

To: Shareholders of Unity Trust Bank plc ('Unity')
From: Dave Prentis, President of Unity and Graham Bennett, Chair of Unity.
Date: 8 April 2015

UPDATE ON DEVELOPMENTS AT UNITY

Shareholders will be aware that we are planning to grow and develop Unity, to increase both its social impact and its financial returns over the next few years. At the same time, we are updating our governance arrangements to ensure that we adapt to all the regulatory change in the banking sector. We wanted to share a progress report with you and others interested in the success of Unity, to accompany our 2014 Report and Accounts.

BACKGROUND

Unity serves sustainable businesses and organisations that promote social benefit in all its forms. It's a leader in its field. Founded in 1984 by several Trade Unions and the Co-operative Bank, Unity focuses solely on clients who generate positive social impact, including charities, social enterprises, local authorities, CDFIs, commercial businesses and others. Clients value its excellent service and our ethical ethos resonates strongly. We are proud of this.

Today, Unity operates wholly independently of the Co-operative Bank. It has a strong capital position and is profitable. The Co-operative Bank has a 27% stake that it has announced it wishes to sell.

SOLID FINANCES AND PLATFORM FOR GROWTH

Unity has a large deposit base, (over £800 million) and has an excellent 'Tier 1' capital ratio of 22%, one of the best in the UK. More details are provided in our 2014 Report and Accounts published today.

Although Unity is one of the best-capitalised banks in the UK, we are exploring the possibility of raising additional capital from our existing (and we hope some new) shareholders, to expand our service and enhance our positive impact. We have received expressions of interest from investors who want to help to grow Unity for the benefit of all and we will keep you informed as this progresses. This is quite separate from the wish of the Co-operative Bank to sell its shareholding, but we will coordinate with the Co-op, as you would expect.

MARKET OPPORTUNITY

There is a real opportunity in the UK for a bank that truly demonstrates ethical and social principles in everything that it does and where the aims of the shareholders are fully aligned with those of the customers. Unity has always sought to meet these principles, which are more aligned with market needs today than ever.

Unity can significantly expand its service and lending through targeted growth in the sectors it serves. It has a great opportunity to substantially increase profitability and reach, as other banks pull back, or their reputations remain tarnished. Unity will continue to pursue its 'double bottom line' purpose of sustainable returns (read growth and dividends) and positive social impact. While the exact size of the market is hard to estimate, we know that demand for finance amongst organisations that exist to provide social value has been growing and observers expect it to continue to expand.

Unity's strong credentials for living its values are evident in everything, from its compensation practices (it pays no bonuses, and was the first Living Wage bank employer in the UK) to its purpose and values. Unity is the only bank to receive the Fair Tax mark. All this provides Unity with a credibility factor that few banks can match.

GOVERNANCE

- THE BOARD

Since Unity was founded in 1984, there has been huge change in the banking sector, yet the basic constitution that governs Unity has not kept up. It is right therefore that we bring our governance arrangements up to date and fit for our future.

Unity's past approach was to have a large board of nominated Co-op and trade union nominees. Bank boards must be highly professional, of a workable size and have a preponderance of independent directors. The changes needed at Unity have been agreed with the Bank's regulators, the Prudential Regulation Authority of the Bank of England (the PRA) and by the Bank's major shareholders.

Two additional independent directors with outstanding banking experience have been selected to sit alongside existing independent director, Rod Chamberlain. Regulatory approval is pending in the normal way.

- THE CHAIR

Graham will retire in May 2015. Since his appointment as chair in 2009 he has sought to optimise the social value of Unity and he can be proud of the progress that it has made during this time to its leading position in ethical and social banking.

We are delighted that we've been able to attract Alan Hughes as Graham's successor and Unity's first independent chair. Alan has spent his career in banking, at Midland Bank then HSBC. He was a member of HSBC UK's executive committee until 2004. He served as Chief Executive of First Direct Bank, ran significant subsidiaries of HSBC and was a main board director of its commercial asset finance group. He was responsible for commercial invoice finance throughout HSBC Group. Currently, Alan serves as: Chair of RateSetter, the leading peer to peer lending platform; Chair of Ffrees Family Finance Ltd which advances financial inclusion and is backed by the innovation charity NESTA; a non-executive director of New Day group of companies; deputy chair of Hampden & Co Bankers plc, a Scottish private bank start-up; and as Honorary Treasurer of Loughborough University. He has taught banking, was a prize winner in the banking institute's qualifications and holds an MBA from Henley Management College.

The PRA and the Financial Conduct Authority have approved Alan's appointment.

- THE CHIEF EXECUTIVE

Unity's CEO, Richard Wilcox, has announced his plans to retire in June 2015. Richard has led the Bank with a real social conscience over the last 3 years and steadily built the solid foundations without which we couldn't be contemplating our current growth plans. Richard is the author of the Bank's 'double bottom line' approach that applies to the Bank itself and the customers it seeks. He has invigorated Unity's positive social impact. We will have more to say about Richard at our AGM in May. We fully understand his desire to step back from executive responsibilities on health grounds, but are very sorry to see him leave Unity. On behalf of the Board and shareholders we wish Richard the very best in his retirement.

Again we're delighted that from a strong field we've been able to attract a worthy successor for Richard who has an outstanding banking background. The appointment is currently subject to regulatory and other approvals in the normal way. We will have more to say at our AGM.

- THE CONSTITUTION

As described in detail in the Directors' Report in the 2014 Report and Accounts, the current Articles of Association prevent the Bank from complying with some aspects of the UK Corporate Governance Code and some of the standards expected of it by regulators. The Directors have unanimously recommended to shareholders that the Bank adopt new Articles of Association that comply with current governance and regulatory standards. The proposed Articles also better protect the interests of minorities and the purpose and values of the Bank.

At a general meeting on 2nd April 2015, the shareholders, including the Co-operative Bank, agreed the need for these new Articles. However, because the Co-operative Bank wishes to sell its shareholding, it has not agreed to adoption at this time, pending resolution of its position. Your Directors remain conscious of the need to update the Bank's constitution but are pleased with the additions to our Board in the meantime.

IN CONCLUSION

There is a fantastic opportunity for Unity to grow in a market crying out for an ethical bank that believes in delivering social as well as financial benefit and where the interests of shareholders are fundamentally aligned with those of its customers. The changes we describe to operations, governance, the Board and the other changes described in the 2014 Report and Accounts all serve to strengthen Unity and help us to take this opportunity to benefit shareholders, customers, staff and society alike.

Yours faithfully,



Dave Prentis, President



Graham Bennett, Chair