UNITED TRUST·BANK

UTB PARTNERS LIMITED

Consolidated Annual Report

31 December 2021

Registration Number: 4931679

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

Board of Directors:

Non-Executive Chair
Richard Murley
Graham Davin (Deputy Chair)

Non-Executive Directors
Andrew Herd
Ehsan Mani
Giles White
Michael Lewis
Nicholas Clegg
Roger Tidyman
Stephen Lockley

Executive Directors
Harley Kagan
Jonathan Ayres

Company Secretary
Shane Bannerton

Registered Office
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London EC2Y 9AW

Registered Number
4931679

Bankers
Barclays Bank PLC
Lloyds Banking Group

Legal Advisors
CMS Cameron McKenna Nabarro
Olswang LLP

Auditor
Deloitte LLP

CHIEF EXECUTIVE OFFICER'S REPORT

I am pleased to report UTB Partners 2021 annual results following my first year as Chief Executive Officer. It is a privilege to lead such an outstanding team who have delivered an exceptional set of results. During another challenging year, the Group team responded with resilience, tenacity and a positive outlook to meet the needs of our customers, brokers and their colleagues. I am delighted that their outstanding contributions were recognised with no less than 18 industry awards.

The Group's disciplined approach to capital, liquidity and risk management has been supported by our collaborative agile culture and resulted in a solid performance and strong results. Operating Profit before impairment charges was £50.9m, an increase of 15% on 2020 and profit before tax grew 45% to £44.4m. New business volumes increased 14%, supporting growth in the loan book to £1.8bn, despite the impact of the pandemic. This growth is a result of many new initiatives launched by our lending and deposit businesses. To support this the Group has increased staff numbers by 15%, and I am pleased that staff have returned to the office on our new hybrid-working model. The Group continues to invest heavily in talent by attracting and retaining skilled and knowledgeable staff who share our commitment to delivering excellent customer experiences and good outcomes. One of our key strategic priorities is to develop a scalable technology platform to enable our continued profitable growth. This investment will improve customer and broker experience, enhance operational efficiency, resilience and hybrid working and will be a major focus in 2022.

There has been significant uncertainty in the economy throughout the year, driven largely by the impact of Covid-19 and the aftermath of the UK leaving the European Union. The Government and Bank of England have continued to extend a range of measures to support businesses and individuals and we were pleased to provide qualifying businesses with funding via the Coronavirus Business Interruption Loan Scheme ("CBILS") and the Recovery Loan Scheme ("RLS"). In addition, the Group formed a 5-year alliance with Homes England with the launch of the £250m Housing Accelerator Fund and secured an ENABLE Build Guarantee from the British Business Bank (BBB) to further support SME house builders.

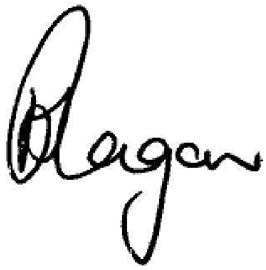
The Bank of England increased Base Rate to 0.50% in February 2022, up from 0.25% in December and 0.10% through most of the pandemic but still below pre-Covid 19 levels. As Government restrictions lifted mid-year, business confidence started to return, and consumer spending increased. This, combined with the extension of the stamp duty holiday to October, resulted in strong levels of housing transactions and increased levels of loan drawdowns and repayments. Brexit has affected supply chains in several sectors including retail, agriculture and construction, and although to date we have observed little impact on the performance of our loan books, we continue to monitor this closely.

We remain responsive to the ongoing uncertainty as we learn the true impact of the pandemic and Brexit on the UK economy and our stakeholders. The Group has performed well in these unprecedented times but we are mindful that it has been a challenging and sometimes stressful period for our colleagues, and we continue to prioritise their wellbeing and provide support as we transition to a new normal. I am also humbled by the many UTB staff who, no matter how busy, have found the time and energy to work with and fundraise for charities UTB has supported including DePaul and Food Bank Aid.

STRATEGIC REPORT

CHIEF EXECUTIVE OFFICER'S REPORT

UTB is a dynamic specialist Bank full of talented people who drive our growth and development. I congratulate all our staff for their contributions and thank our customers and broker partners for supporting us. I look to the future with excitement and the strong belief that together we will make the most of the substantial opportunities that lie ahead.



Harley Kagan

Chief Executive Officer

28 February 2022

BUSINESS MODEL

Principal activities and business model

The main operating company of the Group is United Trust Bank Limited ("the Bank" or "UTB") which operates solely in the UK as a credit institution, raising capital and deposits and lending these funds to a range of borrowers. This Strategic Report focuses primarily on the Bank as it accounts for the majority of the Group's activities and results and is the only company in the Group with employees. The Group's other subsidiary, SOS Intelligence Limited, was launched in 2020 to commercialise proprietary cyber threat intelligence technology developed by the Bank's technology team. Whilst it earned its first revenues in 2021, to date its financial results are immaterial to the Group.

The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It does not provide advice. The Bank's strategic focus has been on developing expertise in a set of niche markets so that its market position is defensible.

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

The Group invests in systems that improve customer and broker interaction, improve efficiency and enable growth, and this investment has increased over the last few years. It has been a steady employer of experienced career bankers with considerable market knowledge and practical expertise. This has been augmented by a growing number of staff who are earlier in their careers and benefit from the training and development opportunities the Group offers.

The following sections detail the core aspects of the Group's business model, purpose, visions, culture and strategic priorities.

Purpose

Vision

Culture

Priorities

STRATEGIC REPORT (CONTINUED)
BUSINESS MODEL (CONTINUED)

Purpose
Our purpose is to build a dynamic specialist bank that delivers solutions for our customers which help them achieve their ambitions and to support our people so they can thrive.

Vision
Our vision is to be a respected, resilient and profitable specialist bank, which employs outstanding people and balances an enterprising and innovative spirit with a commitment to long-term sustainable growth. Our people are professional, engaging and progressive and have the freedom to operate to deliver excellence in everything we do. Our expertise and experience helps our customers to fund business growth, build new homes, invest in properties, buy their own homes or grow their savings. Our differentiators are the quality of our people, our transparent and supportive culture, deep product specialism, pragmatism and our willingness to be accessible and work collaboratively with clients.

Values
The Board recognises the importance that culture and values play in the success and sustainability of the Group, and the role of the Board in establishing, monitoring and assessing how both the culture and core values are communicated and embedded. The Board also acknowledges the importance of individual directors, and the Board as a whole, acting with integrity and leading by example.

Our values encourage and support diversity and inclusion at all levels of the Group, helping the communities in which we operate and reducing our environmental impact. They are consistent with all the Group's policies, practices and behaviours. We care about the prosperity and wellbeing of our people, customers and other stakeholders and endeavour to make a positive impact on our community and the environment.

We are guided by our core values:

Customer focus	We empower our people to work thoughtfully, flexibly and closely with our customers and brokers to help ensure their success. In addition, we use technology to enable exemplary service.
Responsibility	We act responsibly and seek to support projects that are financially, socially and environmentally sustainable.
Teamwork	We work collaboratively and inclusively with colleagues, brokers, customers and professionals. We value diversity and welcome multiple perspectives, to create a friendly and rewarding culture in which everyone's opinion is heard.
Integrity	We build strong, enduring relationships based on the highest standards of open, honest and transparent dialogue.
Tenacity	We empower and encourage our people and give them freedom to operate to find solutions and overcome obstacles to deliver commercial results.

Strategic Priorities

The Group's strategic priorities capture the key strengths of our business model. They ensure we and the Board focus on ways to protect, grow and sustain the business model and enable us to deliver strong risk adjusted returns and excellent results for all our stakeholders. They also ensure the Group is following a disciplined approach to growth and preserving the key attributes that generate value for our shareholders, reflected in our strong ROE of 20.2% (net of the cost of the contingent convertible securities) achieved in 2021 (2020: 15.9%).

Our People	Recruit, develop and retain the best people and ensure they flourish
Reputation	Build a brand and culture that we are proud of
Niche Specialist	Build a strong specialist banking franchise by progressive growth in originations
Customer Focus	Improve customer experience and good outcomes though strong relationships
Credit Quality	Maintain excellent credit quality and our conservative foundations
Digital Strategy	Build a scalable user-friendly technology platform that enables growth

95 members of staff hired in 2021 with total staff growth at 15%

18 Awards won across our specialist sectors

30 No BDMs operating across the country

6,500 number of homes built have been supported through our lending.

Low cost of risk ratio **0.38%**

8 significant digital projects initiated

FINANCIAL OVERVIEW

Review of results

The Group's operating profit before impairment charges increased 15% to £51.6m (2020:£44.8m), reflecting loan book growth, a strong net interest margin, careful cost management. The net interest margin of 5.01% increased on the prior year (2020: 4.73%) reflecting pricing discipline and a fall in the cost of funds. As a result operating income increased by 20.4% to £95.2m (2020: £79.1m).

Operating expenses before provisions increased by 27.1% to £43.6m, reflecting ongoing investment in staff and technology platforms. As a result, the cost income ratio increased to 46.6% in 2021 (2020: 44.2%). The cost of risk (being the provision for impairment losses divided by the average loan balance over the year) at 38bp was lower than 2020 (95bp) following the resolution of some historical recovery cases during that year.

Total assets increased 20.7% over the year to £2.25bn (2020: £1.87bn) driven by new business volumes, particularly for Asset Finance and Specialist Mortgages loans. Loan book growth was further supported by Government support on lending scheme such as CBILS and Homes England. Despite good new business volumes, loan book growth was somewhat muted in the first half of the year by higher than normal activity in the residential property market, resulting in strong loan repayments. Total liabilities were up 21.5% to £2.06bn (2020: £1.69bn) mainly due to higher customer deposits and the Term Funding Scheme with additional incentives for SMEs ("TFSME").

Total capital and reserves increased by 20% to £198m (2020: £165m), reflecting the retained profit in the year less a dividend payment of £12m. Return on average equity increased significantly to 20.2% (2020: 15.9%). This reflects the strong performance of the Bank over the year, as we maximised market opportunities presented by the economy as it started to recover.

Treasury and Funding

Total customer deposit balances increased by 7.2% to £1,716m (2020: £1,601m) across 35,000 accounts. The majority of our deposit customers are retail, and we are active in the ISA, SME, and charity markets as well as on the Hargreaves Lansdown Active Savings platform. The FSCS scheme covers over 88% of aggregate deposit balances.

The Group's liquidity reserves, including its liquidity buffer, are held at the Bank of England ("BoE"), while operational balances are held with UK clearing banks. In May 2020 the Bank joined the TFSME scheme, drawing £50m in June of 2020, secured by Asset Finance loans. A further £250m was drawn from the scheme in October 2021 supported by additional collateral placed with the Bank of England.

Regulation

The Group is supervised by the Prudential Regulation Authority on a consolidated basis. The Group's Common Equity Tier 1 ("CET1") ratio was 12.7% (2020: 11.4%) at the end of the year, and its Total Capital Ratio was 16.3% (2020: 15.4%), comfortably exceeding the Group's Total Capital Requirement ("TCR") (excluding regulatory buffers) of 9.00% (2020: 9.00%). The conversion of the B Ordinary Share to Ordinary Shares during the year added £10m of regulatory CET1 to the Group. In October 2021, the Group redeemed £4m of Tier 2 subordinated debt reducing the total balance of Tier 2 debt to £29m.

The Countercyclical Capital Buffer ("CCyB") requirement has remained at 0% since the Bank of England reduced it in light of the pandemic. The BoE has recently announced that the CCyB will increase to 1% in December 2022, with the expectation of a subsequent increase to 2% in the second quarter of 2023. The CCyB is in addition to the Capital Conservation Buffer of 2.5%. At the end of 2021, the total amount of capital committed to the 2.5% (2020: 2.5%) combined buffers, which apply to all banks in the UK, was £34m (2020: £32m).

Principal risks and uncertainties

The Group classifies the risks it faces into various categories. Further detail on these categories and the Group's approach to risk management can be found in the Risk Management Report set out on pages 26 to 38.

At present, the principal risks and uncertainties, which the Group is facing are:

- Economic environment: Covid-19 and Brexit have affected economic activity and the outlook for the UK remains uncertain. The UK residential and commercial property markets have seen a spike in prices and transactions, driven in part by Government support such as stamp duty holidays and lending schemes, including CBILS and RLS. As lockdowns eased mid-year, business confidence returned and with it an increase in consumer spending. Whilst this recovery was stalled by the impact of the Omicron variant, the economic impact is expected to be less severe than the initial phase of the pandemic in 2020. However, the emergence of inflationary pressures, primarily driven by supply chain issues, shortages in labour availability in some sectors and higher energy prices, has introduced more risk into the economic outlook. Emerging inflation has already begun to drive interest rate rises and this combination is expected to squeeze business profit margins and household budgets. We continue to review the economic outlook and test the financial robustness of the Bank by carrying out regular stress testing in the context of potential adverse economic conditions. More information on stress testing can be found in the Risk Management section on pages 26 to 31.

- Credit: credit risk is the risk that the Group's counterparties will be unwilling or unable to meet their obligations to the Group as they fall due. It is the Group's most significant risk. It is mitigated through strict underwriting standards and a pro-active approach to monitoring the loan portfolios and to managing arrears, defaults and recoveries. Provision for impairments has reduced from £13.5m to £6.5m in 2021 mainly as a result of the resolution of a number of historical recovery cases where we held provisions. Uncertainty remains, however, and we continue to closely monitor the economy and its potential impact on our customers and the market. For more information on provisions for impairment losses on loans and advances, this can be found in note 10 on page 64.

- Interest rates: interest rate risk is the risk that the value of the Group's assets and liabilities, or its profitability, will fluctuate due to changes in interest rates. The Group has a simple and transparent balance sheet and a low appetite for interest rate risk, which is limited to that needed to operate efficiently. The Group's appetite for interest

FINANCIAL OVERVIEW (CONTINUED)

rate risk has increased slightly to accommodate the evolving funding structure. The Group continues to manage interest rate risk organically by raising longer-term deposits. The interest rate market and yield curve continue to be affected by the fallout of Covid-19 and its impact on global supply chains, inflation and the economy in general. The sensitivity analysis on interest rate exposure is shown in note 26 on page 76.

- Cyber security: cyber risk is a form of operational risk and is the risk of the Group's information technology systems being penetrated to steal data or otherwise cause harm or disruption. Mitigating this risk is an ongoing and increasing challenge for any institution. The Group continues to invest in people and technology with dedicated cyber security staff and resources who manage a range of preventative, detective and recovery measures. Nonetheless, we remain vigilant with a focus on testing and evaluating these measures and associated procedures.

- Regulatory requirements: prudential regulation of banks is now relatively stable, whilst operational resilience and conduct regulation and risk continue to evolve. To manage the Group's compliance with new and existing requirements, the Group employs experienced professionals in relevant areas, conducts continuous quality assurance work, has a comprehensive and evolving governance framework for its size and complexity and maintains an active and open dialogue with its regulators.

- Climate Change risk: climate change represents an area of increasing focus, both within the Bank and across the industry more broadly. We continue to closely monitor regulatory updates as well as best practice in the industry. The Group continues to work towards understanding the potential risk of financial loss resulting from the physical or transitional impacts of climate change and is exploring different routes to leverage this as appropriate to support and further develop the Bank's climate change risk framework.

SUSTAINABILITY REPORT

The Group recognises that sustainability is increasingly important to all our stakeholders and that the Board has responsibility to lead the Group's efforts to address key Environmental, Social and Governance issues such as the threat of climate change, diversity and inclusion and supporting our employees and customer needs. At UTB ,acting responsibly is integral to our corporate values. Actions and the Group's priorities are shown below:

Our Priorities	Symbol	Our Mission	Our Targets
Environment, Social and Governance		Reducing our impact on the environment and tackling climate change	Contribute to a net zero carbon economy by 2050
Diversity and Inclusion		Ensuring we are a diverse and inclusive employer	Ensuring diversity and inclusion is a considered when hiring and promoting staff
Employees		Supporting and developing our employees	Maintain strong employee engagement and continue to develop and promote our employees
Customers		Promoting financial inclusion for borrowing and ensuring our customers' needs are met.	Improve customer satisfaction scores across our business

Environment, Social and Governance

Climate Change

The Bank recognises the importance of addressing the threat of climate change. Ongoing work to identify the risks and opportunities for the Bank remains an area of focus for the Board and senior management. This is a challenge that requires action in this decade. We take our responsibility towards the environment seriously and are supportive of the goals of the Paris Agreement to achieve a net zero carbon economy by 2050.

To address this risk, the Group formed a Climate Change Committee with four sub-committees in 2020, each chaired by a member of the Bank's Management Committee. These sub-committees cover four work streams: Innovation; Risk Management; Scenario Analysis; Disclosures, and are progressing through the topics to understand and address the impact of climate change risk on the Group and its customers and managing the Group's response on it.

The Group's Climate Change Committee and its sub-committees developed a comprehensive action plan in 2020, reflecting the Task Force on Climate Related Financial Disclosure ("TCFD") requirements and the PRA's expectations as set out in supervisory statement SS3/19. This plan has progressed well in helping to understand the impact of the Group's operations on climate change, on our customers, our portfolios and business resilience. This action plan has initiated the work to begin to build and enhance our capabilities for the identification, management, monitoring, scenario modelling and disclosing climate change risks and opportunities. The Board is aware that this is the beginning of a journey with more required to meet TCFD requirements by the end of 2022 and to embed climate considerations into the Group's business strategy, customer engagement, and our financial and strategic planning.

The Board has ultimate responsibility for Climate Change risk and the key activities that the Group has undertaken throughout the year. The Climate Change Committee reports to the Bank's Board on a regular basis, setting out the progress made across all the committees, in order to help support the Group's decision-making process. The Bank's Board and senior management have received appropriate training, delivered by both internal and external parties, including the Chief Operating Officer, who is the responsible officer within the Group.

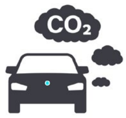
More details of what each committee has been working on can be seen below.

Climate Change – Risk Management

The PRA's and FCA's Climate Financial Risk Forum ("CFRF") Risk Management Working Group has published a list of risk categories for banks to consider. The most material risk categories identified by and applicable to the Group are credit risk, operational risk and reputational risk. The risks of climate change to the Group occur through two main streams:

The first stream covers physical risks associated with changes in climate and weather, more details of these can be seen below.

The second stream is transition risk, which covers risks arising from society's response to climate change risk and from changing to a zero carbon economy. Transition risks may occur as policies are introduced to manage climate change which impact technology, regulation, business operations and the economy more generally. The table below provides an indication of the type of risks the Group is exposed to, where we continue to assess the overall impact on our current portfolios. As we only operate in England, Scotland and Wales our geographic impact is limited

Climate Change Risk					
Physical Risks			**Transition Risk**		
1) Operational Risk		**2) Credit Risk**		**3) Reputational**	
River / Sea Flood Risk	Surface Water risk	Coastal Erosion Risk	Energy Efficiency	Carbon Emissions	Infrastructure & Zoning Risk
					

In respect of credit risk, the Group's most material risk, the CFRF expects banks to start building data sets with a long-term goal of quantifying climate change risk in terms of probability of default ("PD") and loss given default ("LGD"). The ability to gather and store climate change related data is integral to the Group's ability to monitor and manage these risks and to discharge its regulatory obligations under the CFRF. A new project was initiated in December 2021 for the purposes of climate change data collection. Each loan portfolio has been assessed to identify the relevant data that the Group currently has stored and what data will need to be collected.

In the short term, internal and external data (accessible via public websites) is being collected and used for scenario analysis and to provide an informed view on climate change risks embedded in the loan books. The data collection project will be overseen by the Climate Change Risk Management sub-committee and progress will be regularly reported to the Climate Change Committee and Bank's Board.

Climate Change - Scenario Analysis

The Group has undertaken scenario analysis to assess the Group's physical and transitional climate change risk exposure. Scenario Analysis represents another core component of the risk management framework and supports our assessment and understanding of the risks which the Group might be exposed to in future. The results of our analysis have not led to a change in strategy and provide valuable insights to the Bank's Board and senior management and can help shape the Group's strategy. The Group is on track to provide enhanced metrics for scenario analysis in our 2022 Annual Report as recommended by the TCFD.

Climate Change - Innovations

The Group recognises its responsibility as a lender to support the aims of a net zero economy through influencing customer behaviour. It acknowledges the emissions impact of the assets and sectors it finances. Furthermore, we recognise the efforts we need to make to reduce the impact of our own operations on the environment. The Climate

SUSTAINABILITY REPORT (CONTINUED)

Change Innovations committee has been working to identify initiatives and put these into practice and embed them into the Groups culture. Some of these initiatives can be seen below:

- Funding/Lending- We are undertaking work to assess the climate exposure of our loan book and funding book. The Group is exploring deposit products which can be linked to funding more carbon neutral assets. The Group is in the early stages of this project and is looking to make further progress in 2022.

- Plastics– The Group has actively attempted to remove the use of single use plastics. Staff members have been provided with their own reusable glass water bottles to reduce the purchase of single use plastics.

- Recycling- The Group continues to encourage all staff to recycle waste both in our London office and when working from home. We urge all employees to minimise unnecessary printing and consumption and to continue to promote the use of recycled and sustainable materials wherever possible.

- Staff Education- It has been a priority for the Group to educate staff about climate change, why it is relevant to the Group and most importantly how we can reduce the impact we are having on the environment as a Group and on as individual basis. Regular articles on climate change are published on the Group's intranet.

- Climate Change Champions- An additional working group has been created, open to all staff members, to lead on how we can reduce our carbon footprint. A number of initiatives have commenced including going paperless. The Group has participated in vegan month, providing vegan snacks for all staff and a cookbook providing ideas for vegan recipes.

- Marketing- Since 2019 the Group has significantly reduced the volume of printed material by moving to digital marketing communications and using sustainable materials. This has contributed to an overall reduction in marketing print of c.60%.

- Suppliers- The Group has looked into the way we assess our suppliers and gather relevant information, where a new supplier form will be launched in 2022. This initiative will gather information on how each supplier is approaching ESG and what they are doing to reduce their own carbon footprint. This will allow us to analyse each supplier and, where we are able to, to choose those more aligned with our climate change goals.

- Hybrid Working Model- The Group has adopted a "hybrid" working model which has lowered the carbon footprint of the workforce, in part by reducing the need for staff to commute every day.

- Electric cars- A new initiative commenced in January 2022, to allow staff to lease electric and hybrid cars through a HMRC approved salary sacrifice scheme.

- Cycle scheme- The Group has actively been participating in the cycle to work scheme since 2018. This allows employees to receive a discount on purchasing a bike and forms part of a salary sacrifice scheme.

Climate Change Disclosures

We are on track to report enhanced disclosures in our 2022 annual report in alignment with TCFD, which we are committed to enhancing further year on year. We will be including key metrics and targets beyond our operation's direct energy consumption and emissions, which are detailed later under the Carbon Reporting section. The Group recognises that there is much work to be done and we are dedicated to making frequent, transparent TCFD disclosures to communicate our progress as we develop our climate capabilities. We will continue to encourage all of our stakeholders to do the same.

Energy and Carbon Reporting

In 2020 the Group initiated energy and carbon reporting to meet the requirements of the Streamlined Energy and Carbon Reporting ("SECR") standards and to improve the information available to our stakeholders. The Group accounted for the emissions in the section below for 2021, as defined by the international Green House Gas ("GHG") Protocol. As a predominantly office based business, the bulk of our emissions are indirect, mainly electricity used to run the office and computing resources. The GHG splits the emissions into three categories:

- *Scope 1, Direct emissions* – These are GHG emissions caused by activities owned or controlled by the Group. The Group owns two electrical vehicles and energy use from both vehicles totalled 1,677 kilowatt hour (kWh) and 0 emissions (tCO_2e).
- *Scope 2, Indirect emissions* – These are GHG emissions which are a consequence of our activity, but arise from sources we do not own or directly control. Indirect emissions include electricity and gas consumption and are our highest source of GHC emissions. See details in the table below.
- *Scope 3, Other* – These are emissions that are a consequence of the Group's actions, at sources which the Group does not own or control and that are not included within Scope 2. Scope 3 would include, for example, emissions from business travel by a limited number of staff who use their own vehicles for broker and customer visits. Calculating the volume of these emissions requires knowledge of the emissions of each employee's vehicle, which we do not have records of, so we have calculated the emissions shown below based on average mileage claims submitted by employees.

Breakdown of UK energy consumption used to calculate emissions (kWh):	**Year Ended 31 December 2021**	**Year Ended 31 December 2020**
Company owned or controlled vehicles	2,684	1,677
Electricity	295,848	259,553
Heat, steam and cooling[1]	785,100	674,829
Employee owned vehicles where the Group purchases the fuel	25,046	33,451
Total gross energy consumed	1,108,678	969,510

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

Breakdown of UK emissions associated with the reported energy use (tCO_2e):	**Year Ended 31 December 2021**	**Year Ended 31 December 2020**
Scope 1		
Company owned or controlled vehicles	-	-
Total Scope 1	-	-
Scope 2		
Electricity	62,817	60,512
Heat, steam and cooling	171,129	139,443
Total Scope 2	233,947	199,955
Scope 3		
Employee owned vehicles where the Group pays for the fuel	31,337	41,664
Total Scope 3	31,337	41,664
Total gross emissions	265,284	241,619
Intensity ratio		
Tonnes of CO2e per employee	0.97	1.02

Actions to reduce Carbon Footprint

- The only direct scope assets owned by the Group are two cars, both of which are fully electric to reduce direct emissions.
- We have now returned to working from the office on a hybrid model and have seen a consequential increase in electricity usage in the office, albeit this is offset by electricity and gas used by employees working from home. Nevertheless, we are presently looking to replace the existing lighting system with low voltage lighting with activity sensors.
- The majority of our electrical usage comes from the Group's computer systems. The Group already uses a number of cloud-based systems and has a strategy to migrate more systems into the cloud, noting that cloud hosting solutions tend to have lower energy consumption for the same computing power.
- The Group continues to encourage staff to reduce their own environmental impact by offering an electric car scheme, season ticket loans for public transport, cycle to work schemes and waste recycling schemes in the office.

Social

The Group supports a staff-nominated charity, which focuses on social issues, and organises events throughout the year to raise awareness and to involve its employees. The Bank matches eligible charitable donations of staff. During the year, the Bank has also made specific Covid-19 related donations, including donations to food banks.

Diversity and Inclusion

Diversity and Inclusion continue to be an important focus for the Group. The contribution of our employees, their talent and the long-term relationships they build, are integral to delivering the highest levels of service to our customers and clients. The Group prioritises building a diverse and inclusive company which is committed to ensuring that all our employees can feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, religion or belief and sexual orientation or background.

Employees believe in treating each other fairly, with dignity and respect, and in creating an environment where every individual is given equal access to opportunities to fully develop to their potential. In line with our values, we listen, respect one another's opinions, and promote an inclusive culture for all staff. We work co-operatively with our colleagues, whilst recognising their different strengths and abilities. In our behaviour, we are trustworthy and honest and we are transparent and respectful of one another and each other's opinions.

The Group is committed to:

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

Through our Diversity and Inclusion Committee the aim is to lead, guide and support the Group's diversity and inclusion agenda to help create an environment and embed practices that support equal access to opportunities for professional growth and advancement. A summary of key areas of focus can be seen below:

- <u>Diversity Recruitment</u>- The Group has started to roll out three new initiatives in support of the Diversity and Inclusion agenda with the aim of ensuring a fair and inclusive selection process and helping the Group widen the pool of talent. The Group has engaged with a talent acquisition company, Diverse Jobs Matter, which is led by experienced professionals with over 20 years' experience in this area. They work in supporting all underrepresented groups in the UK and they have a vacancies platform for employers committed to improving diversity and inclusion in their hiring process. In July 2021, recruiting managers attended an Inclusivity training programme which was aimed at increasing awareness and reducing bias. In September 2021, a trial project was set up to anonymise applications by removing the names of candidates from their CVs. This has been well received by hiring managers.

- <u>Diversity and Inclusion Training-</u> As part of our commitment to further increase our diversity and nurture our inclusive culture, a training plan for all employees and Bank's Board members has been initiated. The aim of the plan is to ensure that there is a targeted and thorough programme of education across all levels of the Group. It focuses on a blend of external experts, online videos, eLearning and Human Resource training. In 2021, the Group held an Inclusive Leadership session which covered unconscious bias, the concept of "fit" at the Group and the role of the senior leader in creating inclusion and belonging within the culture.

- Wellbeing - We continue to offer a comprehensive range of workshops and events that help promote the health and wellbeing of our employees. Additionally we offer an Employee Assistance Programme, which provides the Group's employees and their families with support when it is needed. There is also an online health portal that includes access to many useful health and wellbeing resources, including specific 4 week plans to help improve health and wellbeing.

- Smart Futures programme - As part of the Group's sponsorship of the Smart Futures programme, the Group sponsored 4 young individuals in a mentoring programme. The purpose of the programme is to access a diverse pool of young talent from deprived backgrounds, to increase social mobility and to increase the awareness of banking careers amongst participants. It gave the students the chance to get an insight into ethical lending, responsible borrowing and the pros and cons of lending. Feedback from the students was excellent and they all felt that they had been very welcomed and supported by staff at UTB.

- International Awareness and Culture Days- We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us. This lead to the decision for the Group to celebrate by rolling out a series of culture days and international festivals including International Women's Day and Black History month. We hope this will continue to give all of our colleagues the chance to take part in improving and celebrating different ethnicity and backgrounds across the Group.

- Gender Pay Gap- One way in which we review our progress on improving gender balance across the Bank is our focus on reducing our gender pay gap. We plan to start publishing gender pay gap results on our website in 2022.

- Senior Management- We also consider diversity within our senior management where we value different skills, experience, background, race and gender. When filling senior management positions, we ensure that we follow a rigorous selection process, as we do for all our recruitment. This is based on closing any identified skills gaps or areas where we anticipate additional expertise would be beneficial to support the Group's plans, as well as aiming to complement and expand the skills, knowledge and experience of the senior management team as a whole.

- Reverse Mentoring- An initial reverse mentoring scheme has been set to go live for 2022. In this reverse mentoring scheme, a junior member of the Group will enter into a mentoring partnership with a more senior member of staff where they will exchange skills, knowledge and understanding. Reverse mentoring can play an important role in bridging the gap between the generations currently in the workforce. We also hope that the scheme will provide our senior leadership with valuable insights into the real-life experiences of our minority ethnic colleagues.

Employees

Our employees are key to the Group's continued success and we place great emphasis on recognising and valuing their contributions, including the knowledge they share and the consistently high levels of service they strive to deliver to all of our stakeholders. We continue to promote the Group's values and were pleased to present six employees with individual value awards for the year. Winners of these awards are voted for by colleagues as people whose behaviour exemplifies the Group's values.

Maintaining and promoting the Group's culture and values underpins how the Group conducts its business and interacts with customers, brokers, regulators, advisors and staff. The values are embedded in staff training and performance appraisals and the recognition of exemplary employees. Assessing cultural fit is a key aspect of the recruitment process. We intend to maintain an appropriate mix of employees, with front line customer facing staff supported by appropriate systems and appropriately staffed control and oversight functions. The Board and management recognise the importance of leading by example.

Staff numbers reached 308, a 15% increase on 2020, with new staff joining across all areas of the Group, including senior management, operations and control functions, to ensure a balanced control culture is maintained as the Group grows. The Group is an equal opportunities employer and employs staff from a diverse range of backgrounds. Pay is set in line with the market and a comprehensive package of benefits is offered, including a contributory pension scheme, private healthcare, life and disability insurance, wellbeing support and flexible working where this can be accommodated. We support staff development through training and development programmes and an employee run sports and social committee, which arranges a number of events each year to enhance staff engagement.

Customers

The impact of the pandemic has created an incredibly challenging environment for our customers and clients. We continue to support them as they navigate these difficult times. We also continue to develop and provide new technology, processes and products to ensure that the Group maintains its high levels of service and care. The Group has participated in a variety of Government backed loan schemes to support its customers. These include the CBILS scheme and Recovery Loans Scheme, which aim to aid economic recovery and improve the terms on offer to borrowers where they have been impacted by the pandemic. Additionally, during the pandemic, the Group provided a broad range of forbearance offers and other measures to ensure that the Group's customers and clients felt supported.

The way we work operationally has also been enhanced to ensure more staff are to provide customer support while they are working remotely.

Industry awards received have continued through 2021, and once again, the efforts of staff have been recognised, by winning 18 awards across many of our business lines:

- BDM of the Year - Paul Delmonte - Crystal Ball Specialist Finance Awards 2021
- Best Secured Loan Provider - Money facts Awards 2021
- Development Lender of the Year - Specialist Finance Introducer (SFI) Awards 2021

- Secured Loan Lender of the Year - Specialist Finance Introducer (SFI) Awards 2021
- Best Product Innovation (Fast Track) - Specialist Finance Introducer (SFI) Awards 2021
- Best Second Charge Mortgage Lender - Financial Reporter Awards 2021
- Best short term lender - Financial Reporter Awards 2021
- Best Second Charge Lender - Mortgage Strategy Awards 2021
- Best Regulated Bridging Lender - B&C Awards 2021
- Best Specialist Bank award - B&C Awards 2021
- Outstanding UK Bank-Owned Lessor - Leasing World Gold Awards 2021
- Contribution to Industry Award - Leasing World Gold Awards 2021
- Business Leader Bridging Award - British Specialists Lending Awards 2021
- Lifetime Achievement Award - Asset Finance Connect conference & awards
- British Specialist Lending second Award- British Specialist Lending Awards
- Secured Loan Lender of the Year - Mortgage Introducer Awards 2021
- Lifetime Achievement Award - Mortgage Introducer Awards 2021
- Best Credit Team (Asset Finance) - Asset Finance Solutions Meet the Funder awards

SECTION 172

Matters considered when promoting the success of the Group

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

UTB Partners has developed into a successful and profitable business, whose success is driven by focus on core values, a clear strategy and efforts to consider our stakeholders' interests throughout our decision making process. In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. We then provide examples of key decisions we have made in the year, describing how we considered stakeholders in these decisions and how the decisions will add long-term value.

Stakeholder engagement

We recognise and promote the importance of respectful business relationships with our stakeholders across all of our business lines, and we are committed to engaging with them to ensure we maintain long-term relationships and add long lasting value to the wider community in which we operate. Below we give examples of stakeholder engagement:

- Employees: The Group had 308 employees as at 31 December. We are lucky to have a workforce who we can place a great deal of faith in. The directors recognise how they help drive the success of our business through their high levels of expertise, passion and strong relationships with our customers, brokers and other external stakeholders. The directors understand the importance of regular engagement with our employees to ensure the Group attracts, builds and retains a diverse and high calibre talent pool and maintains the high levels of employee motivation for the work and for the Group. Additionally, we have continued to focus on training and development programmes for employees to help them reach their full potential. The Group ensures engagement with our employees takes place daily through line managers, appraisal process, with senior management team-led Town Halls and other business forums. We also engage with our employees through anonymous employee opinion surveys, where the results allow us to analyse what is working well and to identify areas needing improvement to ensure continued commitment of the success of the Group.

- Customers: Customers remain at the heart of our business. We have a customer focused strategy, purpose and values, which are shown through our continuous interaction via regular meetings or customer feedback programmes. We continue to focus on a responsive service with solutions that are flexible, responsive and executed with speed by continually adapting to our customers' needs by investing in technology and our people.

- Brokers: The intermediaries we operate with are crucial to the success of the business and we understand the importance of maintaining strong lines of communication with our brokers and other suppliers. Staff engage with our brokers regularly throughout the year and feedback is continuously communicated to the directors through monthly departmental review meetings, so that we can support our brokers and their needs, help them understand the products and services offered by the Group and help them drive growth and success across the business lines. This year we have particularly focused on continuing to streamline our broker experience, leading to faster and self-service lending decisions, as well as improving our business development staff and sales contact experience through the introduction of a new customer relationship management system.

- Regulators: It is within the Group's culture to promote high standards of compliance and conduct within the Group and with external parties. In particular, safety, soundness and adherence to all relevant aspects of regulation is key to the Group's business model. The directors and staff maintain awareness of this through engagement with regulators, industry bodies and specialist advisors. This engagement is maintained through regulatory seminars, online forums and round table events. This has allowed us to stay on top of the increasing regulatory requirements and ensure we operate to the standard required.

Key decisions

Our strategy is focused on the long term, to operate and grow sustainable business in segments of the market that are under served by the large banks. The Group is privately owned and not subject to the distractions of short term share price fluctuations of the public markets. We make careful decisions to maintain strategic focus, control costs, invest and ensure sufficient capital and liquidity is held. All of the decisions we make consider the regulatory context and the full range of stakeholders mentioned previously.

- Covid-19 response: Covid-19 continued to present challenges for colleagues, customers and clients this year and our priority has been to ensure that the Group has remained in a position in which it can continue to support its employees and customers. The UK began to slowly open up mid-year and we moved to operating on a hybrid working model, being a combination of remote working and working from home. As restrictions increased again in December, more staff reverted back to working from home. We remain vigilant on the effects of the pandemic. The Group's management continues to monitor Government updates and guidance. The Management Committee, Board and the regulators have been kept informed of the impact of the pandemic and the Group's response to it.

- Employee support: Looking after the safety and wellbeing of our employees and ensuring their continued engagement has always been our priority and this has been made more relevant and important since the start of the Covid-19 pandemic. We have made sure to prioritise the impact of Covid-19 on our employees by being on top of our response to lockdowns, hybrid working, reviewing wellbeing issues and the discussion of employee opinion surveys.

- Customer and broker support: In 2021 we have continued to maintain regular contact with our customers and brokers and increased their options for interaction with us, while our systems have ensured speed and simplicity in response to their needs. We continue to support them through the ongoing impact of Covid-19.

- Audit Tender: Due to audit independence requirements, Deloitte, the incumbent auditor of the Group is nearing the end of their allowed tenure and the directors decided to run a tender process to identify a replacement. PwC have been selected as the Group's new auditors, and their first audit will be of the year ending 31 December 2022.

SECTION 172 (CONTINUED)

- <u>B-Shares:</u> During the year, all of the Company's B Ordinary Shares in issue automatically converted into Ordinary Shares of the Company. The B Ordinary Share class has been cancelled and the Articles updated accordingly.

- <u>Consolidated supervision:</u> With effect from January 2021 the Group became subject to consolidated supervision by the PRA. The Company has delegated the day to day management of a number of relevant matters to the Bank, as the Bank is the regulated entity within the Group and therefore has appropriate governance structures in place to manage such matters.

- <u>Employee Benefit Trust Contribution:</u> As reported in 2019, an Employee Benefit Trust ("EBT") was established to provide for the obligations of the Group under its Long Term Incentive Plan ("LTIP") whose purpose is to reward employees for their contribution to the Group, while ensuring that the interests of key employees are aligned with the interests of shareholders. During the year, the EBT acquired a number of shares in the Company. Some of these shares were used to satisfy the exercise of options granted under the LTIP scheme. In order for the EBT to acquire those shares, it was funded by way of a non-repayable contribution of £12m from the Company. The Bank paid a dividend of £12m to the Company during the year.

- <u>Board changes</u> – In the year Graham Davin retired from his position as Executive Director and was appointed as Non-Executive Deputy Chair of the Company.

In closing, once again I thank our Board, staff, customers and brokers for all their support through the year and look forward to working together in the coming years.

Harley Kagan
Chief Executive Officer
28 February 2022

CORPORATE GOVERNANCE REPORT

UTB Partners Limited is a holding company with the sole purpose of managing its wholly owned subsidiaries United Trust Bank Limited and SOS Intelligence Limited. The Company is unlisted and therefore the UK Corporate Governance Code (2019) does not apply. The Board has sought to comply with a number of the provisions of the UK Corporate Governance Code in so far as it considers them to be appropriate to the Group given its size and nature. The Board is made up of shareholders, management of the Bank and independent directors.

DIRECTORS' REPORT

The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 December 2021.

Principal activities

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

During 2020 the Group established SOS Intelligence Limited to commercialise proprietary cyber threat intelligence technology developed by the Bank's technology team. SOS Intelligence scans elements of the Internet and Dark Web for leaked data, in close to real time, and employs customisable notification methods. Flexible plans are offered to businesses, individuals, private and public organisations as well as via our white-label service, which enables commercial partners to resell the SOS Intelligence service to their existing clients. Modest start-up costs were incurred in 2020 and trading began in January 2021. SOS's results are currently immaterial to the Group.

Directors

Noel Meredith resigned as Executive Director on 31 March 2021 from the Company's Board. A full list of the Group's directors can be found on page 2.

Dividend

No dividend has been paid or been declared during the year and up to the date of this report.

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. Deloitte LLP will not continue as the Group's auditors and will be replaced by PricewaterhouseCoopers LLP who were appointed in February 2022.

CORPORATE GOVERNANCE REPORT (CONTINUED)
DIRECTORS' REPORT (CONTINUED)

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.

Directors' indemnities

The Articles provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of any liability incurred for negligence, default, breach of duty or breach of trust in relation the affairs of the Company. Directors' and officers' liability insurance cover is in place in respect of all directors.

Future developments

Likely future developments have been covered in the Strategic Report on page 3 to 22.

Financial risk management

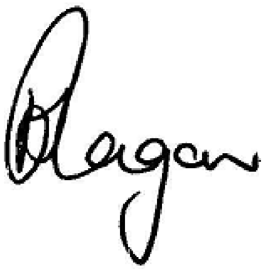
The disclosures required to be included in the Directors' Report in respect of the Group's exposure to financial risk and its financial risk management policies are given in note 28 to the accounts.

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

Events after the date of the Statement of Financial Position

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

Approved by the Board and signed on its behalf by:



Harley Kagan
Chief Executive Officer
28 February 2022

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.

RISK MANAGEMENT REPORT

APPROACH TO RISK MANAGEMENT

The Group's risk appetite and approach to risk management
The Bank's Board sets out the overall level and types of risk that it is willing to accept in order to fulfil its strategic objectives in a comprehensive risk appetite statement. The Group creates value by assuming risk and, as part of its annual strategic review process, the Board considers its key objectives and defines how much risk the Group is willing to accept. The Bank's Board and management monitor and review risk appetite throughout the year in the context of emerging risks and changes in the external environment. For example, during 2021, the evolution of the Covid-19 pandemic and the public policy response was a key consideration.

Practical implementation of the Group's risk appetite is achieved via a risk management framework and suite of policies. The independent risk management function controls and monitors compliance with appetite and policies.

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

Risk management framework

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

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

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

The Group's risk management framework was comprehensively reviewed in 2020, and during 2021 the framework and underlying policies were further enhanced and strengthened. The risk management framework provides an enterprise-wide view of UTB's approach to risk management, setting out how risk information is used within the Group's decision-making and the risk management strategy, risk appetite, risk culture and risk governance. The framework supports business activities through continuous monitoring and management against the Board's defined risk appetite.

Risk Culture

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

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

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

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

The Group's risk culture is evident in:

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

UTB has well-defined values which are communicated to all staff and their importance is emphasised and reinforced through coaching, training and performance objectives. All colleagues are aware of the need for sound risk management and their part in it and they are encouraged to identify, address and report risk incidents promptly.

Management analyse historical incidents in order to draw conclusions, promote and share good practice and learn lessons from poor practice, "near miss" incidents and actual errors.

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

Risk Governance

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

Any material breaches of the Group's risk management policies, controls and procedures are reported to the Risk Committee and Board, and Audit Committee where appropriate. The Audit Committee is assisted by Internal Audit, which undertakes regular and ad-hoc reviews of risk management controls and procedures.

Three lines of defence

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

<u>First line of defence</u>

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

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

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

<u>Second line of defence</u>

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

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

APPROACH TO RISK MANAGEMENT (CONTINUED)

The second line of defence also performs stress testing to assess the Group's risk exposures and their potential impact under a range of adverse scenarios. The main functions of the second line of defence are in relation to financial, capital, credit, liquidity, interest rate, operational, conduct and compliance risk. The Compliance Director, the Head of Credit and the Prudential Risk Manager report to the Chief Risk Officer who reports to the Chief Executive Officer and the Chair of the Risk Committee. UTB employs an experienced team of risk management specialists in each department within the risk management function.

The risk management function does not have volume or sales targets and works proactively with business units to identify, challenge, measure, manage, monitor and report the risks arising within the business.

Third line of defence

The third line of defence comprises the independent internal audit function, which provides independent assurance on adherence with and effectiveness of policies and controls in the first and second lines. Internal audit is overseen by the Audit Committee and the Head of Internal Audit reports to the non-executive Chair of the Audit Committee and the Chief Executive Officer.

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

Scenario Analysis and Stress testing

The Group takes a forward-looking view of strategic, capital and liquidity planning as part of its Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP") and Recovery Plan. Sensitivity analysis, scenario analysis and reverse stress testing are used in these processes.

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

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

Risk Management Strategy

The purpose of the risk management strategy is to:

- identify key and emerging risks;
- set the Group's risk appetite and ensure that business plans are consistent with it;
- take risk-informed decisions within the defined risk appetite;
- ensure that the risk appetite and business plans are supported by effective risk controls, technology, and people capabilities;
- monitor and report the level of key risks against the defined risk appetite;
- manage the Group's risk profile to ensure that the business strategy can withstand a range of adverse conditions identified in stress testing;
- manage risk within the business units with effective independent oversight;

APPROACH TO RISK MANAGEMENT (CONTINUED)

- ensure a sound risk control environment and risk-aware culture; and
- inform the Group's compensation practices to reward only prudent risk taking within the risk appetite.

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

Key risks and uncertainties

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

Details of the key risks, their mitigation and changes in risk profile during 2021 are provided below:

Business performance and strategic risk

The risk arising from changes in the business environment, UTB's business model and improper implementation of the Group's strategy and business decisions
Mitigation • Well established planning, budgeting and stress testing processes • Regular reporting of performance against budget • Monitoring of economic metrics, developments, industries and economic outlook • Annual review and update of the business plan • Regular assessment of risks inherent in strategic decisions
Update on risk profile in 2021 The Group continued to achieve its strategic and business objectives but within an external environment of continuing heightened risk.

RISKS AND UNCERTAINTIES (CONTINUED)

2021 began in an environment heavily influenced by two key developments in December 2020:

1. The UK Government re-introduced a number of restrictions on movement and activity in response to an increase in Covid-19 infections. This drove a reduction in UK economic activity in Q1, with the impact spread unevenly across different sectors of the economy.
2. The EU-UK Trade & Co-operation Agreement was signed at the end of the one-year transition period following the UK's departure from the EU. This removed the threat of a disruptive "no-deal" exit from the EU, although a number of key areas of the economy, such as services, are not covered by the agreement.

A number of government support schemes were extended during 2021, including the Coronavirus Business Interruption Scheme ("CBILS"), the Coronavirus Job Retention Scheme and stamp duty concessions on residential purchases. Government support schemes, accommodative monetary policy and an imbalance between supply and demand in the housing market has led to strongly rising house prices since mid-2020

UTB's strategic plan was therefore implemented in an environment which supported strong loan originations. This was enhanced by the progressive removal of restrictive credit policy settings introduced at the start of the pandemic. However, the same external factors also contributed to higher than forecast loan repayment levels in the 's property portfolios during the first half of the year.

Net loan book growth during 2021 has consequently been skewed away from the Group's property lending units (Bridging, Structured and Development Finance) and towards the asset finance and consumer lending divisions (Mortgages and Asset Finance). This is the opposite of the pattern seen during much of 2020, although in alignment with the Group's overall strategic plans. During the latter half of 2021, supply chain issues have become more evident, reflecting global trends as economic activity recovers and contributing to increased inflationary pressures.

The growth in the lending portfolio has been funded within strategy by a corresponding growth in deposit balances and drawings from the TFSME scheme. The Deposits business unit continues to benefit from more efficient processes and closely co-ordinates deposit-raising activities with lending unit cashflow projections.

In early 2021, UTB took a strategic decision to discontinue originations in Motor Finance. The small remaining Motor Finance portfolio, which stands at £4.1m, is now in run-off.

The risk of cyber-attacks on businesses has increased during the pandemic, partly because of the increase in remote working, and UTB has continued to enhance its cyber defences.

As the economy recovers from the initial impact of the pandemic, skilled labour shortages have become apparent, including in financial services. Staff retention and recruitment is therefore considered an increasing risk for the Group.

Capital risk

The risk of having insufficient capital to meet regulatory requirements and to support the Group's business plan

Mitigation

- The Group maintains a prudent capital base and has a consistent record of profitability
- Regular stress testing and forward looking management of capital requirements
- Annual assessment of capital adequacy through the ICAAP process
- Maintenance of prudent levels of capital buffers
- Active monitoring of changing regulatory requirements

Update on risk profile in 2021

The Group continued to maintain a prudent level and mix of capital resources

UTB maintained its capital ratios in excess of regulatory requirements throughout 2021. At 31 December 2021, the CET1 ratio was 12.7% (2020: 11.4%) and the total capital ratio was 16.3% (2020: 15.4%).

The Bank paid a total of £12m of dividends during 2021. £4m of Tier 2 capital was redeemed, as planned, at the end of October 2021. The conversion of the B Ordinary Share to Ordinary Shares during the year added £10m of regulatory CET1 to the Group.

The Group used a number of government-backed lending schemes during 2021, including the Coronavirus Business Interruption Scheme (CBILS), the Recovery Loan Scheme (RLS) and the Enable Guarantee scheme. These schemes all provide the Group with a capital benefit.

The Bank of England has announced that the counter-cyclical buffer will return to 1% in December 2022, having been reduced to 0% in March 2020. This will increase to 2% in the next 12 months.

Liquidity and funding risk

The risk of the Group being unable to meet its obligations as they fall due or do so only at excessive cost.

Mitigation

- The Group is funded through the stable retail deposit market, with most deposits covered by the Financial Services Compensation Scheme, and the TFSME scheme.
- Regular liquidity scenario analysis and stress testing performed and forward looking management of liquidity requirements
- Annual assessment of liquidity adequacy through the ILAAP process. The Group manages its liquidity in alignment with internal and regulatory requirements
- Maintenance of prudent levels of liquidity
- Established policies and detailed limits to manage liquidity risks
- Diverse funding profile
- Limited wholesale funding (TFSME and capital instruments)
- Access to the Discount Window Facility

- The Bank's Board approves UTB's liquidity risk management strategy and ALCO meets at least monthly to review liquidity risk in comparison with appetite and early warning indicators
- Liquidity metrics are monitored daily by Treasury and the Group's senior management

Update on risk profile in 2021

The Group maintained a stable funding base and prudent levels of liquidity.

UTB's liquidity position continued to be well managed during 2021 and the liquidity cover ratio remained within normal levels. We experienced strong repayments during the first half of 2021, mainly driven by the buoyant housing market, and although there was strong growth in the level of committed loans, a slowdown in the drawdown of these loans combined with the high repayment levels resulted in higher than expected liquidity at times.

In March 2020, in response to the Covid-19 pandemic, the Bank of England ("BoE") launched the Term Funding Scheme with additional incentives for SMEs ("TFSME"). Participation in the TFSME requires UTB to preposition collateral with the BoE in order to draw funds from the scheme. The end date for drawing from the scheme was extended during 2021 to 31 October 2021. Drawings are for 4 years.

During 2021, the Group made plans to increase the funding available from the TFSME by utilising the current Asset Finance collateral and adding the growing portfolio of first charge mortgages as collateral. The process of placing the Mortgage collateral is ongoing. In the interim, UTB drew additional TFSME funding by using UK Government debt as collateral. In order to accomplish this, UTB purchased £221m of Gilts and Bills. In time, it is planned that the Group's full drawing under the TFSME is expected to be fully collateralised by the Asset Finance and First Charge Mortgage Books.

Credit risk

The risk of financial loss from borrowers who are unable or unwilling to meet their financial obligations in full when due (including concentration risk to groups of borrowers, industry sectors or geographic regions).

Mitigation

- The Group operates in markets of which it has a good understanding and significant expertise
- Established policies and procedures that are regularly reviewed and updated
- Diversified and fully secured exposures
- Well defined risk-based delegated underwriting authorities
- Verified borrower credit worthiness and track record
- Regular review of portfolio performance and risk appetite
- Forward looking assessment of market dynamics
- Conservative lending criteria expressed through credit risk rating scores
- Established detailed limits to manage exposures including concentration risks

Update on risk profile in 2021

The disruption caused by the Covid-19 pandemic on the external market continued during 2021, although the nature of the disruption and risks evolved during the course of the year. Government support schemes and a strong housing market supported growth and credit quality in much of the Group's portfolio. Supply chain challenges and rising inflation have emerged as increasing risks during the second half of the year.

Tail risk for the whole portfolio (i.e. higher risk credit exposures) is one of UTB's key credit risk metrics. It has remained well within the Group's appetite throughout the year.

Loan loss provision charges decreased during 2021, with a total provisions charge of £6.5m for the year ended 31 December 2021, compared with £13.5m in 2020. The charge was mainly the result of a small number of specific provisions on historic exposures in Development Finance, and one larger exposure in the Asset Finance portfolio.

Credit Policy parameters were tightened across all lending types at the end of March 2020 in response to the Covid-19 pandemic, with further restrictions placed on lending appetite in May 2020. During 2021, these more restrictive policy and appetite parameters have been progressively removed, with credit policy settings largely returned to pre-Covid-19 levels.

High levels of loan repayments during the first half of 2021 constrained loan book growth, notwithstanding strong originations. Growth resumed in the second half of the year and UTB's loan balances increased by £162m in the year to £1.8bn.

Market Risk

For UTB Market Risk is primarily limited to interest rate risk, namely the potential adverse impact arising from interest rate changes and the use of different reference rates for pricing assets and liabilities.

Mitigation

- Regular ALCO meetings to review the structure of the balance sheet and the results of interest rate stress testing
- Management of interest rate risk through careful management of the repricing profile of assets and liabilities
- Management of basis risk through the management of the structure of the balance sheet

Update on risk profile in 2021

UTB has no material exposure to foreign currencies or to foreign exchange risk.

The Bank's Board approved an increased risk appetite for interest rate risk during 2021, primarily to accommodate the effect of the increased use of the TFSME scheme, discussed in the Liquidity and Funding risk section above, which is floating rate funding.

The Group is reviewing the feasibility of using swaps as an additional tool to manage interest rate risk, particularly given the increasing size of the Group's balance sheet. However, swaps have not been used to date.

Operational Risk

The risk of loss arising from inadequate or failed processes, people and systems or from external events.

Mitigation

- Established policies and procedures that are regularly reviewed and updated
- Experienced staff employed
- Formal and on the job training provided
- Ongoing Risk Control Self-Assessment process to ensure that risks are identified and managed effectively
- Independent assurance testing
- Regular risk incident reporting
- Specialist cyber risk tools deployed across the Group
- Phishing and cyber training provided to all staff
- Established and tested Disaster Recovery and Business Continuity Plan arrangements

Update on risk profile in 2021

Inherent operational risk is considered to have remained heightened during 2021 given the ongoing impact of the Covid-19 pandemic on operational processes and an external environment in which cyber-risk is elevated. UTB's residual operational risk has remained well-controlled and within risk appetite. The Group continues to be vigilant and closely monitors threats of cybercrime, using a suite of both preventative and detective measures.

In March 2021 the PRA published SS1/21 ("Operational resilience: Impact tolerances for important business services") and SS2/21 ("Outsourcing and third party risk management"). UTB has identified its important business services, mapped processes, systems, people and outsourcing vulnerabilities and provisionally set impact tolerances in accordance with SS1/21. In addition, a comprehensive review of third party suppliers was carried out and an outsourcing register created during 2021, in accordance with SS2/21.

During 2021, work has been ongoing to embed operational resilience into first line business units. Governance of operational management has been consolidated during 2021, with the appointment of a Chief Technology Officer to whom the heads of IT, Business Transformation and Change all report. The Risk division provides second line oversight of operations and key change projects. Testing of operational controls continued in 2021 and Compliance Monitoring Reviews incorporate an element of operational control testing.

The Change Management Committee, chaired by the Chief Technology Officer, was created in 2021 to ensure consistent governance and prioritisation of key change projects.

Conduct and compliance risk

The risk of financial loss, regulatory sanctions, or loss of reputation as a result of failure to comply with applicable laws and regulations and standards of good practice, including the risk of poor outcomes for customers.
Mitigation • Regular monitoring of risks by the Compliance Committee • Effective horizon scanning process to identify regulatory change • Straight forward and uncomplicated products • Regular monitoring of customer outcomes through assurance testing and compliance reviews • Regular culture and conduct risk reporting • Regular staff training provided • Established processes for anti-money laundering, sanctions and fraud checking at relationship inception and in-life • Established Data Protection Framework
Update on risk profile in 2021 The Group continues to offer straightforward and uncomplicated products and to conduct regular monitoring of customer outcomes. Staff awareness training is regularly updated in key areas of conduct and compliance, including anti-money laundering, data protection and conduct. As such, conduct and compliance risk is assessed as stable. The Group has implemented change in the following areas during 2021 in response to regulatory consultation, guidance and policy statements: • Payment Deferral Guidance • Vulnerability Guidance • CRD V Remuneration (Material Risk Takers) • Breathing Space Legislation • CCA Default Amendments In addition, during 2021, the Risk division reviewed a number of regulatory consultation and discussion papers, in anticipation that these could be followed by regulatory change during 2022, and co-ordinated the Group's response to a number of routine Information Requests from the FCA which were not specific to UTB

EMERGING RISKS

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

Covid-19

The Covid-19 pandemic continued to evolve during 2021. Notwithstanding the success of vaccination programmes and other public health measures, the uncertain future evolution of the pandemic, including the emergence of new, vaccine-resistant strains of the virus, means that this will remain a source of risk and uncertainty in 2022.

The domestic and global economies have been supported by significant government intervention during 2020 and 2021. The risk to economic growth as support is unwound, together with the more limited financial capacity of governments to repeat intervention on this scale, brings an additional level of uncertainty to growth prospects in 2022. This is particularly the case should a further wave of infections drive further social and economic restrictions or generate greater caution on the part of businesses and consumers.

Supply chains: materials and labour

During 2021, a number of factors contributed to supply chain bottlenecks and shortages. A key driver was the re-emergence of demand following the first phase of the Covid-19 pandemic. The ongoing disruption to global supply chains due to social and economic restrictions; and bottlenecks in global transport systems, especially container shipping and UK road haulage, created materials shortages and price increases for many of UTB's customers. In particular, this affected supplies and prices of raw materials and finished goods used in the construction sector and the supply of equipment such as vehicles. This had a consequent impact in terms of prices and delays on UTB business divisions such as Property Development and Asset Finance. A degree of disruption in materials supply chains is expected to continue during 2022.

Labour markets have also been affected by the pandemic, as well as by UK-specific factors such as the UK's departure from the EU. A number of UTB's borrowers have experienced difficulties in recruiting certain categories of skilled labour, with consequent effects on business performance, timely completion of projects and costs. The financial services sector has also experienced skills shortages and consequent wage inflation, which may affect UTB more directly. Skilled labour supply constraints are expected to be of longer duration than disruptions to materials supply chains, bringing a level of medium term uncertainty for business planning.

Inflation and interest rates

The supply chain factors noted above have contributed to rising rates of CPI inflation. As well as the direct impact on the Group's customers, sustained increases in inflation are likely to drive higher interest rates. The Bank of England raised its Base Rate by 15 basis points in December 2021 and a further 25 basis points in February 2022. The Monetary Policy Committee has indicated that it will continue to monitor and respond to evidence of sustained underlying inflationary pressures. The flow-on effect on prices across a range of asset classes, including, most significantly for UTB, residential property prices, is a key horizon risk in 2022.

International trade and geo-political tensions

At the end of 2021, there are several potential global flash points for military confrontation which could have ramifications beyond the immediate conflict zone. Should such a conflict occur, the economic effect on global supply chains, asset prices and other indicators could be significant, amplified by the ongoing impact of the Covid-19 pandemic.

International trade tensions are also a prospective risk in 2022. For the UK, the implications of the UK's departure from the EU are still emerging and potential disruption to domestic supply chains and labour markets is expected to remain an elevated risk.

Cyber crime

The Group may be subject to cyber incidents and the external threat and likelihood of such incidents is considered to have increased during 2020 and 2021, partly because of the changes to working practices and technology use during the Covid-19 pandemic. A successful cyber-attack on the Group would potentially disrupt customer service levels and cause reputational damage. The Group continues to evolve and strengthen its cyber defences and operational resilience, in addition to raising staff awareness of the risk.

Climate change

Climate change risks include the financial, operational and reputational risks arising due to climate and weather-related events and the political and social response to this threat. During 2021, the Group established a Climate Change committee to oversee analysis and assessment of the risks posed to the Group. As part of this assessment, the Group conducted scenario analysis, considering physical and transitional climate change risk and aligned to scenarios proposed by the Bank of England and by the NGFS (Network of Central Banks and Supervisors for Greening the Financial System). This analysis concluded that while climate change should be reflected in UTB's approach to risk management and strategy as an emerging risk, it is not a material prudential risk for the Group in the near term. UTB has also established a project to begin capturing climate change-related data at customer level to improve progressively the Group's awareness and risk management of climate change risk in the lending portfolio.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UTB PARTNERS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of UTB Partners Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UTB PARTNERS LIMITED (CONTINUED)

Conclusions relating to going concern (continued)

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UTB PARTNERS LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and compliance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, the Prudential Regulation Authority Rulebook, FCA standards and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures to address it are described below:

- Individual loan impairment and provisioning is one of the most significant estimates made in preparing the financial statements. Our audit procedures included reviewing, on a case by case basis, impaired loans to assess the reasonableness of management's assumptions, including an assessment of underlying security valuations where relevant and challenging other evidence supporting the forecast recoverability.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UTB PARTNERS LIMITED (CONTINUED)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and internal audit concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UTB PARTNERS LIMITED (CONTINUED)

Use of our report

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

Ben Jackson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
28 February 2022

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		£'000	£'000
Interest receivable and similar income	2	119,015	105,322
Interest payable and similar charges		(23,857)	(26,271)
Net interest income		95,158	79,051
Other income		9	3
Operating income		95,167	79,054
Administrative expenses	3	(43,585)	(34,295)
Depreciation and amortisation	5	(765)	(678)
Provision for impairment losses	10	(6,455)	(13,465)
Operating profit on ordinary activities before tax		44,362	30,616
Tax charge for the year	6	(9,020)	(5,769)
Profit after tax retained for the financial year		35,342	24,847

The above results are derived wholly from continuing operations. The notes on pages 50 to 81 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	£'000	£'000
Profit for the financial year	35,342	24,847
Other comprehensive income	-	-
Total comprehensive income	35,342	24,847
Attributable to:		
Equity shareholders of the company	33,516	22,999
Non-controlling interest	1,826	1,848
	35,342	24,847

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Assets			
Loans and advances to central banks	8	181,074	151,160
Loans and advances to other banks	8	24,873	54,304
Loans and advances to customers	9	1,808,607	1,646,322
Debt Securities	12	221,816	-
Tangible fixed assets	13	552	667
Intangible assets	14	3,296	3,080
Other assets	15	15,157	12,541
Total assets		**2,255,375**	**1,868,074**
Liabilities			
Deposits from customers	16	1,715,596	1,601,361
Loans from banks	16	300,079	50,013
Other liabilities	17	12,344	8,786
Long term subordinated debt	19	29,256	33,241
		2,057,275	**1,693,401**
Compulsory convertible B ordinary Shares			
Compulsory convertible B ordinary Shares	20	-	10,000
		-	**10,000**
Capital and reserves			
Called up share capital	21	5,009	4,897
Share premium		31,947	22,059
Retained earnings		156,282	126,466
Other reserves		3,350	2,589
Own shares	32	(15,339)	(8,189)
Shareholders' funds		**181,249**	**147,822**
Non-controlling interest	22	16,851	16,851
Total capital and reserves		**198,100**	**164,673**
Total equity and liabilities		**2,255,375**	**1,868,074**
Memorandum items:			
Guarantees and assets pledged as security		77	77
Commitments	23	627,103	488,683

The notes on pages 50 to 81 form an integral part of these financial statements. The financial statements of UTB Partners Limited were approved by the Board of Directors and authorised for issue on 28 February 2022. They were signed on its behalf by:

Harley Kagan
Director
28 February 2022

Jonathan Ayres
Director
28 February 2022

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Assets			
Loans and advances to banks		1,279	130
Investments – shares in group undertakings	11	37,589	37,589
Due from subsidiary companies		1,259	556
Total assets		**40,127**	**38,275**
Liabilities			
Other liabilities	17	-	28
		-	**28**
Compulsory convertible B ordinary shares			
Compulsory convertible B ordinary shares	20	-	10,000
		-	**10,000**
Capital and reserves			
Called up share capital	21	5,009	4,897
Share premium		31,947	22,059
Own shares	32	(15,339)	(8,189)
Other reserves		3,350	2,589
Retained earnings		15,160	6,891
Total capital and reserves		**40,127**	**28,247**
Total equity and liabilities		**40,127**	**38,275**

The profit after tax for the year for UTB Partners Limited was £11,969k (2020: Loss: £42k).

The notes on pages 50 to 81 form an integral part of these financial statements.

The financial statements of UTB Partners Limited were approved by the Board of Directors and authorised for issue on 28 February 2022. They were signed on its behalf by:

Harley Kagan
Director
28 February 2022

Jonathan Ayres
Director
28 February 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Share premium	Other reserves	Retained earnings	Own shares	Total	Non – Controlling Interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2019	**4,897**	**22,059**	**2,230**	**103,467**	**(8,189)**	**124,464**	**16,851**	**141,315**
Profit for the financial year	-	-	-	22,999	-	**22,999**	1,848	**24,847**
Share based payments	-	-	359	-	-	**359**	-	**359**
Interest paid on contingent convertible securities	-	-	-	-	-	**-**	(1,848)	**(1,848)**
At 31 December 2020	**4,897**	**22,059**	**2,589**	**126,466**	**(8,189)**	**147,822**	**16,851**	**164,673**
Profit for the financial year	-	-	-	33,516	-	**33,516**	1,826	**35,342**
Share based payments	-	-	761	-	-	**761**	-	**761**
Interest paid on contingent convertible securities	-	-	-	-	-	**-**	(1,826)	**(1,826)**
EBT disbursements	-	-	-	(3,700)	-	**(3,700)**	-	**(3,700)**
B ordinary share conversion	112	9,888	-	-	-	**10,000**	-	**10,000**
Treasury shares	-	-	-	-	(7,150)	**(7,150)**	-	**(7,150)**
At 31 December 2021	**5,009**	**31,947**	**3,350**	**156,282**	**(15,339)**	**181,249**	**16,851**	**198,100**

Other Reserves includes a Capital Redemption Reserve fund of £570k (2020: £570k).

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Own Shares	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2019	**4,897**	**22,059**	**2,230**	**6,933**	**(8,189)**	**27,930**
Profit for the financial year	-	-	-	(42)	-	(42)
Share based payments	-	-	359	-	-	359
At 31 December 2020	**4,897**	**22,059**	**2,589**	**6,891**	**(8,189)**	**28,247**
Profit for the financial year	-	-	-	11,969	-	11,969
Share based payments	-	-	761	-	-	761
B ordinary share conversion	112	9,888	-	-	-	10,000
Treasury shares	-	-	-	-	(7,150)	(7,150)
EBT disbursements	-	-	-	(3,700)	-	(3,700)
At 31 December 2021	**5,009**	**31,947**	**3,350**	**15,160**	**(15,339)**	**40,127**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Net cash from operating activities	31	**238,867**	**54,437**
Investing activities			
Increase in debt securities		(221,816)	-
Purchases of property, plant and equipment		(129)	(129)
Purchases of intangible assets		(876)	(839)
Disposal of intangible assets		139	
Net cash from investing activities		**(222,682)**	**(968)**
Financing activities			
Proceeds on issue of subordinated debt		-	9,000
Transaction cost from issue of subordinated debt		(51)	(153)
Redemption of subordinated debt		(4,000)	(2,500)
Interest paid on subordinated debt		(2,674)	(2,189)
Interest paid on contingent convertible securities		(1,826)	(1,848)
Acquisition of own shares		(7,150)	-
Net cash from financing activities		**(15,701)**	**2,310**
Net increase in cash and cash equivalents		**484**	**55,779**
Cash and cash equivalents at start of year		205,463	149,684
Cash and cash equivalents at end of year		205,947	205,463

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

UTB Partners Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company's operations and principal activities are set out in the Strategic Report on pages 3 to 22 and Directors Report on pages 23 to 24.

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

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

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

b. Going concern

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Principal Risks and Uncertainties section of the Strategic Report. In determining the going concern status the directors have considered:

- Business Performance & Strategic Risk and Operational Resilience: through the Covid-19 pandemic
- Capital Risk:
    - The ability of the Group to conduct its business profitably and generate sufficient revenues to cover costs
    - Sufficiency of capital resources to sustain the Group's existing and planned business activities and maintain compliance with regulatory requirement
- Liquidity Risk: Adequacy of liquidity to fund the Group's activities and satisfy regulatory requirements
- Credit Risk: The credit quality of the Group's loan book, based on recent experience and the Group's credit policies

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

c. Basis of consolidation

The Group financial statements consolidate the financial statements of the company and its subsidiaries, United Trust Bank Limited and SOS Intelligence Limited for the financial year ended 31 December 2021. The Company has taken advantage of the exemption from presenting its own income statement as provided by section 408 of the Companies Act 2006.

d. Income recognition

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

The EIR calculation includes all fees paid or received between parties to a contract that are an integral part of the interest rate, and are shown as interest income.

e. 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.

f. 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:

1. Accounting policies (continued)

f. Tangible fixed Assets (continued)

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

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

g. 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.

h. Intangible assets

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

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

i. Leases: the Group 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.

j. Financial instruments

Financial assets and financial liabilities are recognised when the Group 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 Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All of the Group’s financial assets and liabilities are initially measured at transaction value (including transaction costs).

Financial assets and liabilities are only offset in the statement of financial position when there exists a legally enforceable right to set off the recognised amounts and the Group

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

j. Financial instruments (continued)

(i) Financial Assets and liabilities (continued)

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 Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or c) the Group, despite having retained some, but not all, of the significant risks and rewards of ownership, has transferred control of the asset to another party.

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

(ii) Equity instruments

Equity instruments issued by the Group 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 Group'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. At the time of their issuance, the Group's compulsory convertible B ordinary shares would convert into ordinary shares at a future date. The number of ordinary shares that they would convert into was variable and, consequently, the compulsory convertible B ordinary shares were classified as a liability until conversion. In 2021 all of the B ordinary shares in issue converted into ordinary shares.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

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

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

l. Pension costs and other post-retirement benefits

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

m. Share-based payments

The Group issues equity-settled share options to certain directors and employees of the Group. 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 Group's estimate of options that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of any options granted is assessed using the Black Scholes pricing model based on an estimate of the share price of the Company and the option strike price.

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

n. Capital and subordinated debt raising expenses

Qualifying costs attributable to the issuance of capital, compulsory convertible securities, contingent convertible securities 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

o. Judgements in applying accounting policies and critical accounting estimates

In the application of the Group'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.

Estimate

i. Loan book impairments:

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

Judgements

ii. Classification of contingent convertible securities:

The classification of the contingent convertible securities is a judgement made by management. The Group had £16.9 million of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities in issue at 31 December 2021 (the "AT1 Securities", see note 22 for further details).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

o. Judgements in applying accounting policies and critical accounting estimates (continued)

iii) Classification of compulsory convertible B ordinary shares:

The classification of the compulsory convertible B ordinary shares was a judgement made by management at the time of issue. The conversion of compulsory convertible B ordinary shares into ordinary shares was subject to a formula and there was a maximum number of ordinary shares into which they would convert. It was management's judgement at the time of issue that fewer than the maximum number of shares were likely to be issued on conversion and consequently the number of shares into which the compulsory convertible B ordinary shares would convert was variable. Therefore, it was appropriate to classify the compulsory convertible B ordinary shares as a liability. In 2021 all of the B ordinary shares in issue converted into ordinary shares.

p. Employee Benefit Trust

The Group provided finance to an Employee Benefit Trust (the "Trust") to enable the Trust to purchase and hold the Company's shares and to provide shares upon the exercise of certain options or awards.

The Trust is a separate legal entity with independent trustees. Nonetheless, the Trust meets certain conditions under the accounting standards that require the assets and liabilities of the Trust to be reflected in the Group's and Company's financial statements.

The administration and finance costs connected with the Trust are charged to the Group's Income statement as such costs are in relation to employees within the Group.

The cost of shares held by the Trust is deducted from equity. The Trustees have waived the Trust's rights to receive any dividends on the shares.

q. Investment in associates

The Group uses the equity method of accounting for investment in associates. Equity investment is initially recorded at cost and adjusted to reflect the Group's share of the net assets of the associate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Interest receivable and similar income

	2021	2020
	£'000	**£'000**
Interest income	105,121	92,183
Fees and commissions received subject to EIR	20,741	17,430
Fees and commissions paid subject to EIR	(6,847)	(4,291)
	119,015	105,322

"EIR" represents the Effective Interest Rate described in note 1d.

3. Administrative expenses

	2021	2020
	£'000	**£'000**
Staff costs:		
- Wages and salaries	25,609	19,851
- Social security costs	3,336	2,575
- Pension costs	1,906	1,459
- Other staff costs	1,513	1,021
Fees payable to the Company's auditor:		
- Audit of Company's annual accounts	18	17
- Audit of subsidiary companies' annual accounts	351	284
Total audit fee	369	301
- Audit related services	35	86
- Other assurance services	67	-
Total non-audit fee	102	86
Total fees payable to company's auditor	471	387
Premises and facilities	2,056	2,183
Other administrative expenses	8,694	6,819
	43,585	34,295

The average number of people employed by the Group (including executive directors) during the year was 286 (2020: 237). At the end of the year, the Group employed 308 people (2020: 263). Staff costs include directors' remuneration set out in note 4.

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

	2021	2020
	Average No.	**Average No.**
Lending	193	162
Treasury and Central Services	93	75
	286	237

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. Directors' remuneration

The remuneration of the directors was as follows:

	2021	2020
	£'000	£'000
Emoluments	2,158	2,468
Company contribution to money purchase pension schemes	8	13

The number of directors who:

	2021	2020
	No.	No.
Are members of money purchase pension schemes	2	2

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

	2021	2020
	£'000	£'000
Emoluments and incentive schemes	842	792
Other pension costs	4	6

5. Operating profit on ordinary activities

Operating profit on ordinary activities is stated after charging:

	2021	2020
	£'000	£'000
Auditor's remuneration (note 3)	404	387
Other assurance services (note 3)	67	-
Depreciation and amortisation	765	678
Loss on disposal of Property, Plant and Equipment	139	-
-Operating leases: property	1,062	1,170

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2021	2020
	£'000	£'000
Current tax on profit on ordinary activities	10,085	5,904
Adjustments in respect of prior year:		
UK corporation tax	(603)	68
Total current tax	9,482	5,972
Deferred tax:		
Origination and reversal of timing differences	(206)	41
Effect of (increase)/decrease in tax rate on opening liability	(103)	(244)
Prior year adjustment	(153)	-
Total deferred tax	(462)	(203)
Total tax on profit on ordinary activities	9,020	5,769

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been re-measured accordingly where appropriate.

At Budget 2020, the UK government announced that the Corporation Tax main rate for the years starting 2021 would remain at 19%.

The UK's Bank Surcharge Levy of 8 per cent applies to taxable profits above £25m, leading to an additional £1,583k of tax payable in 2021 (2020: £336k). Changes to UK surcharge levy were substantively enacted by the Finance Bill 2021, decreasing the levy from 8 to 3 percent with effect from 1 April 2023. There will also be an increase in the surcharge allowance available to banking groups from £25m to £100m of taxable profits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. Tax on profit on ordinary activities (continued)

The standard rate of tax applied to reported profit on ordinary activities for the year is 19.00 per cent (2020: 19.00 per cent). Deferred taxes at the balance sheet date have been measured using enacted tax rates, including the UK's Bank Surcharge Levy, to the extent it is expected to apply.

During the year beginning 1 January 2021, the net increase in deferred tax assets and liabilities decreased the corporation tax charge for the year by £462k (2020: £203k).

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:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	44,362	30,616
Tax charge at 19.00% (2020: 19.00%) thereon:	8,429	5,817
Effects of:		
Expenses and provisions not deductible for tax purposes	23	46
Tax rate changes on deferred tax balances	88	(147)
Prior year adjustment on deferred tax balances	(153)	-
Bank Surcharge Levy	1,583	336
Prior year adjustment	(603)	68
Tax on items recognised in equity	(347)	(351)
Total tax charge for the period	9,020	5,769

7. Share-based payments

Equity-settled share option schemes

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

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

	2021		2020	
	Number of share options	**Weighted average exercise price (£)**	**Number of share options**	**Weighted average exercise price (£)**
Outstanding at beginning of period	551,013	17.09	384,013	11.47
Granted during the period	25,000	34.00	167,000	30.00
Options not taken up	-	-	-	-
Exercised during the period	(118,996)	3.07	-	-
Lapsed during the period	(21,392)	8.09	-	-
Outstanding at the end of the period	435,625	22.33	551,013	17.09
Exercisable at the end of the period	291,906		375,013	

The options outstanding at 31 December 2021 had a weighted average exercise price of £20.28 and a weighted average remaining contractual life of six years. Refer to note 32 on pages 80 and 81.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

7. Share-based payments (continued)

There were 25,000 options granted in 2021. The inputs into the Black Scholes model for options granted in 2021 were as follows:

	2021	2020
Weighted average share price	£34.00	£30.00
Weighted average exercise price	£34.00	£30.00
Expected volatility	25%	25%
Expected life	6 Years	6 Years
Risk-free rate at date of grant	0.0%	0.0%

Expected volatility for 2021 options granted was determined at a nominal 25%, based on management's best estimate, as the shares are unlisted and there is no trading. The expected life used in the model has been assessed, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural factors.

8. Loans and advances to banks

Group	2021 £'000	2020 £'000
Amounts falling due within one year:		
- Loans and advances to central banks	181,074	151,160
- Loans and advances to other banks	24,873	54,304
	205,947	205,464

9. Loans and advances to customers

Group	2021 £'000	2020 £'000
Loan receivables	1,601,767	1,518,932
Finance lease and hire purchase receivables	206,840	127,390
	1,808,607	1,646,322

£141m of finance lease receivables were pledged as collateral to the Bank of England in relation to drawings against the Bank of England's Term Funding Scheme with additional incentives for SMEs – see Note 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Loans and advances to customers (continued)

	2021	2020
Loan receivables	**£'000**	**£'000**
Amounts falling due:		
- within one year	758,320	806,279
- over one year but less than five years	438,072	414,353
- more than five years	412,041	306,426
	1,608,433	1,527,058
Less: provision for impairment losses (see note 10)	(6,666)	(8,126)
	1,601,767	1,518,932
Of which repayable on demand or short notice	17,224	45,566

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

	2021	2020
Finance lease and hire purchase receivables	**£'000**	**£'000**
Gross investment in receivables falling due:		
- within one year	79,374	56,100
- over one year but less than five years	158,604	88,057
- more than five years	235	217
	238,213	144,374
Less: unearned future finance income	(28,756)	(16,208)
Net investment in finance lease and hire purchase receivables	209,457	128,166

	2021	2020
Net investment in finance lease and hire purchase receivables:	**£'000**	**£'000**
- within one year	66,297	47,978
- over one year but less than five years	142,956	79,986
- more than five years	204	202
Net investment in finance lease and hire purchase receivables	209,457	128,166
Less: provision for impairment losses finance lease & HP receivables (see note 10)	(2,617)	(776)
	206,840	127,390

	2021	2020
Net receivable under finance leases and hire purchase contracts comprises:	**£'000**	**£'000**
- finance leases	12,730	11,213
- hire purchase	196,727	116,953
	209,457	128,166

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

10. Provision for impairment losses on loans and advances

The charge for impairment losses is made up as follows:

Group	2021	2020
	£'000	£'000
Impairment losses taken to income statement		
Individual impairments	6,669	13,245
Collective impairment	40	691
Unwind of discounting and recovery of loans previously written off	(254)	(471)
	6,455	13,465

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

	2021	2020
	£'000	£'000
Individual impairments provision		
Balance at 1 January	7,130	5,378
Charged	7,415	13,245
Released	(746)	-
Increase recognised in income statement	6,669	13,245
Utilised during the years	(6,328)	(11,493)
At 31 December	7,471	7,130

	2021	2020
	£'000	£'000
Collective impairment provision		
Balance at 1 January	1,772	1,081
Increase recognised in income statement	40	691
At 31 December	1,812	1,772

	2021	2020
	£'000	£'000
Balance at 31 December		
Individual impairment provision of which:		
- detailed individual assessment	6,202	6,053
- individually modelled	1,268	1,077
Collective impairment provision	1,812	1,772
	9,283	8,902

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. Investments - shares in group undertakings

Company

	2021 £'000	2020 £'000
Cost:		
At 1 January	37,589	37,589
At 31 December	37,589	37,589

UTB Partners Limited owns 100% of the issued share capital of United Trust Bank Limited, a company incorporated in the United Kingdom, the principal activity of which is lending. The contingent convertible securities are held by third parties.

UTB Partners Limited owns 100% of the issued share capital of SOS Intelligence Limited, a company incorporated in the United Kingdom, the principal activity of which is providing cyber threat intelligence services.

The registered address of United Trust Bank Limited and SOS Intelligence Limited is: One Ropemaker Street, London EC2Y 9AW.

12. Debt securities

	2021 £'000	2020 £'000
Issued by public bodies		
- government securities	221,816	-
	221,816	-

	2021 £'000	2020 £'000
Maturity of debt securities:		
- due within one year	221,816	-
	221,816	-

£222m of debt securities were pledged as collateral to the Bank of England in relation to drawings against the Bank of England's Term Funding Scheme with additional incentives for SMEs – see Note 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

13. Tangible fixed assets

Group	**Leasehold Improvements**	**Computer and Office Equipment**	**Motor Vehicles**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost:				
At 1 January 2021	678	1,416	31	2,125
Additions	1	128	-	129
Disposals	-	(301)	-	(301)
At 31 December 2021	679	1,243	31	1,953
Depreciation:				
At 1 January 2021	279	1,170	9	1,458
Charge	85	152	7	244
Disposals	-	(301)	-	(301)
At 31 December 2021	364	1,021	16	1,401
Net book value:				
At 31 December 2020	399	246	22	667
At 31 December 2021	315	222	15	552

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. Intangible assets

Group	2021	2020
	£'000	£'000
Cost:		
At 1 January	4,823	3,984
Additions	876	839
Disposals	(168)	-
At 31 December	5,531	4,823
Amortisation:		
At 1 January	1,743	1,303
Charge	521	440
Disposal	(29)	-
At 31 December	2,235	1,743
Net book value:		
At 31 December	3,296	3,080

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

15. Other assets

Group	2021	2020
	£'000	£'000
Deferred tax asset	2,734	2,272
Prepayments, deferred expenses and other debtors	12,423	10,269
	15,157	12,541

Deferred tax asset:		
As at 1 January	2,272	2,069
Origination and reversal of timing differences	206	-
Effect of increase in tax rate on opening asset	103	244
Prior year adjustment	153	(41)
As at 31 December	2,734	2,272

A deferred tax asset of £2,734k has been recognised at 31 December 2021 (2020: £2,272k) mainly representing timing differences on finance lease receivables, share based payments and collective provisions. The directors are of the opinion, based on recent and forecast performance of the Group, that when these timing differences reverse, the expected level of future profits will be sufficient to recover the tax benefit deferred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Financial liabilities

Group	2021 £'000	2020 £'000
Deposits from customers falling due:		
- within one year	1,147,540	1,059,414
- over one year but less than five years	568,056	541,947
Loans from banks	300,079	50,013
	2,015,675	1,651,374
Of which repayable on demand or short notice	27,281	11,810

Loans from banks represents amounts drawn (including accrued interest) under the Bank of England's Term Funding Scheme with additional incentives for SMEs.

17. Other liabilities

Group	2021 £'000	2020 £'000
Accrued interest payable	163	160
Accruals and deferred income	12,181	8,626
	12,344	8,786

Company	2021 £'000	2020 £'000
Accruals and deferred income	-	28
	-	28

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Financial instruments

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

Group	**2021**	**2020**
	£'000	**£'000**
Financial assets		
Measured at amortised cost:		
- Cash and balances at central banks	181,074	151,290
- Loans and advances to other banks	24,873	54,174
- Loans and advances to customers	1,808,607	1,646,322
- debt securities	221,816	-
	2,236,370	1,851,786
Financial liabilities		
Measured at amortised cost:		
- Deposits from customers	1,715,596	1,601,361
- loans from banks	300,079	50,013
- Long-term subordinated debt	29,256	33,241
	2,044,931	1,684,615

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

	2021	**2020**
	£'000	**£'000**
Interest income and expense		
Total interest income on financial assets at amortised cost	119,015	105,322
Total interest expense on financial liabilities at amortised cost	(23,857)	(26,271)
	95,158	79,051
Impairment losses		
On financial assets measured at amortised cost	6,455	13,465
	6,455	13,465

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. Long-term subordinated debt

Group	2021	2020
	£'000	£'000
2016 Subordinated debt	-	4,049
2019 Subordinated debt	20,274	20,242
2020 Subordinated debt	8,982	8,950
	29,256	33,241

The balance on the 2016 subordinated debt was redeemed in 2021.

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

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

20. Compulsory convertible B Ordinary Shares

Group and Company	2021	2020
	£'000	£'000
2018 Compulsory convertible B Ordinary Shares	-	10,000
	-	10,000

On 15 May 2018, the Company issued 100 B Ordinary Shares of nominal value of £1 each for an aggregate cash subscription price of £10m, which was fully paid up. All of the B Ordinary Shares in issue converted into Ordinary Shares in the Company during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

21. Called up share capital

Group and Company	**2021**	**2020**
Value of shares	**£'000**	**£'000**
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	4,897	4,897
B Ordinary Share Conversion	112	-
31 December (Ordinary shares of £1 each)	5,009	4,897

	2021	**2020**
Number of shares	**'000**	**'000**
Issued, allotted, called up and fully paid:		
At 1 January (Ordinary shares of £1 each)	4,897	4,897
B Ordinary Share Conversion	112	-
31 December (Ordinary shares of £1 each)	5,009	4,897

The Group's other reserves are as follows:

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

22. Non-controlling interest

Group	**2021**	**2020**
	£'000	**£'000**
2015 Contingent convertible securities	4,700	4,700
2017 Contingent convertible securities	12,151	12,151
	16,851	16,851

The 2015 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("AT1 Securities") bore interest at an initial rate of 11.85% per annum until 31 July 2020 and thereafter reset annually at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate. They currently pay interest at a rate of 11.78%

22. Non-controlling interest (continued)

The 2017 AT1 Securities bear interest at an initial rate of 10.375% per annum until 30 November 2022 and thereafter reset annually at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate.

The AT1 Securities are convertible into ordinary shares of the Company in the event of the CET1 ratio of the Bank falling below 7 per cent. As such, they must be classified as non-controlling interest in accordance with FRS 102.

23. Commitments

Group	2021 £'000	2020 £'000
Conditional commitments to lend	627,103	488,683

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

	2021 £'000	2020 £'000
Commitments under annual operating leases for leased property expiring in:		
Less than one year	1,250	1,219
One to two years	1,250	1,198
Two to five years	1,354	2,495

24. Employee benefits

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the Income statement for this benefit in the period ended 31 December 2021 was £1,906k (2020: £1,459k).

25. Related party transactions

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

Directors

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

25. Related party transactions (Continued)

Optalitix Limited:

Details of the relationship with Optalitix Limited are set out in note 33. During the year Optalitix Limited provided services to the Group of £1,123k. As at 31 December 2021 the balance owed by the Group to Optalitix Limited was nil.

26. Controlling party

Mr Graham Davin, a Director, and his family are directly and potentially interested in 56.2% of the issued share capital of the Company.

27. Segmental information

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

28. Risk management

Risk is inherent in all aspects of the Group's business and effective risk management is a core objective for the Group. Further details of the Group's risk management framework can be found in the Risk Management Report on pages 26 to 38.

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

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

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

Credit risk

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

The Group seeks to mitigate credit risk by:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

28. Risk management (continued)

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

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

Provisions for bad and doubtful debts are based on the appraisal of loans and advances by the Group's 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

Group	**At 31 December 2021**		**At 31 December 2020**	
	Loans and advances to customers £'000	**Loans and advances to banks £'000**	**Loans and advances to customers £'000**	**Loans and advances to banks £'000**
Neither past due nor impaired	1,764,368	205,947	1,572,675	205,464
Past due but not impaired				
Loans and receivables at amortised cost:				
- less than three months	14,406	-	17,276	-
- three to twelve months	2,977	-	4,024	-
- one to five year	1,911	-	6,866	-
Forbearance	13,272	-	16,697	-
Impaired	10,318	-	4,858	-
Repossessions	10,638	-	32,828	-
Less: provisions	(9,283)	-	(8,902)	-
	1,808,607	205,947	1,646,322	205,464

The past due loans are subject to close oversight. In the main they relate to transactions that have reached maturity and the Bank has decided not to extend the facility, even though the loan to value may remain at an acceptable level.

28. Risk management (continued)

Concentration risk

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

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

Concentration risk of treasury assets and interbank deposits is managed and controlled through policies and limits.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The ALCO recommends to the Bank's Board the policies to mitigate this risk and regularly reviews the profile of the Group's assets and liabilities to ensure that it is positioned prudently and in compliance with agreed policies and limits, taking into account prevailing market conditions, and projections for business growth.

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

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities or profitability will fluctuate in response to changes in interest rates.

A positive interest rate sensitivity gap means more assets than liabilities re-price during a given period. A positive gap tends to benefit net interest income in an environment where interest rates are rising. However, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivity within the re-pricing period.

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.

28. Risk management (continued)

Interest rate risk (continued)

At 31 December 2021, the Group's interest rate gap sensitivity, being the potential benefit to the Group's economic value, resulting from a +/- 200bps parallel shift in the yield curve, was -£0.8m and £25.8m respectively, on the basis that rates can go below 0.0%. Assuming a 0.0% interest rate floor, the benefit was -£0.8m and £15.6m respectively. This takes into account appropriate behavioural adjustments.

Interest rate re-pricing table

2021	**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**
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customers	891,946	109,831	204,169	599,550	201	2,910	1,808,607
Loans and advances to banks	205,947	-	-	-	-	-	205,947
Debt Securities	1,021	82,784	138,011	-	-	-	221,816
Other assets	-	-	-	-	-	19,005	19,005
	1,098,914	192,615	342,180	599,550	201	21,915	2,255,375
Deposits from customers	423,835	199,983	514,756	552,223	15,834	8,965	1,715,596
Loans from Banks	300,079	-	-	-	-	-	300,079
Other liabilities	-	-	-	-	-	12,344	12,344
Long term subordinated debt	-	-	-	29,000	-	256	29,256
Total Capital and Reserves	-	-	16,851	-	-	181,249	198,100
	723,914	199,983	531,607	581,223	15,834	202,814	2,255,375
Interest rate sensitivity gap	375,000	(7,368)	(189,427)	18,327	(15,633)	(180,899)	
Cumulative gap	375,000	367,632	178,205	196,532	180,899	-	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

28. Risk management (continued)
Interest rate risk (continued)

Interest rate re-pricing table

2020	**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**
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customers	269,997	146,501	449,272	721,500	57,428	1,624	1,646,322
Loans and advances to banks	205,464	-	-	-	-	-	205,464
Other assets	-	-	-	-	-	16,288	16,288
	475,461	146,501	449,272	721,500	57,428	17,912	1,868,074
Deposits from customers	445,789	186,100	477,535	468,074	23,863	-	1,601,361
Loans from Banks	-	-	-	50,013	-	-	50,013
Other liabilities	-	-	-	-	-	8,786	8,786
Long term subordinated debt	-	4,049	-	20,242	8,950	-	33,241
Convertible B Ordinary Shares	-	-	-	10,000	-	-	10,000
Total Capital and Reserves	-	-	4,700	12,151	-	147,822	164,673
	445,789	190,149	482,235	560,480	32,813	156,608	1,868,074
Interest rate sensitivity gap	29,672	(43,648)	(32,963)	161,020	24,615	(138,696)	
Cumulative gap	29,672	(13,976)	(46,939)	114,081	138,696	-	

29. Capital management

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

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

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk management process. The Group's Pillar 3 disclosures can be found on its website at www.utbank.co.uk.

Capital adequacy is monitored by the Bank's Board, Management Committee, ALCO and management, and is reported to the PRA on a quarterly basis. Capital forecasts, covering a 3-year period, are prepared on an annual basis as part of the Bank's annual budgeting cycle. During the year, additional re-forecasts are also reviewed by the Bank's Board to take into account the effects of events that were not reflected in the original budgets.

On an annual basis, the Bank undertakes an Internal Capital Adequacy Assessment Process ("ICAAP") which is an internal assessment of its capital needs. This internal process is designed to consider all material risks which the Bank faces and determines whether additional capital is required to ensure the Bank is adequately capitalised.

Included within the ICAAP are capital projections, which reflect not only the Bank's chosen strategy and potential growth prospects, but also the results of a range of scenario analysis and stress tests of these plans. This process is designed to ensure that adequate capital is retained by the Bank to meet not only its current requirements, but also to cover the medium term and requirements in less benign markets. The ICAAP therefore represents the view of management and the Bank's Board, of the risks faced by the Bank and the appropriate amount of capital that the Bank should hold to protect against those risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Regulatory capital resources (unaudited)

	2021	2020
	£'000	£'000
Common equity tier 1 capital		
Called up share capital	5,009	4,897
Share premium	31,947	22,059
Retained earnings	139,735	118,169
Deductions from common equity tier 1 capital		
Intangible assets	(2,506)	(2,346)
Other deductions	(6,750)	(6,748)
Other reserves	3,350	2,589
Common equity tier 1 capital	170,785	138,620
Additional tier 1 capital	16,851	16,851
Total tier 1 capital	187,636	155,471
Tier 2 capital		
Subordinated debt	28,738	32,706
Collective provisions	1,812	1,772
Total tier 2 capital	30,550	34,478
Total regulatory capital resources	218,186	189,949

Other deductions from common equity tier 1 capital relates to the first loss element of the British Business Bank's Enable Guarantee.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

30. Subsequent events

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

31. Notes to the cash flow statement

Group	2021 £'000	2020 £'000
Profit for the year before tax	44,362	30,616
Adjustments for:		
Interest paid on subordinated debt	2,674	2,189
Depreciation and amortisation	765	678
Increase in other reserves	761	359
Decrease/(Increase) in prepayments and accrued income	169	(338)
(Increase) in other assets	(1,502)	(1,017)
Increase/(Decrease) in accruals and deferred income	3,528	(710)
Impairment losses taken to Income Statement	6,455	13,465
EBT distributions	(3,700)	-
Amortisation of prior year transaction costs	82	48
Operating cashflows before movements in working capital	53,594	45,290
Increase in loans and advances to customers	(168,735)	(417,165)
Increase in deposits by customers	114,235	384,337
Increase in loans from banks	250,066	50,013
Cash generated from operations	249,160	62,475
Corporation taxes paid	(10,293)	(8,038)
Net cash from operating activities	238,867	54,437

32. Employee Benefit Trust

The UTB Employee Benefit Trust (the "EBT") was established in 2019 to provide for the obligations of the Group under its Long Term Incentive Plan ("LTIP") whose purpose is to reward employees for their contribution to the Group, while ensuring that the interests of key employees are aligned with the interests of shareholders. All assets and liabilities of the EBT are restricted for the purposes of the Trust.

32. Employee Benefit Trust (continued)

The EBT trustee is JTC Employer Solution Trustee Limited (Registered in Jersey, ref 65008) whose registered office is at Gaspe House, 66-72 Esplanade, St Helier, Jersey JET 3QT. The Trustee has waived the rights of the EBT to receive dividends from shares held in the Company.

In 2021, the EBT acquired a number of shares in the Company. Some of these shares were used to satisfy the exercise of options granted under the LTIP scheme. Refer to note 7 on pages 61 and 62.

In order for the EBT to acquire those shares, in 2021 it was funded by way of a non-repayable contribution of £12m from the Company. The Bank paid a dividend of £12m to the Company in 2021.

The shares held by the EBT at the reporting date were as follows;

Company shares at cost	**£'000**	**Shares Number**	**Average cost**
Closing balance at cost	15,339	448,885	34.17

33. Investment in associate undertakings

Group	**2021 £'000**	**2020 £'000**
Investment in associate undertakings	-	-
	-	-

The Group provided a convertible loan facility to a key supplier (Optalitix Limited) to support their growth as a strategic partner. The drawn balance at 31 December 2021 was £850k (2020: £850k) measured at cost less impairment.

The facility provides the Group with the option to convert it into an equity holding in Optalitix Limited, after which the Group would have significant influence over Optalitix Limited. The current shareholding is nil. These conversion rights are exercisable at the Group's discretion at any point and, therefore, the Group has the potential for significant influence at any point. Accordingly these rights lead to the recognition of an investment in associate.