2008

report & accounts

United Trust Bank

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UNITED TRUST · BANK

Financial highlights

The Bank specialises in funding property developers and builders in the United Kingdom where it has a well earned reputation for expertise, speed and flexibility.

Our clients know us to be reliable in changing markets

Chairman's report

The crisis in the banking and financial industry, particularly in the U.S.A. and the U.K. which first became apparent in 2007, developed rapidly during 2008 and threatened to undermine the U.S. system and the operations of a number of the major banks in the U.K.

The crisis quickly spread and affected the real economy and the hopes of many that it could be ring-fenced proved unfounded. The world's economies were all affected with a speed which had not been foreseen.

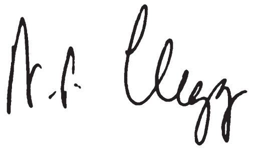
At the time of writing the U.K. government is continuing to take measures designed to enable the banking industry to continue to extend credit where needed and the Bank of England has cut its Base Rate to a level not hitherto seen.

In this extremely difficult environment, United Trust Bank has continued its existing prudent management policies. Prime attention has been given to the maintenance of adequate liquidity, rigorous credit assessment and control and a stable and well spread deposit base. In addition, the Bank strengthened its capital base through a combination of raising new capital and the restructuring of its outstanding subordinated debt.

Looking ahead it seems unwise to predict an early recovery in the economy. However, a striking feature of the unprecedented economic and financial conditions worldwide is the universal determination of all governments to act in concert wherever possible to overcome the setback we currently face. I am confident that our Bank will be one of those which comes through these difficult times able to continue to serve its customers in the better years ahead.

Tony Frearson retired from the Board this year and I would like to thank him for his contribution and advice during his tenure.

UTB's management and staff have been through a difficult year and have come through it in a good position to face the challenges and opportunities of the year ahead. On behalf of the Board I would again like to thank all staff for their exceptional dedication and enthusiasm.



Nicholas Clegg CBE
Chairman
26 February 2009

The Bank has continued its existing prudent management policies

Directors' report

The markets during 2008 were characterised by growing negative sentiment culminating in near panic in September 2008 following the collapse of Lehman Brothers.

The Treasury responded by providing replacement capital to a significant number of clearing banks, just as foreign banks pulled back from the provision of credit in the United Kingdom and elsewhere.

This difficult environment has seen a significant deterioration in both property prices and general market liquidity. Throughout the year, the Bank has continued to offer new facilities to customers, whilst amending its lending policies where necessary to adapt to the new realities.

The Bank has remained focussed to ensure that it is in a position to deal with customers who have experienced a very difficult market. By staying close to its customers and markets the Bank has also been able to take advantage of opportunities as they have arisen.

Review of operations

The growth in fee income reflects the income generated by the repurchase of the subordinated debt. This was balanced by a decrease in net interest income of 36.3% which was caused by unrecognised interest on non-performing loans and the cost of maintaining a high degree of extra liquidity.

The Bank's cost of funds started to reduce by year end as deposits matured and were rolled over at lower interest rates. In addition, the interest paid on the subordinated debt, which in 2008 amounted to £470,000, is no longer due. Non-performing loans are steadily being managed out or returned to performing through completion of construction and subsequent rental of the finished product. The result is that net interest income should improve throughout the next year.

In order to protect against the erosion of income, a diverse investment portfolio of bonds was purchased in October and November which has performed well, particularly in this low interest environment. Costs in the business have remained stable and were contained to 1% growth over the previous year.

By far the most significant event affecting the business has been the collapse in values of residential property throughout the United Kingdom. This has had a dramatic effect on the loan portfolio and has eroded partially or completely our customers' profit on the deals we finance. The Bank's historic lending was at modest levels of Loan to Development Value (LTV), which has provided important protection from falling sales prices.

The significant reduction in credit available has also stretched customers' liquidity as some were unable to sell or refinance stock as planned. Weaker developers have gone out of business and where this occurred whilst construction was still in progress, the Bank has stepped in to complete projects. This has inevitably lengthened time to market and increased costs, with the result that it was considered necessary to provide £4 million against specific loan carrying values by year end.

After all provisions and taxation, the Bank reported a loss of £371,000.

Dividend

No dividends have been declared or paid during the current or prior year.

Treasury and liquidity

As we set out last year, liquidity management has always been a top priority and the decision to avoid any form of interbank borrowing has been fundamental to the continued stable operation of the Bank. Retail deposits increased over the year by 11% to £105 million. Depositors sought to benefit from the deposit insurance scheme and after 7 October 2008 this was increased to £50,000. United Trust Bank was a net beneficiary of this process, with the number of deposit customers growing by 22.6% reflecting the strong growth in new relationships.

The decision to raise and retain large amounts of deposits, well in excess of loans due, contributed to stability and confidence. It came at a cost however, especially as interest rates fell sharply towards year end. In spite of this cost, the decision to maintain high levels of liquidity throughout the crisis has allowed the Bank flexibility.

Capital

At the end of 2007, the Group raised £3 million of new equity with a further call option on £3 million of Upper Tier 2 subordinated debt.

At the end of 2008, the Bank's holding company called the additional capital and subscribed for new Ordinary Shares in the Bank to enable the Bank to retire its existing long-term subordinated debt. This profitable transaction will have the additional benefit of significantly reducing funding costs in the new year. The Bank's capital represents 18% of its risk weighted assets which is significant in absolute terms and well above its required minimum level. The high levels of capital and liquidity have allowed United Trust Bank to weather the banking crisis reasonably well, and have provided it with the resources to focus on its asset portfolio and loan customers.

Review of loan assets

The Bank started the year with total loan assets of £76.3 million, with undrawn commitments of £38.9 million spread over 211 loans. Management sought to moderate growth throughout the year and loan turnover was accordingly contained to just over half of that written in 2007. At year end, the loan assets amounted to £80.3 million, but importantly, undrawn commitments have reduced 68% to £12.4 million. These were split over 198 loans.

A substantial portion of the property developments we have financed are now complete. Where sales or refinancings have not been easily achievable, we have encouraged our customers to rent properties, thereby ensuring reasonable loan performance and maintenance and occupation of the dwellings.

Customers' loan repayments have been delayed throughout the year, but in spite of this, approximately half of the loan book at the beginning of the year has repaid. A significant part of the balance, being completed developments, is expected to sell and repay during 2009.

Unavoidably, some developers were unable to meet their commitments, either to the Bank or other funders, and the Bank was forced to appoint Receivers to complete construction and finalise sales in certain cases. The timeous completion of projects has been a particular focus and at year end, nearly all developments to which an LPA receiver has been appointed are nearing completion so that homes are available for sale in the Spring.

The Bank's historic policy of funding modest levels of loan to value has provided a high degree of protection from loss, and supplementary security has further strengthened its position.

The steady refinancing and sale of properties which is occurring provides confidence that most of the existing asset portfolio will be disposed of at levels that will see the Bank repaid, although it would be reasonable to expect that fees and interest will not always be collected in full. The Bank has accordingly maintained its general provision of almost £1 million to cover this uncertainty.

The Bank has continued to write new business throughout the year and is budgeted to write a modestly increased volume in 2009.

Auditors and directors confirmation

In accordance with Section 386 of the Companies Act 1985, the Bank has elected to dispense with the obligation to appoint auditors annually; accordingly Deloitte LLP remain in office.

Each of the directors of the Bank holding office 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 Bank's auditors are unaware, and
- he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of S 234ZA of the Companies Act 1985.

Financial risk management

The disclosures required to be included in the directors' report in respect of the company's exposure to financial risk and its financial risk management policies are given in note 23 to the financial statements.

Prospects and staff

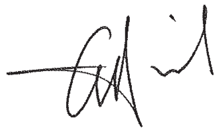
Developments in 2008 have tested the Bank but the high levels of liquidity and capital maintained, together with sensible limits on credit, ensured that the Bank operated smoothly in the current credit crisis.

The Bank continues to position itself conservatively at the start of 2009, as it anticipates continuing stress in residential property markets and very low interest rates for the year.

The decision to hold high liquidity levels and low returns on cash will conspire to hold profitability down, while relatively low levels of turnover will result in fee generation substantially lower than in the prior year. In spite of the low expectation of returns in 2009, the Bank believes it should position itself in this manner until greater certainty and confidence has been restored.

The staff of United Trust Bank have endured a difficult year and have emerged stronger and tightly knit. The core team remains in place and staff numbers have only decreased marginally.

United Trust Bank remains fully committed to supporting its customers and providing a professional environment with continuing opportunities for growth for its staff. We thank all our staff and our board who have helped guide us through a testing year.



Graham Davin
Chief Executive Officer
26 February 2009

Directors

Nicholas Clegg CBE
Chairman

Nicholas Clegg, 72, was previously a Director of Hill Samuel Co Ltd, Co-Chairman of Daiwa Europe Ltd and Chairman of Daiwa Europe Bank plc. He has served as a Director of the International Primary Markets Association and a senior adviser to the Bank of England on banking supervision. He was also a member of the supervisory board of Bank Insinger de Beaufort NV and a Director of Insinger de Beaufort Holdings.

Graham Davin
Chief Executive Officer

Graham Davin, 53, is the principal stakeholder of United Trust Bank. He was a founding partner of the Insinger de Beaufort Group and a Director of its listed parent and its Dutch Bank. He was previously Chief Financial Officer and Head of Corporate Finance of Investec Bank and a main board Director of Investec for 16 years.

Roger Tidyman
Managing Director

Roger Tidyman, 59, is the Managing Director of United Trust Bank. He is a chartered banker and was previously Banking Director of BHF-Bank AG's London business following senior positions in Kleinwort Benson and HSBC Investment Bank.

Harley Kagan
Chief Financial Officer

Harley Kagan, 39, is the Chief Financial Officer of United Trust Bank, and a chartered accountant. He was previously the Finance Director of the U.K. Operations of Insinger de Beaufort. He has worked extensively in Corporate Finance, concentrating on acquisitions and disposals, and as a strategy consultant with Cap Gemini.

Ehsan Mani
Non-Executive Director

Ehsan Mani, 64, is currently a Director of United National Bank having been involved in real estate projects and investments in the United Kingdom for many years. He is a chartered accountant, a Director of Places for People Group and the past President of the International Cricket Council. He has also been a member of the Pakistan Government's Prime Minister's Inspection Commission and of the Advisory Body of the Task Force for Human Development.

Barry Townsley CBE
Non-Executive Director

Barry Townsley, 62, is the Chairman of Hobart Capital Markets; and has been involved in the stockbroking industry for over 40 years. He is the principal sponsor of the Stockley Academy, Vice Chairman of the Serpentine Gallery and a Trustee of the Trinity Hospice.

Andrew Herd
Non-Executive Director

Andrew Herd, 50, is an Executive Director of Aspers Group, the Anglo-Australian leisure and entertainment Company. He is a chartered accountant and worked as a merchant banker for many years. Andrew was previously Managing Director and Head of Financial Institutions at SG Hambros having had senior roles with Paribas Capital Markets and Morgan Grenfell.

Michael Lewis
Non-Executive Director

Michael Lewis, 50, has been involved in the investment business since 1983, having worked at Ivory & Sime, Lombard Odier and the Oceana group. He is a director of Cheyne Capital Management Limited (U.K.), Trialpha Oceana Concentrated Opportunities Fund Limited (Jersey), Axel Springer AG (Germany), ProChon Biotech Limited (Israel), Foschini Limited (South Africa), Strandbags Limited (Australia) and the Oceana Investment Corporation Limited (U.K.).

Our business

United Trust Bank specialises in providing a wide range of funding facilities to property developers. We are a fully licensed U.K. bank and are authorised and regulated by the Financial Services Authority. As an owner managed business with specialist expertise in the property sector, we can take an entrepreneurial and pragmatic approach, providing quick and flexible funding in the form of senior debt, mezzanine or equity to support sound proposals. United Trust Bank was incorporated in 1955 and has many decades of experience in funding property – it is the specialist for property finance.

Why United Trust Bank Limited

Expertise, speed and flexibility

We specialise in funding U.K. property developers and builders where we have a well earned reputation for expertise, speed and flexibility. We have a long term commitment to the property sector and our clients also know us to be reliable in changing markets. A detailed understanding of this market ensures we are able to respond quickly and imaginatively, sometimes providing commitments in as little as a day. Clients range from private developers converting or renovating one dwelling, to corporate developers with multiunit schemes.

Maximising return on capital

We will often provide higher loans to value than non specialised banks. This allows clients to employ more of their own funds in seeding future opportunities. By minimising our customers' cash input, we aim to enhance their return on capital employed in the project.

We are also very experienced in providing all or part of the equity towards appropriately profitable schemes. This carries a different level of pricing but frees up even more of our customers' own financial resources to go towards other sound projects.

Allied to our speed of response is our willingness to lend against value rather than cost. So, if customers have improved the value of a site (say, through the planning process), we will acknowledge this higher value in our quote.

Prompt decision-making

All of our Business Development Managers are experienced property bankers and they are either members of, or have direct access to, our Credit Committee, which meets daily to ensure speedy approvals for the vast majority of funding indications given to our clients. A flat decision-making structure ensures that our customers receive prompt decisions and a flexible response. This enables us to meet short deadlines when the need arises.

Loan facilities are available for

- Residential development (new build, conversions, extensions, refurbishment)
- Equity for residential development, in return for a share in the profits
- Commercial development (new build, conversions)
- Planning gain finance (change of use or planning enhancement)
- Residential bridging loans
- Commercial bridging loans

We are able to arrange or provide debt, mezzanine or equity finance for most property projects. Clients can utilise any acceptable combination of assets, cash flow, current assets or equity as security. We work with our clients to determine the best funding solutions, based on their needs, and seek to control costs through focussed effort.

For clients who also want to leverage existing capital, we can offer specialist liquidity facilities. These can be in the form of additional working capital secured against existing assets, or the gearing of securities portfolios.

A relationship, not a deal

Whilst we evaluate each transaction on its own merits, our focus is very much on developing relationships with our clients. Our clients always have at least two knowledgeable people handling their relationship. Building relationships over time enables us to meet individual clients' needs in ways that best suit their circumstances and provides them with continuity and certainty of service.

Adding value through understanding

All our Business Development Managers have many years' experience of both the property and corporate lending markets. We work closely with our customers, understanding their business philosophies and working practices so that we can provide a value-added service.

'Can do' approach

We tailor each transaction specifically to achieve our clients' objectives, whilst mitigating or containing the risk to the Bank. We base our evaluation process on answering the question "How can this transaction be undertaken?" rather than whether it fits a policy or predefined structure.

What gives us our edge?

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

Accepting deposits

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

Our focus is very much on developing relationships with clients

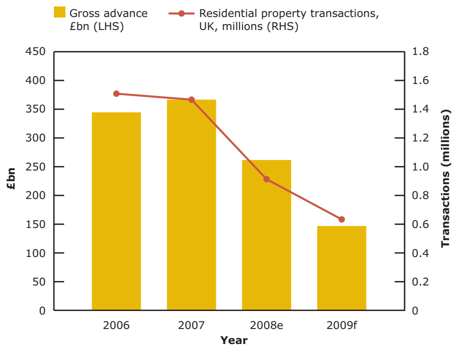
Our market view

The Bank remains open for business and continues to offer new facilities to house builders. We still see opportunities for good developers to make money in this difficult market, but they must be able to buy land at the right price and develop an attractive product in the right location. Even in a difficult sales market, housing that is close to good schools, to locations with resilient employment prospects and to transport hubs is still in demand. Prudently, even in these areas, developers' land acquisition prices should allow them to discount their sale price to a level which will achieve a sale whilst providing them with a satisfactory margin even if, as we expect, values reduce further in 2009.

Interest in acquiring houses has not disappeared. As we turn the year the RICS recorded the fastest monthly growth in new buyer enquiries since August 2006. The long term imbalance between supply and demand of new housing has not altered. In the short term what is lacking and what has contributed to the rapid decline in residential values is the desperate shortage of mortgage finance from a U.K. banking sector struggling to recapitalise itself even with Governmental help. The mortgage provision which is still available requires significant deposits from new buyers or substantial equity in the property which buyers are selling to enable the new purchase.

2008 was the most extraordinary year any of us can remember. Who could have predicted that in 2008 Royal Bank of Scotland plc would be all but nationalised and HBOS require rescue so that over 40% of the combined Lloyds/HBOS group is owned by the U.K. taxpayer? The fear of unknown credit risk in banks which froze the interbank credit market, reduced and tightened credit provision by the banks themselves. This has lowered the value of all asset classes, including property, and consequently, reduced the value of previously adequate bank security for loans, compounding the downward spiral of credit problems.

Housing forecasts



Source: Council of Mortgage Lenders

After a slow start, the U.K. Government led the way with the announcement of a credit relief package in October 2008 but failed to follow through to revive credit provision within the U.K. economy. Only in mid January 2009 have further measures, to specifically attain this objective, been announced. These measures will take time to have an effect and economic activity will continue to reduce during the course of 2009. The U.K. Government has made it clear that it will take whatever measures are necessary to recapitalise the U.K. banks and enable them to provide credit to their customers to oil the wheels of commerce and revive activity. This resumption of activity will, over time, put a floor under all asset prices.

Given the severe shortage of mortgage credit and poor economic climate we expect continued falls, albeit at a slower pace, in residential property values, throughout 2009. The first-time buyer market has been particularly badly hit by tightening mortgage provision. Consequently one and two bedroom properties, particularly apartments, have suffered the greatest falls and will continue to do so. Family housing has fared better as some acquirers have a fund of equity to support new purchases, but the reduction in values generally has caused all discretionary buyers to hold off purchases until they perceive the market has bottomed, or until cash hungry pressurised vendors provide them with sufficiently large discounts to compensate for the risk of further value reduction after purchase.

As house builders have generally been unable to sell their product profitably in 2008, they have severely curtailed their new build activity and projected build completions are likely to be less than half 2007's. Build activity is likely to reduce further in 2009. The current over supply of unsold new build property is likely to remain until mortgage provision improves but the U.K. public still wish to own the property they live in, as evidenced by the recent increase in new enquiries. Generally we expect cash buyers, or those requiring little relative debt to asset value, to begin purchasing in 2009 and we are seeing evidence of such greater activity in our book as the New Year starts. As mortgage provision improves over the course of 2009 and 2010, so sales activity will increase and values will stabilise.

We have taken this expectation into account when offering new facilities and our loan to value ratios are lower. Nonetheless we are still lending and we are one of the few still offering facilities to developers and house builders. We have customers who have survived the market travails and we are attracting experienced new customers from other banks which are either "out of the market" or not providing credit because of capital or liquidity problems. These customers are now able to acquire sites cheaply enabling them to factor in the expected further value reductions and still anticipate a reasonable profit in the next year or so.

The massive reduction in residential mortgage finance and in commercial property term finance caused us to be prudent in the provision of our bridging facilities in 2008. Consequently our bridging volumes were well below our budget but the portfolio has performed excellently and we are pleased with the result. We are still very much open for new bridging offers but our criteria have to be more prudent than hitherto until the credit markets which refinance our short term loan facilities improve. We expect to see more opportunities to provide short term assistance as the long term refinance market improves over 2009.

Commitment, speed and consistency through specialisation and knowledge are our hallmark

Case studies

Residential Development

Continued assistance to enable letting and refinance

Our customer carried out a part refurbishment part new build development of flats in an excellent provincial city-centre location. The development produced 12 apartments (a mix of studios, one bed and two beds) and a commercial area with planning for restaurant use. Unfortunately, by the time the development was exposed to the market, demand for apartments was much reduced. We have worked with the customer to get all of the residential units let on shorthold tenancies so that there is now rental income to defray interest costs. The rents are generating a yield of 6% on the debt.

At the start of 2009 we are working with the customer to enable the refinance of our debt into medium term mortgages and are considering some sales. We have found that, by adopting a flexible approach to the current market difficulties, we are able to work with our customers and achieve a mutually satisfactory outcome.

Loan amount £1.35m
Rental yield 6% pa

Full and flexible funding to enable a new scheme to progress, whilst existing schemes are not fully sold

A developer with 20 years' experience was introduced to us because his existing bankers were unwilling to provide sufficient further funding for a new site with planning consent for the erection of 8 four-bedroomed detached houses, whilst some existing developments were on the market for sale.

A series of individual bridging loans were offered on properties pending completion of sales, together with a development loan to clear the existing site loan facility with his clearing bank and to provide 100% of construction costs. This finance provided sufficient capacity to refinance the existing loan. As a result of our flexibility, we have won a new and valuable customer and have provided that customer with further time to sell completed units whilst enabling a start on site for the new development.

Loan amount £2.5m
LTV 65%

Flexibility and assistance to allow customer time to let and refinance

A competent and enthusiastic young developer assembled a site over a two year period by acquiring adjoining properties and gaining planning consent for demolition and replacement with a block of 23 two-bedroomed apartments. The site is located in a desirable suburb of Birmingham. The construction programme was a success but the forecast sales were affected by the changing marketplace.

As sales were very slow it was agreed that, in order to assist the customer in obtaining alternative funding to repay the loan, the repayment date would be extended by eight months and the units would be rented. The units were quickly filled with tenants and the rental income is used to cover the accruing interest. Following successful letting of the units, the customer was able to obtain long term refinance.

Loan amount £1.9m
LTV 60%

Speedy commitment to established developer customer

One of our existing customers acquired a 1.1 acre site in a very attractive Lincolnshire village and obtained planning consent for the erection of three large detached houses. His clearing bank was hesitating over the provision of sufficient facilities and we were asked to consider the provision of 100% funding for the construction costs and 52% of the site value. We were able to visit the property quickly and offer facilities immediately. Within six weeks of receiving the request the customer was on site.

The construction phase was completed on time and came in within budget. Our customer sold all the units off plan and as a result the loan was fully repaid ahead of the final repayment date. We are now assisting the customer with his next scheme.

Loan amount £800k
LTV 60%

Equity Loan

Full funding following planning success

Our customers originally identified a former institutional hostel building in a coastal town ripe for a planning change to residential. We initially provided funding to secure the site at 75% of value to enable planning permission to be sought. After planning permission was successfully obtained for a scheme comprising ten apartments and three bungalows, we were approached to provide funding for 100% of the development costs. This level of funding represented a Loan to Value of 64%, based on the enhanced planning. The Bank assessed the risk against the component parts of the development and, with strong demand for the bungalows from retirees, we were satisfied that early sales of these units would leave the residual exposure against the apartments at an acceptable and lower level.

Even although this was the customer's first development, the clients provided a mix of complementary skills including construction management expertise to satisfy the Bank. The construction has proceeded smoothly with the bungalows completed and the apartment block now close to completion. Our assessment of the sales market for bungalows has proved to be correct with one sale completed and the other two under offer. The apartments are due to be launched on to the market in Spring.

Loan amount £2.55m
LTV 64%

Funding for new development secured against completed project

In 2007 we had assisted this well established family firm of developers and builders by providing 85% of the costs of acquiring a site with planning permission for four houses and five bungalows. They planned to hold the site whilst they completed their existing development which we were financing. Early in 2008, with the other project built but not yet sold, we agreed to fund 100% of the building works within a facility of £1.2m, in part relying on the value they had generated in the earlier project. This earlier facility has since been fully repaid from sales.

The customer has made good progress through 2008 and into 2009. They are receiving considerable interest in the completed units and are shortly to complete two sales at close to their original target selling prices.

The customer has had a relationship with UTB over eight years during which time we have funded numerous projects. As we have built up confidence in their ability to deliver and sell good quality homes we have been able to provide flexible funding which has enabled them to move smoothly from one site to another and thereby reduce non-productive time between projects.

Loan amount £1.2m
Loan to completed value 67%

Bridging

Bridging with imagination

We aim to be flexible and will look at propositions that fall outside the norm. This might involve repayment coming from a source other than the sale or refinance of the property being financed by our bridging facility.

Mr & Mrs T had been living abroad for a number of years as Mr T works for a large multinational company. It was always their intention to return to England once Mr T retired. On a visit to England, they saw the property which they wanted to purchase and needed to secure it quickly. They decided to approach us for bridging finance via our on-line portal. We established that Mr T was entitled to a lump sum under his pension policy and this sum would repay our bridging facility.

With our help they were able to secure the property they wanted to buy and in due course repayment came from Mr T's pension lump sum.

Loan amount £176k
LTV 56%

Land deal knowledge allows maintenance of bridge beyond normal term

Mr S owned a parcel of land which formed a part of a larger plot which has been sold to a major house builder subject to planning permission being granted. Once the sale of the land was completed, it was Mr S's intention to retire abroad leaving his house to his son. Prior to the transfer of ownership of his house Mr S wanted to do some refurbishments and he approached us for a bridging loan secured on his house and to be repaid from the sale proceeds of the land deal.

The land deal has dragged on but we have maintained our facility and our LTV by being flexible and taking additional security from the parcel of land sold conditionally.

Loan amount £164K
LTV 63%

Our case studies amply demonstrate our flexibility for appropriate transactions

Corporate information United Trust Bank Limited

Board of directors

Non-Executive Chairman

Nicholas Clegg CBE

Non-Executive Directors

Anthony Frearson*
Andrew Herd
Michael Lewis
Ehsan Mani
Barry Townsley CBE

Executive Directors

Graham Davin
Harley Kagan
Roger Tidyman

Management Committee

Graham Davin
Harley Kagan
Noel Meredith
Roger Tidyman
Gerard Wright

Key employees

Structured Finance

Clive Adams
Alan Archondakis
Simon Boulcott
Noel Meredith
Jane Reeve
Stan Roden

Bridging

Val Biles

Deposits and Treasury

Caroline Hoti
Mobashar Shah
Jasmit Ubhi

Operations

Ian Andrews
Nicollette Hamill
Chris Mason
Gemma Squirrell
Gerard Wright

Finance, Administration and Audit

Kate Clarke
William Dobbie
Kathy Ferrari
Karen Franklin
Alan Gillett
Adam Nathanson

Professional advisors

Bankers

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Auditors

Deloitte LLP
London

Legal Advisors

Nabarro
Lacon House
Theobolds Road
London WC1X 8RW

Company Secretary

Harley Kagan

Registered Office

80 Haymarket
London SW1Y 4TE

Registered Number

549690

* Anthony Frearson retired as a director on 31 December 2008

Authorised under the Financial Services & Market Act 2000 and authorised and regulated by the Financial Services Authority. Members of the British Bankers' Association and Subscribers to the Banking Code and the Business Banking Code.

Statement of directors' responsibilities and independent auditors' report

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). The financial statements are required by law to give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

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

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

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

We have audited the financial statements of United Trust Bank Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (U.K. and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (U.K. and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Bank's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
26 February 2009

Profit and loss account for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Interest receivable and similar income		**9,019**	8,445
Interest payable and similar charges		**(7,026)**	(5,319)
Net interest income		**1,993**	3,126
Fees and commissions		**4,619**	2,664
Operating income		**6,612**	5,790
Administrative expenses	2	**(3,124)**	(3,094)
Depreciation	4	**(78)**	(77)
Provision for bad and doubtful debts	8	**(3,874)**	(170)
Operating (loss)/profit on ordinary activities before tax		**(464)**	2,449
Tax credit/(charge) for the year	5	**93**	(676)
(Loss)/profit after tax retained for the financial year	16	**(371)**	1,773

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

All results derive from continuing operations.

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

Balance sheet at 31 December 2008

	Notes	2008 £'000	2007 £'000
Loans and advances to banks and building societies	6	**35,674**	36,504
Loans and advances to financial institutions	6	**-**	1,250
Loans and advances to customers	7	**80,287**	76,271
Loans to group companies	9	**115**	96
Debt securities	10	**6,524**	-
Tangible fixed assets	11	**126**	118
Other assets	12	**2,386**	2,422
Total assets		**125,112**	116,661
Deposits from customers	13	**105,464**	94,718
Other liabilities	14	**3,519**	3,943
		108,983	98,661
Capital and reserves			
Share capital	15	**8,000**	6,500
Share premium account	16	**5,020**	3,520
Profit and loss account	16	**3,109**	3,480
Equity shareholders' funds	17	**16,129**	13,500
Long-term subordinated debt	18	**-**	4,500
Total liabilities		**125,112**	116,661
Memorandum items:			
Guarantees and assets pledged as security		**213**	230
Commitments	19	**12,403**	38,862

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

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2009.

Signed on behalf of the Board of Directors

H Kagan
Director
26 February 2009

C R Tidyman
Director
26 February 2009

Notes to the financial statements for the year ended 31 December 2008

1. Accounting policies

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

Basis of accounting

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

The Bank currently has considerable financial resources with over a third of total assets in cash or near cash. In the current economic environment the Directors continue to keep the Bank's loan book under review and take action where necessary. Despite the current uncertain economic outlook the directors believe that the Bank is well placed to manage its business risks set out in Note 23 to the financial statements.

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Cash flow statements

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

Income recognition

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

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

Taxation

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

Tangible fixed assets

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

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

Leases

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

Provisions for bad and doubtful debts

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

Loans and advances are written off when there is no realistic prospect of recovery. Interest of doubtful collectability is held in suspense.

Pension costs and other post retirement benefits

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

Investments

Investments are held at cost less impairments, if any.

Derivative financial instruments

The Bank only enters into foreign exchange forward contracts to manage its exposure to foreign exchange risk. The Bank does not hold or issue derivative financial instruments for speculative purposes. The forward contracts are entered into only to hedge the inflows of the investments held in U.S. Dollars or Euros.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Bank's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Bank's financial statements.

Foreign currency

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

2. Administrative expenses

	2008 £'000	2007 £'000
Staff costs*		
- wages and salaries	**1,862**	1,852
- social security costs	**191**	217
- other pension costs	**65**	73
Auditors' remuneration		
- audit of annual accounts	**52**	52
- tax services	**6**	6
Other administrative expenses	**948**	894
	3,124	3,094

The average monthly number of people employed by the Bank (including Executive Directors) during the year was 26 (2007 – 24). At the end of the year, the Bank employed 23 people (2007 – 25).

*Including Directors' remuneration set out in note 3.

3. Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2008 £'000	2007 £'000
Emoluments and incentive schemes	**708**	871
Company contributions to pension schemes	**-**	-
	708	871

Pensions

The number of directors who were members of pension schemes was as follows:	2008 No.	2007 No.
Money purchase schemes	**2**	2

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

	2008 £'000	2007 £'000
Emoluments and incentive schemes	**235**	288

4. Operating (loss)/profit on ordinary activities

Operating (loss)/profit is stated after charging:	2008 £'000	2007 £'000
Auditors' remuneration	**58**	58
Depreciation	**78**	77
Operating lease: property	**188**	187

5. Tax on (loss)/profit on ordinary activities

i) Analysis of tax (credit)/charge on ordinary activities	2008 £'000	2007 £'000
Corporation tax	**(155)**	659
Deferred tax – reversal of timing difference	**62**	17
	(93)	676

ii) Factors affecting tax charge for the year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 28% (2007: 30%).

The differences are explained below:

	2008 £'000	2007 £'000
(Loss)/profit on ordinary activities before tax	**(464)**	2,449
Tax (credit)/charge at 28% (2007 at 30%) thereon:	**(130)**	735
Effects of:		
Expenses not deductible for tax purposes	**(25)**	(52)
Group relief	**-**	(69)
Prior years	**-**	45
Tax (credit)/charge for the year	**(155)**	659

6. Loans and advances to banks, building societies and financial institutions

	2008 £'000	2007 £'000
Remaining maturity three months or less:		
Loans and advances to Banks	**16,374**	23,815
Loans and advances to Building Societies	**19,300**	12,689
Loans and advances to Financial Institutions	**-**	1,250
	35,674	37,754

7. Loans and advances to customers

	2008 £'000	2007 £'000
Remaining maturity:		
- three months or less	**58,333**	54,099
- one year or less but over three months	**25,451**	22,365
- five years or less but over one year	**1,609**	1,122
	85,393	77,586
General and specific bad and doubtful debt provisions (see note 8)	**(5,106)**	(1,315)
	80,287	76,271
Of which repayable on demand or short notice	**20,744**	16,480

8. Provision for bad and doubtful debts

	2008 Specific £'000	2008 General £'000	2008 Total £'000	2007 Specific £'000	2007 General £'000	2007 Total £'000
At 1 January	**203**	**1,112**	**1,315**	565	1,170	1,735
Charge	**4,028**	**(141)**	**3,887**	203	(33)	170
Released	**(13)**	**-**	**(13)**	-	-	-
Written off	**(83)**	**-**	**(83)**	(565)	(25)	(590)
At 31 December	**4,135**	**971**	**5,106**	203	1,112	1,315

	2008 £'000	2007 £'000
Interest and fees in suspense		
At 1 January	**275**	185
Suspended during the year	**1,723**	90
Written off	**(32)**	-
At 31 December	**1,966**	275

9. Loans to group companies

	2008 £'000	2007 £'000
Repayable on demand:		
- Loans to parent	**115**	96

Interest is charged at 3% above three month LIBOR, reset quarterly, and the loan is repayable on demand.

10. Debt securities

	2008 £'000	2007 £'000
Issued by public bodies		
- government securities	**248**	-
Issued by other issuers		
- listed debt securities	**6,276**	-
	6,524	-
At 1 January	**-**	-
Additions	**6,524**	-
At 31 December	**6,524**	-
Maturity of debt securities:		
Due within one year	**830**	-
Due one year and over	**5,694**	-
	6,524	-
Fair value of debt securities:		
Issued by public bodies		
- government securities	**256**	-
Issued by other issuers		
- listed debt securities	**6,647**	-
	6,903	-

Notes to the financial statements for the year ended 31 December 2008

11. Tangible fixed assets

Tangible fixed assets comprise:	Leasehold improvements £'000	Computer equipment & software £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2008	25	251	141	33	450
Additions	16	55	15	-	86
At 31 December 2008	41	306	156	33	536
Accumulated depreciation:					
At 1 January 2008	15	211	86	20	332
Charge	6	32	29	11	78
At 31 December 2008	21	243	115	31	410
Net book value:					
At 1 January 2008	10	40	55	13	118
At 31 December 2008	20	63	41	2	126

12. Other assets

	2008 £'000	2007 £'000
Deferred tax asset	**267**	329
Corporation tax	**315**	-
Accrued interest receivable	**1,627**	1,920
Prepayments	**177**	173
	2,386	2,422
Deferred tax asset:		
As at 1 January	**329**	346
Charge for the year	**(62)**	(17)
As at 31 December	**267**	329

The balance of deferred tax arises on account of short term timing differences

13. Deposits from customers

	2008 £'000	2007 £'000
Remaining maturity		
- three months or less	**34,184**	24,750
- one year or less but over three months	**57,906**	46,012
- five years or less but over one year	**13,374**	23,956
	105,464	94,718
Of which repayable on demand or short notice	**2,117**	1,265

14. Other liabilities

	2008 £'000	2007 £'000
Accrued interest payable	**2,943**	2,795
Accruals and deferred income	**576**	803
Corporation tax payable	**-**	345
	3,519	3,943

15. Share capital

	2008 £'000	2007 £'000
Authorised:		
Ordinary shares of £1 each	**25,000**	25,000
Issued, allotted and fully paid:		
At 1 January (ordinary shares of £1 each)	**6,500**	6,500
Ordinary shares issued during the year	**1,500**	-
At 31 December (ordinary shares of £1 each)	**8,000**	6,500

Number of shares	'000	'000
Authorised:		
Ordinary shares of £1 each	**25,000**	25,000
Issued, allotted and fully paid:		
At 1 January (ordinary shares of £1 each)	**6,500**	6,500
Ordinary shares issued during the year	**1,500**	-
At 31 December (ordinary shares of £1 each)	**8,000**	6,500

On 23 December 2008, the Company issued 1,500,000 ordinary shares of £1 each for an aggregate amount of £3,000,000.

16. Reserves

	2008 £'000	2007 £'000
Share premium account		
At 1 January	**3,520**	3,520
Premium on shares issued	**1,500**	-
At 31 December	**5,020**	3,520
Profit and loss account		
At 1 January	**3,480**	1,707
Retained (loss)/profit for year	**(371)**	1,773
At 31 December	**3,109**	3,480

No dividend was declared or paid during the year (2007: nil).

17. Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
(Loss)/profit attributable to shareholders	**(371)**	1,773
Ordinary shares issued	**3,000**	-
Net increase in equity shareholders' funds	**2,629**	1,773
Opening shareholders' funds	**13,500**	11,727
Closing shareholders' funds	**16,129**	13,500

18. Long-term subordinated liabilities

	2008 £'000	2007 £'000
Subordinated debt	**-**	4,500

The coupon payable on the subordinated debt was three month Libor plus 300bps. On 23 December 2008, these Schuldschein Loans were repurchased by the Bank and were cancelled.

Notes to the financial statements for the year ended 31 December 2008

19. Commitments

	2008 £'000	2007 £'000
Commitments to lend:		
- up to and including one year	**12,403**	34,073
- over one year	**-**	4,789
	12,403	38,862
Commitments under annual operating leases for property expiring:		
In two to five years	**188**	175

20. Related party transactions

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

21. Segmental information

The Company operates in one segment of business which relates to granting of loans and advances. All income on such loans granted arises in the United Kingdom.

22. Derivatives

During the year the Bank entered into derivative contracts, for non-trading purposes only, to hedge currency risk.

In the table below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cashflows which would have occurred had the rights and obligations arising from that instrument been closed out by the Bank in an orderly market transaction at the balance sheet date.

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

	Up to one year £'000	One to five years £'000	Total £'000	Fair value £'000
Foreign exchange contracts				
2008	592	4,475	5,067	5,470
2007	-	-	-	-

23. Risk management

Detailed risk management commentary

Significant risks faced by the Bank are reviewed by the Management Committee. The key duties of the Management Committee are:

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

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

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

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

The main committees of the Bank are:

Audit committee

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

Credit committee

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

Asset and liability committee

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

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

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

It is important that all the Bank's risks are regularly considered. Any change to business objectives can cause a change to the risk profile of the business. Consequently, under the guidance of the Management Committee, the business regularly reviews its objectives, assesses the risks to these objectives being achieved, and ensures there is defined ownership of the risks and defined ownership of the corresponding controls.

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

Major Risks

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

- Credit risk • Liquidity risk • Currency risk • Legal risk
- Regulatory and compliance risk • Operational risk
- Reputational risk • Interest rate risk

Credit risk

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

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

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

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

Liquidity risk

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

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

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

Currency risk

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

The Bank's currency exposures at 31 December were as follows:

Currency exposure	2008 £'000	2007 £'000
Debt Securities:		
U.S. Dollar	**2,787**	-
Euro	**1,558**	-
	4,345	-

The Bank entered into derivative contracts for non-trading purposes only, in order to hedge currency risk (see note 22).

Legal risk

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

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

Regulatory and compliance risk

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

Operational risk

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

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

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

Interest rate risk

Interest rate risk is the risk that the value of the Bank's assets and liabilities will fluctuate because of changes in market rate.

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

The Bank's lending to customers is at rates linked to the interest rates currently prevailing in the market. The money market deposits are placed at the best rates available in the market. In common with other banks, the Bank earns part of its return by controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the assets and liabilities mature. The table on the next page summarises by time band the interest rate sensitivity gaps as at 31 December 2008.

Notes to the financial statements for the year ended 31 December 2008

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. A positive gap position tends to benefit net interest income in an environment where interest rates are rising. However, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivity within the banding period. The vast majority of the Loans and Advances dealt with in the table below benefit from interest rate floors. These cannot easily be dealt with in a gap table but the table is prepared on the basis that floors are not activated. The table may over-state the economic interest rate mis-match in some circumstances.

Interest rate repricing table

2008	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	Non-interest bearing £'000	Total £'000
Loans and advances to customers	79,583	292	404	8	-	80,287
Loans and advances to banks, building societies and financial institutions	35,674	-	-	-	-	35,674
Loans to group companies	115	-	-	-	-	115
Debt securities	1,070	746	-	4,708	-	6,524
Other assets	-	-	-	-	2,512	2,512
	116,442	1,038	404	4,716	2,512	125,112
Customer deposits	34,183	19,643	38,263	13,375	-	105,464
Other liabilities	-	-	-	-	3,519	3,519
Shareholders' funds	-	-	-	-	16,129	16,129
	34,183	19,643	38,263	13,375	19,648	125,112
Interest rate sensitivity gap	82,259	(18,605)	(37,859)	(8,659)	(17,136)	-
Cumulative gap	82,259	63,654	25,795	17,136	-	-

2007	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	Non-interest bearing £'000	Total £'000
Loans and advances to customers	75,236	425	491	119	-	76,271
Loans and advances to banks, building societies and financial institutions	37,754	-	-	-	-	37,754
Loans to group companies	96	-	-	-	-	96
Other assets	-	-	-	-	2,540	2,540
	113,086	425	491	119	2,540	116,661
Customer deposits	34,390	12,809	28,041	19,478	-	94,718
Other liabilities	4,500	-	-	-	3,943	8,443
Shareholders' funds	-	-	-	-	13,500	13,500
	38,890	12,809	28,041	19,478	17,443	116,661
Interest rate sensitivity gap	74,196	(12,384)	(27,550)	(19,359)	(14,903)	-
Cumulative gap	74,196	61,812	34,262	14,903	-	-

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

24. Ultimate controlling company

UTB Partners Limited, is the Bank's immediate parent, owns 100% of the Bank and is recognised by the directors as the Bank's ultimate controlling company. Financial statements for UTB Partners Limited, which is the smallest and largest group into which the Bank is consolidated, can be obtained from UTB Partners Limited, 80 Haymarket, London SW1Y 4TE. The direct, indirect or attributed interest of the directors in the shares of UTB Partners Limited are disclosed in the accounts of that Company. The directors have no other interests in the shares of any other group company.