403	–	681
At 31 December 2016	**248**	**356**	**–**	**604**

14. Intangible assets

	2016 £'000	2015 £'000
Cost:		
At 1 January	**1,473**	990
Additions	**384**	483
At 31 December	**1,857**	1,473
Depreciation:		
At 1 January	**281**	155
Charge	**180**	126
At 31 December	**461**	281
Net book value:		
At 31 December	**1,396**	1,192

Intangible assets consist of computer software.

15. Other assets

	2016 £'000	2015 £'000
Deferred tax asset	**1,291**	1,493
Accrued interest receivable	**837**	728
Prepayments and deferred expenses	**3,854**	2,459
Other debtors	**82**	27
	6,064	4,707

Deferred tax asset:		
As at 1 January	**1,493**	1,003
Effect of decrease in tax rate on opening liability	**(221)**	-
Origination and reversal of timing differences	**326**	490
Prior year adjustment	**(307)**	-
As at 31 December	**1,291**	1,493

A deferred tax asset of £1,291k has been recognised at 31 December 2016 (2015: £1,493k) mainly representing timing differences on the finance lease receivables, share based payments and general provisions. The directors are of the opinion, based on recent and forecast performance of the Bank, that when these timing differences reverse, the expected level of future profits will be sufficient to recover the tax benefit deferred.

16. Deposits from customers

	2016 £'000	2015 £'000
Amounts falling due:		
- within one year	**400,052**	335,351
- over one year but less than five years	**264,520**	140,309
	664,572	475,660
Of which repayable on demand or short notice	**29,988**	10,147

17. Other liabilities

	2016	2015
	£'000	£'000
Accrued interest payable	**5,955**	4,016
Accruals and deferred income	**7,641**	6,083
	13,596	10,099

18. Financial instruments

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

	2016	2015
	£'000	£'000
Financial assets		
Debt instruments measured at amortised cost:		
Cash and balances at central banks	**114,953**	74,044
Loans and advances to banks	**26,394**	34,888
Long-term loans receivable	**617,409**	434,005
Debt securities	**–**	3,209
	758,756	546,146
Financial liabilities		
Measured at amortised cost:		
Deposits from customers	**664,572**	475,660
Long-term subordinated debt	**18,048**	14,500
	682,620	490,160

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

	2016	2015
	£'000	£'000
Interest income and expense		
Total interest income for financial assets at amortised cost	**45,206**	33,156
Total interest expense for financial liabilities at amortised cost	**(13,598)**	(9,653)
	31,608	23,503
Impairment losses		
On financial assets measured at amortised cost	**1,863**	1,593
	1,863	1,593

19. Long-term subordinated debt

	2016	2015
	£'000	£'000
2010 Tier 2 subordinated debt	**–**	392
2013 Tier 2 subordinated debt	**11,608**	11,608
2014 Tier 2 subordinated debt	**2,500**	2,500
2016 Tier 2 subordinated debt	**3,940**	-
	18,048	14,500

The balance of the 2010 subordinated debt was redeemed in 2016.

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

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

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

20. Called up share capital

	2016	2015
	£'000	£'000
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**9,500**	9,000
Ordinary shares issued during the year	**192**	500
31 December (Ordinary shares of £1 each)	**9,692**	9,500

	2016	2015
	'000	'000
Number of shares		
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	**9,500**	9,000
Ordinary shares issued during the year	**192**	500
31 December (Ordinary shares of £1 each)	**9,692**	9,500

The Bank issued 192,000 shares of £1 each on 30 June 2016 for a total aggregate amount of £2,400,000. The premium arising is reflected in Reserves (see Statement of Changes in Equity).

The Bank's other reserves are as follows:

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

21. Contingent convertible securities

On 31 July 2015, the Company issued £5 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("AT1 securities"). Net proceeds arising from the issuance, after deducting issuance costs, totalled £4,699,977.

The AT1 securities are perpetual and have no fixed redemption date. Redemption of the AT1 securities is at the option of the Company on 31 July 2020 and annually on 30 November thereafter. The AT1 securities bear interest at an initial rate of 11.85% per annum until 31 July 2020 and thereafter a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate. Interest is payable annually in arrears on each interest payment date and commenced on 30 November 2015. The Company has the full discretion to cancel any interest scheduled to be paid. Interest is non-cumulative.

The AT1 securities are convertible into Ordinary Shares of the Company in the event of the Company's Common Equity Tier 1 ("CET1") ratio falling below 7 per cent.

	2016	2015
	£'000	£'000
Contingent convertible securities	**4,700**	4,700
	4,700	4,700

22. Commitments

	2016 £'000	2015 £'000
Conditional commitments to lend	**201,195**	167,247

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

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

	2016 £'000	2015 £'000
Commitments under annual operating leases for leased property expiring:		
In less than one year	**685**	-
In one to two years	**1,494**	685
In two to five years	**2,241**	2,241
Greater than five years	**1,556**	3,050

23. Employee benefits

The Bank operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss for this benefit in the period ended 31 December 2016 was £766,000 (2015: £438,000).

24. Related party transactions

Under FRS 102 Section 33 the Company is exempt from the requirement to disclose intragroup transactions with related parties on the grounds that 90% or more of the voting rights are controlled by the parent company, UTB Partners Limited, whose consolidated accounts are publicly available. Details of the directors' remuneration are stated in note 4.

25. Segmental information

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

26. Risk management

Risk is inherent in all aspect of the Bank's business and effective risk management is deemed a core objective for the Bank. Further details of the Bank's risk management framework can be found in the Risk Management Report on pages 11 to 14.

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

- Board and management committees to approve initial risk limits and policies, and to monitor adherence to those policies;
- Management information that analyses the level of risk exposure at relevant points in time;
- Departmental policies, procedures and mandates to limit the extent to which individuals can commit the Bank to accepting additional risk; and
- Independent internal audit review which acts as a 'third line of defence' to ensure policies and procedures have been complied with.

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

Credit risk

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

The Board seeks to mitigate credit risk by:

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

The Bank's Credit Committee sanctions the majority of credit limits and ensures credit risk is mitigated to an acceptable level. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that the credit policy is prudent, taking into account changing market trends. In respect of credit limits sanctioned by delegated authority, the Bank's credit department provides oversight to ensure such sanctioning complies with the Bank's credit policies and procedures.

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

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

Distribution of loans and advances by credit quality	**At 31 December 2016**		**At 31 December 2015**	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
	£'000	**£'000**	**£'000**	**£'000**
Neither past due nor impaired	**582,105**	**141,347**	416,574	108,932
Past due but not impaired:				
Loans and receivables at amortised cost:				
- Less than three months	**17,854**	**-**	6,884	-
- Three to twelve months	**9,790**	**-**	2,072	-
- One to five years	**4,444**	**-**	6,156	-
Impaired	**6,486**	**-**	6,050	-
Less: provisions	**(3,270)**	**-**	(3,731)	-
	617,409	**141,347**	434,005	108,932

The past due loans are subject to close oversight. In the main they relate to transactions that have reached maturity and the Bank has decided not to extend, albeit the loan to value remains acceptable.

Concentration risk

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

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

Liquidity risk

This is the risk that the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. ALCO recommends the policies to mitigate this risk. The Committee regularly reviews the Bank's Statement of Financial Position to ensure that it is positioned prudently and meets the agreed policies taking into account prevailing markets conditions, and projections for business growth.

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

Interest rate risk

This is the risk that the value of the Bank's assets and liabilities or profitability will fluctuate because of changes in interest rate.

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. A positive gap tends to benefit net interest income in an environment where interest rates are rising. However, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivity within the re-pricing period. The vast majority of loans and advances dealt with in the following table are made at fixed rates or benefit from interest rate floors. Due to their non-linear nature, the effect of interest rate floors cannot be accurately shown in the following table. Where appropriate, loans with interest rate floors have been shown in the column matching their re-pricing date.

Interest rate re-pricing table

2016	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but less than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	169,489	114,514	139,353	162,472	31,434	147	617,409
Loans and advances to banks and financial institutions	141,347	–	–	–	–	–	141,347
Loans to group companies	31	–	–	–	–	–	31
Other assets	–	–	–	–	–	8,064	8,064
	310,867	114,514	139,353	162,472	31,434	8,211	766,851
Deposits from customers	218,550	56,574	172,454	216,994	–	–	664,572
Other liabilities	–	–	–	–	–	13,596	13,596
Long term subordinated debt	2,257	–	–	15,791	–	–	18,048
Shareholders' funds	–	–	–	4,700	–	65,935	70,635
	220,807	56,574	172,454	237,485	–	79,531	766,851
Interest rate sensitivity gap	90,060	57,940	(33,101)	(75,013)	31,434	(71,320)	
Cumulative gap	**90,060**	**148,000**	**114,899**	**39,886**	**71,320**	**–**	

2015	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but less than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	114,354	84,983	143,157	87,840	2,665	1,006	434,005
Loans and advances to banks and financial institutions	108,932	–	–	–	–	–	108,932
Debt securities	–	–	–	–	3,209	–	3,209
Other assets	–	–	–	–	–	6,580	6,580
	223,286	84,983	143,157	87,840	5,874	7,586	552,726
Deposits from customers	141,148	59,463	155,894	119,155	–	–	475,660
Other liabilities	–	–	–	–	–	10,099	10,099
Loans to group companies	436	–	–	–	–	–	436
Long term subordinated debt	2,649	–	–	11,851	–	–	14,500
Shareholders' funds	–	–	–	4,700	–	47,331	52,031
	144,233	59,463	155,894	135,706	–	57,430	552,726
Interest rate sensitivity gap	79,053	25,520	(12,737)	(47,866)	5,874	(49,844)	
Cumulative gap	**79,053**	**104,573**	**91,836**	**43,970**	**49,844**	**–**	

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

27. Ultimate controlling company

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

28. Subsequent events

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

Company information

Bankers
Barclays Bank Plc
Lloyds Bank Plc

Auditor
Deloitte LLP

Legal Advisors
Nabarro LLP

Company Secretary
Shane Bannerton

Registered Office
One Ropemaker Street
London EC2Y 9AW

Registered Number
549690

Website
www.utbank.co.uk

Country of Incorporation
United Kingdom