

Summary Report and Accounts 2013



Contents

President's Statement	04
Dave Prentis, President of Unity Trust Bank plc	
Chairman's Statement	05
Graham Bennett, Chairman of Unity Trust Bank plc	
Strategic Report	06–09
Richard Wilcox, Managing Director of Unity Trust Bank plc	
Financial Highlights	10–11
Social Highlights	12–15
Summary Directors' Report	16–19
Summary Directors' Remuneration Report	20–23
Summary Income Statement	24
Summary Balance Sheet	25
Independent Auditor's Statement	26

“ I am delighted to support Unity Trust Bank, the Bank founded by and for Trade Unions, in becoming the first Bank in the UK accredited as a Living Wage employer.”

Frances O'Grady
TUC General Secretary

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

Nine Brindleyplace
Birmingham B1 2HB

Tel: 0345 140 1000

Fax: 0345 113 0003

Registered in England and Wales

No 1713124

PRA firm reference No 204570

Board of Directors

'A' Directors

Dave Prentis

(President)

Vicky Bryce

Billy Hayes

Paul Noon

Allan Wylie

Alternates

Steve Tasker

Tony Kearns

'B' Directors

Graham Bennett (Chairman)

Paul Allton

Richard France

Clare Gosling

Peter Kelly

Ian Morrison

Mike Osborne

Stephen Watts

Richard Wilcox

Independent Director

Roderick Chamberlain

Secretary

Kate Eldridge

Alternate Directors are appointed by their respective substantive Director. In the absence of the substantive Director they are entitled to attend and to vote at Board meetings.

Executive Management

Richard Wilcox, Managing Director;

Peter Kelly, Director, Business

Development & Marketing;

Ian Morrison, Director, Operations;

Mike Osborne, Director, Finance and Risk

Kay Gossage, Head of Human Resources

Auditors

KPMG Audit Plc

One Snowhill, Snowhill Queensway,

Birmingham B4 6GH

Shareholders

Represented on the Board

Communication Workers' Union
GMB

National Union of Rail, Maritime

and Transport Workers

UNISON

The Co-operative Bank plc

Other Trade Union Shareholders

ACCORD

Associated Society of Locomotive

Engineers and Firemen

Association of Teachers and Lecturers

BALPA

Broadcasting, Entertainment,

Cinematograph and Theatre Union

Community

Educational Institute of Scotland

Fire Brigades Union

FDA

General Federation of Trade Unions

Musicians' Union

National Association of Colliery Overmen,

Deputies and Shotfirers

National Association of Schoolmasters

Union of Women Teachers

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 Society of Chiropodists and

Podiatrists

Trades Union Congress

Transport Salaried Staffs' Association

UCU

Unite

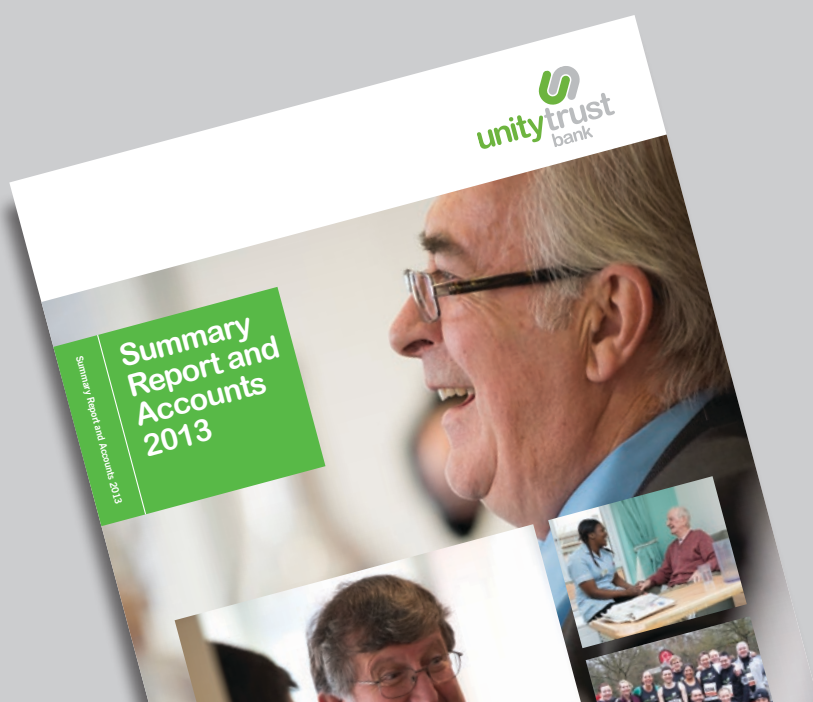
Unity

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 2013 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 and relating to the control of the Bank as set out in the Directors' Report.



Strategic Report with Supplementary Material

This document is only part of the Bank's annual accounts and reports for 2013, all of which are available on the Bank's website (www.unity.co.uk).

The auditor's report on the annual accounts and the auditor's statement under section 496 was unqualified.

President's Statement

Thirty years ago in May 1984, a new kind of bank was established. A bank like no other before or since. A bank created as an organisation identified with and embracing the philosophy of the common good. A bank which was not principally influenced by the maximising of the profit motive, but which sought to produce something equal in efficiency yet superior in principle. A bank founded by Trade Unions based on trade union principles. A counter balance to other sectors of the economy - private sector or state owned.

Whilst the Bank opened its doors for business in 1984, it was originally conceived in the early years of the 1980s. A time when the UK was just recovering from a banking crisis caused by injudicious lending, when the gap between rich and poor was widening, when the public sector was under severe threat from government cutbacks and when banks were not lending to small businesses. Sound familiar? No surprise therefore that a bank such as Unity Trust Bank is just as important today as the day it was conceived.

I am tremendously proud of what we've achieved together in those 30 years. Unity Trust Bank's strategy today remains true to the founding principles. We continue to be the bank of and for the Trade Union Movement, banking almost 90% of the TUC affiliated unions. In 2013 we welcomed the Hospital Consultants and Specialists Association, Undeb Cenedlaethol Athrawon Cymru (UCAC – a teaching union based in Wales) and

further Police Federations to the Bank. We ensure that deposits are put to good use as the Bank will only lend where there are clear social impacts achievable through that lending. This means the Bank is a specialist, providing socially responsible banking services for social enterprises, charities, councils, trade unions and the wider civil society – just what you would expect from a Trade Union owned bank.

In 2013 we committed £60m of loans to the social economy sector supporting organisations, projects and communities across the UK. This includes Monwel Signs and Services based in Ebbw Vale. This socially focussed business provides employment to people with disabilities and those furthest from the work force. The working capital overdraft provided by Unity Trust Bank helped secure 26 jobs with an additional 11 created, including six former Remploy factory workers. In addition, we made a loan to BEN, a charity for those connected with the automotive industry, to assist them in developing a care home, retirement village and amenities for the over 65s. The Community Development Finance Institution (CDFI) and Credit Union sectors are also of vital importance to Unity Trust Bank and through these we can really make positive social impacts upon parts of the community that are often the most deprived.

Our social impacts extend far beyond our lending. Despite some signals of economic growth, for working people facing a cost-of-living crisis, there is still no recovery at all. British households have seen a significant squeeze in take-home pay since 2008 as real incomes were more than 6% less than before the economic crisis hit. I am pleased that against this backdrop Unity

Trust Bank is the first UK bank to be accredited for paying at least the living wage to staff. Also in line with our values we are providing tailored offers to any customers who are living wage accredited.

As we enter our 30th year, we are embarking upon an unprecedented time where the Bank looks to reposition itself apart from The Co-operative Bank. This follows a review by the Unity Trust Bank Board of its structure and shareholding, and a review by The Co-operative Bank of its own business structure.

The Co-operative Bank was there at the outset, and has remained a supportive partner since Unity Trust Bank was formed. Nevertheless, time moves on and this now provides the Trade Unions with the opportunity to take greater ownership in the Bank and consolidate their shareholding.

Unity Trust Bank plans to continue to deliver a strategy focused on the support for organisations involved in the social economy, those where achieving social good is a business driver and those for whom the creation and preservation of jobs is more important than the pursuit of profit for profit's sake. I have no doubt that the world in 12 months, let alone another 30 years, will look very different to that which we see today. But, I am convinced that Unity Trust Bank's drive for common good will remain. The potential increased ownership of the Bank by the Trade Union Movement would provide a solid foundation from which to pursue these ambitions, and I look forward to reporting next year about how much we have achieved.

Dave Prentis
President of Unity Trust Bank plc



Chairman's Statement

2013 was an eventful year for the Bank. We have made great strides in solidifying our position as the bank for the social economy and bringing our double bottom line strategy, which strives for social impacts as well as financial return, to life. To have achieved this against the backdrop of the well publicised difficulties of our single largest shareholder, The Co-operative Bank, is particularly creditable.

The economy overall is showing slight signs of recovery, growing by 1.9% in 2013 - its strongest rate since 2007 according to the Office for National Statistics. However economic output is still 1.3% below its 2008 first quarter levels and there is some way to go before organisations' confidence increases to such an extent that they significantly invest, create more jobs and grow their businesses. A number of our social economy customers are starting this journey and Unity is ready to support having made a lending commitment of £100m over three years.

From a financial perspective the Bank has produced a pre-tax profit of £2.3 million, which was an increase of £1.9 million from £0.4 million earned in 2012. Operating profit before impairment losses and other operating expenses amounted to £2.2 million compared to £3.3 million achieved in 2012.

In challenging times we have made good progress in increasing our social impacts, with some of the highlights being as follows:

- **£100m lending commitment to the social economy sector over three years**

We're very much open for business and have committed to further support the sector. In 2013 alone we lent £38.9 million to the sector.

- **Consistently high levels of customer satisfaction**

Our people are passionate about Unity and our customers, and they pride themselves in providing the highest level of service. We are pleased that our customer satisfaction and advocacy levels stand at 8.7 and 8.8 respectively out of 10 for 2013, but of course want to do even better in 2014.



- **Introduced Employee Share Ownership Scheme**

Through the launch of our Employee Share Ownership Scheme (ESOP), staff have been provided with shares in Unity, giving them an even greater say in how the organisation is run and how our customers are served. This is a good example of how we are returning to our roots as the Bank was a pioneer in the early ESOP market during the 1980s when it successfully funded a number of schemes.

- **Living Wage support**

We are extremely proud to be the first bank in the UK to be accredited for paying the Living Wage – a TUC backed initiative. We believe it's right that we pay all our staff at least a Living Wage, rather than the national minimum wage, to help alleviate poverty and allow a better standard of living. In addition to this we launched a loan offer whereby social economy organisations who are themselves Living Wage accredited can benefit from a discounted lending fee – a great demonstration of how we bring our values to life in our customer offerings.

- **Increased staff engagement**

We know that our staff are our finest asset as our customers often testify. This year engagement scores in the Annual Best Companies Survey have increased and we are pleased to have been awarded a Silver Accreditation in the Investors In People scheme. The aim is to achieve gold level in the short term.

There have been a number of changes on the Board during 2013. I welcomed Paul Allton and Clare Gosling from The Co-operative Bank who respectively brought a wealth of Risk and Finance experience to the Board. They replaced James Mack from The Co-operative Bank who left in 2013 and Kevin Blake who left the year before. Additionally Rod

Chamberlain our new Independent Non Executive Director (INED) has many years' banking experience and brings a voice of objectivity and independence to a Board otherwise populated by shareholders. Peter Kelly who joined the Unity team as Business Development and Marketing Director in 2012, has thirty years' experience across banking and community finance. I would also like to take this opportunity to thank two long serving members of the Board who left in 2013 – Rhidian Jones our previous INED, and Sharon Powell from UNITE. They made valuable contributions to Unity during their tenures and I wish them both well for the future.

Unity's ownership structure and governance may change following discussions with The Co-operative Bank about the potential sale of their shareholding in Unity and this will be discussed in full at the Annual General Meeting. I am very grateful for the senior management expertise and support that individuals from The Co-operative Bank have provided to the Unity Board over the last 30 years. This has been invaluable in our formative years. However I look forward to the next chapter of Unity's development where the Bank will come of age and stand tall on its own feet. There is no doubt that there are exciting and interesting times ahead.

Into 2014 and beyond, Unity plans to continue to deliver our double bottom line strategy. Furthermore our Board, Executive team and staff remain as committed as ever to providing the high levels of customer service and satisfaction that Unity is known for. I would like to finish by thanking them and our customers for their continued support of the Bank and look forward to the next 30 years, developing Unity as a true alternative to mainstream banking.

Graham Bennett

Chairman of Unity Trust Bank plc

Strategic Report

The Bank reported a profit before tax of £2.3 million, compared to a profit before tax of £0.4 million in respect of the previous year. At an operating level, the Bank reported a profit before impairment losses and other operating expense of £2.2 million, 32.1% lower than achieved in 2012.

Management of the Bank in accordance with the Board's risk appetite has been at the centre of business planning throughout the year. The Board's appetite requires the Bank to maintain internal liquidity and capital requirements significantly above those required by the Prudential Regulation Authority (PRA) and consequently robust liquidity and capital ratios have been regularly maintained.

The strong capital base provides for shareholder, customer and market confidence and sustains the future development of the business. A Core Tier 1 Ratio amounting to 20.3% at 31 December 2013 (2012: 21.0%) demonstrates the Board's commitment to maintaining that capital strength.

The Board approved Individual Liquidity Adequacy Assessment (ILAA) sets out liquidity appetite and the framework for managing liquidity risk. The Bank's liquidity position is monitored on a daily basis and at 31 December 2013, a pool of liquid assets of more than £270 million was held by the Bank with management actions in place to provide an additional £230 million of liquidity through the Certificate of Deposit portfolio. The retail lending / deposit ratio remains below 30% and again demonstrates the Board's commitment to maintaining a robust liquidity position.

The UK economic environment has continued to suffer during the ongoing recessionary climate, with the financial services sector enduring another stressful year. Issues with sovereign debt in the Eurozone, together with ratings degradation across many major banks have continued to create difficulties for the banking sector. Against that backdrop, the Bank's overall lending policies continue to be strictly controlled. Treasury lending activity with other banks is carefully managed, no treasury borrowing was undertaken and a strict no trading policy is in operation for the portfolio.

“ We believe there is a real need 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 not the bank.”

Richard Wilcox
Managing Director



The approach to retention and development of customer deposits was focused in the Social Economy sector. During 2013, this proved successful with new customers adding £39.7 million to the deposit base, and by year end total retail deposits have increased by 8.5% to £668.6 million (2012: £616.4 million).

The lending climate continues to be challenging, and the Bank's focus was upon the social economy sector. At 31 December total new loans drawn amount to £44.3 million, of which 87.6% was generated from the social economy sector. The customer loan portfolio overall totalled £184.7 million (2012: £174.2 million), a net 6.0% increase over the course of the year.

Balance sheet loan impairment provisions total £6.5 million (2012: £7.6 million) and represent 3.4% (2012: 4.2%) of the total lending book. The movement is £1.0 million on the specific provision and £0.1 million on the collective provision. The level of loan provisions is constantly reviewed and 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 were raised in line with the Bank's Provisioning Policy totalling £1.4 million.

Over the same period, the Bank has realised, or is due to realise, property security where changes in valuation have resulted in significant impairment provision releases of £1.8 million. Accordingly, the overall impact on the Income Statement has been a net credit for the year of £0.4 million (2012: £2.1 million charge). A collective impairment provision amounting to £0.8 million (2012: £0.9 million) is maintained in line with the Bank's Provisioning Policy.

Net interest income is a combination of customer accounts and treasury wholesale instruments placed with other financial institutions. Total interest earnings are reduced by 10.6% for 2013, as yields on the treasury portfolio are significantly lower than anticipated. The inter-bank market interest rates remain suppressed as a direct result of external market conditions; hence a further reduction in interest contribution of 14% (2012: 30%) for the year.

The level of net interest income is also impacted by the deduction of c£190,000 (2012: c£150,000) whereby CDFI customers benefit from reductions in interest payable to the Bank in accordance with the Community Investment 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 fee and commission income amounted to £1.5 million (2012: £1.2 million), driven mainly from transmission and account fees. The movement is a 32% increase when compared to 2012, which was boosted by a one off credit of £169,000 due to a review on unamortised fees held in respect of renegotiated or repaid loans. Operating expenses totalled £7.2 million (2012: £6.7 million), 6.8% higher than last year due to inflationary and regulatory pressures.

Earnings per share of 12.7 pence are significantly higher than the previous year (2012: 2.0 pence per share). The Board is recommending that a dividend is proposed for the financial year to 31 December 2013 of 1.85 pence per share (2012: 1.1 pence).

Economic Environment

The Monetary Policy Committee (MPC) has held interest rates at an historical low of 0.5% through 2013 in an attempt to help stimulate the economy. The Bank of England under the new leadership of Mark Carney introduced the measure of Forward Guidance, with interest rates not forecast to change in the near future.

Beyond 2014, economic improvement is suggested but the timing of such a prospect is uncertain.

Results summary £000s

	2013	2012	Change	% Change
Net interest income	8,034	8,981	(947)	10.5%
Net fee and commission income	1,543	1,169	374	32.0%
Operating expenses	(7,206)	(6,746)	(460)	6.8%
Financial services compensation scheme levy	(131)	(104)	(27)	26.0%
Operating profit before impairment losses and other operating expense	2,240	3,300	(1,060)	32.1%
Impairment gains / (losses) on loans and advances	433	(2,100)	2,533	120.6%
Profit before other operating expense	2,673	1,200	1,473	122.8%
Other operating expense	(354)	(802)	448	55.9%
Profit before taxation	2,319	398	1,921	482.7%

Performance

Interest Rates

The Bank's strategic model is built on growing a customer account base that primarily comprises transactional current account business, supported by short maturity deposit account offerings. Whilst bank base rate remains low, interest margins on customer liability-led business will remain compressed. Loan interest margins have increased modestly with the underlying overall margin being supported by a modest minimum interest rate on new offered business.

The Bank also 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 short-dated Certificate of Deposit loans to other financial institutions. These asset types are highly rated due to their low risk profile, but subsequently the interest earnings that are derived from the lending is very low, and at times has been below bank base rate. As the financial services sector generally has been required to extend liquidity profiles over time, the demand for inter-bank short dated funding has reduced. This is precisely where the Bank had managed its treasury assets and the result of the changes in demand has manifested itself in the form of lower interest returns.

In the latter half of the year the Bank initiated a supplemental treasury management service in support of its money market business and this was confirmed with Bank of New York Mellon as custodian banker. The change in process will enhance the Bank's liquid asset buffer instruments held and reduce the Gilt repos held through The Co-operative Bank. As at December 2013 the value of the Bank's Reverse Gilt Repo holdings amounted to £274 million (2012: £252 million), short dated CDs amounted to £235 million (2012: £225 million), and Floating Rate Notes amounted to £20 million (2012: nil).

Overall, the interest margin earned during 2013 fell to 1.12% (2012: 1.42%) as a consequence of the continuing low bank base rates throughout the year.

Products and Services

The Bank operates a business model based on the provision of banking and financial services for the Trade Unions and the wider social economy sector, including charities and voluntary organisations. A proportion of the legacy lending portfolio is within the commercial enterprise sector, although the current business strategy focuses its future development in the social economy sector.

Customer deposit business remains based on the provision of transactional current and deposit accounts for the Trade Union and social economy markets. The Bank has no branch network and provides customers with access to dedicated support staff at its Birmingham based Head Office and an internet banking service for remote electronic access.

The Bank provides loans and advances to non-personal customers across its core sectors and the loan portfolio remains broadly split between three sectors: Trade Unions, social economy and commercial enterprises. The Bank has withdrawn from new loan business activity with commercial enterprises and regards the legacy portfolio as "non-core" with an expected reduction over time.

The Bank operates a prepaid debit card product (ALTO card) which is aimed at the social economy market. Fees collected for 2013 were £29,900 (2012: £43,300). The reduction is linked to the closing of the consumer Alto cards as the decision was made early in 2013 to withdraw this service as it was not a strategic fit with the Bank's new business model.

The current account product range includes a 'Select' Account, offering a current account with a range of sector relevant benefits for customers. Fees earned in respect of the product amounted to £108,400 (2012: £39,000).



Sector Development

The Bank's customer deposit business remains focused on the social economy sector. Principal areas of activity within this sector continue to be with charitable and voluntary organisations, credit unions, professional associations and social enterprises.

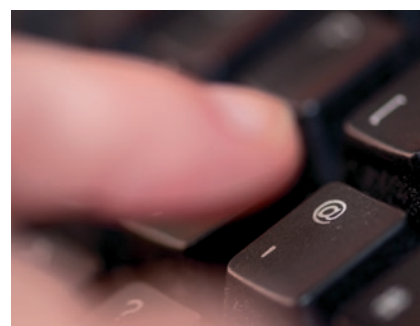
The Bank is directing its loan growth efforts in areas which are clearly embedded in the social economy and is introducing the requirement to demonstrate social impact returns for individual investments. An element of this focus is the provision of financial assistance for Community Development Financial Institutions (CDFIs) and it has agreed to provide funding through an initiative developed by the Community Development Finance Association (CDFA).

In conjunction with the CDFA, the Bank is developing an innovative crowdfunding scheme. Through a website individuals will be able to backfill loans provided by CDFIs to small businesses and projects. This in turn, will enable CDFIs to do more lending, create more jobs and create greater social impact in communities that are most in need.

Information Technology

The Bank's customer account management system, which provides a full range of transactional current and deposit account services, continues to be developed. Supporting customer needs is at the centre of the Bank's system development plans, including regular developments of the remote access internet banking channel.

The Bank's corporate website, www.unity.co.uk, together with an internet banking channel enables customers to access their account details, undertake transactional activity and obtain information about products and services. Security remains at the core of the Bank's approach to its internet banking offering as does the ability for customers to access their accounts with the Bank via a range of web browsers.



Governance and Risk Management

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 are adequate systems of risk management and that the level of capital held is consistent with the risk profile of the business.

During the year, the Financial Services Authority (FSA) was formally replaced by a new regulatory governing body structure, split between the Prudential Regulation Authority (PRA) with responsibility for regulating the Bank's capital, liquidity and other prudential matters and the Financial Conduct Authority (FCA) responsible for conduct risk and financial crime matters.

A strong risk management regime remains in place that sets higher internal capital requirements than those required by the regulator and is supported by risk management practices focusing on credit, liquidity and capital stress and scenario testing. During the latter part of 2013 and into January 2014, the Bank

undertook its own solo Internal Capital Adequacy Assessment Process (ICAAP) which was submitted to the PRA for review on 3 February 2014. The Bank was previously under the ICAAP of The Co-operative Bank. The assessment considered the Bank's risk framework and required capital adequacy which confirmed the Board's view that the Bank maintains available capital over and above regulatory requirements, both currently and for the forthcoming three year planning horizon.

The Bank's liquidity risk position is set out in the Individual Liquidity Adequacy Assessment (ILAA) which confirms the strength of our liquidity and a Board approved liquidity buffer over and above regulatory requirements.

Capital and liquidity risk are managed regularly in order to provide assurance regarding the strength of the Bank's risk profile and the risk management regime.

The overall risk governance and risk management framework is set out in the Report of the Directors on pages 13 to 22 and the Risk Management Section on pages 36 to 50 of the full Report and Accounts.

Earnings and Dividends

2013 pre-tax profitability has increased significantly compared to last year; hence earnings per share have risen and amounted to 12.7 pence per share (2012: 2.0 pence per share). ^{Fig 01}

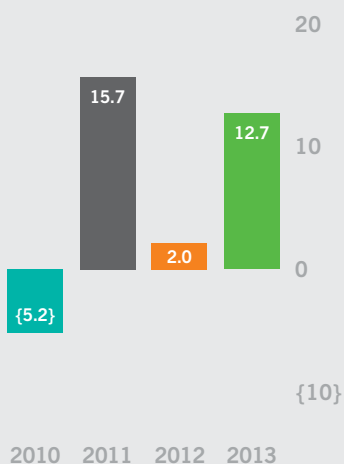
At the start of 2013, consolidated equity shareholders' funds totalled £45.0 million. During the year a dividend payment was made to shareholders and, after adding post tax profits arising for the year of £2.1 million, shareholders funds amount to £46.5 million. Overall, this represents a marginal increase in equity shareholders' funds. The level of retained earnings ensures that the Bank's capital base remains very strong, with core tier 1 ratio standing at 20.3% at 31 December 2013 (2012: 21.0%). ^{Fig 02}

At the start of the year, the Bank's regulatory capital amounted to £44.4 million and included retained earnings of £27.6 million. After the inclusion of the post-tax earnings for 2012; the overall level of regulatory capital increased by 0.9% to £44.8 million, with retained earnings maintained at £27.7 million.

The Board is recommending that a dividend of 1.85 pence per share is proposed for the financial year to 31 December 2013, an increase on the 1.1 pence per share in 2012.

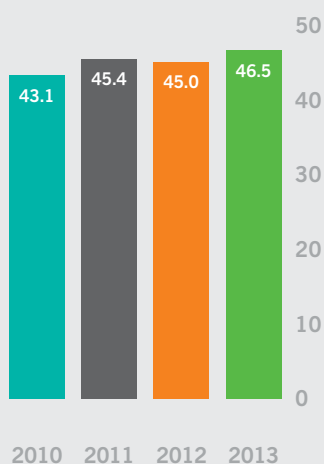
Earnings (pence per share)

Fig 01



Total Equity (£m)

Fig 02



Financial highlights

Profit before Taxation

The Bank reported a profit before taxation for the year of £2.3 million, compared with a profit in 2012 amounting to £0.4 million. ^{Fig 03}

Net Interest Income and Margins

Net interest income for the year totalled £8.0 million, 10.5% lower than in 2012. The decrease was primarily due to treasury interest margins achieved through lending to other banks in an environment where the demand for short term inter-bank lending has decreased. Conversely, interest earnings in respect of commercial lending grew as a consequence of an increased average loan portfolio. 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 was 1.12% (2012: 1.42%), a reduction compared against the previous year.

Non-interest Earnings

Gross fees and commission income amounted to £2.5 million (2012: £2.2 million), 13% higher than last year.

Overall, net banking fees and commission income amounted to £1.5 million, 32% higher than the equivalent fees earned in respect of last year. Income derived from the Bank's third party sales activity, its non-core business, amounted to £0.1 million in line with last year's results. (2012: £0.1 million).

Operating Expenses

Operating expenses for the year totalled £7.2 million (2012: £6.7 million) and represent an increase of 6.8% compared with 2012 levels. The cost income ratio for 2013 was 75.2% compared with 66.5% in respect of the previous year. 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, staff cost and increased fees for consultancy services in support of the regulatory framework enhancements on risk review and ICAAP.

Staff

Staff costs in 2013 amounted to £4.0 million (2012: £3.7 million), 7.7% increase on 2012, as staffing levels increased to support business development structure.

The average number of staff employed during the year was 88 (2012: 84).

Pension Scheme Funding Cost

The Bank is a participating employer in The Co-operative Group Pace Pension Scheme. An actuarial valuation undertaken during 2011 identified a scheme deficit 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 an eight year period and the Income Statement includes a provision of £140,000 representing the Bank's share of the 2013 deficit contribution. The cost is included in staff costs for the year.

Other Costs

Total expenditure in respect of all other costs was £3.2 million (2012: £3.0 million) and represents an increase of 6.7% for the year.

Financial Services Compensation Scheme Levy

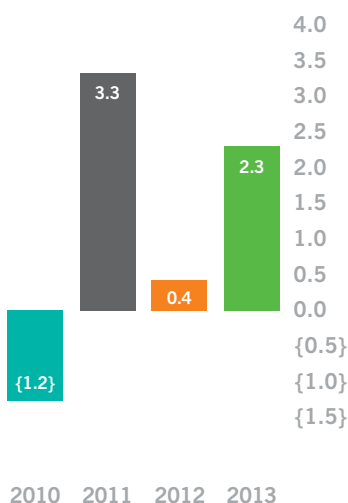
As reported in previous Report and Accounts, a number of banking failures in earlier years have led to customers of those banks making claims for deposit losses suffered and the banking industry has been obliged to provide supportive funding to the Financial Services Compensation Scheme (FSCS). Having reviewed the requirements for scheme funding, the Bank has made provision in the Income Statement to cover levy costs in the sum of £131,000 (2012 - £104,000).

Other Operating Expense

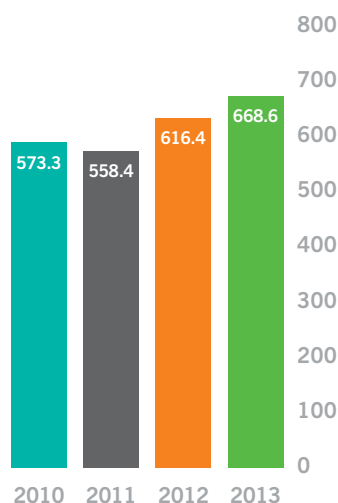
The Bank holds non-trading interest rate swap contracts with its parent company, The Co-operative Bank plc, in accordance with its interest rate risk policy. As at 31 December 2013, the notional value of the interest rate swaps amounted to £20 million (2012: £65 million).

The market value of the Bank's interest rate swap contracts at 31 December 2013 was £0.5 million above the contract price. In line with the Bank's accounting policies, market value movements are generally transferred direct to reserves in order to reduce Income Statement volatility. However, in the case of one hedge contract, the contractual arrangements were ineffective as at 31 December 2013 and the decrease in individual market values totalling £0.4 million (2012: £0.8 million) is reflected in the Bank's Income Statement as "other operating expense".

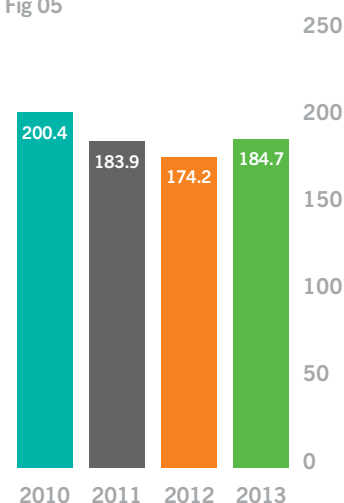
Profit/(Loss) before taxation (£m)
Fig 03



Customer accounts (£m)
Fig 04



Loans and advances to customers (£m)
Fig 05



Short term fluctuation gains or losses do not form part of the Bank's consideration of its overall capital strength.

Balance Sheet

As outlined earlier in the Strategic Report, the net movement in (deposit and advances) customer account balances has been impacted by the change in group netting arrangements for certain major customers in line with International Accounting Standards. The effect of the netting arrangements has been to impact the level of balances for both deposits and advances.

Customer Accounts

Retail deposit balances as at 31 December 2013 were £668.6 million, representing a net increase of £52 million across the year. Growth in new retail customer deposits for the year amounted to more than £39.7 million (2012: £40 million) and was predominantly derived from the charity and voluntary sector. ^{Fig 04}

Loans & Advances to Customers

The total of customer loans and advances at the end of the year amounted to £184.7 million (2012: £174.2 million). Loans and advances generated from "new to Bank" activity totalled £44.3 million (2012: £26.9 million). ^{Fig 05}

Bad Debt Provisions

Loan growth during the year has been focused on the Bank's core social economy sector. Due to continuing difficult economic conditions, monitoring the loan portfolio for signs of customer stress and identifying potential loan impairment has been a priority for the Bank's credit risk team.

At 31 December 2013, 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 write back of provisions has occurred on historical connections, which led to a net specific provision credit of £0.3 million (2012: £1.9 million charge).

This includes an impairment credit of £0.9 million in relation to an ongoing security realisation and as such is a material post balance sheet event.

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

In addition, the Bank has reviewed the grade assessment for the overall portfolio and decreased the collective impairment provision by £0.1 million in respect of certain business sectors.

The overall impairment provisioning credit in the Income Statement amounts to £0.4 million.

Summary and Outlook

Last year I reported that "economic pressures will act to dampen earnings for some time to come" and whilst that impact certainly continued throughout the year, it is very pleasing to see an increase in retained profit for the year as a whole.

At operating level, the combination of a low base rate, and central government activity to pump liquidity into the financial services sector through initiatives such as Quantitative Easing and the Funding for Lending Scheme all had an effect to reduce the margins that we receive on those funds that we place on the Treasury markets and thereby our overall level of operating income. There are signs that these pressures are starting to ease now and we expect to see a gradual increase in this area of our income over the next few years.

We are also making positive progress in the management of the legacy problem debt of commercial lending deals that has strongly impacted our provisions 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 written back as we have managed to realise security at a value above previous estimates. Whilst we are not completely "out of the woods" we definitely feel like this is the beginning of the end rather than the end of the beginning.

Of course, as a true "double bottom line" organisation, the generation of social impact is as important as the generation of profit. In this area, you will see a number of initiatives reported from pages 12 to 15.

I'm particularly proud of the fact that we were the first UK bank to be accredited for paying the living wage. The fact that we're now also encouraging our customers to do likewise is a really good example of putting policy into action.

Our first Social Lending Impact Report was produced in May and was very well received. The second, to be published this year will provide further detail around our support for communities and our impact on the creation and preservation of jobs.

Our staff have also played their part brilliantly, whether that's through maintaining industry leading customer service levels, volunteering for community activities in record numbers or in leading initiatives which culminated in the Silver Accreditation for Investors in People.

Finally, I must make mention of our customers who have been fantastically supportive. Over 14,000, including the vast majority of UK Trade Unions, trust us with their day to day banking and this number increases year on year.

As we enter our 30th year this is 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 not the bank. A bank that lends only to organisations or for activities that generate social value. I am determined that Unity will be that bank. The bank of choice for the social economy and Trade Union sectors.

By Order of the Board.

Richard Wilcox

Managing Director



During 2013 the Bank has sought to focus on its strategic plan and its significant commitment to the common good. In line with our “double bottom line” strategy, this report includes details of our social impacts as well as our financial returns.

As mentioned in the Chairman’s statement substantial progress has been made in increasing the Bank’s social impacts. The Bank endeavours to achieve the best possible social change and social benefit for its customers, local communities and the wider society. A number of these key social outputs, such as job creation and community investment, are captured across the following pages 12 to 15.

88%

of new loans were made to social economy organisations.

£100m

The Bank is open for business and committed to lend £100 million to the social economy over three years.

£38m

of new lending helped create:

- Approximately 2,143 jobs
- 612 new bed spaces
- 27 refurbished bed spaces

Supporting the Social Economy

The Bank aims to create positive social change through its business activity.

Impact Lending

The Bank takes a socially responsible approach to lending and for the first time is able to report that the value of its loan portfolio in the social economy outweighs that of the commercial sector. This is seen as a step in the right direction as the Bank continues to embark on its double bottom line approach. 88% of new loans were made to organisations in the social economy and the remainder to Trade Unions and membership organisations.

In 2013 a total of 51 organisations in the social economy borrowed just over £38 million from the Bank (2012: £27 million). This lending helped customers create and sustain around 2,143 jobs* (1,608 through CDFI support), plus 612 new bed spaces and 27 refurbished bed spaces.

The Bank has committed to lend £100 million to the social economy over three years. In addition to this, it continued to support the sector and launched a loan offer whereby social economy organisations who are Living Wage accredited employers can benefit from a discounted lending fee. As the first bank in the UK to be accredited a Living Wage Employer, this is a bid to encourage other organisations to pay their employees a fair wage that provides them with a better standard of living, and raise the profile of this important initiative.

Innovative Loan Deals

As part of the Bank’s aims to create positive social change, in 2013, the Bank partnered with social finance organisation Big Issue Invest in a unique loan deal. This deal enabled a local charity, Sandwell Community Caring Trust, that provides housing and care services for disabled and elderly people, to purchase a residential care home with a loan for 100% of the cost of the building. Whilst most banks usually require customers to put down a lump sum, in this unique deal Big Issue Invest provided the deposit and the Bank provided the purchase loan.

This type of support not only demonstrates how the Bank does things differently, but also how it supports its customers with bespoke, flexible finance.

Impact Investing

Through the Tech for Good Challenge, the Bank invested £50,000 into 10 fledgling technology start-ups which are focused on addressing social problems. Furthermore, through a collaboration with Enterprise Ventures, the Bank provided a £3 million loan fund to help businesses to grow and deliver local economic impacts.

In addition, an investment of £50,000 was made into a Social Impact Bond launched by Midlands Together CIC. This is creating employment opportunities and homes - up to 70 substandard homes are being bought with the money and renovated by ex-offenders, with profits being used to buy more homes.

Credit Union Development Fund

The Bank strives to achieve better, more ethical, financial services all around – for individuals, as well as organisations. Credit unions provide banking to all sectors of society, and through the Bank’s Credit Union Development Fund, a pot of £36,000 was distributed to 16 credit unions across the UK. Grants of up to £4,000 each were provided to the successful applicants to assist them in making improvements to technology. The fund plays a small role in helping credit unions to keep growing and modernising.

Continuing CDFI Support

Focused on getting money straight to the heart of communities, the Bank committed just over £5.6 million to CDFIs in 2013. This lending leveraged just over £13.6 million match-funding through the Regional Growth Fund (RGF) programme and helped create 1,608 jobs.

* This figure is being finalised as this Report goes to print and final figures are available in the full Social Lending Impact Report 2013.

Supporting Customers

The Bank is passionate about its customers and in doing business the right way. It aims to provide a first class service, with products developed around the needs of the customer.

Staff work hard to ensure that the Bank is **trusted, reliable, customer-focussed, socially responsible and honest**. Across the Bank a strong emphasis is placed on maintaining high levels of service for its customers. This is supported by the fact that in 2013, 88% of customers stated that they would recommend Unity Trust Bank to other organisations. The average customer satisfaction score was 87%. These results were averages taken from 600 customer surveys covering both new customers (accounts which have been funded for more than three months) and existing bank customers.

On average, the Bank answers calls to its main '0345' number **in less than nine seconds** and in 2013, answered over 97% of calls to the main customer support number. As well as this more than 90% of queries are dealt with by the person that initially handles the call.

Growing Reach

The Bank wants to see its customers in the social economy flourish and make a positive impact in their community. To that end, it supported the production and launch of a guide to the recently created Social Value Act which showed



Unity Trust Bank is really flexible and brilliant at helping our organisation achieve its objectives, and we've found that Unity's approach is personal and tailored to our requirements."

Catherine Stuart-Jervis
Chief Executive of The Charity Service

how the Act can be used by customers and others in the social economy to strengthen their case for gaining contracts in the public sector.

It also joined a number of social economy organisations to form the Social Economy Alliance. The aim of the Alliance is to help shape the way all political parties formulate social and economic policies in advance of the 2015 General Election. The overarching aim is to grow the impact of the social economy.

More and more customers and potential customers are being reached. Early in November, the number of Twitter followers for the Bank passed the 1000 mark (657 were acquired over the year). Website hits were higher than ever, peaking in November at 58,841 visitors, 25% of which had never visited the site before.

Feedback

The Bank receives great feedback from customers at regular events, via the telephone and from the customer satisfaction surveys. Two examples have been included on this page and they are good examples of the type of response staff receive from customers.

88%

of customers stated that they would recommend the bank to other organisations.

Staff work hard to ensure that the Bank is trusted, reliable, customer-focused, socially responsible and honest.



With the support of Unity Trust Bank working with us alongside local people and donations from other charities we have been able to complete the construction phase of our new supported living service. A close working relationship with the bank has been vital and we greatly appreciate the consistent support and knowledge of our business."

Dan Lawrence
Chief Executive of the Peaceful Place, which supports people with early onset dementia

Supporting Staff

Staff are the Bank's best asset and the foundation to the success of the business. They are invested in and rewarded for their contribution to helping the Bank achieve more.

The Bank believes that the development and training of its staff is fundamental to ongoing success. By providing development opportunities, facilities and financial support, we aim to ensure that all staff have the knowledge, skills and experience necessary to perform to the highest standards.

Each member of staff received induction and job related training, together with support available to help individuals develop and improve their job performance and keep pace with industry developments. In 2013 staff received 20.4 hours of

training each (2012: 14.9 hours). Three staff also undertook internal secondments to understand more about other areas of the Bank and develop their own skills.

Apprenticeship Scheme

The Bank offers direct opportunities for young people to gain workplace experience and to develop essential skills in an increasingly tough employment market. In 2013 two further apprentices were taken on to gain experience within the banking operations team. As well as this, a former intern and a former apprentice were offered permanent roles within marketing and customer accounts.

Employee Share Ownership Scheme

In a significant step to reinforce its commitment to the staff, in May the Bank launched its Employee Share Ownership Scheme. The Bank provided a £50,000 gift to the Trust to set up the scheme and acquire shares from the current shareholders. Staff received an initial gift of 100 shares and have a shared goal in creating a successful future for the Bank.

Best Companies

The Bank continues to participate in the annual independently run Best Companies survey and maintained the status 'one to

watch' for the fifth year running. Its Best Companies score for 2013 was 616.7 out of 1000 (2012: 610.7). This staff engagement survey collects feedback directly from the staff regarding their views about their working environment. Taking part in this survey helps the Bank to identify areas for improvement on its journey to becoming a 'one star' organisation and a great place for its staff to work.

Investors in People

Investors in People (IIP) is the UK's leading people management standard and in 2012 the Bank was awarded Bronze by IIP. At the end of 2013 the Bank was assessed again and subsequently awarded the Silver accreditation by IIP. This is a great testament to the value the Bank places on its staff training and development. Its ambition is to achieve the Gold accreditation.

Regular staff focus groups are run throughout the year to improve the working environment and get feedback. During 2013, a diverse range of internal communication channels were introduced to encourage open and cross-team working. Staff from across all teams and grades come together for fortnightly huddles, bi-annual strategy updates and mixed team briefs.



Living Wage Employer

The Bank is very proud to be the first bank to be awarded the Living Wage Employer Accreditation Mark – a move which demonstrates its commitment to paying its staff a living wage or more. It means that staff are paid at least £7.65 an hour, which is considered, by the Living Wage Foundation, to be the amount needed for an acceptable standard of living outside London.

In a significant step to reinforce its commitment to the staff, in May the Bank launched its Employee Share Ownership Scheme.



Supporting Communities

Giving time, money and effort to local and national charitable organisations is an important part of what the team does. Through the Unity in the Community programme, staff are provided with five days of volunteering time each year.

Volunteering Days

The Bank is pleased that as a socially responsible business, it's able to play an active role in the community.

The Unity in the Community initiative has been running for six years and encourages all staff to support their local community. It strongly supports the Bank's social objectives by motivating staff to provide their time, energy and expertise to support local and national charities and other good causes. Volunteering activities included clearing out an area to be used as a children's playground, helping out at a donkey sanctuary and tidying up and staining benches at a local park.

In 2013, staff volunteered 113.5 days (2012: 27), helping over 15 individual organisations. The Bank sees involvement in the Unity in the Community initiative as a very practical way for staff to learn more about the issues faced by our customers, the opportunity for them to engage with, and help, communities, as well as helping in their own personal development.

113.5 days

were taken by staff to volunteer in the local communities.

Fundraising

In addition to the Unity in the Community initiative, staff participate in a range of fundraising activities and through 2013, staff raised £1,796 (2012: £1,662). Activities included; baking cakes for Breast Cancer Awareness Day and taking part in a fun run organised by the British Heart Foundation. Furthermore, from the funds raised in 2012, the Bank was able to distribute this money to over 20 organisations in 2013. It donated money to various national charities, as well as other local charities including Warley Woods, Cannon Hill House, Breast Friends and Zoe's Baby Place Hospice.

Christmas Giving

Once again, the Bank supported the Barnardo's Christmas Gift Tree appeal by donating fifty £10 gift vouchers to two Barnardo's children's services in the West Midlands - Defuze, based in Coventry and Worcestershire, and Community Short Breaks based in Kidderminster. Vouchers were distributed at the Children's Christmas party and the children went shopping with staff and volunteers to spend the vouchers on presents of their choice.

Impact on the Environment

As an office-based operation, the Bank's impact on the environment results from internal operational activities, waste disposal and business travel. Its waste management programme focuses on reducing consumption, reuse, recycling where possible and responsible disposal.

In 2013 the Bank saved 81.2 trees (2012: 72.3) by recycling its paper. Additionally, the building which the Bank rents for its Head Office uses motion detector controlled lighting as part of its energy saving measures. In a new step to reduce its carbon footprint, the Bank's Technology department has adopted the 'virtual environment' which means a reduction in server power costs by up to 80%, while improving availability, reliability as well as service levels.

The Bank actively encourages staff to minimise their use of energy resources by such measures as recycling, switching off PCs and monitors at the end of the day, and using public transport whenever possible.



Summary

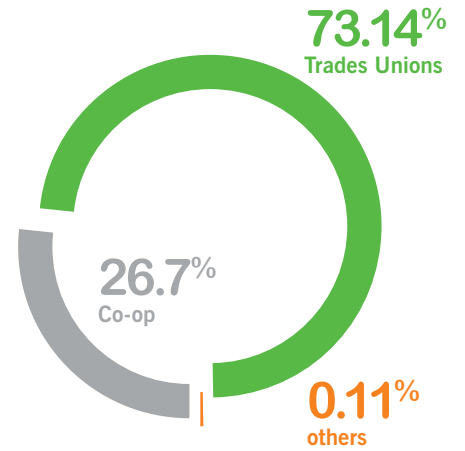
Directors' Report

This report provides information on the Directors, relations with the shareholders, employees, diversity, women in the business and health and safety.

Since the Bank was formed in 1984, it has been jointly owned by The Co-operative Bank plc and the Trades Union Movement. As a condition of the banking licence granted to the Bank in its infancy, the Regulator at the time required that The Co-operative Bank should be the

Bank's controller, and this has been enshrined in the Articles of Association through the right to appoint the majority of the Directors.

The Articles of Association set out the agreement between the Bank and its shareholders and provide for three classes of shares, A, B and C. The shares have the same rights attached, except as set out below. The B shareholder allocates four of its seats to Executive Directors.



	A	B	C
Who are the holders?	33 shareholders who are all Trades Unions	All of the 'B' shares are held by The Co-operative Bank plc through its subsidiary, Co-operative Commercial Ltd	121 shareholders, including 76 employees who have acquired shares through the Employee Share Ownership Plan
Rights relating to Board appointments	Right to elect 7 Directors, who must be Trade Union officials, who in turn can appoint the President from amongst them	Right to appoint 9 Directors including the Chairman and Managing Director.	No right to appoint a Director, however, can vote upon the appointment of the Independent Director, together with the A and B shareholders
Provisions relating to transfer of shares	Upon a sale, shares must first be offered to other A shareholders	Upon a sale, shares must first be offered to other A shareholders and then C shareholders	Shares are freely transferable

The Chairman and Managing Director meet representatives of shareholders on a number of occasions each year. The Board is able to develop an understanding of its shareholders concerns through those represented on the Board and because many shareholders are also customers of the Bank.

All appointments to the Board are made by the shareholders. Shareholders are encouraged to attend the AGM, a key opportunity during the year hold the Board to account for the performance of the Bank.

We aim to become one of the best companies to work for by creating an open and supportive culture and developing a talented and diverse workforce which works together to make Unity a success.



Executive Directors: Ian Morrison, Mike Osborne, Richard Wilcox, Peter Kelly

Who serves on the Board

Director	Role	Appointed	Outside interests	Elected by A, B or all shareholders
Non-Executive Directors				
Graham Bennett	Chair	Appointed as a Director in 2000 as a Chair in 2009	Previously served as Chairman of The Co-operative Bank plc. (2000 - 2009), and as a Non-Executive Director of The Co-operative Group Limited (1984 - 2009), Co-operative Banking Group Limited (2002 - 2009), Co-operative Insurance Society Limited (2000 - 2009) and CIS General Insurance Limited (2005 - 2009). Chief Executive of Southern Co-operatives Limited (1983 - 2008).	B
Paul Allton	Non-Executive Director	2013	Credit Risk Director, Co-operative Banking Group.	B
Vicky Bryce	Non-Executive Director	2011	Finance Manager, RMT. Also a Director of RMT Credit Union.	A
Roderick Chamberlain	Independent Non-Executive Director	2013	Director of Career Guidance Services Ltd, providing career guidance and mentoring to senior executives. Also a Director of QIB (UK) plc and Trustee of the English-Speaking Union.	all
Clare Gosling	Non-Executive Director	2013	Director of Financial Control, The Co-operative Bank. Also a Director of Reclaim Fund Ltd and a number of Co-operative Bank subsidiaries, including Co-operative Commercial Ltd.	B
Billy Hayes	Non-Executive Director	2001	General Secretary of the Communication Workers' Union.	A
Richard France	Non-Executive Director	2011	Director of Business & Commercial Banking, The Co-operative Bank.	B
Dave Prentis	President	2000	General Secretary of UNISON. Past President of the TUC, Member of the TUC General Council and Executive Committee, and the Trade Union Labour Party Liaison Committee. A member of the Institute of Public Policy Research's Policy Advisory Council and an advisor to the Warwick Institute of Governance and Public Management. He is also a member of the UK Commission for Employment and Skills.	A
Paul Noon OBE	Non-Executive Director	2012	Previously General Secretary of Prospect (1998-2012).	A
Steve Watts	Non-Executive Director	2010	Retired Pricing, Research and Information Officer. Previously Deputy Chair of Co-operative Group Limited and Chair of Co-operative Specialist Businesses Limited.	B
Allan Wylie		2004	Officer of the GMB Union.	A
Executives				
Richard Wilcox	Managing Director	2011	Board member of Stichting Social Investment Innovation.	B
Ian Morrison	Operations Director	2006		B
Mike Osborne	Finance & Risk Director	1992	Member of UnionLearn Finance & Audit Committee. Appointed end of 2012. Elected as Chairman of the committee with effect from 13 January 2014.	B
Peter Kelly	Business Development & Marketing Director	2012		B

There are currently two vacancies for A Directors.

Changes to the Directors during the year are mentioned in the Chairman's statement.

Results and Dividends

The results for the year, before taxation, amounted to a profit of £2.3 million (2012: £0.4 million). The Directors recommend payment of a final dividend of £0.3 million (2012: £0.2 million).

Employees

Unity is committed to ensuring that it is a safe, diverse, and fair environment to work in. As at 31 December 2013, the Bank employed 88 members of staff (2012: 89). 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 to watch”.

The Bank was also re-accredited as an Investor In People in 2013 achieving a move from the Bronze Award to the higher level Silver Award.

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.

Women in the Business

There are currently two female Board members (representing 13% of the total number of Directors). One member of the Bank’s Executive Team is female (not an Executive Director) which represents 20% of the team and 45% 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 and electronic media communicate other information.

Employees with Disabilities

Unity 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.

Employees’ Wellbeing

The Bank recognises that health and wellbeing at work play a vital part in delivering its core values. Wellbeing services include occupational health support, annual eye tests and membership of a Corporate Health Cash Plan. All employees have access to free expert advice on a wide range of medical, legal and family issues through an Employee Assistance Programme.

Health and Safety

It is the intention of the Bank to take due care of its employees, customers, visitors and others who may be affected by its activities.

This policy is implemented through Health and Safety Procedures that set out the ways in which the Bank meets its health and safety responsibilities and how it complies with statutory requirements.

The Bank recognises the benefits of the management of health and safety at work. It is the Bank’s priority to protect both staff at work and others who are on Bank premises from hazards to their health and their safety.

The Bank strives to continually improve and maintain health and safety standards, recognising their close link with quality standards, staff motivation, staff welfare, cost of accidents and to meet legal requirements.

The Bank will so far as is reasonably practicable:

- maintain a safe and healthy workplace and access to and from it;
- ensure the safe handling, storage and transport of articles and substances;
- provide such training, information, instruction and supervision necessary to ensure the health and safety of employees;
- provide and maintain safe and healthy plant, equipment and systems of work;
- provide a safe and healthy working environment, adequate welfare facilities and appropriate health surveillance; and
- provide free of charge to employees anything necessary or required by law in the interests of health and safety at work.



Post Balance Sheet Events

The Directors consider that the only significant event since the balance sheet date that has had an effect on the Bank's position, is an impairment credit of £0.9 million in relation to an ongoing security realisation.

The Co-operative Bank owns a 26.7% shareholding in Unity Trust Bank and exercises control by electing a majority of the directors, the chairman and the managing director. This provides the power to control. On 14 January 2014, The Co-operative Bank announced that it was in discussions with the Board of Unity Trust Bank about a potential sale of its shareholding. Discussions are at an early stage and any decision on a changed ownership structure would be subject to regulatory approval.

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the 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 the future relationship with The Co-operative Bank. 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 31 to 34 of the full Report and Accounts.

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 performance, business model and strategy.

By order of the Board.

Kate Eldridge
Secretary

21 March 2014

We aim to make Unity a place where people:

- Can really make a difference
- Feel confident and capable
- Feel engaged, supported and committed
- Are encouraged to be flexible and innovative
- Feel valued and rewarded
- Work together and share knowledge
- Continually learn and develop
- Put our customers at the heart of everything we do



Summary

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.

The composition and terms of reference for the Nomination and Remuneration Committee (the 'Committee') is set out in the Report of the Directors on page 17 of the full Report and Accounts.

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 appropriate compliance with the PRA Remuneration Code; and
- ensuring equity between groups of staff and between individuals by considering the pay and conditions of all staff.

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 on the opposite page. 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.

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.

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.

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.

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 2012 was 11 and for 2013 was 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.

Remuneration Policy for Non-executive Directors' Remuneration

The Chairman 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. The Co-operative Bank appointee is remunerated by the Co-operative Group Ltd.

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.

Payment to Past Directors

No payments have been made in 2013 to a past Executive Director or Non-Executive Director.

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.

Policy table

The table below sets out the elements of Executive Director remuneration. There have been no changes to the remuneration policy for the 2013 financial year.

	Director	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. The salary increase percentage for Executive Directors will be no higher than the average 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. Three directors are members of the defined benefit section (Pace Complete) with one Director being a member of the defined contribution section (Pace Extra). Further details are below.
Performance pay	Profit Sharing Scheme	Directly links reward to business performance by ensuring employees are focussed 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 at their current market value during an annual trading window.

Notes: ⁱPension Scheme

Pace Scheme

Pace Complete Scheme is available to 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 to dependants 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 is 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 aiming to control the future costs and risks of occupational pension provision.

Directors' Emoluments

Executive Directors' Remuneration

	Date of service contract or appointment	Basic salary(1) (£)	Benefits in kind (2) (£)	Car allowance (£)	Performance related pay (3) (£)	2013 total emoluments (£)	2012 total emoluments (£)
Richard Wilcox	1 January 2012	142,940	114	11,500	–	154,554	149,410
Mike Osborne	18 September 1992	107,540	114	9,800	–	117,454	120,277
Ian Morrison	11 January 2006	94,358	–	9,800	–	104,158	104,135
Peter Kelly	19 November 2012	109,680	–	9,800	–	119,480	14,348

Notes:

- (1) Base salaries were increased by 2.25% which is the same as the average salary 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 2012 (and paid in 2013). For 2012, Executive Directors waived their profit share allocation and the amounts were added to the staff distributable pool.

For 2013, the distributable pool is to be determined and individual payments to staff will be confirmed by the Committee in March 2014. For 2013, the Bank's Executive Directors intend to participate in the profit share.

Non-Executive Directors' Remuneration

	Role	Date of appointment	2013 Remuneration (£)	2012 Remuneration (£)
Graham Bennett	Chairman	8 June 2009	39,581	40,374
Rhidian Jones (1)	INED	26 March 2004	7,031	30,810
Roderick Chamberlain	INED	24 March 2013	23,077	–
Stephen Watts (2)	Co-operative Bank appointee	31 July 2010	5,444	5,444

Notes:

- (1) Rhidian Jones stepped down on 23 March 2013.
- (2) Paid by the Co-operative Group Ltd.

Pension Entitlements

Pension details of the Executive Directors

At 31 December 2013, Richard Wilcox, Mike Osborne and Ian Morrison had benefits accruing under the defined benefit section of the Pace Scheme. At this date, Peter Kelly was a member of the defined contribution 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	57	24	£47,596	£2,098	£1,925	(£845)	£30,700	(£10,333)
I Morrison	53	24	£43,651	£3,368	£2,481	(£3,060)	£42,783	(£55,563)
R Wilcox	55	25	£63,429	£3,713	£2,400	(£7,095)	£37,628	(£133,302)

Notes:

I Morrison and R Wilcox includes service at The Co-operative Bank plc.

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 2.2%).

The age, service, and accrued pension shown in columns (1), (2) and (3) have been calculated as at 31 December 2013.

Mr P Kelly is a defined contribution member of the Pace Scheme (Pace Extra section). The employer contribution for him in 2013 was £8,134.41.

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 on a voluntary basis, to illustrate the additional pension disclosures within the new reporting regulations applicable for quoted companies.

Prior year equivalent figures are shown in brackets for column (5) and (6). The CPI increase for the previous year was 5.2%.

Income Statement

For the year ended 31 December 2013

All amounts are stated in £000s unless otherwise indicated

Table 3 - Summary Income Statement

	2013	2012
Interest receivable and similar income	9,529	10,602
Interest expense and similar charges	(1,495)	(1,621)
Net interest income	8,034	8,981
Fee and commission income	2,499	2,225
Fee and commission expense	(956)	(1,056)
Net fee and commission income	1,543	1,169
Other operating expense	(354)	(802)
Operating income	9,223	9,348
Operating expenses	(7,206)	(6,746)
Financial services compensation scheme levies	(131)	(104)
Operating profit before impairment losses	1,886	2,498
Impairment gains/(losses) on loans and advances	433	(2,100)
Profit before taxation	2,319	398
Income tax	(228)	(75)
Profit for the year attributable to shareholders	2,091	323
Earnings per share (basic and fully diluted)	12.7	2.0

Balance Sheet

As at 31 December 2013

All amounts are stated in £000s unless otherwise indicated

Table 4 - Summary Balance Sheet

	2013	2012
Assets		
Cash and balances at central banks	146	505
Loan and advances to banks	274,703	260,057
Loans and advances to customers	184,743	174,166
Investment securities - available for sale	255,252	225,480
Derivative financial instruments	533	1,695
Intangible fixed assets	455	519
Property, plant and equipment	217	149
Deferred tax assets	91	85
Other assets	49	49
Prepayments and accrued income	352	405
Current tax assets	946	935
Total assets	717,487	664,045
Liabilities		
Customer accounts	668,622	616,368
Derivative financial instruments	18	52
Other liabilities	1,575	1,577
Accruals and deferred income	528	484
Provision for liabilities and charges	283	514
Total liabilities	671,026	618,995
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	16,429	16,429
Share premium account	250	250
Retained earnings	29,790	27,880
Other reserves - available for sale	(14)	11
- cashflow hedging reserve	6	480
Total equity	46,461	45,050
Total liabilities and equity	717,487	664,045

Approved by the Board on 21 March 2014 and signed on its behalf by

Dave Prentis, President
Graham Bennett, Chairman
Richard Wilcox, Managing Director

Independent Auditor's Statement

We have examined the summary financial statement for the year ended 31 December 2013 which comprises the Summary Strategic Report, the Summary income statement, Summary balance sheet, Summary Directors' Report and Summary Directors' Remuneration Report set out on pages 6 to 25.

This statement is made solely to the company's members, as a body, in accordance with section 427 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

The directors are responsible for preparing the Summary Report and Accounts in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Report and Accounts with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 427 of the Companies Act 2006 and the regulations made there under.

We also read the other information contained in the Summary Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 2008/3. The auditor's statement on the summary financial statement in the United Kingdom issued by the Auditing Practices Board. Our report on the Bank's full annual financial statements describes the basis of our opinion on those financial statements, the Directors' Report and the Directors' Remuneration Report.

Opinion on Summary Financial Statement

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of Unity Trust Bank plc for the year ended 31 December 2013 and complies with the applicable requirements of section 427 of the Companies Act 2006 and the regulations made there under.

**Kieren Cooper for and on behalf of
KPMG Audit Plc, Statutory Auditor**

**Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH**

21 March 2014



To find out how we can help your organisation achieve more,
call us on 0345 155 3355

e: us@unity.co.uk www.unity.co.uk [@unitytrustbank](https://twitter.com/unitytrustbank)



Sunday Times
Best Companies
to work for 2009-2013



Awarded Silver by Investors
in People in 2013



Accredited UK Living
Wage Employer in 2013