United Trust Bank

United Trust Bank Limited

Pillar 3 disclosures

as at 31 December 2019

Contents

1. Introduction

This document constitutes the Pillar 3 disclosure of United Trust Bank Limited ("the Bank").

The purpose of this document is to provide information and disclosure to the Bank's stakeholders in relation to the internal procedures and policies adopted by the Bank to manage and mitigate its key risks.

1.1. Overview of Regulatory Framework

The Basel lll regulatory framework, which was implemented in Europe through the Capital Requirements Directive IV ("CRD IV"), came into effect on 1 January 2014. This package defines the level of capital that banks must hold, having regard for the individual risk profile of each bank.

The requirements of CRD IV build upon the pre-existing regulations which divides the framework into three 'pillars' as described below.

Pillar 1 – these requirements set out the minimum capital requirements that each bank must adhere to.

Pillar 2 – these rules require that each bank perform an 'Individual Capital Adequacy Assessment Process' ("ICAAP") to assess its own risk profile and determine the level of additional capital required over and above the Pillar 1 requirements, having regard to those risks. The amount of any additional capital requirement is also assessed by the Prudential Regulatory Authority ("PRA") during its Supervisory Review and Evaluation Process ("SREP") and is used to determine the overall capital resources required by a bank.

Pillar 3 – these rules are designed to promote market discipline by enhancing the level of disclosure made by banks to their stakeholders, allowing them to assess a bank's key risk exposures and the adequacy of a bank's risk management process to mitigate these risks.

1.2. Measure of capital resources

The Bank uses the standardised approach to determine its Pillar 1 capital requirements.

1.3. Basis of disclosure

The Bank's Pillar 3 disclosure document has been prepared in accordance with the CRD IV requirements. Where disclosure has been withheld due to its proprietary nature or omitted on the basis of materiality, as the rules permit, we comment as appropriate.

All disclosures within this report have been prepared as at 31 December 2019, which is the Bank's latest financial year-end, and include the 2019 audited profits which the Board approved on 25 February 2020.

1.4. Frequency of disclosure

Pillar 3 disclosures are made at least annually and more frequently should management determine that significant events justify such disclosures. The Bank's Pillar 3 disclosures are published on its website (www.utbank.co.uk).

1.5. Verification of information

The Bank's Pillar 3 disclosures are approved by the Board and are not subject to external audit.

2. Scope of Pillar 3 disclosure

This section of the document provides an outline of the structure of the Bank and the nature of its business.

This document is applicable to United Trust Bank Limited, which has no trading subsidiaries.

The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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

All banking activities are conducted by United Trust Bank Limited.

3. Risk management framework and strategy

Risk is inherent in all aspects of the Bank's business. The Bank's risk management framework is designed to support business activities within the Board's defined risk appetite. The risk management framework and the governance arrangements are designed to ensure that there is a clear organisational structure with defined lines of responsibility and appropriate processes to identify, manage, monitor and report the risks which the Bank is or may become exposed to. It also ensures that the risks which the Bank is or may become exposed to are appropriately identified and that those risks which the Bank decides to take are managed so that the Bank is not subject to material unexpected loss.

3.1 Risk management framework

The Bank's risk management framework incorporates its approach to risk management and covers the risk management strategy, risk appetite, risk culture and risk governance. It details the risk management process and how different elements of the risk framework such as the risk appetite, stress testing, the ICAAP, the ILAAP and recovery planning link to each other.

The risk management framework:

- is the overarching framework under which all risk frameworks, policies, and procedures are developed;
- sets out the standards under which risk is managed and applies to all risks taken and managed by the Bank;

- sets out the roles of the Board as ultimately responsible for the risk and control environment of the Bank, as well as the executive management committee structures, roles and responsibilities with respect to risk management;
- confirms that the Bank follows the three lines of defence model and sets out the role of each line; and
- recognises the importance of having a robust risk aware culture.

3.1.1 Risk management strategy

The purpose of the risk management strategy is to:

- identify key and emerging risks;
- set 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 Bank'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;
- ensure a sound risk control environment and risk-aware culture; and
- inform the Bank's compensation practices to reward only prudent risk taking within risk appetie.

3.1.2 Risk appetite statement

The Bank creates value by assuming risk. As part of its annual strategy and budget setting process the Board considers its key objectives and defines how much risk the Bank is willing to assume in relation to its business strategy. The level of risk that the Bank can assume and the strategy are informed by:

- the results of stress tests and scenario analysis that are performed by the finance and risk departments; and
- the Bank's risk capacity.

The Bank'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 Board expresses the risk that can be assumed in each risk category as follows:

- a high level risk appetite statement defining the acceptable impact of the risk on the achievement of the Bank's goals and business objectives;
- granular statements detailing the type and level of specific risks that the Bank 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 is maintained and updated by the Chief Risk Officer.

The risk appetite statement details monitoring and escalation levels for risk metrics, including capital and liquidity, as follows:

- Appetite Early Warning Level
- Appetite Level
- Recovery Early Warning Level
- Recovery Level

The escalation levels ensure that the Bank can promptly identify a deteriorating position and take corrective action.

The risk appetite statement is reviewed at least annually or whenever there is a material change in the Bank's risk appetite, its activities or the market or economic environment within which it operates.

Management is responsible for proposing and the Board is responsible for reviewing and approving the risk appetite statement.

Business units are responsible for adhering to the risk appetite. The risk appetite statement is communicated to all business units and cascaded to all staff.

3.1.3 Risk culture

The Board requires that a sound risk management culture is embedded throughout the Bank in all business operations so that when business decisions are made they:

- take account of risks (i.e. they are "risk-informed");
- are compliant with approved policies;
- are within the defined risk appetite;
- can be monitored; and
- are reported to the appropriate level for oversight.

The Bank's risk culture can be illustrated through the following:

- a clear "tone from the top" reflecting a strong governance culture and ethics;
- a clear business strategy that is communicated and understood throughout the Bank;
- a risk appetite that is in line with the business strategy and embedded in the day-to-day management of the Bank;
- clear and well understood frameworks and policies;
- clear and risk informed decision making with personal accountability;
- open channels of communication throughout the Bank to freely raise, 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 and address poor risk management.

The above mean that all staff contribute to the implementation of the framework, and that they are aware of the need for risk management and their part in it. All staff are encouraged to identify, address and report risk incidents promptly.

We translate risk strategy into operational objectives and assign risk management responsibilities throughout the organisation.

We have defined values which are communicated to all staff and form part of the annual staff performance appraisal and remuneration process.

We 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.

We avoid conflicts of interest in reward structures and develop compensation structures that encourage and promote "prudent" risk taking.

We monitor business decisions and processes to ensure that they continue to be compliant with regulatory requirements.

3.1.4 Risk governance

The Board has ultimate responsibility for ensuring that an effective risk management framework is in place. The Board is responsible for a) approving the overall policy in relation to the types and level of risk that the Bank is permitted to assume in the pursuit of its business objectives; and b) maintaining a sufficient control environment to manage its key risks. The Board's Risk and Audit sub-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 Bank's risk management policies, controls and procedures are reported to the Risk Committee and the 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.

3.1.5 Three lines of defence

The Bank's risk management framework relies on the "three lines of defence" model. All three lines of defence contribute towards the effective management of risk.

First line of defence

The first line of defence comprises the business units that "own" the risk and are responsible for identifying and managing the risks arising within their areas of responsibility. Business units manage risks by operating within approved policies and 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 units have their own operational process and procedure manuals that document how they conform to approved policies and controls. Similarly they have their own quality control programmes to monitor and assess their adherence to approved procedures. Employees within business units are considered as the first line of defence and are expected to be aware of and own the risks relating to their activities. Face to face training provided by the second line of defence and online training ensures that first line of defence staff are risk aware at all times. The first line of defence is also responsible for maintaining and updating their own departmental risk registers.

Second line of defence

The second line of defence comprises governance and oversight and includes the credit, compliance and risk committees and departments. The second line of defence is responsible for communicating the risk strategy, risk framework and defined risk appetite to the business units, and independently monitors and reviews the activities of the first line of defence against the defined risk appetite. The second line of defence also performs stress testing to assess the Bank's risk exposures and their potential impact under a range of adverse scenarios. The second line of defence prepares reports and analyses the risks faced by the Bank for each key risk. The main functions of the second line of defence are in relation to financial, capital, credit, liquidity, interest rate, operational, conduct and compliance risk. Compliance is led by the Head of Compliance while the Risk department is led by the Chief Risk Officer who reports to the Chief Executive Officer and the Chairman of the Risk Committee.

The second line of defence does not have volume or sales targets, which are specifically excluded from their objectives. The second line of defence develops assurance programmes to review the results of the first line's quality control programmes and also adherence to and effectiveness of policies and controls. Proposals to the Board and the Risk Committee are reviewed and commented on by the second line of defence.

The second line of defence promotes a close working relationship with the first line of defence based on mutual trust, and the ability to support and challenge. The risk function works proactively with business units to identify, challenge, measure, manage, monitor and report the risks arising within the business

This is achieved by:

- analysing portfolio characteristics, loss drivers, assumptions and internal and external factors to determine the impact and likelihood of potential risks;
- performing scenario analysis to determine best and worst case outcomes, challenging assumptions, considering the interrelationships between risks and changes in expectations; and
- examining events, potential weaknesses in systems, processes and governance arrangements and proposing early warning signals, trigger levels and controls.

Third line of defence

The third line of defence comprises Internal Audit, who provide independent assurance, and are overseen by the Audit Committee. The Head of Internal Audit reports directly to the non-executive Chair of the Audit Committee and administratively to the Chief Executive Officer, and is independent of the first and second lines of defence. The third line sets its own programme of work and has access to the activities of both the first and second lines. 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. .

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 Bank.

3.1.6 Stress testing

The Board takes a forward-looking view of strategic, capital and liquidity planning as part of the ICAAP and ILAAP processes. One of the approaches used to facilitate this forward looking perspective in risk management is sensitivity analysis, scenario analysis and reverse stress testing.

Stress testing and scenario analysis are forward-looking risk management techniques used to evaluate the potential effects on the Bank's financial resources, following a specific event and/or movement in a set of risk drivers. They focus on low probability but plausible events that may have actually happened in the past.

Stress testing and scenario analysis is used to understand potential vulnerabilities to exceptional events and potential actions that could be taken to mitigate against the effects of those events. Stress scenarios cover a range of drivers that can create extraordinary losses in banking book positions that may arise as a result of a market event, a credit event or any other risk such as concentration or operational risk. These drivers include low-probability high-impact events in all major risk categories.

Stress testing and scenario analysis help identify and analyse the impact of risks on the Bank’s financial resources, and provide context when reviewing and setting risk appetite.

The Bank’s stress testing policy includes:

- sensitivity analysis of specific risk drivers;
- scenario analysis which refers to varying a range of parameters at the same time; and
- reverse stress testing which identifies the conditions and severity of a stress event that would result in the Bank’s business model becoming unviable or would result in the Bank reaching the point of failure.

Stress testing is used as part of:

- ICAAP to assess the adequacy of the Bank’s capital;
- ILAAP to assess the adequacy of the Bank’s liquidity reserves;
- recovery planning to assess the effectiveness and adequacy of recovery options; and
- to support strategic decision making.

The Bank’s stress testing policy is reviewed and approved by the Board annually or more frequently if required. The Board considers and approves the stress testing parameters used in the ICAAP, ILAAP and in recovery planning.

3.2 Risk governance structures

This section describes the committee and management structures in place within the Bank that identify and manage risk and ensure that the appropriate standards of corporate governance are maintained.

Significant risks are reviewed by the management of the Bank, with the aim of:
- identifying and assessing the risks faced by the Bank;
- assessing the appropriateness of risk measurement policies and practices; and
- assessing and commenting on the adequacy of the Bank's ability to measure, monitor and manage risks.

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the Risk Committee, the Board and the 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. The Bank recognises that its future success as a financial institution depends on its ability to conduct its affairs with prudence and integrity and to safeguard the interests of its stakeholders.

3.2.1 The Board

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

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

The Board has oversight of how management implement the Bank's strategy and retains control through challenge at Board and committee meetings. All members of the Board receive accurate and timely information to enable them to effectively participate in discussions.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Board approves the level of risk that the Bank is willing to accept and is responsible for maintaining a sufficient control environment to manage the key risks. The Board is also responsible for ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives. The Board also maintains close oversight of current and future activities through Board reports which include a combination of financial results, operational reports, budgets, forecasts and reviews of the main risks as documented in the ICAAP and ILAAP reports.

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

The risk appetite established by the Board incorporates a balanced mix of both quantitative and qualitative measures. The Bank's quantitative targets include:

- Capital adequacy;
- Capital buffers;
- Liquidity limits;
- Liquidity buffers;
- Interest rate risk limits;
- Large exposure limits;
- Loan to Security Value (LTV) limits;
- Credit Risk Rating (CRR) limits; and
- Tail Risk Limits

Qualitative measures include:

- Managing reputational risk;
- Management stretch;
- Allocation of roles and responsibilities (SYSC); and
- Regulatory compliance

The Bank chooses to measure and monitor its risk appetite on a more quantitative basis, whilst qualitative issues remain a matter of judgement for management. In setting the Bank's risk appetite and risk tolerance levels, the Board and Senior Management have taken into account all the relevant risks that the Bank faces. The Bank has a strong risk culture and its risk measures are well understood within the business.

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, the business regularly reviews its objectives, assesses the risks which may prevent these objectives being achieved, and ensures there is defined ownership of the risks and 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 plan that controls are working properly and all risks have been properly identified.

The profitability and growth of the Bank also has a key impact in the setting of the risk appetite. The Board monitors key performance indicators, including:

Measure	**At 31 Dec 2019**	**At 31 Dec 2018**	**% Change**
Operating Income	£64.9m	£61.2m	6.0 %
Operating Profit	£32.7m	£34.4m	(4.7)%
Cost to Income Ratio	49.5%	43.9%	5.6pp
Return on Equity	16.2%	22.3%	(6.1)pp
Gross New Lending	£994m	£821m	20.9%
Loan Book	£1,243m	£1,035m	20.1%
Deposit Book	£1,217m	£1,017m	19.6%
Staff Numbers	221	204	8.3%

Board Declaration on the Adequacy of Risk Management Arrangements

The Board considers that its risk management arrangements, including its risk management systems and controls, are adequate with regards to the Bank's profile and risk.

Directorships held by members of the Board

The number of external commercial directorships, LLP memberships and partnerships held by the Executive and Non-Executive Directors who served on the Board for the year ended 31 December 2019 in addition to their roles within the Bank were:

Name	**Position**	**Total Positions held**
Alice Altemaire	Non-Executive Director	4
Tracy Blackwell	Non-Executive Director	3
Maria Harris	Non-Executive Director	1
Andrew Herd	Non-Executive Director	3
Michael Lewis	Non-Executive Director	4
Sarah Laessig	Non-Executive Director	2
Stephen Lockley	Non-Executive Director	1
Graham Davin	Executive Director	1

In line with SYSC 4.3A.7, the above table only considers commercial directorships, and does not include charities and trusts. Multiple directorships held within the same group are considered to count as a single directorship. Members of the Board, who did not hold any other directorships in addition to their role within the Bank, for the year ended 31 December 2019, have been excluded.

Staffing and management
Staff numbers reached 221, a 8.3% increase on 2018, with new staff joining across all areas of the Bank, including senior management, operations and control functions, to ensure an appropriate control culture is maintained as the Bank grows.

We continued to promote the Bank's values and were pleased to present five employees with individual value awards. Winners of these awards are voted for by staff as people whose behaviour exemplifies the Bank's values.

The Bank is an equal opportunities employer and it employs staff from a diverse background. Pay is set in line with the market and a comprehensive package of benefits 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 cohesion.

Equality and diversity
The Bank employs staff from a wide variety of backgrounds, origins, experiences and cultures. We recognise, respect and value people's differences in terms of skills, experience, background, race and gender and this is reflected both within the organisation, in our recruitment and promotion process and in the way we treat our customers.

We believe in treating each other fairly, with dignity and respect and creating an environment where every individual is given equal access to opportunities to fully develop their potential. In line with our values, we listen and 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 of our opinions.

The Directors are 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.
- Not tolerating any form of intimidation, bullying, or harassment, and to discipline those that breach this policy.
- To ensure 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 we can apply corrective measures.
- Encouraging employees to treat everyone with dignity and respect.

We also consider diversity within our Board where we value different skills, experience, background, race and gender. When filling Board positions, we ensure that we follow a rigorous selection process, as we do for all our recruitment. This is based on identifying the current skills gap, as well as complementing and expanding the skills, knowledge and experience of the Board as a whole.

3.2.2 Board Committees

The Board maintains ultimate responsibility for ensuring that an effective risk management framework is in place. The Board delegates certain powers for some matters to committees, which are set out below. The outputs from the committees are reported to the Board, ensuring that the Board retains the appropriate oversight. The main committees of the Board are:

Audit Committee

The Audit Committee is chaired by Andrew Herd, a non-executive director, and includes Stephen Lockley, another non-executive director; both are chartered accountants. Sarah Laessig, who recently joined the Board, will join the Audit Committee from 1 March 2020.

The committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via management, that recommendations are implemented where necessary. Any significant judgements and accounting policies in relation to financial reporting are reviewed and challenged by the committee. The committee assesses Internal Audit resources and confirms that these are sufficient to fulfil their responsibilities.

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

Risk Committee

The Risk Committee is chaired by Stephen Lockley, a non-executive director, and includes Andrew Herd, a non-executive director. Alice Altemaire, also a non-executive director, joined the committee on 1 January 2019 and resigned from the Board and this committee on the 30 June 2019. Alice was obliged to resign as she was appointed as CEO of a competitor bank. Maria Harris, who recently joined the Board, joined the Risk Committee from 1 February 2020.

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

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

The Risk Committee is also responsible for monitoring and reviewing the effectiveness of the Compliance function including its independence, objectivity and resourcing.

Remuneration Committee

The Remuneration Committee is chaired by Michael Lewis, a non-executive director, and includes Richard Murley, the Chairman of the Board. Sarah Laessig, who recently joined the Board, joined the Remuneration Committee from 1 February 2020.

The role of this committee is to consider remuneration policy, regulatory obligations and specifically to approve the remuneration and other terms of service of executive directors and senior managers.

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

The Chairman of the Board and Chief Executive Officer recommends the fees payable to the non-executive directors. The Remuneration Committee approves the annual salary and bonus proposals for executive directors and staff. The committee meets semi-annually and additionally when required.

Management Committee

The Management Committee is chaired by the Chief Executive Officer, Graham Davin, and includes the executive directors of the Bank, the Chief Risk Officer, the Chief Credit Officer, the director of the Mortgage Division and Head of Human Resources. The executive directors provide a direct link to the Board. The committee meets monthly to discuss and implement the strategy of the Bank, as approved by the Board, and to oversee the effective monitoring and control mechanisms within the Bank.

The committee considers the major projects of the Bank, its response to market conditions, key personnel and significant events. It does not focus on day-to-day operations which are delegated to other committees (see section 3.2.3) and are the responsibility of line managers. It considers all exceptional items and reviews the risk profile, capital, liquidity and performance of the business.

3.2.3 Other Bank Committees

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

Operations Committee

The Operations Committee is chaired by the Group Managing Director, Harley Kagan, and includes each of the divisional and functional heads of the business. The operations committee meets monthly to review performance, operations and key issues. It is a forum for business units to share information.

Credit Committee

The Credit Committee is chaired by the Head of Credit, Simon Frazer, and is responsible for overseeing all credit decisions, including those sanctioned by delegated authority. It ensures credit risk is mitigated to an acceptable level. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that the credit policy is prudent, taking into account changing market trends. In respect of loans sanctioned by delegated authority, the Bank's credit department provides oversight to ensure such sanctioning complies with the Bank's credit policies and procedures.

Asset and Liability Committee

This Asset and Liability Committee is chaired by the Chief Financial Officer, Jonathan Ayres. ALCO meets monthly and ensures that the Bank adheres to the capital, liquidity and interest rate risk appetites and policies, as approved by the Board. It is also responsible for ensuring that the policies that are implemented are in line with regulatory requirements. The committee is also responsible for the effective management of the Bank's assets and liabilities mix and profile, anticipating the impact of future business activity and management actions.

Compliance Committee

The Compliance Committee is chaired by the head of Compliance, Mark Heaphy and includes the CEO and the Chief Risk Officer. The committee meets three times per year and is responsible for overseeing compliance with non-prudential regulatory requirements and conduct risk.

3.3 Key Risk Categories

Key risk categories are determined by reviewing the risk register and identifying the risks that could threaten the achievement of the Bank's strategic objectives, its business model or financial performance. For each key risk category a risk appetite is defined and the Bank's exposure to this risk category is managed and reported against the defined risk appetite.

In the table below, we present a summary of the key risks together with their mitigation and a status update for 2019.

Risk category	Mitigation	Status update
Business performance and strategic risk The risk arising from business decisions and improper implementation of decisions	• 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 business plan • Regular assessment of risks inherent in strategic decisions	**Stable** The Bank continues to achieve its business objectives
Capital risk The risk of having insufficient capital to meet regulatory requirements and to support the Bank's growth plans	• The Bank 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	**Stable** The Bank continues to maintain a prudent level and mix of capital resources
Liquidity and funding risk The risk of the Bank being unable to meet its obligations as they fall due or do so only at excessive cost	• The Bank is funded through the stable retail deposit market with most deposits covered by the Financial Services Compensation Scheme • Regular liquidity stress testing performed and forward looking management of liquidity requirements • Annual assessment of liquidity adequacy through the ILAAP process • Maintenance of prudent levels of liquidity • Established policies and detailed limits to manage liquidity risks • Diverse funding profile • Limited wholesale funding (FLS only) Access to the Discount Window Facility	**Stable** The Bank continues to maintain a stable funding base and prudent levels of liquidity
Credit risk (including concentration risk to groups of borrower, industry sector or geographic region) The risk of financial loss from	• The Bank operates in markets where it has a good understanding and significant expertise • Underwriting policies and processes • 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	**Stable** The Bank's markets have continued to perform, although sentiment was affected by political and macro-economic factors which contributed to a slower housing market, however this is expected to recover in the new year. Our key credit

borrowers who are unable or unwilling to meet their financial obligations to the Bank	• Conservative lending criteria expressed through credit risk rating scores Established detailed limits to manage exposures inluding concentration risks	metric, tail risk, has improved in the year
Interest rate risk The risk of loss arising from interest rate changes and the use of different reference rates for pricing assets and liabilities.	• Regular ALCO meetings to review the structure of the balance sheet and 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	**Stable** The Bank's exposure to interest rate changes has remained stable and is positioned to benefit from potential interest rate movements
Operational risk The risk of loss arising from inadequate or failed processes, people and systems or from external events	• Established policies and procedures that are regularly reviewed and updated • Experienced staff employed • Formal and on the job training provided • Ongoing Risk and 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 Bank • Phishing and cyber training provided to all staff • New governance risk and control system deployed across the Bank • Established and regularly tested Disaster Recovery and Business Continuity Plan arrangements	**Stable** While the Bank continues to increase the scale of its operations and to rely on a small number of third party service providers, operational risk has remained well-controlled with no material change in incidents reported. The Bank continues to be vigilant and monitor closely threats of cybercrime. Overall, operational risk is considered to be stable
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	• 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	**Stable** The Bank continues to offer straightforward and uncomplicated products and to conduct regular monitoring of customer outcomes. Staff awareness training is regularly updated in areas such as anti-money laundering, data protection and conduct. As such, compliance risk is assessed as stable

Emerging risks

Emerging risks refer to those forward-looking risks whose impact and/or likelihood cannot be readily quantified and which have not yet crystallised.

Our key emerging risks are:

Risk event	**Description**	**Our response**
Brexit	Until the final UK-EU terms of departure and form of trade agreement has been settled, uncertainty will be significant and may result in reduced economic activity, reduced investment, reduced consumer spending and a slow-down in the property market. As the Bank only operates in the UK, the potential impact is likely to be through second order effects on the UK economy	We closely monitor negotiations and the potential impact on the business. The Bank only operates in Sterling within the UK but is exposed to second order effects of Brexit on the UK economy. We assess the potential impact through stress testing
Cyber attack	Cyber incidents continue to be reported across all industries. A cyber-attack on the Bank would be likely to attract bad publicity and cause reputational damage and potentially a regulatory fine	We have strengthened the Bank's cyber defences, deployed cyber risk tools and trained our staff to minimise the likelihood of a cyber incident. We are improving our operational resilience
Geo-political crisis	Negative political and economic developments across the globe (e.g. increased tension between China and the US and in the middle east) could indirectly have an adverse impact on the UK economy. The Bank is potentially affected indirectly via the influence on trade, inflation and consumer demand	We monitor global economic developments and ensure that we are properly funded and capitalised to withstand potential adverse impacts. We have performed various stress scenarios and understand how the Bank performs under stress and have developed metrics to promptly identify changes in the economic environment
Climate change	Climate change risks include the financial, operational and reputational risks arising as society moves towards a carbon neutral and zero carbon model and the risks of potential losses due to climate and weather related events.	The Bank is in the process of developing and integrating climate change risk considerations into its main risk management framework. Activities include: identifying and assessing physical and transition risks, educating the Board and staff, setting risk tolerances and reporting through management information. The Bank expects to further enhance its Governance, Strategy and Risk Management in respect of climate change risk over the coming years, as the risk and understanding of it evolve.

4. Capital resources

As at 31 December 2019, and throughout the period to 31 December 2019, the Bank maintained its capital resources at a level above the minimum capital adequacy requirements.

4.1 Eligible Capital Resources

The Eligible Capital Resources of the Bank:

Tier 1	**% of Total**	**31 December 2019 £'000**	**% of Total**	**31 December 2018 £'000**	**% Growth**
Share Capital		10,350		10,350	
Share Premium		25,680		25,680	
Profit and Loss Account		98,093		86,972	
Less Intangible Assets		(2,118)		(1,738)	
Less Other Deductions		(6,748)		(6,554)	
Total CET 1	73.9%	**125,257**	76.2%	**114,710**	9.2%
Additional Tier 1		16,851		16,851	
Total Tier 1	83.8%	**142,108**	87.4%	**131,561**	8.0 %
Tier 2					
Subordinated Loans		26,312		18,077	
Collective Impairments		1,081		904	
Total Tier 2	16.2%	**27,393**	12.6%	**18,981**	44.3%
Eligible Capital	100.0%	**169,501**	100.0%	**150,542**	12.6 %

Deferred Tax:

In accordance with Article 48 of the Capital Requirements Regulation ("CRR"), the Bank's deferred tax asset of £2,069k is not deducted from Eligible Capital.

Additional Tier 1 Capital:

Additional Tier 1 consists of 2 tranches of Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities ("AT1 Securities"), issued in 2015 and 2017. The 2015 AT1 Securities bear interest at an initial rate of 11.85% per annum until 31 July 2020 and thereafter at a fixed margin over the 1-year mid-swap rate as provided in the Securities Certificate.

The 2017 AT1 Securities bear interest at an initial rate of 10.375% per annum until 20 November 2022 and thereafter 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 Bank in the event of the Bank's Common Equity Tier 1 ("CET1") ratio falling below 7 per cent.

Tier 2 Subordinated Debt:
Tier 2 consists of 3 tranches of subordinated debt notes; fully described in Note 19 of the Annual Report. The balance of the 2013 subordinated debt was redeemed in 2019.

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

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

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.

4.2 Leverage Ratio Disclosures
The tables in Appendix 2 summarise the leverage ratio disclosures, as required by CRD IV, as at 31 December 2019.

The Bank operates within an acceptable range for leverage. It manages its exposures and monitors leverage to ensure that it remains within this range.

The leverage ratio has remained relatively stable throughout the year with no significant movements, except when audited profit were recognised or dividends were paid.

4.3 Return on Assets
The Bank's return on assets was 1.7% in the year to 31 December 2019 (2018: 2.1%).

4.4 Encumbered Assets
The Bank encumbers assets through identifying loans as collateral to support access to the Bank of England's Funding for Lending Scheme and Discount Window Facility. Details can be seen in Appendix 3 - Asset Encumbrance Template.

5. Capital adequacy

The Bank maintains a strong capital base to support its lending activities and to comply with its capital requirements and Total Capital Requirement ("TCR") at all times.

Capital adequacy is monitored by the Board, 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 Board to take into account the effects of events that were not reflected in the original budgets.

5.1. Internal Capital Adequacy Assessment Process

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 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 Board, of the risks faced by the Bank and the appropriate amount of capital that the Bank should hold to protect against those risks.

5.2. Pillar 1 capital requirement

The Pillar 1 capital requirement, determined in accordance with the rules contained within Basel lll as applied to the Bank, consists of the following components:

Credit risk capital requirement – the Bank has adopted the standardised approach to determine its Pillar 1 credit risk capital. This involves the application of standard rates to each exposure class.

Operational risk capital requirement – the Bank has adopted the basic indicator approach to determine its Pillar 1 operational risk capital. This calculation is based on the Bank's operating income for the past three years.

Market risk capital requirement– the Bank does not have a trading book and as such its exposure to market risk is immaterial.

The table below sets out the Pillar 1 capital requirements as at 31 December 2019 determined in accordance with CRD IV:

Description	Main Components	8% Capital Required* £000's
Central Government or central banks	• BoE Reserve Account	-
Institutions	• Cash placed with financial institutions	333
Retail	• Secured & Unsecured Lending	5,353
- *Of which: SME*	• *Secured & Unsecured Lending*	*4,760*
Secured by mortgages on immovable properties	• Mortgages	59,401
- *Of which: SME*	• *Mortgages*	*52,470*
Exposures in default	• Mortgages	5,388
Other items	• Sundry Debtors and Fixed Assets	1,106
Credit risk minimum Pillar 1 capital requirement		71,581
Operational risk Pillar 1 capital requirement (*basic indicator approach*)		8,816
Pillar 1 capital requirement		**80,397**
Of which: Tier 1		60,298
Tier 2		20,099
Capital resources (refer to section 4.1)		
Tier 1 capital resources		142,109
Tier 2 capital resources		27,392
Total capital resources		**169,501**
Surplus of capital resources over Pillar 1 capital requirement		
Tier 1 capital surplus		81,811
Tier 2 capital surplus		7,293
Total surplus capital resources over Pillar 1 capital requirement		**89,104**

* Net of the effects of the BBB Enable Guarantee (see section 7).

The Bank benefits from a surplus of capital resources over and above its Pillar 1 regulatory capital requirement. The Bank's Common Equity Tier 1 ("CET1") ratio at 31 December 2019 was 12.5% (2018: 13.1%) and total capital ratio was 16.9% (2018: 17.2%).

The Bank is also required to hold additional capital in the form of a Bank specific add-on (Pillar 2A), which is part of its Total Capital Requirement and also regulatory buffers which comprise a Capital Conservation Buffer ("CCB") and a Countercyclical Buffer ("CCyB"). The CCB is now fully loaded at 2.5% (from 1 Jan 2019) with no future planned changes.

Pillar 2A must be met by a minimum of 75% Tier 1 capital and no more than 25% Tier 2 capital. 100% of the regulatory buffers must be met by CET1 Capital.

The CCyB requirement remains at 1% currently. The Bank of England announced that the CCyB will increase to 2% in December 2020. The CCB is now fully loaded at 2.5% (from 1 Jan 2019) with no future planned changes.

The Bank's Total Capital Requirement, excluding regulatory buffers is 10.23%.

6. Credit risk exposures

6.1. Summary of the Bank's credit risk exposures

The table below summarises the regulatory credit risk exposure at 31 December 2019:

Description	**Exposures at 31 December 2019* £000**	**Average Exposures Year to 31 December 2019* £000**
Central governments or central banks	128,730	109,088
Institutions	20,823	33,227
Retail	113,534	107,219
Of which: SME	*103,652*	*99,044*
Secured by mortgages on immovable properties	1,082,930	957,158
Of which: SME	*585,518*	*518,918*
Exposures in default	49,598	48,490
Other items	10,708	11,615
	1,406,323	**1,266,798**

* Includes exposures covered by the BBB Enable Guarantee (see section 7).

At 31 December 2019, the Bank's "Loans secured by mortgages on immovable properties" were predominantly to customers within the United Kingdom. All loans in this exposure class are secured by properties within the United Kingdom. All other exposure classes are to customers within the United Kingdom. As such we have not disclosed the above table by geographic area.

The residual maturity of these exposures at 31 December 2019 is shown below:

Description	**Up to 1 year £'000**	**1-5 years £'000**	**More than 5 years £'000**	**Non-interest bearing £'000**	**Total £'000**
Central governments or central banks	128,730	-	-	-	128,730
Institutions	20,823	-	-	-	20,823
Retail	44,062	67,110	2,362	-	113,534
Secured by mortgages on immovable properties	527,995	209,361	345,574	-	1,082,930
Exposures in default	43,959	1,675	3,964	-	49,598
Other items	-	-	-	10,708	10,708
	765,569	278,146	351,900	10,708	1,406,323

Loans and advances to customers are reviewed regularly to determine if there is any evidence of impairment. The distribution of loans and advances as at 31 December 2019 by credit quality is shown below. For the purpose of reporting, 'past due but not impaired' relate to loans that are in arrears, but the loan does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.

	At 31 December 2019		At 31 December 2018	
	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	1,169,221	149,554	954,239	138,438
Past due but not impaired:				
Loans and receivables at amortised cost:				
- Less than three months	16,586	-	16,962	-
- Three to twelve months	13,512	-	7,977	-
- One to five years	454	-	170	-
Forbearance	12,938		20,473	
Impaired	1,505	-	2,957	-
Repossessions	34,865	-	37,561	-
Less: provisions	(6,459)	-	(5,376)	-
	1,242,622	149,554	1,034,963	138,438

Note that all lending exposure is to the UK, and as such we have not disclosed the above table by geographic area.

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, albeit the loan to value remains acceptable.

6.2. Provisioning Policy

The purpose of this section is to provide more detail in relation to the Bank's credit risk profile and specifically those loans where there may be doubt as to whether the amount loaned will be recovered in full.

The Bank prepares its financial statements in accordance with the Financial Reporting Standards 102 ("FRS 102") issued by the Financial Reporting Council. Thus, it is required to make individual impairments against bad or doubtful debts such that the carrying value of each loan is no higher than the present value of the future cash flows that the Bank expects to recover.

Bad debts are defined as those accounts that are in default and where the Bank has crystallised a loss on the account.

Doubtful debts are defined as those accounts where the full recovery of the balance is not considered probable, either as a result of a client falling behind their repayment schedule, or more likely in the case of both development and bridging finance, the value of the security is impaired. Such impairment would therefore result in a shortfall between the discounted future cash flows and the customers balance outstanding.

Individual impairments have been made against all bad and doubtful debts, based on the expected loss measured on a case by case basis. Loans and advances are written off to the extent that there is no longer any realistic prospect of recovery.

Additionally the Bank's experience in credit markets confirms its view that there are inherent unforeseen losses in any loan portfolio. Consequently the Bank makes a collective impairment as a percentage of loan assets (which varies by type of loan and experience) on its balance sheet to cover these unforeseen losses.

The following sections explain how these general principles are applied in relation to the Bank's asset portfolios.

6.3. Provision for impairment losses

6.3.1 Loans & Advances Movement	**2019 Individual £'000**	**2019 Collective £'000**	**2019 Total £'000**	**2018 Individual £'000**	**2018 Collective £'000**	**2018 Total £'000**
At 1 January	4,472	904	5,376	1,765	836	2,601
Charge	4,671	177	4,848	3,891	68	3,959
Released	-	-	-	(537)	-	(537)
Utilised during the year	(3,765)	-	(3,765)	(647)	-	(647)
At 31 December	5,378	1,081	6,459	4,472	904	5,376

6.3.2 Impairment losses taken to income statement	**2019 £'000**	**2018 £'000**
Individual impairments	4,671	3,354
Collective impairment	177	68
Unwind of discounting and Recovery of loans previously written off	(364)	(503)
	4,484	2,919

6.4. Credit risk management

For all property lending, the Bank takes security in the form of legal charges over the property against which funds are advanced and where appropriate guarantees are taken from the principal beneficiaries of the transactions being financed. These are the primary methods used by the Bank to mitigate credit risk. Each security is valued at inception by a qualified surveyor. In isolated cases, the Bank may also hold cash collateral in relation to certain residual liabilities associated with a development scheme.

For Asset Finance and Motor Finance agreements the Bank has a charge over the assets financed and/or where appropriate guarantees are taken from the borrower or company directors.

The Bank does not use derivatives or other financial instruments as a means of mitigating credit risk.

7. Exposure to Securitisation Positions: Enable Guarantee

The Bank has in place an Enable Guarantee with the British Business Bank. The British Business Bank is a state-owned economic development bank established by the UK Government. Its aim is to increase the supply of credit to small and medium size enterprises as well as providing business advice services. The Enable Guarantee provides unfunded credit protection for qualifying loans within the Bank's property development loan book. Its effect is to partially offset the Bank's exposure to qualifying loans; the Bank remains exposed to the unguaranteed portion and to a 'first loss' element of the guaranteed portion. This latter exposure constitutes a synthetic securitisation position under the CRR. The guarantee improves the Bank's capital efficiency and increases the Bank's capacity to fund SME housebuilders in the UK.

The guarantee covers loans originated by the Bank which meet certain criteria including: the risk profile, loan size, purpose of the loan and the nature of the borrower. The guarantee was entered into in October 2017 and became effective in 2018 when certain size and diversification criteria had been reached. Qualifying newly originated loans are added to the guarantee portfolio up to a maximum aggregate facility amount of £150m. New loans can be added until April 2020, after which the guarantee continues for those loans already covered by it, until they have been repaid. Further drawdowns on these loans are also covered after April 2020, up to each loan's facility limit. The guarantee contains provisions that mean that new qualifying loans may not be added in the event of defaults occurring within the guaranteed portfolio. The guarantee can be terminated via a clean-up call, once the aggregate value of the remaining facilities falls below 10% of the maximum facility limit.

Loans covered by the guarantee are monitored in the same way as unguaranteed loans provided by the Bank, and in the event of a default, the Bank would undertake the same recovery procedures for guaranteed loans as for unguaranteed loans.

The guarantor under the guarantee is the UK Government. As a consequence the risk weighting of the guarantee exposure is 0% under Article 114(4) of the CRR which is applied to the value of guaranteed facility of each loan, including undrawn amounts. The synthetic securitisation position is deducted from Own Funds in accordance with Article 244(2)(b) of the CRR. The amount deducted at year end was £6.7m (2018: £6.6m).

The accounting for the guarantee protection is off balance sheet and the full originated loan exposure remains on balance sheet. The fees paid for the guarantee are included within operating expenses within the income statement.

The total amount of outstanding exposures under the guarantee at year end (being the guaranteed portion of the qualifying loans) was £69.7 m (2018: £67.3m).

At the year end, no loans covered by the guarantee were impaired (2018: nil). No losses were recognised in respect of these loans.

8. Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR.

The disclosure below covers remuneration policies and practices for categories of staff whose professional activities have a material impact on the Bank's risk profile (Material Risk Takers ("MRTs")), and staff who hold Significant Management Functions ("SMFs"), in accordance with the requirements set out by the regulatory authorities.

8.1 Decision making process

The Remuneration Committee of the Board of the Bank is responsible for governance of remuneration on behalf of the Board. The Committee currently comprises two independent non-executive directors. During 2019, the members of the Committee were:

- Michael Lewis (Chairman)
- Richard Murley

The Committee met two times during the financial year 2019. The Committee holds a minimum of two meetings in each financial year with additional meetings held when appropriate.

The Remuneration Committee is responsible for the overall remuneration policy for all staff and in particular, the policy and the level of remuneration of SMF staff and MRTs, including Executive Directors. There are no sub-committees of the Committee and it operates under delegated authority from the Board. The Committee approves remuneration proposals on an annual basis, and reports any matters within its remit in respect of which it considers that action or improvement is needed and makes recommendations as to the steps to be taken.

In agreeing the remuneration policy, the Committee does not obtain independent external advice. The Committee considers advice from the Chief Executive Officer, Group Managing Director, Head of Human Resources, the Senior Compensation and Benefits Manager and the Company Secretary as relevant (though not in relation to their own remuneration).

In the design of pay structures for Executive Directors, SMFs and MRTs the Committee also takes account of the overall approach to reward for employees in the Bank as a whole.

8.2 The link between pay and performance

The Remuneration Committee has approved remuneration principles which support a clear link between pay and performance. The principles include:

- striking an appropriate balance between risk taking and reward;
- rewarding the achievement of the overall business objectives and values of the Bank;
- encouraging and supporting the Bank's culture of excellent customer service; and
- guarding against risk taking over and above the Bank's risk appetite.

8.3 Remuneration structures and their purpose

Fixed pay

In order to attract, retain and motivate employees to achieve the objectives of the Bank within its stated risk appetite and risk management framework, employees are paid fixed base salaries, and benefits such as holiday allowance, company car allowances, pension scheme, life assurance, private medical insurance, permanent health insurance and may access staff loans. These elements are set at a level to ensure that there is not an excessive dependence on variable remuneration.

Annual bonus

The annual cash bonus is performance based and designed to drive and reward medium term results. It considers financial and non-financial (such as adherence to Bank values) results and metrics at Bank, division and individual level. The Committee approves the bonus amount, and any proposed payment.

Long term incentive plans

All senior staff may from time to time be offered options over shares in UTB Partners Limited. Options are generally issued at the money and granted over a vesting period of four years and must be exercised within 10 years.

Malus & clawback

Even though Malus and Clawback are 'disapplied' as a regulatory requirement because the Bank is a Tier 3 firm, contracts for all senior staff employed since November 2014 have included a clause to provide for 'Clawback' and 'Malus'.

8.4 Deferred remuneration policy

Revenue generating staff in certain lending divisions may have up to 30% of their annual bonus deferred each year. Payment of this deferred element is contingent upon the performance of the relevant loans.

8.5 Ratios between fixed and variable remuneration

The Capital Requirements Directive ("CRD") limits variable remuneration to no more than that paid as a fixed salary. Variable remuneration does include the value of options granted to staff, notwithstanding that an option grant may relate to vesting periods over multiple years. Accordingly, where the Bank grants options to its senior staff, both as a reward and inducement to remain with the group, the full value of these options is included in the year of grant with the result that the ratio of fixed to variable remuneration may exceed the 1:1 limit. Current legal advice is that in terms of the proportionality rule, this ratio may be exceeded.

8.6 Remuneration Statistics

The Bank's remuneration for the past two years was:

	2019 £'000	2018 £'000	% Growth
Total wages and salaries			
- Directors (including Non-Executives' fees)	2,662	2,540	
- All other	14,992	12,864	
	17,654	15,404	15%
Social security costs	2,374	2,047	
Pension and other benefits	1,769	1,091	
	21,797	18,542	18%
Number of Staff at Year-end	221	204	8%
Average Number of Staff	216	186	16%
Total Remuneration / Net Income	33.6%	30.3%	
Total Remuneration / Average Employee (£'000s)	101	100	

Remuneration for the year ended 31 December 2019 for the Bank by business area was as follows:

	Lending £'000	Treasury and Central Services £'000	Total £'000
Salaries	9,249	5,182	14,431
Cash Variable Remuneration	1,751	1,472	3,223
	11,000	6,654	17,654
Social security costs	1,978	396	2,374
Pension costs	1,146	623	1,769
Total remuneration	14,124	7,673	21,797
Average Number of Staff	150	67	216

The above two tables are based on remuneration committed and costs accrued during the year, as charged to the Income Statement. Bonuses for the year are estimated at the year-end date.

The table below provides quantitative information set out in accordance with clauses 1(h) (i) to (vi) of CRR Article 450.

2019	Senior Management (Board)		Other SMFs and MRTs	
	No. of recipients	£'000s	No. of recipients	£'000s
Fixed remuneration during 2019	12	1,688	33	4,137
Variable remuneration awarded for 2019 performance:				
- Paid	4	986	32	1,027
- Deferred	1	42	17	321
Total Remuneration		2,716		5,485

The above table is prepared based on remuneration committed during the year. The figures exclude estimated bonuses accrued at 31 December 2019 that will be payable in 2020 or later, but include bonuses paid during 2019 that relate to prior years.

MRT staff aggregate remuneration of EUR 1m or more for 2019

Total remuneration bands (EUR)	**Executive Directors and other MRT Staff (no.)**
1,000,000 - 1,500,000	1
1,500,001 - 2,000,000	0
2,000,001 - 2,500,000	0
2,500,001 - 3,000,000	0

Appendix 1: Own Funds Disclosure Template

Own funds disclosure template		2019 £'000s	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 capital (CET1): instruments and reserves			
1	Capital instruments and the related share premium accounts	36,030	26 (1), 27, 28, 29
	of which: ordinary share capital	36,030	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	98,093	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**134,123**	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(2,118)	36 (1) (b), 37
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38,
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41,
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(6,748)	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258

20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	-	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(8,866)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**125,257**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	16,851	51, 52
31	of which: classified as equity under applicable accounting standards	16,851	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**16,851**	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**16,851**	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**142,108**	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	26,312	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)

48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)
50	Credit risk adjustments	1,081	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**27,393**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**27,393**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**169,501**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**1,004,958**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	12.46%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	14.14%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	16.87%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	8.00%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	1.00%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.68%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	36 (1) (i), 45, 48
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62

78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

Appendix 2: Leverage Ratio Template

Table LRSUM: Summary reconciliation of accounting assets and leverage exposures

		2019 £'000
1	Total assets as per published financial statements	1,406,617
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	38,382
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(293)
8	**Leverage ratio total exposure measure**	**1,444,706**

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,406,323
2	(Asset amounts deducted in determining Tier 1 capital)	-
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**1,406,323**
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark- to-market method)	-
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-

8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	-
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales ac counting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	383,692
18	(Adjustments for conversion to credit equivalent amounts)	(345,310)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	38,382
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposure measure	
20	**Tier 1 capital**	142,108
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**1,444,706**
	Leverage ratio	
22	**Leverage ratio**	**9.8%**

Appendix 3: Asset Encumbrance Disclosure Template

Template A- Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	63,643		1,344,789	
030	Equity instruments				
040	Debt securities				
120	Other assets				

Template B- Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	63,643	
150	Equity instruments		
160	Debt securities		
230	Other collateral received		
240	**Own debt securities issued other than own covered bonds or ABSs**		

Template C- Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**		

Appendix 4: Requirement for a countercyclical capital buffer

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates (based on the geographical distribution of relevant exposures) to the overall capital requirement of the Group. The following tables disclose information relevant for the calculation of the countercyclical buffer as at 31 December 2019 in accordance with Regulation (EU) 2015/1555.

		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Counter-cyclical capital buffer rate
		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country:												
	UK	1,406,338	-	-	-	69,711	-	137,983	-	-	137,983	100%	1%
020	Total:	1,406,338	-	-	-	69,711	-	137,983	-	-	137,983	100%	1%

Table 2: Amount of institution-specific countercyclical capital buffer

		010
010	Total risk exposure amount	1,004,958
020	Institution specific countercyclical buffer rate	1%
030	Institution specific countercyclical buffer requirement	10,050