



report and accounts 2014

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

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Tel: 0345 140 1000
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Registered in England and Wales
No. 1713124

FCA Register No. 204570

Board of Directors

Those serving at 8 April 2015 are;

Dave Prentis (President)
Graham Bennett (Chair)
Roderick Chamberlain (Independent Director)
Clare Gosling
Billy Hayes
Peter Kelly
Ian Morrison
Paul Noon OBE
Mike Osborne
Ed Sabisky
Richard Wilcox
Allan Wylie

Executive Management

Richard Wilcox, Chief Executive Officer
Kate Eldridge, Company Secretary
Kay Gossage, Head of Human Resources
Peter Kelly, Director, Business Development and Marketing
Ian Morrison, Director, Operations
Mike Osborne, Finance Director

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Shareholders

ACCORD
Associated Society of Locomotive Engineers and Firemen
Association of Teachers and Lecturers
BALPA
Broadcasting, Entertainment, Cinematograph and Theatre Union
Communication Workers' Union
Community
Educational Institute of Scotland
Fire Brigades Union
FDA
General Federation of Trade Unions
GMB
Musicians' Union
National Association of Colliery Overmen, Deputies and Shotfirers
National Association of Schoolmasters Union of Women Teachers
National Union of Rail, Maritime and Transport Workers
Nautilus International
National Union of Mineworkers
National Union of Teachers
Nationwide Group Staff Union
Northern Ireland Public Service Alliance
Prison Officers Association
Prospect
Public and Commercial Services Union
The Co-operative Bank plc
The Society of Chiropractors and Podiatrists
Trades Union Congress
Transport Salaried Staffs' Association
UCU
UNISON
Unite the Union
Unity
USDAW

Shareholders and Capital

Individual trades unions and trade union federations own 73.14% of the total equity capital of Unity Trust Bank plc (14.64% in 'A' shares and 58.50% in 'C' shares). The Co-operative Bank plc, through its subsidiary Co-operative Commercial Limited, owns 26.66% (14.64% in 'B' shares and 12.02% in 'C' shares).

Certain individuals, including staff members, between them own 0.20% of the equity capital, all in 'C' shares. Total equity capital at 31 December 2014 was £16,429,301.

The 'A' shares owned by trades unions and the 'B' shares owned by The Co-operative Bank plc have certain class rights attached to them concerning the election of directors and certain other matters referred to in the Articles of Association.

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The President's Statement

2014 was a momentous year in the history of Unity Trust Bank. We celebrated thirty successful years and prepared ourselves for the next stage of our history with a governance structure and operation that is independent of The Co-operative Bank.

Back in 1984, the Bank's founding principles set out to establish a unique sort of bank, one that would not be motivated solely by the maximisation of profit but would embrace a philosophy of common good. It was the brainchild of the Trades Unions who wanted to create a bank that was truly good for society as a whole. Today those founding principles still hold firm with Unity. Its purpose remains to achieve sustainable financial performance and positive social impact. We call this our 'double bottom line'. In our view, this is how all banks should be: a belief that events of the last decade seem to support.

As President, I'm tremendously proud of what we've achieved and that our founding principles appear even more relevant today than they were thirty years ago. They will continue to guide us, with the benefit of the strong foundations that we have in place at the end of 2014:

Loyal and expanding customer base. Over 20,000 organisations bank with us, ones that pursue social good as well as sustainable returns. Our customers tell us that they choose to bank with us for our service and because our values are aligned with theirs. For example, they include most of the UK's: police federations; TUC affiliated unions; Community Development Finance Institutions (CDFIs); credit unions; and a high proportion of Citizens Advice Bureaux;

Financially strong. We have a strong Core Tier 1 capital ratio and liquidity. Our lending is all funded by customer deposits, we are not reliant on the inter-bank money markets. Unity has never traded in sub-prime investments or the complex financial instruments that have resulted in difficulties for many organisations. We are unaffected by events in these markets;

Positive social impact. Our loan decisions include a requirement to demonstrate positive social impact as well as financial sustainability. We measure and report on all our lending impacts and publish information on our website;

Customer driven. We listen to our customers to enable us to develop products and services which meet their needs. It is important to us to have high levels of customer satisfaction, consistently achieving 85% or over;

A fair approach to remuneration. We have adopted the recommendation of the High Pay Centre to maintain a maximum ratio of 20 between our highest and lowest paid. We operate a modest profit share scheme where all staff, from the Chief Executive Officer to the most junior, receive the same percentage. Last year's distribution was 3.45% of salary and is 1.7% for 2014. We believe this drives the right staff behaviours and to many customers these pay principles are an important characteristic that differentiates Unity. Our Employee Share Ownership Scheme (ESOP) benefits all staff based on the success of the Bank in achieving its objectives;

Ethical business practices. We show leadership in our own business practices, evidenced through our Living Wage accreditation and awards, pioneering Fair Tax practices and our successful apprenticeship and volunteering schemes;

Experienced and motivated team. We have loyal and motivated people at Unity who are proud to represent the Bank and what it stands for.

In the current economic environment, the support that the Bank provides for credit unions and CDFIs is vital to help the financially disadvantaged or excluded, whether they be individuals or small businesses.

Business Performance

2014 pre-tax profit was £0.97 million, £1.3 million lower than 2013 for the reasons explained below. Income was broadly consistent with 2013, but costs increased due to the work for Unity to achieve complete operational independence from The Co-operative Bank. Operating profit before impairment credit and fair value movement in derivatives was £0.8 million. The Bank has continued to grow, our loans are covered almost four times by deposits and we have funds to lend.

In 2014 we committed £30 million of loans right across the UK. One loan in particular was to The Neighbourhood Services Company, an organisation that has a record of rejuvenating and increasing employment locally. Our investment helped them to purchase a number of buildings and land for development in a deprived area of the North West. This area will be turned into a community hub, with a strategy that focuses particularly on young people. We also financed Phases, a South London based charity, to allow them to purchase and refurbish empty homes to bring them back into use. They provided construction training for marginalised people and housed homeless people.

In conjunction with the Department for Business Innovation and Skills we provide much needed finance to small firms via CDFIs. In South Yorkshire we support Finance For Enterprise (formerly Donbac) that provides funding to SMEs who have been declined by the banks. In 2014 we lent £330,000 to this CDFI and helped create 133 jobs in the area. This loan also helped leverage an additional £500,000 in funds as part of the Regional Growth Fund (RGF) match-funding programme.

We are proud to be a leading provider of bank finance to CDFIs to whom we currently lend around £20 million. In 2014 alone this helped create over 3,176 jobs.

Changes to the Board

There have been a number of changes, as well as retirements, on the Board during 2014. I am particularly sorry that, as a result of some recent ill health, our CEO Richard Wilcox has announced his intention to retire from the Bank in 2015. Richard has led Unity with a powerful social conscience over the last three years and steadily built the solid foundations without which we could not contemplate our current growth plans. On behalf of the Board and shareholders we wish Richard all the very best in his forthcoming retirement.

At the start of Richard's tenure he embedded our new 'double bottom line' strategy. Unity's profile as a socially responsible and different kind of bank has grown during his term, with initiatives such as Living Wage accreditation and our pioneering stance on fair and transparent tax practices gaining valuable profile for the Bank. Unity was recognised as an Investors in People (IIP) Gold Standard business and participated in the independent Best Companies survey for the sixth consecutive year. We achieved a 'One Star' rating in 2014, improving on the 'one to watch' status the Bank held the previous year.

Delivering a high quality service and treating customers fairly is of the utmost importance to Unity and under Richard's leadership I am proud of the high customer satisfaction and advocacy we have achieved. Our own monitoring consistently reports over 85% customer satisfaction. Unity outperformed all the main high street banks in an independent survey, undertaken by Charity Finance.

Our Chair, Graham Bennett, has also indicated his intention to retire from the Board in 2015. During his tenure, Graham ensured the Bank combined its dual mission of financial prudence and positive social impact to great effect. I and everyone at Unity are very grateful for his wise stewardship and support over the last five years.

In addition, I would like to take this opportunity to thank four Board members who also left in 2014 – Vicky Bryce from RMT and Paul Allton, Richard France and Steve Watts appointed by The Co-operative Bank. They brought valuable experience and knowledge to the Board. We welcomed Ed Sabisky to the Board; he was nominated by Unite and brings with him considerable financial expertise.

At the start of 2015 we welcomed Alan Hughes to the Bank on his selection as our first independent Chair. Alan comes with a proven ability to run retail banks with integrity. He places particular value on probity, respect and trust in banking. In all his leadership roles he delivered successful growth and innovation. Alan spent 35 years with HSBC where he was a UK General Manager, Executive Board member and member of the Bank's ALCO treasury control committee. Since then he has had non-executive roles, served in higher education, the public sector and twice led initiatives to start new banks. As Chief Executive of First Direct, Alan trebled the bank's size and profits and increased its lead as the UK's most recommended bank.

The President's Statement continued

The Future

There is a real and urgent need in the UK for a bank that truly demonstrates social principles in everything that it does and where the aims of the shareholders are fully aligned with those of its customers. Throughout the first 30 years of its existence Unity has aspired to this and I look forward to seeing the next phase of its development, where those principles can be aligned to a bank that has real growth potential.

2015 will see Unity embark on its next 30 years as an independent bank with a very strong platform from which to grow and do more for its customers, and those very many enterprises and people that share our 'double bottom line' ethos.

Whilst the banking industry as a whole comes under scrutiny after a series of scandals and malpractices, I am proud that Unity has shown itself to be a force for good. We are committed to enabling social development and supporting community involvement for our customers and the people they support. The values we place on creating an open and supportive culture, means our people work together to make Unity a success.

Unity is in a unique position to attract new customers by offering the banking services and lending expertise they should expect from a bank. We will do this in a way that delivers value above and beyond the commercial impact. I would like to thank all of you – our customers, shareholders and friends across the wider society – for your ongoing support of Unity and I look forward positively to the next 30 years.

Dave Prentis

President of Unity Trust Bank plc

Strategic Report

Business Model

The Bank's core business model is the provision of banking services for businesses, organisations or individuals that pursue a social benefit as well as commercial sustainability. The Bank's strategic plan is built on growing a customer base that comprises transactional deposit and current accounts, loans and advances.

The Bank has no branch network. It provides customers with telephone support from its customer service centre in Birmingham, digitally and from dedicated relationship managers for larger customers.

Strategy and Objectives

The Bank has the following strategic priorities:

- Be a sustainable, profitable bank supporting growth in the wider economy;
- Increased lending to its core business sectors;
- Maintain a quality asset base supported by a strong capital position and strong management of risks and controls; and
- Work with customers to build lasting relationships with positive social impacts and sustainable financial returns.

Principal Risks and Governance

The Board is responsible for the level of acceptable risks articulated through its risk appetite statements. These help to ensure that there are adequate systems of risk management and that the level of capital held is consistent with the risk profile of the Bank. The overall risk governance and risk management framework is set out in the Risk Management Report on pages 22 to 34 and the Directors' Report on pages 11 to 18 of the 2014 Report and Accounts.

Principal risks that the Bank is exposed to are:

- Credit risk; the risk that a borrower fails to repay a loan or interest due or counterparty fails to repay the capital on a financial security. The Credit Risk Management Committee manages this risk;
- Market risk; the risk that the value of, or net income arising from, the Bank's assets and liabilities change as a result of interest rate changes. The Asset and Liability Committee manage this risk;
- Liquidity risk; the risk that the Bank is unable to meet its financial obligations when they are due. The Finance department, guided by Asset and Liability Committee, manages this risk; and
- Operational risk; the risk that a loss occurs resulting from a failure of systems, people or processes or external events. The Executive Risk Review Committee manages this risk.

At the beginning of 2014, the Bank produced its first solo Internal Capital Adequacy Assessment Process (ICAAP) that considered the Bank's risks and capital adequacy. The assessment confirmed the Board's view that the Bank currently maintains available capital, above regulatory requirements and for the forthcoming three year planning term. The ICAAP was submitted to the Prudential Regulation Authority (PRA) in February 2014 and following review, the PRA issued the Bank with regulatory capital adequacy requirement (ICG), which the Bank exceeds, and that is part of its capital and business planning processes.

The Bank's liquidity risk position is set out in the Individual Liquidity Adequacy Assessment (ILAA), which confirms the strength of its liquidity position. The Board's approved liquidity buffer is above regulatory requirements. In December 2014, the Bank received approval from the Bank of England to participate in its Open Market Operations and opened a Bank of England Reserves Account to support its liquidity requirements. The account approval marks an important step along the way to the Bank's independent status.

Review of the year

2014 has been the year the Bank celebrated its 30th anniversary. In 2013 the Bank had reported that, for the first time, the value of its core social loan portfolio outweighed that of the legacy non-core loans. As at 31 December 2014, successful focus has increased the core lending business to the extent that it is now three times the size of the non-core loan book. There was a £29 million reduction in the non-core book.

The continued focus on the retention and development of core customer deposits has again been successful with new customers adding £45.6 million to the deposit base and by year end, with total customer account balances increasing by £114.2 million to £782.8 million (2013: £668.6 million).

During 2014 the Bank has maintained its commitment to contributing to initiatives aimed at the common good of society. This report includes social impact measurement.

The Bank reported a profit before tax of £0.97 million, compared with £2.3 million in 2013. At an operating level, the Bank reported a profit before impairment credit and fair value movement in derivatives of £0.8 million, 63.4% lower than achieved in 2013. In 2014 operating expenses have increased as the Bank established its operational independence and positioned itself for growth. This activity included expenditure of £0.4 million specifically to enable it to function separately from The Co-operative Bank. Whilst the Bank of England's Base Rate remains low, so do interest margins on customer liabilities. Loan interest margins have increased slightly, supported by a modest increase in the minimum interest rate on new business.

The Bank continues to focus on Community Development Finance Institutions (CDFIs) and through the partnership with the Community Development Finance Association (CDFA) and Regional Growth Fund (RGF), has established a leading position in lending to this sector.

The treasury portfolio continues to generate low net interest returns due to the low interest rate environment. A modest increase in treasury returns has been evidenced in the last quarter of the year as the Bank widens the range of low risk instruments applied in its treasury operation. During the year, the Bank appointed Insight Investments in order to support the Bank's treasury operational plan and manage an element of the treasury assets with the aim of enhancing the yield on assets that are not required for liquidity purposes.

The final steps to Unity's independence from The Co-operative Bank will be completed in 2015, notably with the transition of clearing services to Natwest mid-year. Great care will be taken to minimise customer disruption and risks during the migration exercise.

Strong Capital Base

The Bank has maintained a strong capital base which provides shareholders, customers and the market with confidence and sustains the future development of the business. A Core Tier 1 Ratio of 22.2% at 31 December 2014 (2013: 20.3%) demonstrates the Board's commitment to maintaining its capital strength.

Liquidity

The Bank's liquidity position is monitored on a daily basis. At 31 December 2014, the Bank held a pool of liquid assets of more than £415 million including reverse gilt repo holdings of £315 million (2013: £274 million) and other liquidity qualifying assets of £100 million (2013: £0). Additionally, £145 million (2013: £235 million) of liquidity is held in short dated Certificates of Deposit (CDs) with Floating Rate Notes and Covered Bonds totalling £95 million (2013: £20 million). The retail lending/deposit ratio remains below 30%.

Lending

The Bank has a stable, loyal and growing customer deposit base

Strategic Report continued

which enables it to achieve its targeted lending to organisations within its core market. All lending applications have to demonstrate clear social impacts. The core loan portfolio grew by £14 million in 2014, amounting to 70% of all customer lending as at 31 December 2014. The customer loan portfolio totalled £175.0 million (2013: £184.7 million), a net 5.3% reduction over the course of the year after the reduction in the non-core loan book of £29 million as the Bank focused on business growth in its core sectors.

The majority of the Bank's problem debt arose in the legacy non-core business portfolio and as this continues to reduce, the level of new loan impairment provisions have also fallen. At 31 December 2014, loan impairment provisions total £2.9 million (2013: £6.5 million) and represent 1.7% (2013: 3.4%) of total lending. A reduction in provisions of £2.4 million was due to the realisation of a single historical non-core loan. The Bank continues to adopt a cautious approach to stress in the loan portfolio when assessing the requirement for changes in the level of provisions. During the year, specific provisions totalling £0.6 million were raised in line with the Bank's Provisioning Policy. Over the same period, the Bank has realised, or is due to realise, property security where changes in valuation have resulted in £0.9 million of impairment provision releases. Accordingly, the overall impact on the Income Statement has been a net credit for the year of £0.4 million (2013: credit £0.4 million). A collective impairment provision amounting to £0.6 million (2013: £0.8 million) is maintained in line with the Bank's Provisioning Policy. Treasury lending activity with other banks is carefully managed. No treasury borrowing was undertaken and a strict no own-account trading policy is in operation.

Economic Environment

The economy has shown signs of recovery in the latter part of 2014 and the inflation rate of 0.5% in December 2014 was below the Monetary Policy Committee's target, primarily due to the recent lowering of oil prices. Economic improvement is suggested in 2015 and there seems to be a more optimistic mood for investment and growth. The Bank of England interest rate predictions refreshed in the Inflation Report February 2015 are not forecast to change until 2016.

There has been an increase in banking regulatory requirements in the year including the introduction of a more complex, Europe wide Capital Requirements Directive. The impact of increased regulation is the requirement to hold additional quality capital and liquidity and adds costs for training, systems and reporting. As reported above, the Bank is well capitalised and has surplus liquidity.

Social Impact

As reported in the President's statement, the Bank has continued its commitment to delivering a 'double bottom line' strategy for social impacts and financial returns. Unity aims to create positive benefit for its customers, shareholders, staff and society.

The Bank enables social development by investing customer deposits to fund lending for businesses that pursue social good, to charities, voluntary and other organisations. In 2014, £30 million (2013: £38 million) was lent to 57 organisations (2013: 51). This lending helped to create and protect 3,423 jobs (2013: 2,143). 176 bed spaces (2013: 612) were created in accommodation meeting a range of social, physical and economic needs as a result of the Bank's lending. Seven borrowers (12%) are Living Wage accredited organisations (2013: 0).

Driven by the needs of its customers

As a specialist in its sector, the Bank has a responsibility to support its customers with specialised funding and expert service. The Bank remains a leading provider of finance to CDFIs. In 2014 the Bank lent almost £7.5 million (2013: £3.2 million) to CDFIs, both through the RGF and other schemes. The lending helped to create and protect 3,176 jobs. The Bank is customer-driven and feedback is used for continuous improvement. Strong emphasis is placed on maintaining high levels of customer service and the Bank continues to monitor satisfaction closely. The average scores for 2014 across 600 individual surveys covering both new and existing customers, were

86.9% for customer satisfaction and 85.5% for customer advocacy. In the annual Charity Finance Banking Survey, the Bank was rated top in four out of nine categories. This independent survey compared Unity to nine other banks – many of which are high street names.

Supporting community involvement

The Unity in the Community staff programme coordinates staff volunteering and fundraising activities. Staff are given five paid volunteer days a year, donating time to help local charities and good causes. In 2014 there was greater focus on skills-based volunteering, encouraging staff to use their personal and professional skills to help others. During 2014, staff completed 175 volunteer days (2013: 113.5), 45% of which were skills-based; 36 charitable and community organisations benefitted from the Bank's volunteers. 72% of staff were engaged with the Unity in the Community programme, completing at least one volunteer day. The value of staff time was equivalent to donating £24,000.

Developing an experienced and loyal team

The Bank believes that growing an experienced and loyal team is good for the future success of the business. The Bank invests time, money and resource in its staff. This is evidenced through the Bank's Investors in People (IIP) Gold accreditation in 2014. The Bank was awarded Gold status for its commitment to business improvement, people management and continuous investment in staff. This puts the Bank in the top 7% of UK accredited businesses.

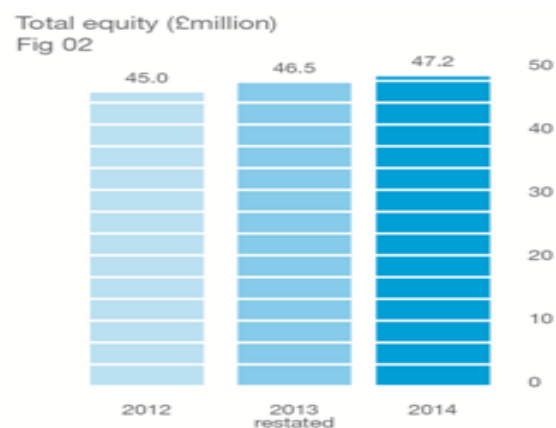
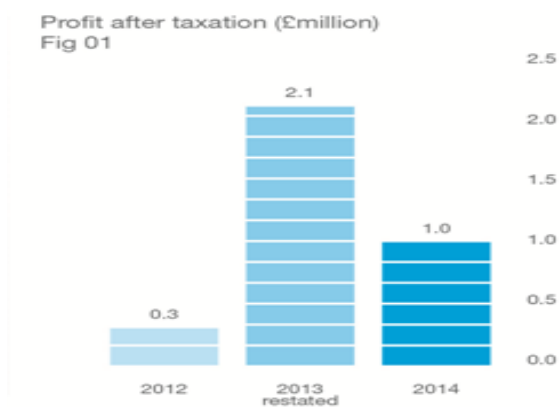
The Bank participated in the independent Best Companies survey for the sixth consecutive year. A 'One Star' rating was achieved, improving on the 'one to watch' status the Bank held for the previous five years. The Best Companies survey collects feedback directly from staff and 93% of surveys were completed.

Responsible business practices

The Bank was proud to be the first Living Wage accredited bank and in 2014 the Bank became Living Wage Champion in the West Midlands. The award recognises organisations that have made significant contributions to communities and industries by implementing and celebrating the Living Wage. In February 2014, the Bank became one of three companies pioneering the Fair Tax Mark and now is one of seven UK organisations to hold the Mark. It recognises companies that make a genuine effort to be open and transparent about their tax affairs.

Strategic Report continued

Results Summary		Restated		
£000	2014	2013	Change	% Change
Net interest income	8,003	8,034	(31)	0.4%
Net fee and commission income	1,552	1,543	9	0.6%
Operating expenses	(8,610)	(7,206)	(1,404)	19.5%
Financial services compensation scheme levy	(119)	(113)	(6)	5.3%
Operating profit before impairment credit and fair value movement in derivatives	826	2,258	(1,432)	63.4%
Impairment credit on loans and advances	357	433	(76)	17.6%
Profit before fair value movement in derivatives	1,183	2,691	(1,508)	56.0%
Fair value movement in derivatives	(212)	(354)	142	40.1%
Profit before taxation	971	2,337	(1,366)	58.5%



The Bank reported a profit after tax of £0.97 million for the year (2013 restated: £2.1 million) (Fig 01).

At an operating level, the Bank reported a profit before impairment credit and fair value movement in derivatives of £0.8 million, 63.4% lower than achieved in 2013. In 2014, operating expenses have increased to position the Bank for growth; this includes additional costs of £0.4 million to enable it to function independently of The Co-operative Bank.

Net interest income arises from a combination of customer accounts and treasury wholesale instruments placed with other financial institutions. Total interest earnings in 2014 are marginally lower, as yields on the treasury portfolio fell.

Net fee and commission income amounted to £1.6 million (2013: £1.5 million), driven mainly from transmission and account fees. The small increase was a combination of: collection of foreign transfer fees, bullion charges and lending non-utilisation charges totalling £0.12 million.

Operating expenses totalled £8.6 million (2013: £7.2 million), 19.5% higher than last year, due to increased contract staff costs, legal and professional fees and the one off costs incurred in separating the Bank's operational activities from The Co-operative Bank.

Earnings and dividends

2014 pre-tax profitability has decreased by 59% compared to last year and earnings per share have reduced to 5.9 pence per share (2013 restated: 12.8 pence per share). As a result total shareholders' equity has increased from £46.6 million (restated) to £47.2 million (Fig 02).

The Board is recommending a dividend of 1.00 pence per share for the financial year to 31 December 2014. A dividend of 1.85 pence per share was paid in respect of 2013.

Net interest income and margins

The interest earned during 2014 is marginally lower than the previous year due to margin pressures as a consequence of the continuing low bank base rate.

The Bank earns interest in respect of its treasury activities which, until recently, have been derived from a combination of gilt repos held for liquidity purposes and a range of treasury loans to other financial institutions. These asset types have a low risk profile, but the interest earnings are lower and at times have been below bank Base Rate. In January 2015, the Bank was approved for a Bank of England Reserves Account and transferred into the account the sum of £250 million from funds previously held by way of gilt repos, earning interest on those funds at Base Rate (0.5%).

The Bank's CDFI customers benefited by £0.21 million (2013: £0.19 million) from reductions in interest payable to the Bank in accordance with the Community Interest Tax Relief (CITR) scheme. The Bank receives relief on these rebates in the form of taxation credits against its corporation tax payable for the year.

Net interest income for the year totalled £8.0 million, slightly lower than in 2013. Treasury interest margins are lower, as the demand for short term inter-bank lending has decreased. Net interest contribution derived from the Bank's deposit book remains low whilst bank base rate remains at 0.5%. The overall net interest margin for the year calculated using average monthly balances, was 1.0% (2013: 1.2%).

Non-interest earnings

Gross fees and commission income amounted to £2.5 million (2013: £2.5 million), a similar level to last year.

Strategic Report continued

Operating expenses

Operating expenses for the year totalled £8.6 million (2013: £7.2 million), which includes £0.4 million costs relating to disengagement from The Co-operative Bank. The cost income ratio for 2014 including disengagement costs was 90.1% compared with 75.2% in the previous year. The comparative figure without those additional costs would be 85.6%. The ratio is measured before swap fair value adjustments and before provisions for the Financial Services Compensation Scheme (FSCS). The increase in the cost income ratio is a combination of low interest income and expenditure relating to the separation process from The Co-operative Bank.

Staff

Staff costs in 2014 amounted to £4.1 million (2013: £4.0 million), a 3.6% increase on 2013, as staffing levels changed to support the business development structure. The average number of staff employed during the year was 90 (2013: 88).

Pension Scheme funding cost

The Bank is a participating employer in The Co-operative Group Pace Pension Scheme. An actuarial valuation undertaken during 2013 identified an increase in the scheme deficit. As a participating employer in the scheme, and in accordance with the pension scheme rules, the Bank is required to contribute towards that deficit. The deficit is being settled by way of annual contributions over a six year period and the Income Statement includes a charge of £125,000 representing the Bank's share of the 2014 deficit contribution. The cost is included in staff costs for the year.

Other costs

Total expenditure in respect of all other costs was £4.5 million (2013: £3.2 million). The increase is mostly explained by additional legal and professional costs of £0.5 million for regulatory change and £0.5 million for contract staff.

Financial Services Compensation Scheme levy

As reported in previous Report and Accounts, a number of banking failures in earlier years have led to customers of those banks making claims for deposit losses suffered and the banking industry has been obliged to provide supportive funding to the FSCS. Having reviewed the requirements for scheme funding, the Bank has made provision in the Income Statement to cover levy costs in the sum of £0.12 million (2013 restated: £0.11 million). The Bank adopted IFRIC 21 in the year and as a consequence, the 2013 provision reduced from £0.13 million to £0.11 million.

Fair value movement in derivatives

The Bank holds two non-trading interest rate swap contracts with The Co-operative Bank, as cash flow hedges. As at 31 December 2014, the notional value of these amounted to £15 million (2013: £20 million). They expire in November 2015 and April 2016.

The market value of the Bank's interest rate swap contracts at 31 December 2014 was £0.3 million above the contract price and in line with the Bank's accounting policies, the decrease in individual market values totalling £0.2 million (2013: £0.4 million) is reflected in the Bank's Income Statement as 'fair value movement in derivatives'.

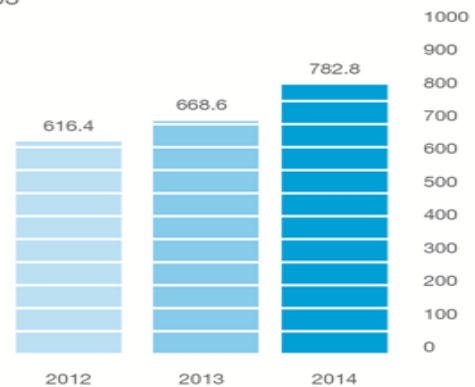
Balance Sheet

Customer accounts

Deposit balances as at 31 December 2014 were £782.8 million, (2013: £668.6 million), representing a net increase of £114.2 million across the year (Fig 03).

Growth in new retail customer deposits for the year amounted to more than £45.6 million (2013: £39.7 million) and was predominantly derived from the charity and voluntary sectors.

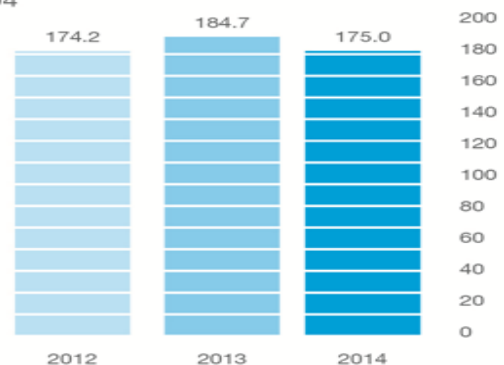
Customer Accounts (£million)
Fig 03



Loans and advances to customers

The total of customer loans and advances at the end of the year amounted to £175.0 million (2013: £184.7 million) (Fig 04). Loans and advances new to the Bank totalled £32.6 million (2013: £44.3 million).

Loans and advances to customers (£million)
Fig 04



Bad debt provisions

Loan growth during the year has been focused on the Bank's core business sectors. Monitoring the loan portfolio for signs of customer stress and identifying potential loan impairment remains a priority for the Bank's credit risk and underwriting teams.

The Bank continues to take a cautious approach to credit and the risk of loan impairment. As a consequence, further specific provisions have been raised in respect of customer loans and advances although the write back of provisions on historical connections has led to a net specific provision credit of £0.2 million (2013: £0.3 million).

The majority of the impairment provisioning relates to customers operating within the commercial enterprise loans.

In addition, the Bank has reviewed the grade assessment for the overall portfolio and decreased the collective impairment provision by £0.2 million in respect of certain business types.

Strategic Report continued

The overall impairment provisioning credit in the Income Statement amounts to £0.4 million, (2013: credit £0.4 million).

Provisions at 31 December 2014, stood at £2.9 million (2013 : £6.5 million) (Fig 05).



A reduction of £2.4 million resulted from the realisation of a single historic commercial connection.

Regulatory Capital

At the start of the year, the Bank's regulatory capital amounted to £44.8 million and included retained earnings of £27.7 million. After the inclusion of the 2013 post-tax earnings the overall level of regulatory capital increased by 4.0% to £46.6 million, with retained earnings at £29.5 million.

Information technology

Customer data security and supporting customer needs remain at the centre of the Bank's system development plans. In 2014 the Bank successfully completed major upgrades of its core and internet banking systems as well as the corporate website, www.unity.co.uk

Further developments to internet banking are planned for the coming year.

Summary and Future Outlook

2014 has seen numerous developments for the Bank: solo ICAAP, enhanced governance framework and a new risk function including a Chief Risk Officer role. 2015 will see a reconstituted Board with a greater number of Independent Directors. Shareholders have agreed the need for the Bank's Articles of Association to be revised in due course to accord with current regulatory and UK Corporate Governance Code standards.

In February 2015, the Board approved an updated business plan that demonstrates growth potential and capability. It may seek additional capital to take best advantage of the opportunities before it. The Bank has a loyal customer base and aims to improve awareness of it using its ability to lend. The Bank will continue to judge its success both in terms of capital returns and positive social impact.

A number of variables impact the Bank's net interest income and some of these are starting to move in a more favourable direction that should increase operating income. The Bank expects to see a gradual improvement in its operating income over the next few years.

The Bank has continued to make positive progress in the management of the legacy non-core problem debt that has impacted the retained earnings over the last few years. Overall, levels of impaired debt have reduced and a number of provisions that were raised in previous years have now been realised at a value better than previous estimates.

We must thank the shareholders for their support over the first thirty years, whether financial or, in the case of The Co-operative Bank, operational. The Bank will complete its transition to be operationally independent of The Co-operative Bank in 2015 with the change in clearing services provider. Our customers have been fantastically supportive. Over 20,000 organisations, including the vast majority of Trades Unions, trust us with their day to day banking and this number increases year on year.

We expect 2015 to be a particularly exciting time for the Bank. Just as in 1984, we believe there is a real need in society for a bank that can act responsibly, with the trust of its customers, to provide first class service, with products developed around the specific needs of the customer.

By Order of the Board

Richard Wilcox
Chief Executive Officer
Unity Trust Bank plc

Report of the Directors for the year ended 31 December 2014

Chair's Introduction

The Directors' Report includes the Corporate Governance Statement, which sets out how the Board operates, and how the significant changes taking place during the year have been through the governance process of the Bank. This includes

- The Nomination and Remuneration Committee's role in the recruitment of the new Independent Chair, and the robust appointment process it followed;
- The work of the Audit Committee and the assurance provided by the new Internal Auditor, PwC;
- The first year of the Board Risk Committee, which oversaw the establishment and embedding of the new Risk Management Framework, following Board approval of the independent ICAAP, and the operational risks arising from the separation from The Co-operative Bank;
- The Board's focus on the strategic implications of The Co-operative Bank announcement that it wished to sell its shares in Unity. These span operational, commercial, pensions and governance arrangements; and
- The Board Sanction Panel's consideration of treasury counterparty authorities in view of the transition away from The Co-operative Bank for treasury services and opening the Bank of England Reserves account.

Although the Bank is a public limited company it is not listed and is therefore not obliged to comply with the UK Corporate Governance Code (available from www.frc.org.uk). However, the following information is provided on a voluntary basis.

Results and Dividends

The results for the year, before taxation, amounted to a profit of £0.97 million (2013 restated: £2.3 million). The Directors recommend payment of a final dividend of £0.2 million (2013: £0.3 million).

Post Balance Sheet Events

On 9 January 2015, the Bank opened a Reserves Account with the Bank of England, and at that date transferred £250 million into the account, being funds held as loans at The Co-operative Bank at 31 December 2014.

Our shareholders

The Bank recognises the importance of keeping shareholders informed. The Chair and Chief Executive Officer have consulted with major shareholders regularly during 2014 on proposed changes to the Bank's governance arrangements and structure, in preparation for The Co-operative Bank's exit as a shareholder and provider of outsourced services. The Board is informed of these discussions, subject to the appropriate management of conflicts of interest. Significant developments are also notified to all shareholders in writing.

Shareholders are encouraged to attend the Annual General Meeting, to be held on 22 May 2015. In 2014 a round table format followed the formal proceedings to facilitate dialogue. In the event that shareholders are unable to attend the AGM in person, they can appoint a proxy to vote in their place. Contrary to the Code Provision E.2.2, proxy votes were not published on the website in 2014 due to the smaller proportion of votes which were exercised this way.

The Board

Board composition and Independence

The structure and composition of the Board is set out in the current Articles of Association, together with specific procedures to be followed to fill Board vacancies. These provisions are not consistent with some areas of the Code as described below.

The Bank did not comply with Code Provision A.3.1 during 2014: the Chair, Graham Bennett, was appointed solely by the Bank's largest shareholder, and was not considered to be independent. At the end of 2014, Alan Hughes was recruited to be Independent Chair. Under the current Articles, this appointment is subject to shareholder confirmation. The Bank will become compliant with this provision upon his appointment.

Of the current Directors listed, on page 12, Roderick Chamberlain is considered by the Board to be Independent as he was recruited for his skills and experience, and had no prior connection to the Bank and shareholders, before joining the Board.

As the Bank has only one Independent Director at the time of writing, it did not comply with Principle B.1, and in particular, Provision B.1.2 of the Code regarding the number of Independent Non-Executive Directors on the Board. This also means that the Bank does not comply with the requirements of the Code in respect of the composition of the Audit Committee (Provision C.3.1) and the Nomination and Remuneration Committee (Provisions B.2.1 and D.2.1). Two further Independent Directors have been recruited, subject to regulatory approval, which is in process in the normal way. These appointments are also subject to shareholder confirmation.

The Board has recommended to shareholders that the Bank adopt new Articles of Association that comply with current governance and regulatory standards. The proposed Articles better protect the interests of minorities and the purpose and values of the Bank. They also give the Board the flexibility to appoint additional independent directors. Upon adoption of the proposed Articles, the Bank will be compliant with Code provisions and regulatory standards.

Role and responsibilities of the Board

The Board is responsible for the long term success of the Bank within a framework of controls, which enables risk to be assessed and managed. It is responsible for setting strategy, maintaining the policy and decision making framework in which this strategy is implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring the Bank's performance against key financial and non-financial indicators, and overseeing the system of risk management and setting values and standards.

The following matters have been reserved for the Board to approve and cannot be delegated:

- the Bank's long-term objectives and commercial strategy;
- the annual budget and business plan;
- the annual report, financial statements and dividends;
- recommendation to shareholders of changes to the structure, size and composition of the Board;
- the ICAAP and ILAA;
- significant policies;
- any changes to the Bank's Executive Management structure;
- establishment of Board committees and their Terms of Reference;
- business acquisitions, disposals, investments (other than day to day operation of the Treasury portfolio) and all funding arrangements; and
- the delegated financial authorities, and any proposals in excess of those authorities.

The division of responsibilities between the Chair of the Board and the Chief Executive Officer is defined and has been approved by the Board as follows.

The Chair

- leads the Board in the determination of its strategy and in the achievement of its objectives;
- organises the business of the Board, ensuring its effectiveness and setting its agenda;
- facilitates the effective contribution of Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors;

Report of the Directors for the year ended 31 December 2014 continued

- ensures Directors receive accurate, timely and clear information;
- facilitates communication with shareholders;
- undertakes discussions with directors regarding their individual performance;
- leads Board discussions regarding the performance of the Board at least once a year; and
- aims for decisions to be taken by consensus and for all Directors to contribute to Board debate.

The Chief Executive Officer

- is responsible for the operation of the Bank on a day to day basis;
- is accountable to the Board for the financial and operational performance of the Bank;
- implements the strategic objectives as agreed by the Board; and
- manages and delegates to the other Executives.

The Role of Non-Executive Directors

The role of the Bank's Non-Executive Directors, which includes setting strategy and monitoring the performance of the Executive, is documented in a role profile, which has been approved by the Nominations and Remuneration Committee.

Directors are subject to statutory duties to act in the best interests of the Bank, which includes avoiding conflicts of interests and declaring interests as appropriate. This is also included in the role profile, together with an estimate of the time commitment required. This applies to all directors, be they shareholder-nominated or independent.

Time Commitment of Directors

The Board has reviewed the outside Directorships of its Directors and considered the current position to be appropriate. It has been agreed that any Director taking on further Directorships would notify the Board in order for the position to be reviewed.

How the Board operates

The Board met 13 times in 2014. Every two months, the Board receives reports on financial and sales performance, the Chief Risk Officer's report, and updates on people, customer service and technology. Additional meetings are convened to discuss or monitor specific strategic issues. If necessary, the Board holds private sessions in the absence of Executive Directors, such as, to hear the report back from the Nomination and Remuneration Committee for example.

The agenda for Board meetings is agreed between the Chair, the Chief Executive Officer and the Company Secretary based on an annual calendar of items and the actions requested by the Board. Board and Committee papers are normally distributed one week in advance of meetings. This provides the opportunity for Directors to prepare fully for meetings. The minutes of all committee meetings are circulated to all Directors, with the exception of the minutes of the Nomination and Remuneration Committee which are not sent to Executive Directors or any other individuals whose appointment or remuneration was discussed.

When a Director is unable to attend Board or Committee meetings, the Alternate Director would be expected to attend in their place and issues can be relayed in advance to the relevant Chair. Currently the appointed Alternates are Steve Tasker (Alternate to Dave Prentis) and Tony Kearns (Alternate to Billy Hayes). The proposed new Articles do not include the provision for Alternate Directors due to the obligations entailed in serving as a Director of a regulated Bank.

Performance evaluation

At the end of each year, the Directors are asked to complete questionnaires circulated by the Company Secretary. Questions seek Directors' views on the effectiveness of the Board, such as, the way in which the Board works together as a whole and the nature of Board debate. Directors also answer questions relating to their individual performance. The responses are collated on a de-personalised basis by the Company Secretary and reported back to the Board. On the

basis of the feedback, actions are planned to improve effectiveness. The performance of the Chair has not been evaluated as required by Code Provision B.6.3 due to the recruitment of a new Chair in 2014.

Induction and Continuing Professional Development

New Directors take part in an induction programme which includes:

- a visit to the Birmingham office to meet with the Chair and Executive team to discuss strategy, the Bank's financial position, risk management, relationship management, social impact, organisational structure, material outsourcing arrangements, IT, and the directors' learning and development programme;
- their role profile and guidance in relation to their role as an PRA Approved Person;
- documentation about the Bank, contact details of other Directors and Board meeting arrangements; and
- copies of key corporate documents and previous Board minutes.

The Non-Executive Director learning and development programme is updated based upon topics requested by Directors. In light of this, training sessions of the Board are scheduled to address the Directors' learning and development requirements.

Directors are updated on the Bank's performance, the competitive and regulatory environments in which it operates, corporate governance matters and other changes affecting the Bank and the industry generally. During 2014, training topics included ILAA and the PRA's expectations of directors.

Directors

A full list of Directors at the date of signing the accounts is provided below. As mentioned in the President's statement, the following changes to the Board took place during 2014:

Appointed

Ed Sabisky 30 October 2014

Resigned

Paul Allton 28 March 2014

Vicky Bryce 8 May 2014

Richard France 17 November 2014

Stephen Watts 9 November 2014

Non-Executive Directors

Dave Prentis, President, appointed to the Board in 2000

Graham Bennett, Chair, appointed to the Board in 2000, appointed as Chair 2009

Roderick Chamberlain, Senior Independent Non- Executive Director, appointed to the Board in 2013

Clare Gosling, Non-Executive Director, appointed to the Board in 2013

Billy Hayes, Non-Executive Director, appointed to the Board in 2001

Paul Noon, OBE Non-Executive Director, appointed to the Board in 2012

Allan Wylie, Non-Executive Director, appointed to the Board in 2004

Executives

Richard Wilcox, Chief Executive Officer, appointed to the Board in 2011
Peter Kelly, Business Development & Marketing Director, appointed to the Board in 2012

Ian Morrison, Operations Director, appointed to the Board in 2006

Mike Osborne, Finance Director, appointed to the Board in 1992

Board Committees

The Board has delegated certain responsibilities to a number of Committees, each of which operates under written terms of reference covering the authority delegated to it by the Board. Copies of these are available from the Company Secretary on request.

Report of the Directors for the year ended 31 December 2014 continued

The Audit Committee

Role of the Committee

The purpose of the Audit Committee is to exercise oversight over the Bank's financial statements, its systems of internal control, and the performance and effectiveness of the internal and external auditors. The main responsibilities of the committee are set out in its terms of reference which are available on our website www.unity.co.uk.

Composition

Roderick Chamberlain (Chair)
Paul Allton (resigned 28 March 2014)
Clare Gosling
Paul Noon OBE
Ed Sabisky (appointed 30 October 2014)

Ed Sabisky and Clare Gosling brought relevant financial experience. In accordance with the terms of reference members of the Executive and management regularly attend meetings of the committee. Director attendance at committee meetings can be found on page 14.

Committee activities during 2014

In 2014 the Audit Committee focused on:

Financial Reporting

- reviewing the Bank's draft financial statements and the external auditor's detailed reports thereon in order to recommend them to the Board for approval;
- revisions to the provisioning policy;
- provisioning levels during the year;
- Financial Reporting (FINREP) and Common Reporting (COREP);
- hedge accounting; and
- pension scheme

Internal Audit

- the role of internal audit within the new risk management framework resulting in the decision to outsource it to PwC;
- governance and controls over Third Party Supplier Management;
- IT Strategy and governance;
- transfer of treasury services provider project;
- conduct risk;
- risk management;
- The Bank's ICAAP, ILAA and Recovery and Resolution Planning; and
- the Internal Audit Plan

External Audit

- observations from the new Lead Audit Partner from KPMG; and
- audit and non-audit fees payable to the external auditor, particularly the increase in fees due to support required for separation from The Co-operative Bank.

The Committee met with the external auditors once without the presence of management.

External Auditor Independence, Objectivity and Fees

The Audit Committee has put in place safeguards to ensure that the independence of the auditors is not compromised including a policy on the conduct of non-audit services from the external auditor. The external auditor is permitted to provide some non-audit services that are not, and are not perceived to be, in conflict with their independence. The Audit Committee receives reports providing details of assignments (and related financial fees) carried out by the external auditor of the Bank in addition to their statutory work. The approval of this Committee is required for services above certain thresholds determined by the Committee.

The following assignments are prohibited from being performed by the external auditor:

- book keeping or other services related to the accounting records or financial statements;
- financial information systems design and implementation;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources; and
- any other services that the Audit Committee may determine.

Information concerning the non-audit fees incurred in 2014 can be found on page 45.

The performance of the external auditor during 2014 is being assessed as part of a planned tender exercise in 2015.

Contrary to Code provision C.3.8, this exercise was not completed during 2014.

Committee performance and Effectiveness

During the year the Committee undertook a thorough review of its Terms of Reference. A review of the Committee's effectiveness has taken place through the circulation of questionnaires by the Company Secretary, the results of which will be used to assist in the development of the effectiveness of the committee. In 2014, the Committee received training on financial instruments accounting.

On behalf of the Audit Committee

Roderick Chamberlain, Audit Committee Chair

Nomination & Remuneration Committee

Role of the Committee

The Committee's responsibilities fall into two broad areas:

- (a) reviewing the overall size and structure of the Board and making particular nominations to fill of Executive and Independent Director positions; and
- (b) setting the over-arching principles of Bank-wide remuneration and determining the remuneration packages of the Executives, Chair and Independent Director.

The Terms of Reference can be found on the Bank's website www.unity.co.uk

Composition

The Committee is chaired by the Chair of the Board, Graham Bennett. Roderick Chamberlain, Dave Prentis, Stephen Watts (to 9 November 2014) and Clare Gosling (from 23 January 2015) also served on the Committee. The Chief Executive Officer and the Bank's remuneration advisers are invited to attend meetings of the Committee as required. No Director is present during discussions regarding their own remuneration.

Director attendance at committee meetings can be found on page 14.

Report of the Directors for the year ended 31 December 2014 continued

Directors' Attendance

The following table sets out the frequency of, and attendance at, the Board and Board Committee meetings during 2014 by Directors:

Directors	Board		Audit Committee		Nomination and Remuneration Committee		Board Risk Committee		Board Sanction Panel	
Graham Bennett	12	(12)	-	-	12	(12)	4	(4)	-	-
Paul Allton	3	(4)	-	(1)	-	-	-	(1)	-	-
Vicky Bryce	0	(5)	-	-	-	-	-	-	-	-
Rod Chamberlain	12	(12)	4	(4)	12	(12)	4	(4)	-	-
Richard France	7	(10)	-	-	-	-	3	(3)	-	-
Clare Gosling	9	(12)	4	(4)	-	-	-	-	-	-
Billy Hayes	5	(12)	-	-	-	-	-	-	6	(8)
Peter Kelly	10	(12)	-	-	-	-	-	-	-	-
Ian Morrison	12	(12)	-	-	-	-	-	-	-	-
Paul Noon	11	(12)	1	(4)	-	-	-	-	-	-
Mike Osborne	12	(12)	-	-	-	-	-	-	-	-
Dave Prentis*	11	(12)	-	-	11	(12)	3	(4)	8	(8)
Ed Sabisky	1	(2)	1	(1)	-	-	1	(1)	-	-
Steve Watts	9	(10)	-	-	8	(9)	-	-	8	(8)
Richard Wilcox	11	(12)	-	-	-	-	-	-	-	-
Allan Wylie	11	(12)	-	-	-	-	-	-	6	(8)

The number in brackets indicates the total number of meetings the Director was eligible to attend during the year.

* Includes attendance by Alternate Director

Committee activities during 2014

During the year, the Committee focused on:

Nominations

- tendering for search consultants;
- with the support of the selected firm, Warren & Partners, the Committee recruited an Independent Chair, and began the search for additional Non-Executive Directors, ready for the arrival of the new Chair;
- the composition of the Board committees following a number of changes to the Board during the year; and
- commenced search for a new CEO.

Remuneration

- a review of the fees payable and time commitment of Independent Directors and Chair; and
- Executive annual salary reviews.

Diversity in the Boardroom

The Bank Board has agreed an aspirational aim in respect of the percentage of female Board members as follows;

The Bank Board will aim to comprise of a minimum of 33% females by 2016 and 40% females by 2018. Following the resignation of Vicky Bryce during the year, the proportion of female Board members is currently 8%.

The Bank has adopted a Board Diversity Policy which recognises the significant shareholder involvement in the current nominations process. The Board Diversity includes practical steps which are within the Board's control to implement, including:

- considering diversity when making all Independent Non-Executive Director appointments;
- championing diversity in shareholder appointments and elections; and
- challenging management to ensure the management population is made up of the most talented individuals.

Appointment process

As mentioned above, the process governing the appointment of Directors is set out in the Articles of Association. The votes of a specific shareholder class are required to fill specific vacancies and shareholders identify their own candidates. As a consequence, the Bank did not comply with Principle B.2, Provision B.2.2 and parts of B.7.2 of the Code which states that there should be a rigorous procedure for the appointment of new directors, the creation of succession plans for the Board and that the Board should provide a statement to shareholders saying why they believe the individual should be elected.

The adoption of the proposed new Articles will allow the Board to fill vacancies through a robust procedure in compliance with the Code.

Election of Directors

Under the current Articles, all appointments to the Board require a shareholder resolution to take effect. As a result, it is not necessary for Directors to be subject re-election at their first Annual General Meeting (AGM), which would normally apply under Code Provision B.7.1.

The majority of Directors do not have specified terms of office; they are elected or appointed by shareholders and then subject retirement by rotation provisions. Terms of over six years are not currently subject to re-election annually or rigorous review as required by Provision B.2.3.

During 2014, the constitution in place did not require the Executive Directors to retire by rotation. This was contrary to Principle B.7. The proposed new Articles will require all directors to retire by rotation every third year, resulting in compliance with Principle B.7.

As a result of the election provisions in the Articles, neither advertising nor an external search consultant was required for the appointment of Ed Sabisky.

The Bank's Nomination and Remuneration Committee does not currently review the remuneration packages of senior management below Board level, as described in Code Provision D.2.2, given the size of the Bank and the overall remuneration policy and this practice will be reviewed.

Report of the Directors for the year ended 31 December 2014 continued

Use of consultants

During 2014, an external search consultant, Warren Partners, was used to fill the position of Independent Chair. In addition to the direct search conducted by Warren & Partners, the vacancy was advertised on an executive appointments website. Role profiles and assignment briefs were produced and candidates were initially screened against this brief by Warren Partners. The short list candidates were interviewed by a panel comprised primarily of Nomination and Remuneration Committee members. A recommendation was made to the Nomination & Remuneration Committee and, in turn, to the Board.

Warren Partners were previously used by the Bank's parent organisation as executive search consultants, but they have no other connection with the Bank.

Committee performance and effectiveness

During the year the Committee undertook a review of its Terms of Reference. A review of the Committee's effectiveness has taken place through the circulation of questionnaires by the Company Secretary, the results of which will be used to assist in the development of the effectiveness of the committee.

The Directors Remuneration Report detailing the Bank's pay policies and payments to Directors during 2014 can be found on page 19.

On behalf of the Nomination and Remuneration Committee

Graham Bennett, Chair

Board Risk Committee

Role of the Committee

The role of the Board Risk Committee is to oversee and advise the Board on current and potential risks and the overall risk framework.

Composition

Graham Bennett chairs the Committee, which also comprised Roderick Chamberlain, Richard France (to 17 November 2014), Dave Prentis and Ed Sabisky (from 30 October 2014). Directors' attendance can be found on page 14.

Committee activities during 2014

During the year, the Committee focused on:

- the implementation of the new Risk Management Framework and supporting policies;
- the risks arising from the Bank's transition to independence from The Co-operative Bank; and
- the Committee's effectiveness during its first year in operation, concluding in the decision to increase the frequency of meetings to ensure all risk information being reported to the Board could be challenged by the Board Risk Committee prior to submission to the Board.

On behalf of the Board Risk Committee

Graham Bennett, Chair

Board Sanction Panel

The Board Sanction Panel came into effect on 30 November 2013 with the purpose of approving loans in excess of the Credit Sanctioning Committee's discretion.

The members of the Panel are Allan Wylie (Chair), Billy Hayes, Dave Prentis and Stephen Watts (to 9 November 2014). The Panel met eight times during the year. The Panel considered new loan facilities and renewals in excess of Executive sanctioning authorities, and changes to Treasury Counterparties, following the implementation of the new treasury management contract with Insight and in preparation for opening the Bank of England Reserves account.

Standing Committee

The Standing Committee has the same remit as the Board, however, it meets only to consider matters of urgency in between Board meetings. The members of the Committee are the Chair of the Board, who also chairs this Committee, the Chief Executive Officer, the President and the Independent Non-Executive Director. The Committee met three times during 2014.

Insurance and Indemnities

The Bank maintains Directors' and Officers' liability insurance cover. In 2015, deeds of indemnity were provided by the Bank to each Director. This constitutes a 'qualifying third party indemnity provision' for the purposes of Companies Act 2006 and applied to each of the Bank's Directors serving as at the date of approval of this report.

Conflicts of interest

All Directors have declared their interests and these have been circulated to the rest of the Board and noted in the minutes. The Articles of Association include the power for the Board to approve a Director's conflict.

Due to The Co-operative Bank's announcement that it intended to sell its shares in the Bank, the Board gave particular attention to potential conflicts of interest and how these should be managed. Conflict Authorisation Committees were used to ensure that conflicts were authorised by non-conflicted directors and conditions attached to such authorisations as appropriate.

Employees

Unity Trust Bank is committed to ensuring that it is a safe, diverse, and fair environment to work in. As at 31 December 2014, the Bank employed 90 members of staff (2012: 88). The Bank recognises and accepts its duty to protect the health and safety of all staff, temporary employees, and contractors, as well as customers, suppliers, or members of the public that might be affected by operations. The Bank recognises that the development and training of its staff is fundamental to its continuing success. By providing development opportunities, facilities, and financial support, the aim is to ensure that all staff are in possession of the knowledge, skills and experience necessary to perform to the highest standards. Each employee receives an induction and job related training, and resources are made available to enable individuals to develop and improve their current job performance and keep pace with internal and external developments.

The Bank consults and communicates with staff on customer, organisation and performance issues through regular team meetings, surveys, conferences, and forums with Unite the Union, which represents the staff in employee and organisational discussions. The Bank takes part in the annual Sunday Times "Best Companies to Work For" employee engagement survey and is accredited as "one star". The Bank was also re-accredited by IIP in 2014 achieving a move from the Silver Award to the Gold Award. The Bank has an ESOP, whereby 100 shares are gifted to staff after both one year and ten year's service. Staff can purchase shares or choose to take all or part of their profit share in shares.

Diversity

The Bank welcomes diversity and actively promotes equality of opportunity in employment for all employees and job applicants, regardless of sex, gender reassignment, marital status, sexual orientation, colour, race, and nationality, national or ethnic origin, religion or creed, disability, responsibility for dependants, age and membership, or non-membership of a trade union or political affiliation.

Report of the Directors for the year ended 31 December 2014 continued

Women in the Business

There is currently one female Board member (representing 8% of the total number of Directors). Two members of the Bank's Executive Team are female (not Executive Directors) which represents 33% of the team and 52% of the Bank's employees are female.

Information and communication

Communication takes place with all stakeholders through a variety of media. Employees receive and are provided with information on strategy and objectives through their reporting lines and a formal performance measurement process. Internal briefing documents, team meetings, briefings from the Chief Executive Officer to all staff, staff conferences and electronic media communicate other information, including updates on financial performance and the economic factors affecting the Bank.

Employees with Disabilities

Unity Trust Bank is committed to being an equal opportunities employer. The Bank is a holder of the "Positive about Disabled People" status, a recognition given by Jobcentre Plus to employers who have agreed to meet five commitments regarding the recruitment, employment, retention and career development of disabled people. The Bank has an Equal Opportunities Policy, which includes provisions to consider employment applications from people with disabilities and to match vacancies with an individual's particular aptitudes and abilities.

Further guidance and information for staff on disability issues is available through Human Resources and on the staff intranet. The Bank recognises its responsibility for making "reasonable adjustments" for new staff with disabilities and for those individuals who develop disabilities whilst in employment.

Risk management

The Board and Executive Management have the primary responsibility for identifying the key business risks facing the Bank. The Board and Executive Management administer a risk management process, which identifies the key risks facing the business and ensures they are managed effectively.

The Bank's risk management framework, which is approved and reviewed by the Board, outlines the approach taken to ensure a robust risk management process is in place throughout the organisation. The framework includes an ongoing process for identifying, evaluating and managing significant risks and has been in place for the year under review and up to the date of the approval of the Annual Report and Accounts. Management has the prime responsibility for identifying and evaluating significant risks and for designing and operating suitable controls.

Each risk is assigned to an appropriate manager who is responsible for ensuring that it is managed in accordance with the Bank's risk management process, which is kept under review to ensure that it accords with best practice and the evolving requirements of the Bank's Regulators.

Risk assessments are updated on a regular basis and are reported to the Bank's Executive Risk Review Committee, the Board Risk Committee and the Board. The Board accepts that there are risks which could impact on the achievement of the Bank's business objectives, but endeavours through positive risk management strategies as outlined in the risk management framework, to manage these in a manner that optimises returns within the confines of the business's risk appetite, whilst protecting shareholders' interests and reserves. Details of the Bank's Risk Management framework are provided on pages 22 to 34.

Additionally, the Chief Risk Officer provides the Board Risk Committee

and Board with a report of key risks that the Bank faces at each meeting.

Three lines of defence model

The Bank's risk management framework is organised along the "three lines of defence" model which facilitates the segregation of control and operational functions. This provides a control framework that facilitates the embedding of the Board's overall risk appetite throughout the Bank.

First line of defence

The Executive management are the first line, being responsible for implementing the Business Plan and for making business decisions to balance risk versus return in line with risk appetite. Functional management are responsible for the ownership, monitoring and managing of individual risks.

Second line of defence

The second line of defence is provided by the Chief Risk Officer and is overseen by the Board Risk Committee, responsible for the oversight of the risk management framework via a range of management committees.

Third line of defence

The third line of defence is provided by internal audit, is overseen by the Audit Committee and provides independent assurance over the first and second lines.

Internal Control

Internal controls are the activities undertaken by management, the Board and other parties to enhance risk management and increase the probability that established objectives and goals will be achieved. The Board has overall responsibility for the Bank's system of internal controls, which aim to safeguard the Bank's assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Bank and the results of its business operations. The Board is also responsible for reviewing the effectiveness of the system of internal controls. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulations, although any system of internal controls can provide only reasonable, not absolute, assurance against material misstatement or loss, and can only mitigate rather than eliminate the risk of failure to achieve business objectives.

The Bank's internal control framework is designed to create an attitude of taking acceptable business risk within clearly defined limits.

The control environment includes:

- an organisational structure with clear lines of responsibility, delegation of authority and reporting requirements;
- self assessment is undertaken by senior management each month which is overseen and challenged by the Risk department
- business continuity policy and tested procedures; and
- clearly defined policies for capital and revenue expenditure.

Larger capital and revenue expenditure requires Board authorisation with strategic business initiatives individually approved by the Board;

The Bank has a three-year strategic plan which is reviewed annually. Based on this, the Board reviews and approves annual business plans and budgets. These include the Key Performance Indicators. Actual results compared to budget and prior year periods are reviewed by the Board at every meeting. A consistent and detailed financial reporting system underpins effective management by Executive and senior management.

Report of the Directors for the year ended 31 December 2014 continued

Executive Risk Review Committee

The Committee comprises seven members and is chaired by the Chief Risk Officer of the Bank. Other members of the Committee are the Executive, as listed on page 2. The Committee met six times in 2014.

The purpose of this Committee is to ensure that the Bank's corporate strategy and related business objectives as set out by Board are supported by effective risk management, that risks are identified, monitored and acted upon in a timely manner and that resources are allocated accordingly.

The Committee provides assurance to Board and Board Risk Committee that all risks are being managed appropriately, in line with its risk appetite statements, compliance with regulatory and legislative requirements are met and that appropriate capital adequacy is maintained.

Control procedures

The Bank's control procedures are designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Comprehensive policy documents, controls and procedures have been tailored to the requirements of individual business activities. Rigorous controls in areas of significant risk include clear parameters for delegation of authority, segregation of duties, regular reporting and review and extensive data processing controls.

Internal Audit – the third line

The Internal Audit function is an independent function, outsourced to PwC, which reports to the Audit Committee. Its primary role is to provide assurance over the adequacy and effectiveness of the Bank's control framework including risk management practices.

Internal Audit seeks to discharge the responsibilities by completing a risk based internal audit plan. Internal Audit also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed.

Internal Audit reports are submitted to, and significant issues are discussed at, the Audit Committee. Significant issues are reported from there to the Board.

As part of the establishment of the Risk Framework, the Audit Committee asked PwC to undertake a review of risk management. The findings of this review were presented to the Audit Committee.

Monitoring

The operation of the system of internal control is the responsibility of line management. It is subject to independent review by Internal Audit and where appropriate, by the Bank's external auditors.

The Audit Committee, on behalf of the Board, monitors the effectiveness of internal control. Full details of the operation of the Committee can be found on page 13. During the year, the Directors have conducted a review of the effectiveness of the Bank's risk management and internal control systems.

The process used by the Audit Committee to review the effectiveness of the system of internal control includes:

- monitoring the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and judgements contained therein;
- reviewing the external and internal auditors report on the systems of internal control and any material control weaknesses;
- discussing with management the actions taken on problem areas identified by the Board or in the internal and external audit reports;

- reviewing the effectiveness of the risk management process; and
- the Chair of the Audit Committee reports the outcome of its meetings to the Board and the Board receives the minutes of all Audit Committee meetings. Significant risk issues are referred to the Board for consideration.

External Audit

Each year, the external auditors provide a report to the shareholders of the Bank as can be found at page 57 of this report. As discussed in the Audit Committee report, the External Auditors are invited to all meetings of the Audit Committee and are able to report any control observations to the Committee through their regular reports.

During 2014, the Audit Committee took responsibility for the direct handling of the external audit relationship, which had previously been co-ordinated by Co-operative Group Limited. In 2011, Co-operative Group Limited approved the re-appointment of KPMG as the external auditors following a competitive tender exercise.

The Bank will undergo an external audit tender process in 2015.

Please refer to the Audit Committee report for information on how auditor objectivity and independence have been safeguarded.

Future Developments

An indication of future developments can be found in the Strategic Report.

Change in accounting policy

The Bank stated in the 2013 Report and Accounts that it intended to implement the interpretation permitted in IFRIC 21 Levies in respect of the Financial Services Compensation Scheme ("FSCS") levy, for the 2014 reporting period and therefore has changed the accounting policy in relation to these levies. The Bank makes an annual payment (levy) into the FSCS scheme and IFRIC 21 aligns the accounting recognition of the levy to the period in which the Bank becomes obligated to pay the FSCS costs. IAS 8 requires that a change in accounting policy is applied retrospectively and note 17 sets out the impact of IFRIC 21 on the prior year.

Taxation

The Bank participates in the CITR scheme which encourages investment in disadvantaged communities by giving tax relief to companies who invest in CDFIs.

The following table shows a breakdown of the Bank's tax contributions;

£000	2014	2013
Corporation tax borne	210	543
Employment taxes borne - Employer NIC	321	292
Total taxes borne	531	836
Employment taxes collected - Employee PAYE and NIC	826	768
Total tax contributions	1,357	1,603

Deductions from Corporation tax totalling £205,000 (2013: £304,000) were made regarding the CITR scheme.

Report of the Directors for the year ended 31 December 2014 continued

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs, as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Going concern

The financial statements are prepared on a going concern basis as the Directors have a reasonable expectation that the Bank has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows, capital resources and for this reason, they continue to adopt the going concern basis in preparing the Bank's financial statements.

Further information relevant to the assessment is provided within the Basis of preparation of the financial statements on pages 40 to 43.

Financial Statements

The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director, to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information to assess the company's position and performance, business model and strategy.

By order of the Board.

Kate Eldridge
Company Secretary

Registered Office:
Nine Brindleyplace
Birmingham
B1 2HB

8 April 2015

Directors' Remuneration Report

This report provides details of the remuneration of the Executive Directors and the Non-Executive Directors. The information is provided on a voluntary basis.

Information about the Nomination and Remuneration Committee (the 'Committee') is set out in the Report of the Directors on page 13.

1 Remuneration Policy

In determining the remuneration policy for Executive Directors, the Committee consider a number of factors including:

- the importance of attracting, retaining and motivating senior executives of the appropriate calibre to further the success of the Bank;
- the linking of reward to business and individual performance and

the strengthening of the Bank's values which include a strong belief in stewardship of all the Bank's resources and, therefore, does not encourage or reward excessive risk taking;

- ensuring compliance with the PRA's Remuneration Code, as applicable to the Bank; and
- ensuring equity between groups of staff and between individuals by considering the pay and conditions of all staff.

1.1 Policy table

The table below sets out the elements of Executive Director remuneration. There have been no changes to the remuneration policy for the 2014 financial year.

	Element	Link to strategy	High level details and operation
Fixed pay	Basic salary	To attract and retain talented executives.	Basic salaries are reviewed annually by the Committee. The annual salary review date is 1 April. This salary increase percentage for Executive Directors will be no higher than the increase for all staff. The remuneration policy is designed to pay basic salaries at a level around the market median, when compared with other organisations of comparable size and complexity, and in the same business sector.
	Benefits	Benefits are provided in line with normal market practice.	Benefits include car or car allowance, mobile phone, health care cash plan and life assurance.
	Pension ⁱ	To provide competitive pension benefits to attract and retain talented executives.	All Executive Directors are members of The Co-operative Group Pension Scheme ("Pace") which is a registered occupational pension scheme. All Executive directors are members of the defined benefit section (Pace Complete). Further details are below.
Performance pay	Profit Sharing Scheme	Directly links reward to business performance by ensuring employees are focused on the success of the Bank, and incentivises performance and encourages retention.	Executive Directors are eligible to participate in the annual Profit Sharing Scheme on the same basis as all employees. The scheme is based on a distributable fund which is calculated as a proportion of eligible pre-tax profit, over a minimum level, from which all staff receive payments, on a pro-rata basis. Targets and eligibility are reviewed and approved each year by the Committee. Maximum distribution is 25% of salary in any financial year. The first part of any distribution (up to 10% of salary) is paid in cash with any excess paid in shares under the ESOP scheme. Employees can opt to take all or part of their entitlement in shares, in which case, one free share will be given for every five shares they are entitled to.
Other	Employee Share Ownership Plan (ESOP)	To encourage retention and promote employee share ownership.	Under the ESOP scheme, all staff with one or more years' service receive a gift of 100 shares each, plus an additional 100 shares for those with 10 or more years' service. Shares can be bought or sold during an annual trading window.

Notes: i. Pension Scheme

1.2 Policy on recruitment of Executives and exit payment policy

When a new Executive Director is recruited, the remuneration package will be determined in accordance with the policy table at paragraph 1.1 above. It is the Committee's intention that no additional payments are made outside of this policy.

Executive Directors are covered by the same collective agreement as all staff under which termination payments are agreed to include enhanced redundancy and payment in lieu of notice where appropriate.

1.3 Executive Directors' service contracts

All existing Executive Directors are employed under service contracts, which have periods of notice of termination of 12 months or less. In the event of termination, any payments due to an Executive Director would

be based on the terms of the service contract.

1.4 Appointments outside the Bank

Executive Directors can accept appointments from sources outside the Bank, with the consent of the Board, which will be forthcoming if it considers the appointment beneficial to the interests of the Bank. Payments received from such appointments are passed on to the Bank.

1.5 Consideration of pay and conditions elsewhere in the Bank

The pay and conditions of all staff are taken into account by the Committee when setting Executive Director remuneration policy, and when setting remuneration levels.

Directors' Remuneration Report continued

Director remuneration policy, and when setting remuneration levels.

As evidence of this, the Board agreed to take up a recommendation of the High Pay Centre to maintain a maximum wage ratio of highest to lowest paid of 20. The ratio for 2014 was 10 (2013:10)

In addition, the Bank has acknowledged the recommendations of the Living Wage Foundation and has confirmed that all staff are paid at least the Foundation's Living Wage calculation.

1.6 Remuneration policy for Non-Executive Directors' remuneration

The Chair of the Bank and the Independent Non-Executive Director (INED) receive remuneration in the form of a fee only and do not receive any benefits in kind or participate in the Profit Sharing Plan.

All other Non-Executive Directors receive no remuneration from the Bank of any form (no pension arrangements, incentive schemes or share option schemes) for their services to the Bank.

Pace Scheme

Pace Complete is available to all employees who have completed two years continuous service and provides pensions based on 1/60ths of average pensionable earnings, re-valued for inflation for each year of pensionable service from 6 April 2006. Accrued benefits as at 5 April 2006 continue to be linked to final pensionable salary at a member's date of leaving or retirement, whichever is earlier. Pensions are also payable on death. Members of the Pace Complete section currently contribute 8% of their pensionable salary towards the cost of providing pension benefits and the employer pays the balance.

Pace Extra available to all employees with members contributing 4% of their pensionable salary and the employer pays 8%.

Under both sections of Pace, a lump sum is payable if death occurs in service.

The Pace Scheme maintains a competitive level of pension provision whilst controlling the future costs and risks of occupational pension provision.

PART 2 Annual report on directors' remuneration

2.1 Executive Directors' remuneration

£	Date of service contract or appointment	Basic salary (1)	Benefits in kind (2)	Car allowance	Performance Pay (3)	2014 total emoluments	2013 total emoluments
R Wilcox	01 January 2012	145,539	120	11,500	4,965	162,124	154,554
M Osborne	18 September 1992	109,349	120	9,800	3,731	122,999	117,454
I Morrison	11 January 2006	95,945	-	9,800	3,273	109,019	104,158
P Kelly	19 November 2012	111,104	-	9,800	3,527	124,432	119,480
Total aggregate remuneration		461,937	240	40,900	15,496	518,573	495,647

Notes:

1. Base salaries were increased by 1% which allowed a higher average increase for all employees.
2. Benefits in kind are in respect of health care cash plan.
3. Performance related pay relates to the financial year 2013 (and paid in 2014).

For 2014, the distributable pool is to be determined and individual payments to staff will be confirmed by the Committee in March 2015. For 2014, the Bank's Executive Directors intend to participate in the profit share.

2.2 Non-Executive Directors' remuneration

£	Role	Date of appointment	2014 Remuneration	2013 Remuneration
Graham Bennett	Chair	08 June 2009	41,710	39,581
Roderick Chamberlain	INED	24 March 2013	30,450	23,077
Total aggregate remuneration			72,160	62,658

Note:

Roderick Chamberlain's remuneration in 2014 comprises his fee as an INED and an additional fee as Chair of the Audit Committee.

Directors' Remuneration Report continued

2.3 Pension details of the Executive Directors

At 31 December 2014, all of the Directors had benefits accruing under the defined benefit section of the Pace Scheme.

Name	Age at year end (1)	Years of company service (2)	Accumulated total accrued pension at year end (3)	Increase in accrued pension during the year (gross of inflation) (4)	Increase in accrued pension during the year (net of inflation) (5)	Value of column (5) calculated using a factor of 20 less director's contributions (6)
M Osborne	58	25	£50,326	£2,730	£1,445 (£1,925)	£20,145 (£30,700)
I Morrison	54	25	£45,998	£2,347	£1,168 (£2,481)	£15,692 (£42,783)
R Wilcox	56	26	£67,100	£3,671	£1,958 (£2,400)	£27,514 (£37,628)
P Kelly	54	2	£144	£144	£144	£2,191

Notes

- I Morrison and R Wilcox includes service at The Co-operative Bank.
- The pension entitlement shown in column (3) is the annual pension payable on retirement based on the service and pensionable salary at the end of the year.
- The increase in accrued pension during the year, shown in column (5), is after discounting the effect of inflation (allowing for a CPI increase of 2.7%).
- The age, service, and accrued pension shown in columns (1), (2) and (3) have been calculated as at 31 December 2014.
- Mr P Kelly joined the Pace Complete section of the Pace Scheme from 1 December 2014. His benefits in respect of this service are shown above. Before 1 December 2014, Mr Kelly was a defined contribution member of the Pace Extra section. The employer contribution for him to that section was £7,579 in 2014.
- The values in column (6) have been calculated by multiplying the increase in accrued pension (net of inflation) shown in column (5) by 20, less contributions paid in year by the executive. These additional figures are shown to illustrate the additional pension disclosures applicable from October 2013 onwards.
- Prior year equivalent figures are shown in brackets for column (5) and (6). The CPI increase for the previous year was 2.2%.

2.4 Payment to past directors

No payments have been made in 2014 to a past Executive Director or Non-Executive Director.

2.5 Code staff remuneration

Code staff is defined by the PRA as staff having a material impact on a firm's risk profile, including a person who performs a significant influence function for a firm, a senior manager and risk takers. Each Executive Director is considered to meet this definition.

On behalf of the Board

G Bennett

Chair of Nomination and Remuneration Committee

Risk Management Report (Unaudited)

The Board is responsible for approving the Bank's strategy, its principal markets and the level of acceptable risks articulated through its risk appetite statements. It is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management and that the level of capital held is consistent with the risk profile of the business.

During the year, the Prudential Regulation Authority approved the Bank's solo Internal Capital Adequacy Assessment Process ("ICAAP"). An interim Chief Risk Officer was also appointed and as a consequence, the Board has incorporated revisions to its governance and risk management structure which enhance the oversight and challenge over the risk management process, identifying the key risks facing the business and assessing the effectiveness of planned management actions.

Specific Board authority has been delegated to Board Committees and the Chief Executive Officer who may, in turn, delegate elements of his discretions to appropriate Directors and their senior line managers.

The **Board Risk Committee** is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation and management of all significant risks across the Bank and determining that all risks are being managed appropriately, in line with its risk appetite statements, and that adequate capital adequacy is maintained.

The **Nomination and Remuneration Committee** is a Board Committee. It determines remuneration and employment policy, approving appropriate incentive schemes and any payments made under such schemes.

The **Audit Committee** is a Board Committee. It supports the Bank's Board in carrying out its responsibilities for internal control and risk assessment. The Committee provides an independent review of risk management and controls. The Committee is supported by Internal Audit.

The **Board Sanction Panel** is a Board Committee responsible for sanctioning credit facilities above the level delegated to the Credit Sanctioning Committee.

The **Executive Committee** manages the business in line with the Board's risk appetite statements. It also maintains oversight of risk management processes and management information. It provides business updates including financial performance on a monthly basis.

The **Executive Risk Review Committee** has the purpose of ensuring that the Bank's corporate strategy and related business objectives as set out by Board are supported by effective risk management, that risks are identified, monitored and acted upon in a timely manner and that resources are allocated accordingly.

The Committee provides assurance to Board and Risk Committee that all risks are being managed appropriately, in line with its risk appetite statements, and that adequate capital adequacy is maintained.

The **Credit Risk Management Committee** has delegated authority to ensure that credit risks are identified, monitored and acted upon in a timely manner and that resources are allocated accordingly; managing credit strategy within delegated limits set by the Board approved Credit Risk Policies.

The **Asset and Liability Committee (ALCO)** is primarily responsible for managing the interest rate risk inherent in the Bank's asset and liability portfolio, liquidity and funding.

The **Credit Sanctioning Committee** has authority delegated by Board to sanction credit facilities up to specific limits.

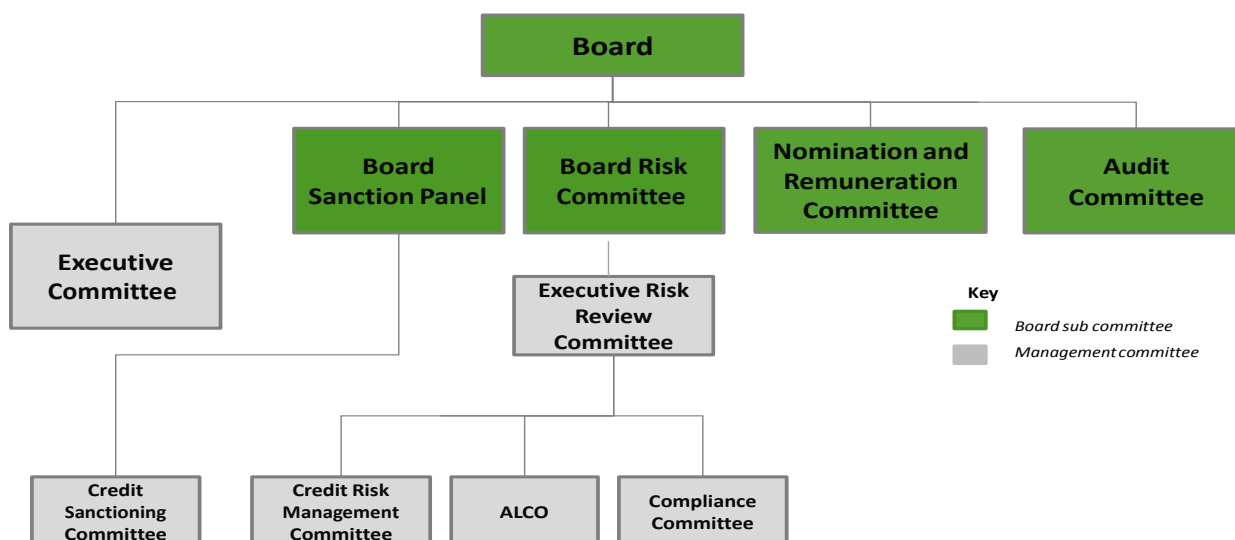
The **Compliance Committee** provides support to the Bank's compliance oversight function in providing requisite assurance to the Executive Risk Review Committee and the Board's Audit Committee.

The Bank's significant risks arise in five broad categories:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Governance Risk

Governance of Risk and Capital Management

Overview of governance structure



Risk Management Report continued

Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities, such as letters of credit) and in 'other products' (derivative contracts such as swaps, repurchase agreements and lending transactions).

All authority to take credit risk derives from the Bank's Board. This is delegated through authorities to individuals via the Finance Director. The level of credit risk authority delegated depends on seniority and experience, varying according to the quality of the counterparty or any associated security or collateral held.

The Bank's Credit Risk Management Policy is approved by the Board annually and determines the criteria for the management of corporate and wholesale market exposures. It specifies credit management standards, including country, sector and counterparty limits, along with delegated authorities. Larger corporate facilities are sanctioned by The Board Sanction Panel. The Board Risk Committee reviews quarterly, facilities sanctioned within delegated discretions at Credit Sanctioning Committee.

The Bank's Corporate Sector Policy is to maintain a broad sectoral spread of exposures which reflect the Bank's areas of expertise. Credit exposures to corporate and business banking customers are assessed individually. The quality of the overall portfolio is monitored, using a credit grading system calibrated to expected loss. All aspects of credit management are controlled centrally. The Board Risk Committee receives regular reports on new facilities and changes in facilities, sector exposures, bad debt provisions and the realisation of problem loans.

Credit policy for wholesale market counterparties involves establishing limits for each of these counterparties based on their financial strength and credit rating.

All Wholesale Market counterparties are reviewed at least annually by The Co-operative Bank's Treasury Credit Department and the counterparty list is also reviewed annually by the Board's Risk Committee.

Impaired Assets

Loans and securities are considered impaired where it is determined that the Bank will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements.

The loan portfolios are reviewed on a continuous basis to assess impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

Description of collateral

The Bank uses collateral and guarantees to mitigate credit risk. Within loans and advances to customers collateral for corporate lending is largely in the form of residential and commercial property. The latter is recognised in numerous ways such as security for property development or investment customers (i.e. "property" lending) or owner occupied premises to secure mainstream loan and overdraft facilities. Where exposures are agreed on a secured basis, security cover is recognised only where:

- the security is legally enforceable and is of a tangible nature and type;
- a margin is applied to the valuation, for the type of security involved.

Forbearance

Corporate customers are placed on the watchlist when they show signs of unsatisfactory performance and require close control, but are currently expected to continue paying. Events which may trigger watchlist status include a deteriorating balance sheet, material losses, trading difficulties (e.g. loss of material contracts or suppliers), breach of financial covenants, poor account conduct, arrears and material reduction in value of security. In such circumstances the Bank works with the customer to resolve their business problems and agree a clear strategy, often with the support of external, independent professional advisors.

If the Bank is convinced of the customer's ability and commitment to address its difficulties, it might agree to grant concessions to the original contractual terms. Such concessions typically include:

- restructuring, waiving or reserving rights in the event of covenant breaches, at 31 December 2014, 32 cases;
- postponement of principal payments, at 31 December 2014, 3 cases;
- restructures of principal payments, no cases at 31 December 2014;
- extension of loan maturities, no cases at 31 December 2014; or
- partial or full capitalisation of interest payments, no cases at 31 December 2014.

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the Bank retains the forbearance status for as long as the concession remains in place and does not remove them from the watchlist until at least six months later. In the event of one off concessions (such as capitalisation of interest payments), the Bank removes the forbearance status twelve months after their occurrence, and retains the customers on the watchlist for at least the same period of time.

Customers who stop exhibiting higher risk traits are removed from the watchlist, this is dependent upon the Bank's satisfaction that the triggers leading to inclusion on the watchlist no longer apply, such as:

- balance sheet improvements (e.g. cash injection, agreement with creditors or funders on revised terms);

Other forbearance concessions the Bank may grant are considered to be objective evidence of impairment and include:

- a partial write off of debt, following which the account continues to be classified as impaired for at least six months; or
- a material postponement or forgiveness of interest and/or 'soft' rates or waiver and/or reduction of normal fees and charges; the accounts must remain impaired while such favourable terms are being applied.

Additional objective evidence of impairment include:

- an instalment on a loan account being overdue, or having been in excess of its limit (or being overdrawn without an agreed limit) for 90 days or more;
- an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, liquidator or administrator; or
- if the Bank considers that at some point (normally taken within the next 12 months) actions such as an issue of formal demand will be required in order to achieve full repayment.

Specific impairment provision for bad and doubtful debt against individual lending is raised at the point when business performance is assessed to have deteriorated to the extent that there is a real risk of loss of principal, interest or fees. Provisions will be required on either a part or the entire shortfall between the security held and the loan balance outstanding and represent a realistic assessment of the likely net loss after realisation of any security.

Risk Management Report continued

For provision purposes, an up to date property valuation or selling agent's recommendation will be discounted to take into account selling and legal costs and also to build in a contingency to cover potential reductions in the selling price based upon the type of security and entity and the existence or otherwise of a contracted sale. In some cases calculation of the provision level will be based on an up to date assessment (often following an independent business review by a firm of accountants) of likely receivables from the business or a formal estimated outcome statement from an insolvency practitioner where the business has failed.

The Bank also reviews monthly all higher risk loans and considers the potential provision which might be required were the business to fail (notwithstanding that continued trading remains the expectation). A collective impairment provision is then raised against this portfolio based on the total of such potential provisions and the propensity for the business failure in this pool.

Market risk

Market risk arises from the effect of changes in market prices of financial instruments, on income derived from the structure of the balance sheet, execution of customer and inter-bank business. The majority of the risk arises from changes in interest rates. The Bank does not trade in interest rates, equities, commodities or foreign currencies.

Interest rate risk policy statements, approved by the Board, specify the scope of the Bank's wholesale market activity, market risk limits and delegated authorities. The policy is executed by the Bank's ALCO, the Chair of which has authority delegated by the Chief Executive Officer. ALCO meets quarterly and its prime task is to assess the interest rate risk inherent in the maturity and re-pricing characteristics of the Bank's assets and liabilities. It sets limits within which The Co-operative Bank's Treasury and the Bank's Finance department manages the effect of interest rate changes on the Bank's overall net interest income. The principal analytical techniques involve assessing the impact of different interest rate scenarios and changes in balances over various time periods.

Liquidity risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management policy is reviewed and approved annually by the Board and compliance reviewed quarterly by ALCO. Liquidity is monitored on a daily basis and managed by the Bank's Finance department and The Co-operative Bank's Treasury within the guidelines laid down by ALCO. During the year, Insight Investments were appointed as Investment Managers. At 31st December, £35m of gilt repos were held on the balance sheet, facilitated by Insight Investments. Liquidity risk arising from the structure of the balance sheet (structural liquidity) is managed to policies developed by ALCO. Stress testing is undertaken quarterly across a range of five stress tests.

The Bank's liquidity-management framework is designed in line with industry guidelines, including IIF (Institute of International Finance) and BIS (Bank for International Settlements) recommendations, and is being developed in response to emerging PRA requirements. During the year, the Board approved the Bank's Individual Liquidity Adequacy Assessment (ILAA).

The Bank manages liquidity risk by applying robust liquidity management with:

- maintenance of a well diversified deposit base;
- management of stocks: high quality primary liquidity, and secondary liquidity comprising certificates of deposit; and
- target funding ratio and funding ratios translated into corporate targets.

Day-to-day cash flow is managed by Finance within guidelines laid down by ALCO and in accordance with the standards established for all banks by the PRA. The Bank currently funds in excess of 100% of retail assets by retail deposits, ensuring there is no reliance on wholesale funding. There is a target funding ratio set in line with the Board approved strategic plan, which is being met. The Bank's structural liquidity-risk management framework is therefore retail-based and is dependent on behavioural analysis of both customer demand and deposit and loan drawdown profiles by product category, based on experience over the last 10 years. The behaviour of retail products is reviewed by ALCO on a quarterly basis.

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each quarter. A pool of liquid assets of £415 million is held by the Bank, and management actions are in place to provide an additional £239 million of liquidity. These sources of liquidity, totalling £654 million, are held in order to be available to meet unexpected liquidity requirements.

Marketable assets are maintained as a liquidity pool against potential retail outflows; the asset quality of these is controlled via credit limits. Concentration limits are set by issuer name and holding per bond to ensure diversity of assets.

Foreign exchange

The Bank does not undertake foreign exchange dealing other than to facilitate customer requirements. All such requirements are matched in the wholesale markets in order to eliminate foreign exchange risks.

Derivatives

The Bank uses derivative financial instruments, comprising interest rate swap contracts, for the management of interest rate risk. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure which is managed within approved limits for each counterparty. Terms and conditions are determined by using standard industry documentation.

Operational Risk

Operational risk is defined within the Bank as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses.

Operational risk framework

Operational risks are identified, managed and mitigated through ongoing risk management practices including:

- risk assessments;
- formal internal control procedures;
- training;
- segregation of duties;
- delegated authorities; and
- contingency planning.

Operational risks are formally reviewed on a regular basis by the Executive Risk Review Committee, who have regular reports from the business and the Internal Audit department based on their own programme of internal audits.

Governance and Constitutional risk

A change in the Bank's Articles to regularise its constitution has been proposed. This will facilitate improvements in the Bank's governance arrangements, although there is a risk that the new Articles are not adopted by Shareholders. This would restrict the Bank's ability to meet the Regulator's expectations as to the Bank's governance arrangements.

Risk Management Report continued

The Co-operative Bank's announcement that it would sell its holding in the Bank in January 2014 created uncertainty, which risks affecting the Bank's relationships with its shareholders, customers and regulators. Management time is spent on the issue, which risks delaying progress that can be made pursuing the business strategy. In addition to the recruitment of a new independent chair, the Bank is recruiting a new Chief Executive Officer. The Bank faces change risk as the transition to the new leadership takes place.

Responsibility

Whilst the Board is ultimately responsible for operational risks across the Bank, the management of the risks is delegated to the Chief Risk Officer. All significant risks are assigned an owner, at Director level, who has responsibility for the management of that risk.

Risk themes

The Bank categorises operational risk into a number of distinct themes for internal management, monitoring and reporting. Key operational risk themes managed by the Bank include:

Financial crime

This relates to the effectiveness of controls to minimise financial losses arising from the fraudulent activities of employees, customers and third parties. Specific risks arise from external fraud, including but not limited to computer fraud (computer viruses, key logging tools, Trojan attacks, phishing), anti money laundering (including, but not limited to, failure to comply with FCA money laundering regulations and to prevent organised crime) and internal fraud.

Compliance (with regulatory and legal requirements)

As a regulated business, the Bank places great emphasis on maintaining compliance with regulatory and legal obligations by:

- regulatory – supporting the Bank's business objectives through the provision of advice, and the recommendation of solutions where appropriate, in respect of the regulatory implications of business developments, and assisting the business in assessing and addressing new and enhanced regulatory expectations. This is supported by appropriate and effective monitoring, aimed at influencing the business to mitigate or eliminate regulatory risk and demonstrate that we are meeting our regulatory obligations; and
- legal – seeking to pro-actively manage legal issues in relation to commercial, contractual, employment and litigation activities.

It is acknowledged that our people are a key asset. The financial services sector as an industry is reliant on its people and the skills, knowledge and experience that they provide. The risk of failure to maintain employee relations, or provide a safe environment in line with legislative requirements and with the ethical, diversity and discrimination rules is managed with support from our Human Resources team.

Property & facilities

The risk of unforeseen operational disruption caused through the denial of access to major occupancies or other interruptions to business operations is managed through our business continuity framework and corporate insurance programme.

Customer service

As a financial services business, providing fair and high-quality customer service is essential. Controls that could prevent the risk of poor customer service occurring are regularly assessed and monitored. These include customer service levels, getting things right first time, availability of customer facing systems, together with trained and skilled resource to service customer demand.

Supplier

The Bank looks to source cost-effective and quality services. Given the reliance on the Bank's business partners who provide services and products, a major or prolonged disruption to the supply of their services and products would impact on the Bank.

Risks are monitored relating to the effectiveness of contracts and relationship management to ensure that the Bank's expected performance levels are achieved.

Major IT systems/major payments systems failure

Financial service providers have a heavy reliance on the availability and performance of underlying systems and applications and their underlying processes and frameworks. Consequently the effectiveness of controls over the IT systems and infrastructure supporting IT processes and controls, major payment systems and clearing and business processes are monitored on a regular basis.

Change management

The Bank continues to invest in change programmes developing and improving our products, systems and processes. To manage delivery of these change programmes, manage risks, prioritise resources and realise benefits the Bank has developed and implemented a Change Management Framework. This is regularly reviewed to maintain its effectiveness.

Principal risks

In addition to the significant risks covered above, the following risks are also reported in the Bank's risk management framework:

Pensions risk: the risk of the Bank being unable to meet Pension Fund Commitments. Pension risks are identified by the Bank, with the impact of any potential changes to contribution assessed under the Bank's Risk Management Framework.

The pension scheme is not sectionalised and operates on a 'last man standing' basis. In the event that other participating employers become insolvent and the full statutory debt is not recovered on insolvency, the Bank would become liable for the remaining liabilities.

Reputational risk: failure to proactively develop, protect and optimise the value of the Bank's brand through inappropriate strategic decisions, poor business performance, or operational failure. Reputational risks are identified at the Bank entity level. As part of the assessment of this risk, the impact of other group entities to the Bank is considered.

Group risk: risks originating from elsewhere in The Co-operative Bank impacting upon the Bank.

Business risk: arises from changes to the Bank's business, specifically the risk of not being able to carry out the Bank's business plan and desired strategy, including the ability to provide suitable products and services to customers. In a narrow sense, business risk is the risk the Bank suffers losses because income falls or is volatile relative to the fixed cost base. However, in a broader sense, it is the Bank's exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks.

Risk Management notes

All amounts are stated in £000s unless otherwise indicated

Credit Risk (Audited)

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Bank or its failure to perform as agreed.

Credit Exposure

	2014			2013		
	Gross balance	Credit commitments	Credit risk exposure	Gross balance	Credit commitments	Credit risk exposure
Cash and balances at central banks	138	-	138	146	-	146
Loans and advances to banks	316,108	-	316,108	274,703	-	274,703
Loans and advances to customers	177,929	44,334	222,263	191,265	41,888	233,153
Investment securities - available for sale	339,157	-	339,157	255,252	-	255,252
Derivative financial instruments - Designated at fair value	-	-	-	-	-	-
- Cash flow Hedged	325	-	325	533	-	533
	833,657	44,334	877,991	721,899	41,888	763,787
Allowance for impairment losses on loans and advances - note 9			(2,924)			(6,522)
Carrying amount			875,067			757,265

The Group's concentration exposure is outlined in note 9.

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Credit risk analysis (Audited)

31 December 2014

	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	3,351	-	-	3,351
Carrying amount	-	3,351	-	-	3,351
Collectively impaired					
Less than 90 days past due	-	7,274	-	-	7,274
Carrying amount	-	7,274	-	-	7,274
Past due but not impaired					
0-30	-	812	-	-	812
Carrying amount	-	812	-	-	812
Neither past due or impaired					
Grade A-D (performing)	316,108	150,965	339,157	325	806,555
Grade E (Watchlist - performing)	-	15,527	-	-	15,527
Grade F-H (Default non-performing)	-	-	-	-	-
Carrying amount	316,108	166,492	339,157	325	822,082
Allowance for impairment losses on loans and advances		(2,924)			(2,924)
Total carrying amount	316,108	175,005	339,157	325	830,595

31 December 2013

	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	11,631	-	-	11,631
Carrying amount	-	11,631	-	-	11,631
Collectively impaired					
Less than 90 days past due	-	9,499	-	-	9,499
Carrying amount	-	9,499	-	-	9,499
Past due but not impaired					
0-30	-	2,285	-	-	2,285
Carrying amount	-	2,285	-	-	2,285
Neither past due or impaired					
Grade A-D (performing)	274,703	152,184	255,252	533	682,672
Grade E (Watchlist - performing)	-	15,666	-	-	15,666
Grade F-H (Default non-performing)	-	-	-	-	-
Carrying amount	274,703	167,850	255,252	533	698,338
Allowance for impairment losses on loans and advances		(6,522)			(6,522)
Total carrying amount	274,703	184,743	255,252	533	715,231

Cash and balances at central banks of £138k are held as cash and are excluded from this analysis.

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Loans and advances to customers (Audited)

Impairment definition

On an on-going basis the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:

- an instalment on a loan account is overdue, or has been in excess of its limit (or is overdrawn without an agreed limit) for 90 days or more;
- if, as a result of lending being (either now or previously) at risk in distress, the Bank has agreed to a material postponement or forgiveness of interest and/or 'soft' rates or to a waiver and/or reduction of normal fees and charges, the accounts must be considered impaired while such favourable terms are being applied;
- there has been a full or partial write off of debt, following which the account must remain impaired for at least six months;
- there has been an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, liquidator or administrator;
- if the Bank considers that at some point (normally taken as within the next 12 months) actions such as an issue of formal demand will be required in order to achieve full repayment; or
- lack of an active market for the asset.

Once a loan is defined as impaired the provision will be calculated as the difference between the current carrying value of the asset and the expected future recovery, discounted at the loan's effective interest rate.

Past due but not impaired

Loans and securities are considered past due where the contractual interest or principal payment are in arrears, but the Bank believes that the trigger point for impairment has not been reached.

The factors considered in determining if financial assets are individually impaired are stated above and within critical judgements on page 44.

Collateral

Eligible financial collateral comprises gilts held as part of reverse repo agreements.

Any shortfall of security for an exposure is generally regarded as unsecured and assessment includes this element of residual risk.

As at 31 December 2014 £16.7 million (2013: £21.0 million) within loans and advances was unsecured.

At the reporting date the fair value of collateral held as security against individually impaired assets was £1.4 million (2013: £7.0 million).

At the reporting date the fair value of collateral held as security against financial assets that are past due but not impaired was £0.8 million (2013: £2.3 million).

The table below analyses the value of the property collateral held against individually impaired assets.

	2014		2013	
	Exposure	Collateral	Exposure	Collateral
Public Houses & Hotels	2,535	1,143	8,366	4,329
Other	816	208	3,265	2,747
Total	3,351	1,351	11,631	7,076

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Geographical concentration (Audited)

The Bank has no sovereign exposure to the following countries; Portugal, Ireland, Italy, Greece and Spain.

At 31st December 2014, the majority of the Bank's exposures were to UK and European countries. The Bank also had £115 million of exposures to non European countries as follows; Canada £55 million, Australia £20 million, Philippines (Asian Development Bank) £20 million and USA (Inter - American Development Bank) £20 million.

The Bank has exposures to financial institutions in the following European countries at 31 December 2014:

Country	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure 31 December 2014
Finland	-	23,909	15,008	-	38,916
France	20,018	20,012	-	-	40,030
Luxembourg	-	20,015	-	-	20,015
Netherlands	-	20,008	-	-	20,008
Norway	-	20,012	-	-	20,012
Sweden	10,010	30,020	-	-	40,030
	30,028	133,975	15,008	-	179,011

The Bank has exposures to financial institutions in the following European countries at 31 December 2013:

	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure 31 December 2013
Finland	10,024	20,040	-	-	30,064
France	20,019	-	-	-	20,019
Luxembourg	-	-	20,016	-	20,016
Netherlands	-	20,023	-	-	20,023
Norway	-	20,014	-	-	20,014
Sweden	-	30,035	-	-	30,035
	30,043	90,112	20,016	-	140,170

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Interest rate risk (Unaudited)

Interest rate risk is primarily managed through assessing the sensitivity of the Bank's non-trading book to standard and non-standard interest rate scenarios. The Board has established a risk appetite of £1.5 million over the next twelve months to be at risk to a 200bp rise and fall in all yield curve rates, assuming the external rate on all retail products changes to maintain constant margins.

The Board receive quarterly reports on the management of balance sheet risk and ALCO reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

Interest rate sensitivity gap (Audited)

The following tables summarise the repricing periods for the assets and liabilities in the Bank's non-trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Interest free current account balances are included in the 'non-interest bearing' maturity band.

31 December 2014

	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central banks	138	-	-	-	-	-	138
Loans and advances to banks	316,108	-	-	-	-	-	316,108
Loans and advances to customers	155,053	-	3,029	9,249	10,598	(2,924)	175,005
Investment securities - available for sale	295,019	-	28,585	15,553	-	-	339,157
Other assets	-	-	-	-	-	2,318	2,318
Total assets	766,318	-	31,614	24,802	10,598	(606)	832,726
Liabilities							
Customer accounts	782,761	-	-	-	-	-	782,761
Other liabilities	-	-	-	-	-	2,759	2,759
Total equity	-	-	-	-	-	47,206	47,206
Total liabilities	782,761	-	-	-	-	49,965	832,726
Derivatives	(15,000)	-	10,000	5,000	-	-	
Interest rate sensitivity gap	(31,443)	-	41,614	29,802	10,598	(50,571)	
Cumulative gap	(31,443)	(31,443)	10,171	39,973	50,571	-	

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Interest Rate Risk continued (Audited)

31 December 2013

	Within 3 months	Over 3 months but within 1 year	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non- interest bearing	Total
Assets							
Cash and balances at central banks	146	-	-	-	-	-	146
Loans and advances to Banks	274,703	-	-	-	-	-	274,703
Loans and advances to customers	158,599	-	-	16,144	16,522	(6,522)	184,743
Investment securities - available for sale	175,159	40,046	20,023	20,025	-	-	255,252
Other assets	-	-	-	-	-	2,611	2,611
Total assets	608,607	40,046	20,023	36,169	16,522	(3,911)	717,455
Liabilities							
Customer accounts	622,408	-	-	-	-	46,214	668,622
Other liabilities	-	-	-	-	-	2,272	2,272
Total equity	-	-	-	-	-	46,561	46,561
Total liabilities	622,408	-	-	-	-	95,047	717,455
Derivatives	(20,000)	5,000	-	15,000	-	-	
Interest rate sensitivity gap	(33,801)	45,046	20,023	51,169	16,522	(98,958)	
Cumulative gap	(33,801)	11,244	31,267	82,436	98,958	-	

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Liquidity Gap (Unaudited)

The following table analyses assets and liabilities into relevant maturity groupings based on the remaining period of the balance sheet date to the contractual maturity date.

The Bank manages liquidity on a behavioural rather than contractual basis. The deposit base is very stable, with deposits being attracted to the Bank by good customer service and its commitment to the trades union and core sectors. As a result, the deposit base remains stable whereas the contractual maturity is immediate for instant access deposits.

These behavioural adjustments are based on historical experience of customer behaviour over a period of up to ten years.

As a result of this strength, the Bank has not been required to enter into the markets during the year. Future asset growth will be undertaken within the liquidity-risk appetite set by Board.

Liquidity risk (Audited)

31 December 2014

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non cash items	Total
Assets							
Cash and balances at central banks	138	-	-	-	-	-	138
Loans and advances to banks	1,125	314,983	-	-	-	-	316,108
Loans and advances to customers	3,366	3,394	11,405	83,763	73,077	-	175,005
Investment securities- available for sale	-	217,439	68,683	53,035	-	-	339,157
Other assets	-	-	-	-	-	2,318	2,318
	4,629	535,816	80,087	136,798	73,077	2,318	832,726
Liabilities							
Customer accounts	639,335	143,426	-	-	-	-	782,761
Other liabilities	-	-	-	-	-	49,965	49,965
	639,335	143,426	-	-	-	49,965	832,726
Net liquidity gap on contractual basis	(634,706)	392,390	80,087	136,798	73,077	(47,647)	-

31 December 2013

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non cash items	Total
Assets							
Cash and balances at central banks	146	-	-	-	-	-	146
Loans and advances to banks	700	274,003	-	-	-	-	274,703
Loans and advances to customers	2,220	5,422	12,637	74,875	89,590	-	184,743
Investment securities- available for sale	-	175,159	60,069	20,025	-	-	255,252
Other assets	-	-	-	-	-	2,611	2,611
	3,066	454,584	72,705	94,900	89,590	2,611	717,455
Liabilities							
Customer accounts	590,703	77,919	-	-	-	-	668,622
Other liabilities	-	-	-	-	-	48,833	48,833
	590,703	77,919	-	-	-	48,833	717,455
Net liquidity gap on contractual basis	(587,637)	376,665	72,705	94,900	89,590	(46,222)	-

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

The following is an analysis of gross contractual cash flows of financial liabilities held at the balance sheet date.

Gross expected cashflow maturity analysis - contractual (Audited)

31 December 2014

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	782,761	782,761	729,145	53,616	-	-	-
Other liabilities	2,747	2,747	2,747	-	-	-	-
	785,508	785,508	731,892	53,616	-	-	-
Derivative Liabilities	12	12	12	-	-	-	-
Total recognised liabilities	785,520	785,520	731,904	53,616	-	-	-
Unrecognised loan commitments	44,119	44,119	44,119	-	-	-	-
Total	829,639	829,639	776,023	53,616	-	-	-

31 December 2013

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	668,622	668,622	643,515	25,107	-	-	-
Other liabilities	2,254	2,254	2,254	-	-	-	-
	670,876	670,876	645,769	25,107	-	-	-
Derivative Liabilities	18	18	12	6	-	-	-
Total recognised liabilities	670,894	670,894	645,781	25,113	-	-	-
Unrecognised loan commitments	41,553	41,553	41,553	-	-	-	-
Total	712,447	712,447	687,334	25,113	-	-	-

Risk Management notes continued

All amounts are stated in £000s unless otherwise indicated

Gross expected cashflow maturity analysis - behavioural (Unaudited)

The following is an analysis of gross expected cash flow maturity. Liquidity cash flows are managed on a behavioural basis reflecting the actual behaviour of customers using the same assumptions as the liquidity gap analysis, based on historic cash flow profiles over a period of ten years.

31 December 2014

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	782,761	782,761	409,477	373,284	-	-	-
Other liabilities	2,747	2,747	2,747	-	-	-	-
	785,508	785,508	412,224	373,284	-	-	-
Derivative Liabilities	12	12	12	-	-	-	-
Total recognised liabilities	785,520	785,520	412,236	373,284	-	-	-
Unrecognised loan commitments	44,119	44,119	44,119	-	-	-	-
Total	829,639	829,639	456,356	373,284	-	-	-

31 December 2013

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	668,622	668,622	348,163	320,459	-	-	-
Other liabilities	2,254	2,254	2,254	-	-	-	-
	670,876	670,876	350,417	320,459	-	-	-
Derivative Liabilities	18	18	12	6	-	-	-
Total recognised liabilities	670,894	670,894	350,429	320,465	-	-	-
Unrecognised loan commitments	41,553	41,553	41,553	-	-	-	-
Total	712,447	712,447	391,982	320,465	-	-	-

Income Statement for the year ended 31 December 2014

All amounts are stated in £000s unless otherwise indicated

	Note	2014	2013 Restated	Adjustment	2013
Interest receivable and similar income	3	9,530	9,529		9,529
Interest expense and similar charges	3	(1,527)	(1,495)		(1,495)
Net interest income		8,003	8,034		8,034
Fee and commission income		2,507	2,499		2,499
Fee and commission expense		(955)	(956)		(956)
Net fee and commission income		1,552	1,543		1,543
Operating income		9,555	9,577		9,223
Operating expenses	4	(8,610)	(7,206)		(7,206)
Financial services compensation scheme levies		(119)	(113)	18	(131)
Operating profit before impairment credit		826	2,258	18	1,886
Impairment credit on loans and advances	9	357	433		433
Fair value movement in derivatives	11	(212)	(354)		(354)
Profit before taxation		971	2,337	18	2,319
Income tax	6	(1)	(232)	(4)	(228)
Profit for the year attributable to shareholders		970	2,105	14	2,091
Earnings per share (basic and fully diluted)	24	5.9 p	12.8 p		12.7 p

The accounting policies and notes on pages 40 to 56 form part of these financial statements.

The Adjustment column relates to the impact of a change in accounting policy for IFRIC21 as disclosed in the Report of the Directors.

Statement of Comprehensive Income for the year ended 31 December 2014

All amounts are stated in £000s unless otherwise indicated

	2014	2013 Restated	Adjustment	2013
Profit for the year - equity shareholder	970	2,105	14	2,091
Other comprehensive expense:				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Changes in cashflow hedges				
Net changes in fair value recognised directly in equity	31	(583)		(583)
Income tax	(7)	135		135
Net losses transferred from equity to gains less losses from derivative financial instruments	-	(35)		(35)
Income tax	-	9		9
Changes in available-for-sale assets				
Net losses transferred from equity to profit or loss	(57)	(33)		(33)
Income tax	12	8		8
Other comprehensive expense for the financial year, net of income tax	(21)	(499)	-	(499)
Total comprehensive income for the financial year	949	1,606	14	1,592
Attributable to:				
Equity shareholders	949	1,606	14	1,592

The accounting policies and notes on pages 40 to 56 form part of these financial statements.

The Adjustment column relates to the impact of a change in accounting policy for IFRIC21 as disclosed in the Report of the Directors.

Balance Sheet as at 31 December 2014

All amounts are stated in £000s unless otherwise indicated

	Note	2014	2013 Restated	Adjustment	2013
Assets					
Cash and balances at central banks	7	138	146		146
Loan and advances to banks	8	316,108	274,703		274,703
Loans and advances to customers	9	175,005	184,743		184,743
Investment securities - available for sale	10	339,157	255,252		255,252
Derivative financial instruments	11	325	533		533
Intangible fixed assets	12	327	455		455
Property, plant and equipment	13	257	217		217
Deferred tax assets	18	60	91		91
Other assets	14	57	49		49
Prepayments and accrued income	15	544	352		352
Current tax assets		748	914	(32)	946
Total assets		832,726	717,455	(32)	717,487
Liabilities					
Customer accounts		782,761	668,622		668,622
Derivative financial instruments	11	12	18		18
Other liabilities	16	1,955	1,575		1,575
Accruals and deferred income		662	528		528
Provisions for liabilities and charges	17	130	151	(132)	283
Total liabilities		785,520	670,894	(132)	671,026
Capital and reserves attributable to the Bank's equity holders					
Ordinary share capital	20	16,429	16,429		16,429
Share premium account	20	250	250		250
Retained earnings		30,556	29,890	100	29,790
Other reserves - available for sale		(59)	(14)		(14)
Other reserves - cashflow hedging reserve		30	6		6
Total equity		47,206	46,561	100	46,461
Total liabilities and equity		832,726	717,455	(32)	717,487

Approved by the Board on 8 April 2015 and signed on its behalf by:

Dave Prentis, President
Graham Bennett, Chair
Mike Osborne, Finance Director

The accounting policies and notes on pages 40 to 56 form part of these financial statements.

The Adjustment column relates to the impact of a change in accounting policy for IFRIC21 as disclosed in the Report of the Directors.

Statement of Changes in Equity for the year ended 31 December 2014

All amounts are stated in £000s unless otherwise indicated

Attributable to equity holders of the Bank

	Share capital	Share premium	Available for sale reserve	Cashflow hedging reserve	Retained earnings	Total equity
At 1 January 2014	16,429	250	(14)	6	29,890	46,561
Total comprehensive income for the financial year	-	-	(45)	24	970	949
Dividend	-	-	-	-	(304)	(304)
At 31 December 2014	16,429	250	(59)	30	30,556	47,206

Attributable to equity holders of the Bank

	Share capital	Share premium	Available for sale reserve	Cashflow hedging reserve	Retained earnings	Total equity
At 1 January 2013	16,429	250	11	480	27,880	45,050
Effect of Change in accounting Policy	-	-	-	-	86	86
Balance at 1 January restated	16,429	250	11	480	27,966	45,136
Total comprehensive income for the financial year	-	-	(25)	(474)	2,105	1,606
Dividend	-	-	-	-	(181)	(181)
At 31 December 2013	16,429	250	(14)	6	29,890	46,561

The accounting policies and notes on pages 40 to 56 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2014

All amounts are stated in £000s unless otherwise indicated

	2014	2013 .Restated	Adjustment	2013
Cash flows from operating activities				
Profit before taxation	971	2,337	18	2,319
Adjustments for:				
(Increase) / Decrease prepayments and accrued income	(192)	53		53
Increase in accruals and deferred income	134	44		44
Impairment gains on loans and advances	(357)	(433)		(433)
Fair value changes of derivatives	233	511		511
Depreciation and amortisation	253	254		254
Provision for liabilities and charges	(21)	(249)	(18)	(231)
	1,021	2,517	-	2,517
Increase in customer accounts	114,139	52,254		52,254
Decrease / (Increase) in loans and advances to customers	10,095	(10,144)		(10,144)
Net movement of other assets and other liabilities	373	(2)		(2)
Income tax paid	201	(94)		(94)
Net cash flow from operating activities	125,829	44,531		44,531
Cash flows from investing activities				
Purchase of property, plant and equipment	(157)	(193)		(193)
Intangible asset additions	(8)	(65)		(65)
Purchase of investment securities	(927,391)	(845,016)		(845,016)
Proceeds from sale and maturity of investment securities	843,428	815,211		815,211
Net cash flow from investing activities	(84,128)	(30,063)		(30,063)
Cash flows from financing activities				
Ordinary share dividends paid	(304)	(181)		(181)
Net cash flow from financing activities	(304)	(181)		(181)
Increase in cash and cash equivalents	41,397	14,287		14,287
Cash and cash equivalents at the beginning of the financial year	274,849	260,562		260,562
Cash and cash equivalents at end of the financial year	316,246	274,849		274,849
Cash and balances at central banks (note 7)	138	146		146
Loans and advances to banks (note 8)	316,108	274,703		274,703
	316,246	274,849		274,849

The accounting policies and notes on pages 40 to 56 form part of these financial statements.

The Adjustment column relates to the impact of a change in accounting policy for IFRIC21 as disclosed in the Report of the Directors.

Basis of Preparation and Accounting Policies for the year ended 31 December 2014

Unity Trust Bank plc (the 'Bank') is registered in England and Wales (No 1713124) under the Companies Act.

Basis of preparation

The Bank's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and IFRS Interpretations Committee (IFRIC) guidance as adopted by the European Union.

The financial information has been prepared under the historic cost convention as modified by the revaluation of available for sale financial assets, derivative contracts, and certain other financial assets and financial liabilities held at fair value. The Bank applies the recognition measurement and disclosure requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2014.

Change in accounting policy

The Bank has decided to utilise the provisions of IFRIC 21 in accordance with the transitional provisions contained therein, in respect of the Financial Services Compensation Scheme (FSCS) levy. IFRIC21 seeks to align recognition of the levy to the period in which the Bank becomes obligated to pay the FSCS costs. IAS 8 requires that a change in accounting policy is applied retrospectively and note 17 sets out the impact of IFRIC 21 on the prior year.

Standards and interpretations issued and effective

In preparing these financial statements, the Bank has adopted the following pronouncements during the year that are new or revised:

• IFRS 10 'Consolidated Financial Statements'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012. IFRS 10 supersedes IAS 27 and incorporates the existing accounting and disclosure requirements of IAS 27 with some additional minor clarifications. It also provides a single model to be applied in the control analysis for all investees. This does not have a material impact on the Bank.

• Amendments to IAS 32 'Offsetting Financial Assets and Liabilities'

Effective from 1 January 2014 and endorsed by the EU on 13 December 2012. This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement. This does not have a material impact on the Bank.

• Amendments to IAS 36 'Recoverable amount disclosures for non-financial assets'

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013. The amendments reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. There is no impact in the current year. This does not have a material impact on the Bank.

• Amendments to IAS 39 'Continuing hedge accounting after derivative novations'

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013. The amendments add a limited exception to IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging

documentation meets specific criteria. This does not have a material impact on the Bank.

• IFRIC 21 (Levies (2013))

This interpretation gives guidance on the recognition of a liability to pay a levy that is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation other than outflows of resources covered by other Standards, fines or other penalties that are imposed for breaches of the regulation. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The Bank has implemented this interpretation from 1 January 2014 when recognising the Financial Services Compensation Scheme (FSCS) Levies.

The impact of the application is to increase brought forward reserves at 1 January 2014 as the FSCS Levies will be recognised annually on the date of payment, 1 April, rather than the date upon which the Banks share of the levy is calculated as a proportion of the total market protected deposits, 31 December.

The Bank has not adopted the following pronouncements during the year that are new or revised:

• IFRS 11 'Joint Arrangements'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012. This standard replaces the existing accounting for joint arrangements and makes limited amendments in relation to associates. This will have no impact on the Bank.

• IFRS 12 'Disclosure of Interests in Other entities'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012. This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. This will have no impact on the Bank.

Standards and interpretations issued but not yet effective

• IFRS 9 'Financial Instruments'

Effective from 1 January 2018 and not yet endorsed by the EU. The standard replaces IAS 39. Phase one of this process specifically requires financial assets to be classified at amortised cost or at fair value. Consequently, the available-for-sale category currently used will become void. The Bank is monitoring the development of IFRS 9 and considering the associated impact on the Bank's financial statements but anticipate that it will have a material impact.

• Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'

Effective from 1 February 2015 and will be endorsed by the EU on 9 January 2015. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. This is unlikely to have a material impact on the Bank.

Basis of Preparation and Accounting Policies for the year ended 31 December 2014

- *Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'*

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. This will have no impact on the Bank.

- *Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'*

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. This is unlikely to have a material impact on the Bank.

- *IFRS 15 'Revenue from Contracts with Customers'*

Effective from 1 January 2017 and not yet endorsed by the EU. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Bank.

Other standards and interpretations have been issued but these are not considered to be relevant to the Banks operations.

Going Concern

The Bank's business activities together with its financial position and the factors likely to affect its future development and performance are set out in the Strategic Report on pages 6 to 10. In addition, the risk management section on pages 32 to 46 includes the Bank's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. The capital management note on page 57 provides information on the Bank's capital policies and capital resources.

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Bank should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised and adequately positioned in excess of liquidity stress tests.

Consequently, after making enquiries, the Directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. When making this assessment, the directors act within the principles of the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' report.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described within the risk management section on pages 32 to 46 and the critical judgements section on page 31.

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Revenue recognition

Interest income

Interest income is recognised on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

Fees and commissions

Fee and commission income is predominantly made up of arrangement and other fees relating to loans and advances to customers that are included in the effective interest calculation. Commitment fees received are deferred and included in the effective interest calculation upon completion or taken in full at the date the commitment period expires and completion does not occur.

Fees and commissions payable to introducers in respect of obtaining lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate. Other fees are taken to the income statement.

All other fee and commission income, such as a loan closure fee or an arrears fee, that is not included in the effective interest calculation is recognised on an accruals basis as the service is provided.

(b) Financial instruments (excluding derivatives)

Recognition

The Bank initially recognises loans and advances, deposits and other borrowed funds on the date at which they are originated.

Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets (excluding derivatives) as either:

- Loans and receivables; or
- Available for sale.

The Bank measures all of its financial liabilities (excluding derivatives) at amortised cost.

Basis of Preparation and Accounting Policies for the year ended 31 December 2014

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the effective interest method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses.

Loans and receivables mainly comprise loans and advances to customers and banks.

ii) Available for sale

Available for sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time. These are measured at fair value based on current bid prices where quoted in an active market. Where there is no active market or the securities are unlisted the fair values are based on valuation techniques including discounted cashflow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Movements in fair value are recorded in equity as they occur. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

Impairment provisions

At the balance sheet date, the Bank assesses its financial assets (including its loans and advances to customers) for objective evidence that an impairment event has incurred.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security. In terms of forbearances, the Bank recognises all such cases within its provisioning methodology. For further information on forbearance within impairments, as set out in 'Risk management' page 23.

The Bank considers evidence for impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Loans and advances not individually significant are collectively assessed for impairment by grouping together loans and advances by similar risk characteristics.

The amount of the loss is the difference between the:

- asset's carrying amount; and
- present value of estimated future cash flows (discounted at the assets original or variable effective interest rate for amortised cost assets and at the current market rate for available for sale assets).

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

The written down value of the impaired financial asset is compounded back to the net realisable balance over time using the original effective interest rate. This is reported through interest and similar income within the income statement and represents the unwind of the discount.

A write-off is made when all or part of a claim is deemed un-collectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Provisions are released at the point when it is deemed that the risk of loss has reduced to the extent that a provision is no longer required.

Impairment of financial assets classified as available for sale

Impairment losses on available for sale assets are recognised by transferring the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impaired loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. However any subsequent recovery in fair value of an impaired available for sale financial asset is recognised directly in equity.

(c) Derivative financial instruments and hedge accounting

Derivatives used for asset and liability management purposes

Derivatives are used for asset and liability management purposes to manage interest rate exposures related to non-trading positions. The instruments used are interest rate swap contracts.

Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

Cash flow hedges

Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

The accumulated gains and losses recognised in equity are reclassified to the income statement in the periods in which the hedged item will affect income or expense. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the income statement.

No derivatives are held for trading purposes.

(d) Property, plant and equipment

Items of property, plant and equipment are stated at cost less any accumulated depreciation or impairment.

Depreciation is provided on a straight line basis at the following rates, which are estimated to write down the assets to realisable values at the end of their useful lives.

Equipment and fittings	10% per annum
Computer equipment	33% per annum
Motor vehicles	33% per annum

All items of property, plant and equipment are regularly reviewed for indications of impairment. Any impairment identified would be charged to the Income Statement.

Basis of Preparation and Accounting Policies for the year ended 31 December 2014

(e) Intangible fixed assets

Costs associated with developing or maintaining computer software programmes are expensed as incurred. Costs that are directly associated with the development of identifiable and unique software products and that will probably generate benefits exceeding costs beyond one year, are recognised as intangible fixed assets.

Amortisation is provided on a straight line basis at the following rate, which is estimated to write down the assets to realisable values at the end of their useful lives.

Banking system	10% per annum
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The Banking system is regularly reviewed for indications of impairment. Any impairment identified would be charged to the Income Statement.

(f) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with an original maturity of three months or less, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(g) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank has a Tax conduct statement which is available on the website www.unity.co.uk/taxation

(h) Pension costs

Defined contribution basis

With effect from 6 April 2006, the Bank, along with other businesses within The Co-operative Group, has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace scheme). The Bank's de facto participation level is on a defined contribution basis, as it pays fixed sums into the fund on a regular basis. This level of participation is required because the Pace defined benefit scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other group companies, with the result that there is no consistent and reliable basis for allocating Pace's liabilities, assets and costs to individual companies participating in the scheme. Therefore pension costs in respect of the scheme are accounted for on a defined contribution

basis and recognised as an expense in the income statement as incurred.

(i) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(j) Operating leases

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(k) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(l) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders.

(m) Provisions

A provision is recognised in the balance sheet if the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Sale and repurchase agreements

Securities purchased under agreements to re-sell (reverse repos) are classified as loans and advances to banks on the balance sheet as appropriate.

Prior year adjustment

As set out in the Accounting Policies, the Bank has decided to apply the provisions of IFRIC 21 which impacts the accounting period in which the levies paid into the Financial Services Compensation Scheme (FSCS) are recognised. It has no impact on the level of payments made into the FSCS. The impact of the change in accounting policy of IFRIC 21 on the financial statements is to increase the profit before tax in 2013 by £18k. The impact of restatement is shown in the financial statements. (Note 17)

Critical Estimates and Judgements

The Bank makes critical judgements and estimates that affect the reported assets and liabilities. Estimates are calculated using various assumptions. Critical judgements and the assumptions used in calculating estimates are continually assessed and reviewed, and are based on historical experience and reasonable expectations of future events.

Investment valuation and impairment

Background

The Bank's investment portfolio primarily comprises bank and building societies certificates of deposit (CDs), floating rate notes (FRNs) and covered bonds.

Valuation approach

The accounting treatment for these assets is primarily available for sale which means that they are fair valued in the balance sheet with movements passing through reserves.

The Bank's treasury assets are valued daily based upon an observable market price feed data. No significant assumptions are required.

Impairment on loans and advances

The loan portfolios are reviewed on a continuous basis to assess impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

The calculation of impairment loss is based on the likelihood of a loan or advance being written off and the estimated loss on such a write-off. This amount can be expressed as the cash flows that may result from foreclosure less the costs for obtaining and selling the collateral. For loans and advances, to the extent that there is an increase in the forced sale discount by 5%, this would have the effect of increasing the provision by £41,000. A 20% increase would increase the provision by £195,000.

Collective provisions

Some elements of corporate lending use collective risk cover which captures incremental risk associated with loan default.

Individual provisions

Each corporate account is assessed and allocated a 'risk grade' to enable the Bank to monitor the overall quality of its lending assets. Those of lesser quality, where the lending is potentially at risk and provisions for future loss may be required, are centrally monitored with specific management actions taken at each stage within laid down procedures and specific provisioning criteria. Provisions represent the likely net loss after realisation of any security.

For further information on credit risk and impairment see the Risk Management Report on pages 22 to 34.

Pensions risk

The risk of the Bank being unable to meet Pension Fund Commitments. Pension risks are identified by the Bank, with the impact of any potential changes to contribution assessed under the Bank's Risk Management Framework.

The pension scheme is not sectionalised and operates on a 'last man standing' basis. In the event that other participating employers become insolvent and the full statutory debt is not recovered on insolvency, the Bank would become liable for the remaining liabilities.

Notes to the Financial Statements

All amounts are stated in £000s unless otherwise indicated

1 Profit before taxation

During the year the Bank obtained the following services from the group's auditor at costs as detailed below:

	2014	2013
Audit services		
Fees payable to company auditor for the audit of a parent	69	52
Non-Audit services		
-All other services	57	21
Fees paid to the auditor	126	73

2 Directors' emoluments

	2014	2013
Non-executive directors - emoluments	72	70
Executive directors - emoluments	519	496
	591	565

Retirement benefits are accruing to four Directors (2013: three) under a defined benefit scheme. Further details of Directors' emoluments are included in the Remuneration report on pages 19 to 21. The emoluments of the highest paid Director were £162,124 (2013:£154,554)

3 Net interest income

	2014	2013
On financial assets not at fair value through income or expense		
on loans and advances to customers	6,321	6,121
on loans and advances to banks	2,305	1,334
on investment securities	609	1,160
	9,235	8,615
On financial assets at fair value through income or expense		
Net income on financial instruments - effective hedge relationship	161	517
Net income on financial instruments - ineffective hedge relationship	134	397
	9,530	9,529

Interest expense and similar charges

On financial liabilities not at fair value through income or expense		
on retail deposits	1,526	1,492
on bank and other deposits	1	3
	1,527	1,495

Interest income accrued on specific impaired financial assets during the year was Nil (2013: £112,000). Interest due to unwinding of discount on impairment provisions relating to impaired financial assets amounted to £124,000 (2013: £178,000).

4 Operating expenses

	Note	2014	2013
Staff costs	5	4,115	3,973
Administrative expenses		3,872	2,835
Amortisation of intangible fixed assets	12	136	129
Depreciation of property, plant and equipment	13	117	125
Operating lease rentals		390	393
Movement in provisions for liabilities and charges	17	(20)	(249)
		8,610	7,206

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

5 Staff costs

	2014	2013
Wages and salaries	3,244	3,105
Social security costs	321	292
Pension costs - defined benefit plans	447	449
Pension costs - defined contribution plans	54	33
Profit share	49	94
	4,115	3,973

The average number of persons employed by the Bank during the year was made up as follows:

	2014	2013
Full time	79	75
Part time	11	13
	90	88

6 Income tax expense

Tax policy

The company adopted a tax policy on 27 February 2014. A copy is available on our website at <http://www.unity.co.uk/taxation>. The disclosure made in these financial statements comply with commitments made in that tax policy.

Tax charge	2014	2013
Current tax - current year	6	238
Current tax - prior year	(36)	-
Deferred tax (Note 18)	31	(6)
Total tax charge for the year	1	232

Further information about deferred income tax is presented in Note 18. The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

Tax reconciliation	2014	Restated 2013
Profit before taxation	971	2,337
Tax calculated at a rate of 21.50% (2013: 23.25%)	210	543
Expenses not deductible for tax purposes	3	4
Difference between depreciation and capital allowances for period and other timing differences	(1)	(5)
Adjustments to tax charge in respect of prior periods	(5)	(6)
Community Investment Tax Relief	(205)	(304)
Total tax charge for the year	1	232

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2014 reduced from 23% to 21%. This results in a weighted average rate of 21.50% for 2014 (2013: 23.25%).

The amount of corporation tax payable is lower than would be implied by the current headline tax rate as the Bank has benefitted from Community Investment Tax Relief (CITR). The CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs). The Bank has made such investments. The tax relief is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

The Bank invests in CDFIs because it believes in the benefits they provide to the communities in which they operate. The tax relief it obtains is provided strictly in accordance with UK tax law and has been made available to encourage this activity.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

7 Cash and balances at central banks

	2014	2013
Included within cash and cash equivalents:		
Items in course of collection from other banks	138	146
	138	146

8 Loans and advances to banks

	2014	2013
Placements with other banks	1,125	700
Other loans and advances to banks	314,983	274,003
Included in cash equivalents	316,108	274,703

Other loans and advances to banks relate to reverse repos transacted with The Co-operative Bank plc. in the normal course of business, which are secured by UK Gilts and £35m of Gilts held with Toronto Dominion through Insight Investments.

9 Loans and advances to customers

	2014	2013
Gross loans and advances	177,929	191,265
Less: allowance for losses on loans and advances to customers	(2,924)	(6,522)
	175,005	184,743

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:	2014			2013		
	Individual	Collective	Total	Individual	Collective	Total
At 1 January	(5,740)	(782)	(6,522)	(6,751)	(874)	(7,625)
Charge against profits	193	164	357	341	92	433
Amounts written off	3,165	-	3,165	514	-	514
Recoveries	(48)	-	(48)	(22)	-	(22)
Unwind of discount of allowance	124	-	124	178	-	178
At 31 December	(2,306)	(618)	(2,924)	(5,740)	(782)	(6,522)

All provisions are held against loans and advances to customers.

Non-performing debt:

Bank advances	7,685	11,631
Provisions for bad and doubtful debts	(2,306)	(5,740)
	5,379	5,891

Concentration of exposure:

The Bank's exposure is virtually all within the United Kingdom. The following industry concentrations of Bank advances before provisions are considered significant.

	2014	2013
Administrative bodies and non-commercial	136,360	120,829
Property (excluding hotels and leisure)	14,337	25,679
Hotels & Leisure	12,059	24,213
Manufacturing	11	-
Other	15,162	20,544
	177,929	191,265

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

10 Investment securities - available for sale

	2014	2013
Debt securities - at fair value		
- Unlisted bank and building society certificates of deposit	145,119	235,227
- Other	194,038	20,025
	339,157	255,252

All debt securities are available for sale. There are no held to maturity debt securities.

The movement in investment securities - available-for-sale excluding interest amounts - may be summarised as follows:

At 1 January	255,013	225,030
Fair value adjustment	(57)	(33)
Acquisitions	926,987	845,016
Disposals and maturities	(843,014)	(815,000)
At 31 December	338,929	255,013

	2014		2013	
	Balance sheet	Market value	Balance sheet	Market value
Debt securities comprising:				
Bank and building society certificates of deposit	145,119	145,119	235,227	235,227
Other	194,038	194,038	20,025	20,025
At 31 December	339,157	339,157	255,252	255,252

11 Derivative financial instruments

The Board of Directors has authorised the use of various derivative financial instruments for the purpose of supporting the management of the asset and liability positions in the Bank and reducing the risk of loss arising from changes in interest rates. The Bank takes no trading positions in derivatives. Fair value movement in derivatives disclosed in the Income Statement relates to fair value changes in derivatives and amounts reclassified from the cashflow hedge reserve into profit and loss, representing hedge ineffectiveness.

Positive and negative fair values have not been netted as the bank does not have legal right of offset. All derivative contracts are with The Co-operative Bank plc.

At 31 December 2014

	Contractual / notional amount	Fair value assets	Fair value liabilities
Derivatives held for non-trading purposes designated as cash flow hedging			
Interest rate sw aps	10,000	158	(5)
Derivatives held for non-trading purposes for which hedge accounting has not been applied			
Interest rate sw aps	5,000	167	(7)
Total recognised derivative assets / (liabilities) held for non-trading	15,000	325	(12)

At 31 December 2013

	Contractual / notional amount	Fair value assets	Fair value liabilities
Derivatives held for non-trading purposes designated as cash flow hedging			
Interest rate sw aps	15,000	487	(12)
Derivatives held for non-trading purposes for which hedge accounting has not been applied			
Interest rate sw aps	5,000	46	(6)
Total recognised derivative assets / (liabilities) held for non-trading	20,000	533	(18)

Fair value movement in derivatives

	2014	2013
Ineffective cashflow hedge	(212)	(354)
Fair value movement in derivatives in Income Statement	(212)	(354)

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

12 Intangible assets

	2014	2013
Computer Software		
Cost		
At 1 January	1,333	1,268
Additions	8	65
At 31 December	1,341	1,333
Accumulated Amortisation		
At 1 January	878	749
Charge for the year	136	129
At 31 December	1,014	878
Net book value		
At 31 December	327	455
At 1 January	455	519

13 Property, plant and equipment

	Equipment & Computer Fittings Equipment		Total
Cost			
At 1 January	563	1,658	2,222
Additions	2	155	157
Disposals	-	(50)	(50)
At 31 December 2014	565	1,764	2,328
Accumulated Depreciation			
At 1 January	516	1,488	2,004
Charge for the year	10	106	117
Disposals	-	(50)	(50)
At 31 December 2014	526	1,544	2,071
Net book value			
At 31 December 2014	39	219	257
At 1 January 2014	47	170	217
Cost			
At 1 January	549	1,486	2,035
Additions	14	179	193
Disposals	-	(7)	(7)
At 31 December 2013	563	1,658	2,221
Accumulated Depreciation			
At 1 January	506	1,380	1,886
Charge for the year	10	115	125
Disposals	-	(7)	(7)
At 31 December 2013	516	1,488	2,004
Net book value			
At 31 December 2013	47	170	217
At 1 January 2013	43	106	149

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

14 Other assets

	2014	2013
Amounts recoverable within one year:		
Trade debtors	20	9
Other assets	37	40
	<u>57</u>	<u>49</u>

15 Prepayments

	2014	2013
Amounts recoverable within one year:		
Other	544	352
	<u>544</u>	<u>352</u>

16 Other liabilities

	2014	2013
Amounts payable within one year:		
Trade creditors	266	166
Other liabilities	1,689	1,409
	<u>1,955</u>	<u>1,575</u>

17 Provisions for liabilities and charges

	Customer claims	FSCS levy	Total
At 1 January 2014 restated	89	62	151
Utilised	-	(120)	(120)
Income statement movements:			
Provided in the year	37	120	157
Released during the year	(57)	-	(57)
At 31 December 2014	<u>68</u>	<u>62</u>	<u>130</u>
Amounts falling due within one year	68	62	130
	<u>68</u>	<u>62</u>	<u>130</u>
At 1 January 2013		176	
Adjustment due to IFRIC 21		(114)	
At 1 January 2013 restated	338	62	400
Utilised	(39)	(113)	(152)
Income statement movements:			
Provided in the year	26	113	139
Released during the year	(236)	-	(236)
At 31 December 2013 restated	<u>89</u>	<u>62</u>	<u>151</u>
Amounts falling due within one year	89	62	151
	<u>89</u>	<u>62</u>	<u>151</u>

Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Bank pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period. Interest on the loan from HM Treasury will be charged at LIBOR + 100bps subject to a floor, which is the relevant Gilt reference rate.

Customer Claims

A provision of £68k at 31st December 2014 was raised to cover claims relating to fraud against customer accounts. The provision is reduced by 50% if there has been no activity on the account for 12 months.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

18 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method.

The movement on the deferred tax accounts are as follows:

	2014	2013
At 1 January - net deferred tax	91	85
Income statement credit	(31)	6
At 31 December - net deferred tax	60	91

Net deferred tax comprises:

Deferred tax asset	2014	2013
Deferred taxation		
Other timing differences	2	2
Capital allowances on fixed assets	58	89
	60	91

The deferred tax credit in the income statement comprises the following temporary differences:

	2014	2013
Capital allowances on fixed assets	(2)	6
	(2)	6

Deferred tax assets are recognised for tax loss carry-forwards only to the extent that realisation of the related tax benefit is probable. We do not expect that deferred tax will give rise to a significant cash flow consequence in the next three years.

After the balance sheet date the Directors proposed a final dividend of £0.2 million (2013 - £0.3 million). The dividends have not been provided for and there are no income tax consequences.

There are no deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the balance sheet.

The UK corporation tax rate reduced to 21% in 2014 with a further reduction in 2015 to 20%. This will reduce the company's future current tax in the balance sheet.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

19 Pensions

With effect from 6 April 2006 the Bank, along with other businesses within the Co-operative Group, has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace scheme). The Pace Scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. As a Group wide pension scheme, the Pace scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other Group companies, with the result that there is no consistent and reliable basis for allocating the liabilities, assets and costs to individual companies participating in the Scheme. Therefore, the pension costs shown in these accounts in respect of the Pace scheme for the period after 6 April 2006 is the actual contributions paid by the Bank.

Key assumptions of the Group pension scheme

The key aspects of The Co-operative Group's Pace scheme at 31st December, are as follows:

The principal assumptions used to determine the liabilities of the Pace scheme are:

	2014	2013
Discount rate	3.70%	4.60%
Rate of increase in salaries	3.30%	3.80%
Future pension increases where capped at 5.0% pa	3.30%	3.30%
Future pension increases where capped at 2.5% pa	2.50%	2.50%

Assumptions used to determine net pension cost for the PACE scheme are:

Discount rate	4.45%	4.60%
Rate of increase in salaries	3.60%	4.80%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the Pace scheme at the 2014 year end is:

	Male	Female
Life expectancy:		
Member currently aged 65 (current life expectancy)	22.8	24.9
Member currently aged 45 (life expectancy at age 65)	25.0	27.2

The amounts recognised in the balance sheet of The Co-operative Group are as follows:

	2014	2013
	£m	£m
Present value of funded obligations	(8,024.8)	(7,125.8)
Present value of unfunded obligations	(0.4)	(4.8)
Fair value of plan assets	9,153.7	7,486.5
	1,128.5	355.9

The weighted average asset allocations at the year end were as follows:

	2014	2013
Equities	20%	32%
Liability driven investments	57%	45%
Alternative growth	11%	14%
Property	3%	4%
Other	9%	5%

The expected contributions to the defined benefit & contribution plans for the next annual reporting period are £559k. The Bank's proportion of the Group pension scheme is 0.5%.

The pension scheme is not sectionalised and operates on a 'last man standing' basis. In the event that other participating employers become insolvent and the full statutory debt is not recovered on insolvency, the Bank would become liable for the remaining liabilities.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

20 Share capital

	2014	2013
'A' Shares of £1 each	2,500	2,500
'B' Shares of £1 each	2,500	2,500
'C' Shares of £1 each	15,000	15,000
	20,000	20,000
Issued:		
'A' Shares of £1 each	2,405	2,405
'B' Shares of £1 each	2,405	2,405
'C' Shares of £1 each	11,619	11,619
	16,429	16,429
Share premium account	250	250
	16,679	16,679

The 'A', 'B', 'C' shares rank pari passu as to voting, dividends and return of capital on a winding up, save that no class of shareholder is able to appoint or remove a Director of a different class.

All issued share capital is allotted and fully paid.

21 Contingent liabilities and commitments

The tables below show the nominal principal amounts, credit equivalent amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk.

The contingent liabilities of the Bank as detailed below arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	2014	2013	
	Contract amount	Credit equivalent amount	Contract amount
Guarantees and irrevocable letters of credit	215	108	335
	215	108	335
Other commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend:			
-1 year and over	44,119	-	41,553
	44,119	-	41,553

The Bank had capital commitments authorised and contracted at 31 December 2014 of £Nil (2013 £Nil).

Commitments under Operating leases

	2014	2013
	Land and buildings	Land and buildings
At the year end, total commitments under non-cancellable operating leases were payable as follows:		
Expiring:		
-w ithin one year	59	-
-betw een one and five years	-	293
	59	293

Operating lease rental payments are disclosed in note 4.

The lease commitments refer to the Bank's offices at 9, Brindleyplace, Birmingham, which expire on 8 April 2015.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

22 Related party transactions

Unity Trust Bank plc is a subsidiary undertaking of The Co-operative Bank plc as The Co-operative Bank plc controls the appointment of the majority of the Banks' Board of Directors. The Directors regard The Co-operative Bank plc, which is incorporated in England and Wales, as the parent company of Unity Trust Bank plc.

The consolidated accounts of The Co-operative Bank plc, which represents the smallest group in which the results of the Bank are consolidated, are available to the public and may be obtained from: 1 Balloon Street, Manchester, M60 4EP.
The Bank had a related party relationship with its directors and executive officers.

A number of banking transactions are entered into with related parties in the normal course of business. Transactions with parent were made on terms equivalent to those that prevail in arms length transactions. In addition to disclosures elsewhere in the financial statements, details of related party transactions, outstanding balances at the year end, and related income and expense for the year are as follows:

During the year, The Co-operative Bank plc provided services in respect of clearing and other banking services, the amounts being as follows:

	2014	2013
Administrative expenses	<u>417</u>	<u>714</u>

Key management compensation

	2014	2013
Salaries and other short term benefits	519	496
Post employment benefits	<u>70</u>	<u>66</u>
	<u>589</u>	<u>562</u>

A listing of the Board of Directors, who are regarded as the key management, is shown on page 2.

Transactions with The Co-operative Bank plc

	2014	2013
Transactions at 31st December	<u>281,101</u>	<u>274,849</u>

The transactions with The Co-operative Bank are shown in note 8 and relate to reverse repos, secured by UK gilts.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

23 Capital management

The Bank's policy is to maintain a strong base so as to maintain investor, creditor and market confidence and to sustain future development of The EBA (European Banking Association), revised the basis of calculation of capital on 1st April 2014, hence the previous years capital. The Bank's submissions to the Prudential Regulation Authority in the year have been shown that the Bank has complied with all externally imposed capital requirements throughout the period.

Regulatory capital

Regulatory capital stood at £46.6 million (2013 - £44.8 million), well in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis

	2014	2013
Tier 1		
Share capital	16,429	16,429
Share premium account	250	250
Retained earnings	29,486	27,699
Less: AFS Reserve	(59)	-
Less : other intangible assets	(327)	(455)
Total Tier 1 capital	45,779	43,923
Tier 2		
Collective provisions	782	874
Total Tier 2 Capital	782	874
Total Tier 1 & Tier 2 Capital	46,561	44,797
Total regulatory capital	46,561	44,797

24 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to equity shareholders of the Bank by the average number of ordinary shares in issue during the year.

	2014	Restated 2013
Profit attributable to equity shareholders of the Bank	970	2,105
Weighted average number of ordinary shares in issue	16,429	16,429
Basic earnings per share (expressed in pence per share)	5.9	12.8

25 Fair values of financial assets and liabilities

The fair value represents the amount at which the instrument would be exchanged in an arm's length transaction between two willing parties. In the vast majority of cases, quoted market prices are readily available and are used, otherwise prices are obtained by using well established valuation techniques, which utilise present cash flows. The fair value will approximate to the carrying value when instruments are carried in the balance sheet at market value or where the instruments are short term or contain frequent repricing provisions. At 31 December 2014 and 31 December 2013 the book value of the Bank's financial instruments, including derivative financial instruments, that have an active and liquid market were equivalent to the fair value of those instruments.

Valuation of Financial Instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

- level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Primary Financial Instruments used by the Bank

The main financial instruments used by the Bank, and the purposes for which they are held, are outlined below:

Customer loans and deposits

The provision of banking facilities to customers is the prime activity of the Bank and customer loans and deposits are major constituents of the balance sheet. The Bank has detailed policies and procedures to manage risks. In addition to mortgage lending, much of the lending to corporate and business banking customers is secured.

Debt securities, wholesale market loans and deposits

Debt securities are held as available for sale assets and are non-traded investment securities. Wholesale market loans secured by UK gilts (reverse repos) are held as the Bank's Liquidity Asset Buffer and together with debt securities underpin the Bank's liquidity requirements and generate incremental net interest income.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

25 Fair values of financial assets and liabilities (continued)

Classification of financial instruments and fair values

31 December 2014	Loans and receivables	Available for sale	Fair value through equity	Fair value through profit and loss	Total carrying value	Fair value	Fair value hierarchy tier
Assets							
Financial instruments measured at fair value							
Investment securities		339,157			339,157	339,157	Level 2
Derivative financial instruments			113	212	325	325	Level 2
Financial instruments not measured at fair value							
Cash and balances at central banks	138				138	138	Level 2
Loans and advances to bank	316,108				316,108	316,108	Level 3
Loans and advances to customers	175,005				175,005	170,208	Level 3
	491,251	339,157	113	212	830,733	825,936	
Liabilities							
Deposits from customers	782,761				782,761	782,761	Level 2
	782,761				782,761	782,761	

31 December 2013	Loans and receivables	Available for sale	Fair value through equity	Fair value through profit and loss	Total carrying value	Fair value	Fair value hierarchy tier
Assets							
Financial instruments measured at fair value							
Investment securities		255,252			255,252	255,252	Level 2
Derivative financial instruments			179	354	533	533	Level 2
Financial instruments not measured at fair value							
Cash and balances at central banks	146				146	146	Level 2
Loans and advances to bank	274,703				274,703	274,703	Level 3
Loans and advances to customers	184,743				184,743	184,743	Level 3
	459,592	255,252	179	354	715,377	715,377	
Liabilities							
Deposits from customers	668,622				668,622	668,622	Level 2
	668,622				668,622	668,622	

- *Loans and advances to bank*

Fair value is calculated based on the present value of future payments of principal and interest cash flows.

- *Loans and advances to customers*

The fair value of loans and advances to customers in the table above are based on future interest cashflows and principal cashflows discounted using an appropriate market rate. The market rate applied in the calculation is a management assessment of the interest rate for new loan originations with similar characteristics to the loan portfolio being valued. The eventual timing of cashflows may be different from the forecast due to unpredictable customer behaviour.

- *Investment securities available for sale*

The fair value of investment securities available for sale is determined by reference to the quoted bid price at the balance sheet date.

- *Customer deposits*

Fair value is calculated based on the present value of future payments of principal and interest cash flows.

The fair value of customer loans and advances and loans and advances to bank have been categorised using level 3 as the value is not based on observable market data.

Other than loans and advances to bank and customer loans and advances, The Bank has categorised the financial assets and liabilities using level 2, recognising the significance of the inputs.

Independent Auditor's Report to the Members of Unity Trust Bank plc

We have audited the financial statements of Unity Trust Bank plc for the year ended 31 December 2014 set out on pages 35 to 56 and those marked as audited on pages 26 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Simon Clark (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 April 2015



Registered Office:
Unity Trust Bank plc
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www.unity.co.uk

Registered in England and Wales no. 1713124

Registered office Nine Brindleyplace, Birmingham, B1 2HB

Unity Trust Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Unity Trust Bank plc is entered in the Financial Services Register under number 204570.

