unitytrust bank

report and accounts 2013

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

Nine Brindleyplace
Birmingham
B1 2HB

Tel: 0845 140 1000
Fax: 0845 113 0003

Registered in England and Wales
No. 1713124

PRA firm reference No. 204570

Board of Directors

‘A’ Directors	Alternates
Dave Prentis (President)	Steve Tasker
Vicky Bryce	
Billy Hayes	Tony Kearns
Paul Noon	
Allan Wylie	

‘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 and Marketing
Ian Morrison, Director, Operations
Mike Osborne, Director, Finance and Risk
Kay Gossage, Head of Human Resources

Auditor
KPMG Audit Plc
One Snowhill
Snow Hill 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.

Contents

This is the Strategic Report and Directors' Report for Unity Trust Bank plc (Bank) (Unity). It explains in detail how the Bank has performed during 2013 and sets out a fair review of the business, a balanced and comprehensive analysis of performance, the use of financial and non financial key performance indicators to explain the progress made, a description of the principal risks and uncertainties faced by the business and an indication of likely future developments.

In preparing the report, the Bank has had regard to the guidance issued by the Accounting Standards Board in its Reporting Statement on narrative reporting. It is intended to provide Shareholders of the Bank with a greater understanding of the Bank, its position in the market and its prospects.

In setting out the Bank's main risks and uncertainties, and likely future developments, this report and accounts contains statements which, by their nature, cannot be considered indications of likelihood or certainty. The statements are based on the knowledge and information available at the date of preparation of the Strategic Report and Directors' Report, and what are believed to be reasonable judgments, and these statements should not be construed as a profit forecast.

The 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 cut backs and when banks were not lending to small businesses. Sound familiar? No surprise therefore that a bank such as Unity 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’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 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 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 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 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 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 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’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

The Chairman's Statement

2013 was an eventful year for Unity Trust 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 these, 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 amount 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 a total of £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 great 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 two 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

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%**

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 Euro zone, 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.

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.

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 Reverse 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 supplementary 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 Reverse 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 Banks 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.

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). *Fig01*

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. *Fig02.* 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%).

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 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.

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.*Fig03*

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).

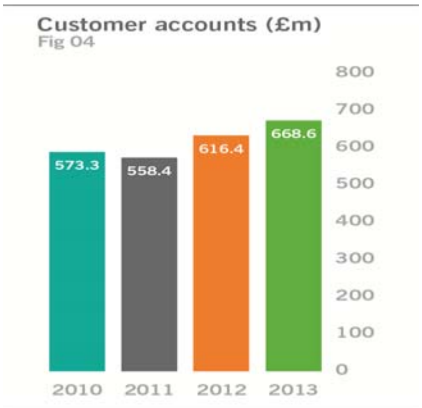
The market value of the Bank's interest rate swap contracts at 31 December 2013 was £0.5 million above the contract price. In line with the Bank's accounting policies, market value movements are generally transferred direct to reserves in order to reduce Income Statement volatility. However, in the case 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".
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.

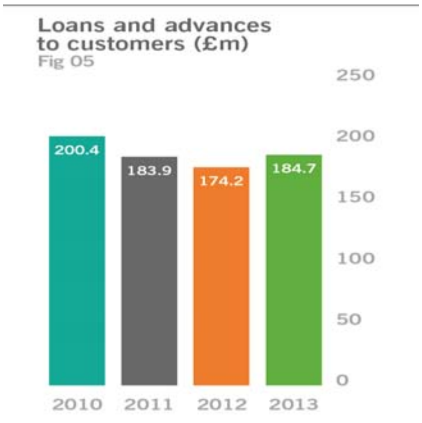
Customer accounts

Retail deposit balances as at 31 December 2013 were £668.6 million, (2012: £616.4 million), representing a net increase of £52 million across the year.*Fig04.* Growth in new retail customer deposits for the year amounted to £39.7 million (2012: £40.0 million) and was predominantly derived from the charity and voluntary sector.



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).*Fig05.* Loans and advances generated from "new to Bank" activity totalled £44.3 million (2012: £26.9 million).



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.

Social highlights

During 2013 the Bank has sought to focus on its strategic plan and its significant commitment to the common good. In line with the Bank's "double bottom line' strategy, this report includes details of its social impacts aswell as its 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 detailed in this section.

Supporting the social economy

Impact lending

The Bank takes a socially responsible and sustainable approach to lending and aims to create positive social change through its business activity.

For the first time the Bank is able to report that the value of its social economy loan portfolio 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.

In 2013 a total of 51 organisations in the social economy borrowed just over £38 million from the Bank (2012: £27 million). The Bank also has a lending commitment of almost £60 million (2012: £32 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 is open for business and 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 investment

Through the Tech for Good Challenge, the Bank invested £50,000 into 10 fledgling technology start-ups which are focused on improving the life chances of young people. 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.

Supporting customers

Customer satisfaction

The Bank is passionate about its customers and in doing business the right way. It provides services for customers who are focused on making society fairer and better for the many.

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 and existing bank customers.

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 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 overreaching 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 1,000 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.

Strategic Report continued

Supporting staff

Training

Staff are the Bank's best asset and part of 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, one former intern and one former apprentice were offered permanent roles within marketing and customer accounts.

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.

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.

Supporting communities

Volunteering days

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.

The Bank is pleased that as a socially responsible business, it's able to play an active role in local communities. The Unity in the Community initiative has been running for six years and encourages all staff to support the 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.

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 Place Baby 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 encourage 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.

Strategic Report continued

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 elsewhere in this report.

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 customers 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
Unity Trust Bank plc

Report of the Directors for the year ended 31 December 2013

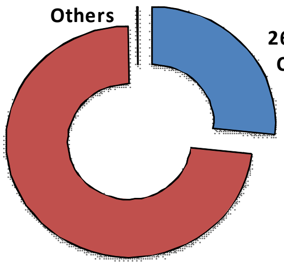
Chairman's Introduction

This year, the Board has spent significant time discussing its corporate governance arrangements, including its Board structure, to ensure that these are fit for purpose, proportionate to the scale and nature of the Bank, effective for the shareholders and acceptable to the Regulator. This governance review is still underway and the Board expects to publish its recommendations prior to the AGM. As the Bank is not listed, it is not obliged to comply with the UK Corporate Governance Code (available from www.frc.org.uk), however, the following information is provided on a voluntary basis.

Results and Dividends

The results for the year, before taxation, amounted to a profit of £2.3 million (2012: £0.4 million). A final dividend of £0.2 million was paid during 2013. The Directors recommend payment of a final dividend of £0.3 million (2012: £0.2 million).

Our Shareholders



Since the Bank was formed in 1984, it has been jointly owned by The Co-operative Bank 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.

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. If members are unable to attend the AGM, they can appoint a proxy to attend in their place and, if they choose to do so, direct the proxy as how they should vote.

Contrary to the Code Provision E.2.2, proxy votes are not published on the website due to the smaller proportion of votes which are exercised this way. The Bank will give four weeks notice of its Annual General Meeting in 2014, which will be slightly less than the 20 working days notice recommended in Code Provision E.2.4 due to the Easter break.

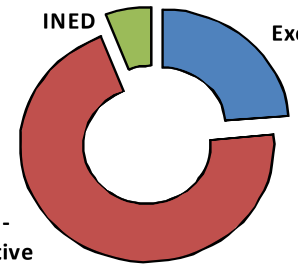
The Board

A full list of Directors at the date of signing the accounts is provided on page 14. There are currently two vacancies for 'A' Directors. As mentioned in the Chairman's statement, the following changes to the Board took place during 2013:

Appointed	
Paul Allton	12 June 2013
Roderick Chamberlain	24 March 2013
Clare Gosling	14 August 2013
Peter Kelly	8 March 2013
Resigned	
Sharon Powell	25 October 2013
James Mack	3 May 2013
Rhidian Jones	23 March 2013

Composition and Independence

As the Bank has only one Independent Director it does not comply with Provision B.1.2 of the Code regarding the number of Independent Non-Executive Directors on the Board. This also means that the Bank does not comply with the requirements of the Code in respect of the composition of the Audit Committee (Provision C.3.1) and the Nomination and Remuneration Committee (Provisions B.2.1 and D.2.1). Although the Articles do not provide for more than one Independent Non-Executive Director, the Board is considered to be balanced given the similar numbers of 'A' and 'B' Directors on the Board, and the greater number of Non-Executive Directors, compared to Executive Directors. The number of Independent Directors is under review as part of the governance review currently underway.



Information on Board Diversity can be found on page 19.

	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

Director	Role	Appointed	Outside interests	Elected by A, B or all share-holders
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, The 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	Non-Executive Director	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

Specific Roles and Responsibilities

Role and responsibilities of the Board

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

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

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

The Board manages these matters at its regular Board and strategy meetings.

The division of responsibilities between the Chairman of the Board and the Managing Director is clearly defined and has been approved by the Board.

The Chairman – Graham Bennett

- leads the Board in the determination of its strategy and in the achievement of its objectives;
- organising the business of the Board, ensuring its effectiveness and setting its agenda;
- facilitates the effective contribution of Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors;
- ensures Directors receive accurate, timely and clear information;
- facilitates effective communication with shareholders;
- undertakes regular discussions with directors regarding their individual performance;
- leads Board discussions regarding the performance of the Board at least once a year; and
- aims for decisions to be taken by consensus and for all Directors to contribute to Board debate.

The Independent Director – Roderick Chamberlain

- assumes the role of Senior Independent Director in evaluating the performance of the Chairman; and
- available to meet shareholders on request, including where contact through the normal channels of Chairman, President or Managing Director has failed to resolve the issue or for which such contact is inappropriate.

The Managing Director – Richard Wilcox

- direct responsibility for the Bank on a day to day basis;
- accountable to the Board for the financial and operational performance of the Bank;
- implement the strategic objectives as agreed by the Board; and
- manages and delegates to the other Executives.

The Secretary – Kate Eldridge

- advising the Board through the Chairman on all governance matters; and
- works with the Chairman and MD to prepare the agenda based on an annual calendar of items.

Roderick Chamberlain is considered by the Board to be Independent as he was recruited for his skills and experience, and had no prior connection to the Bank before joining the Board. His appointment process is described in the Nomination and Remuneration Committee report.

Rhidian Jones was also considered independent. The Board had discussed his seat on the governing body of Thompsons LLP, a provider of legal services to Trades Unions, at the time of his appointment to that organisation.

How the Board operates

The Board met eight times in 2013. The Board is scheduled to meet nine times in 2014, to accommodate the approval of the ICAAP. If necessary, the Board holds private sessions in the absence of Executive directors, such as, to hear the report back from the Nomination and Remuneration Committee.

The agenda for Board meetings is agreed between the Chairman, the Managing Director and the Secretary based on an annual calendar of items and the actions requested by the Board at previous meetings. Board and Committee papers are normally distributed at least one week in advance of meetings. This provides the opportunity for Directors to prepare fully for meetings. The minutes of all committee meetings are circulated to all Directors, with the exception of the minutes of the Nomination and Remuneration Committee which are not sent to Peter Kelly, Ian Morrison, Mike Osborne or, from time to time, any other individuals whose remuneration was discussed.

When a Director is unable to attend Board or Committee meetings, the Alternate Director would be expected to attend in their place and issues can be relayed in advance to the relevant Chair. The use of Alternate Directors is under consideration as part of the governance review, due to the obligations entailed in serving as a Director of a regulated Bank.

The work of the Board during 2013

At each meeting, the Board reviews the Bank's financial and sales performance and the key risks facing the Bank, including impairment provisions. The Board also receives reports on customer service and people and technology.

Given the Bank's position as a subsidiary and purchaser of services from The Co-operative Bank, the Board spent a significant amount of time considering The Co-operative Bank ratings downgrade and reviewing analyses of its potential impact on the Bank. As a consequence, the Board has considered how the Bank can become more independent from The Co-operative Bank to mitigate the risks arising.

As mentioned earlier, a governance review has been underway to establish how the Bank's governance structures can be updated to reflect Regulator and shareholder expectation. This includes reviewing the level of independence on the Board and the size of the Board.

The Board also gave significant focus to its risk framework review, which has resulted in revising committee structures, including a new Board Risk Committee and the appointment of a Chief Risk Officer.

In addition to the regular review of the Bank's Individual Liquidity Adequacy Assessment, a further matter receiving the Board's attention is the preparation of an ICAAP (Internal Capital Adequacy Assessment Process), as this is the first time the Bank has prepared its own ICAAP, rather than being part of The Co-operative Bank's process. This has involved a comprehensive assessment of the risks facing the Bank, further detail of which can be found on page 36.

Directors attendance at Board meetings is set out on page 16.

Board Performance and Evaluation Effectiveness

Performance evaluation

In December each year, the Directors are asked to complete questionnaires circulated by the Company Secretary. Questions seek Directors views on the effectiveness of the Board, such as, the way in which the Board works together as a whole and the nature of Board debate. Directors also answer questions relating to their individual performance. The responses are collated on an anonymised basis by the Company Secretary and reported back to the Board with recommendations for improvements.

Induction and Continuing Professional Development

Newly elected Directors take part in an induction programme which includes:

- a visit to the Birmingham office to meet with the Chairman and Executive team to discuss various topics including the learning and development programme, vision, values, strategy and risk management;
- their role profile and guidance in relation to their role as an PRA Approved Person;
- documentation about the Bank, contact details of other Directors and Board meeting arrangements;
- copies of strategy papers and previous Board minutes;
- the Articles of Association and the matters reserved for the Board;
- the terms of reference and membership of the principal Board Committees; and
- the latest financial information about the Bank and the latest annual report.

Each Director has an individual learning and development plan. The Non-Executive Director learning and development programme is developed and updated based upon an analysis of the Directors' personal development plans and additional requests raised at Board meetings. Based on this, training sessions of the Board are scheduled to address the Directors' learning and development requirements.

During and in between Board meetings, Directors are updated on the Bank's performance, the competitive and regulatory environments in which it operates, corporate governance matters and other changes affecting the Bank and the industry in which it operates. During 2013, training topics included ICAAP and conduct risk.

Provision of advice to Board support

Support is available to Non-Executive Directors on any matter relevant to the business through the Secretary and Executives on request.

Directors may also take independent professional advice at the Bank's expense in furtherance of their duties. This is co-ordinated through the Secretary.

Delegation of Authority from the Board

The Board has delegated the day to day management of the business to the Managing Director, and certain matters to a number of Board Committees. These delegations are limited by the schedule of matters which have been reserved for the Board's decision as described above.

Directors' Attendance

The following table sets out the frequency of, and attendance at, the Board and Board Committee meetings during 2013 by Directors:

Directors *	**Main Board**	**Audit Committee**	**Advances Committee**	**Nominations and Remuneration Committee**
Number of meetings held	**8**	**4**	**7**	**3**
Graham Bennett	8 (8)	-	7 (7)	3 (3)
Paul Allton	4 (5)	2 (3)	3 (4)	-
Vicky Bryce	1 (8)	-	-	-
Roderick Chamberlain	6 (6)	3 (3)	-	1 (1)
Richard France	7 (8)	-	7 (7)	-
Clare Gosling	3 (4)	2 (2)	-	-
Billy Hayes *	5 (8)	-	3 (7)	-
Rhidian Jones	2 (2)	1 (1)	-	1 (1)
Peter Kelly	4 (5)	-	-	-
James Mack	0 (2)	1 (1)	-	-
Ian Morrison	6 (6)	-	-	-
Mike Osborne	6 (6)	-	-	-
Sharon Powell #	0 (7)	0 (3)	-	-
Dave Prentis *	8 (8)	-	7 (7)	3 (3)
Stephen Watts	8 (8)	-	-	3 (3)
Richard Wilcox	8 (8)	-	-	-
Allan Wylie	8 (8)	4 (4)	7 (7)	-
Paul Noon	8 (8)	3 (4)	-	-

* Dave Prentis and Billy Hayes have appointed Alternate Directors, who are expected to attend meetings in their absence
# Absent due to illness
The number in brackets indicates the total number of meetings the Director was eligible to attend during the year.

Board Committees

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

In accordance with the Code, the terms of reference for the Nomination and Remuneration Committee and the Audit Committee are available on the Bank's website: www.unity.co.uk.

Changes to the Committee structures in 2014

At the end of 2013, the Board established a Risk Committee and a Board Sanction Panel. It also disbanded the Advances Committee. The Risk Committee will consider the full spectrum of risks facing the Bank, rather than focussing on credit risk as the Advances Committee had. The Board Sanction Panel authorises loans in excess of Executive Credit Committee approvals.

As agreed during the governance review, there are no longer quotas of how many A and B Directors should serve on each committee. Membership is decided on the basis of skills.

The Audit Committee

For the Audit Committee 2013 was a busy year, with our activities set out in some detail below. In summary, we inducted a fresh group of members who had immediately to wrestle with the issues associated with the problems of The Co-operative Bank. As Unity Trust's de facto Risk Committee we ensured that all our points of contact with and service from The Co-operative Bank are identified and addressed, and that the increased operational risks within Unity Trust itself are sensibly and sensitively managed.

Alongside this work we also participated fully in the risk framework review which has led to the creation of the Bank's Risk Committee and a complete overhaul of the risk management structure at executive and staff level. One result of this has been a decision late in the year that our internal audit function should be fully outsourced, and the selection process is under way as a matter of priority.

The Board has also decided that, as part of its fresh governance arrangements and in consequence of The Co-operative Bank's decision to sell its shares in Unity Trust, the Bank's external audit arrangements should be reviewed in 2015. The Committee values the continuity in External Auditor during the change in Internal Auditor taking place in 2014.

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

Composition
Roderick Chamberlain (appointed as Chair and Member 24 March 2013)
James Mack (resigned as Chair 24 March 2013 and as a Member on 3 May 2013)
Rhidian Jones (resigned 23 March 2013 when he resigned from the Board)
Paul Allton (appointed 12 June 2013)
Clare Gosling (appointed 4 September 2013)
Sharon Powell (resigned 25 October 2013 when she resigned from the Board)
Paul Noon (appointed 1 February 2013)
Allan Wylie (resigned 31 December 2013)

James Mack, Allan Wylie and Clare Gosling brought relevant financial experience. In accordance with the terms of reference members of the Executive and management regularly attend meetings of the committee. Director attendance at committee meetings can be found on page 16.

Committee activities during 2013
In 2013 the Audit Committee focused on:

Financial Reporting
- reviewing the Bank's draft financial statements and the external auditor's detailed reports thereon in order to recommend them to the Board for approval;
- revisions to the provisioning policy;
- provisioning levels during the year, including a sharper focus on the major accounts which could significantly impact the Bank's result for the year; and
- service level agreements with The Co-operative Bank for the provision of Treasury services, clearing and other services.

Internal Audit
- audit coverage of material outsourcers, seeking to ensure self certification by suppliers not frequently visited and to extend the audit scope to services provided by The Co-operative Bank;
- the audit plan, a particular concern for accurate management with a vacancy in the department for most of the year;
- the role of internal audit within the new risk management framework and decided to outsource internal audit;
- the Bank's internal audit arrangements in the context of the new CIIA guidance on Effective Audit in Financial Services; and
- the support provided by The Co-operative Banking Group Internal Audit department.

External Audit
- audit and non-audit fees payable to the external auditor, and in particular the non-audit Services Policy. During the year, the Bank adopted its own non-audit Services Policy in place of The Co-operative Group Policy which had been used in the past to consider non-audit services provided by KPMG (as External Auditor to the Bank and the wider Co-operative Group.)

Internal Control
- the control environment following the departure of both staff members, one through resignation and the other, later, through redundancy;
- the action plan to improve anti-money laundering controls;
- the compliance framework following the appointment of the new Risk and Compliance Manager; and
- operational risk exposure to The Co-operative Bank, in the context of the rating agency downgrade and subsequent recapitalisation of The Co-operative Bank, and its position as a service provider to the Bank.

The Committee met with the internal and external auditors twice without the presence of management. The Committee also met with the external auditors once without management or the internal auditor once.

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

The following assignments are prohibited from being performed by the external auditor:
- book keeping or other services related to the accounting records or financial statements;
- financial information systems design and implementation;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources; and
- any other services that the Audit Committee may determine.

Information concerning the non-audit fees incurred in 2013 can be found on page 51.

The performance of the external auditor is normally monitored through questionnaires completed by Audit Committee members as part of the wider exercise performance assessment exercise co-ordinated by The Co-operative Group.

Contrary to Code provision C.3.8, this exercise was not completed during 2013 due to significant changes to the composition of the staff and committee members who were taking part in the survey shortly after the 2012 year end process.

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

On behalf of the Audit Committee

Roderick Chamberlain, Chairman

Nomination & Remuneration Committee

As the Nomination and Remuneration Committee has considered remuneration policy during the year, we have been proud to be living our values by setting policies which apply throughout the Bank. Our profit sharing scheme applies to all staff who reach satisfactory level of performance, and we were pleased to see 100% participation in the ESOP by staff with the requisite period of service to the Bank.

The Committee has also recognised and responded to the risks posed by the announcement that The Co-operative Bank intends to sell its shares, given the skills brought to the Bank by The Co-operative Bank appointed Directors. This work will continue in 2014 to ensure the Bank's leadership needs are fulfilled effectively.

Role of the Committee
The Committee's responsibilities fall into two broad areas:
(a) reviewing the overall size and structure of the Board and making particular nominations to fill of Executive and Independent Director positions; and
(b) setting the over-arching principles of Bank-wide remuneration and determining the remuneration packages of the Executives, Chairman

and Independent Director.

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

Composition

The Committee is chaired by the Chairman of the Board, Graham Bennett. During the year, Roderick Chamberlain (from 24 March 2013), Dave Prentis, Rhidian Jones (to 23 March 2013) and Stephen Watts also served on the Committee. The Managing Director and the Bank's remuneration advisers are invited to attend meetings of the Committee. No Director is present during discussions regarding their own remuneration. Director attendance at committee meetings can be found on page 16.

Committee activities during 2013

During the year, the Committee focused on:

Nominations

- reviewing the Committee compositions given the number of changes to the Board which took place during 2012 and 2013.

Remuneration

- annual executive salary review and review of Chairman and Independent Director's fees;
- the use of benchmarking in setting Non-Executive remuneration; and
- the new Directors Remuneration Reporting Regulations.

It has been agreed to provide information on a voluntary basis in the spirit of the Regulations, which are not applicable to the Bank.

Diversity in the Boardroom

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

The Bank Board will aim to comprise of a minimum of 33% females by 2016 and 40% females by 2018.

This aim was agreed in September 2013 and since then, Sharon Powell resigned from the Board, reducing the position from 19% to 13%. Since then the Board has discussed ways in which it could improve Board Diversity as part of the governance review.

The Bank has adopted a Board Diversity Policy which recognises that, unlike many other companies, the Board composition is largely outside its control. The Board Diversity includes practical steps which are within the Board's control to implement, including:

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

Appointment process

As described above, the current process for the appointment of Directors is set out in the Articles of Association and takes place through shareholder elections whereby each shareholder class identifies and proposes candidates for election. This is contrary to Principle B.2 and Provision B.2.2 of the Code which states that there should be a rigorous procedure for the appointment of new directors and the creation of succession plans for the Board. Due to the process set out in the Articles, the Board and the Nomination & Remuneration Committee can influence but not dictate the process for the appointments of 'A' and 'B' Non-Executive Directors.

However, the Bank provides its views on Board skill gaps to the 'B' shareholder, which the 'B' shareholder takes into consideration in filling vacancies for 'B' Directors. The Board does not provide a statement to shareholders stating why they believe an individual should be elected as required by Provision B.7.2, however, candidates for election as 'A' Directors have the opportunity to circulate a candidate's statement to the 'A' shareholders as part of the election process.

Election of Directors

As Directors are initially elected by the shareholders, and never appointed by the Board, Directors are not subject to re-election at their first Annual General Meeting (AGM) which would normally apply under Code Provision B.7.1. Directors are subject to re-election every three years under the Articles of Association. Contrary to Principle B.7, this excludes the Executive Directors. The governance review provides an opportunity to address this. As a result of these provisions, Directors having terms of office of over six years are not subject to re-election annually or rigorous review as required by Provision B.2.3. Non-Executive Directors receiving remuneration from the Bank only (not all Directors as per Provision B.7.1) are required to retire for re-election annually after nine years service. This recognises that the Non-Executive Directors are selected and appointed directly by the shareholders and values the experience long serving members bring to the Board. As a result of the election provisions in the Articles, neither advertising nor an external search consultant was required in order to appoint Clare Gosling or Paul Allton.

Contrary to Code Provision A.3.1, the Chairman cannot be described as independent on appointment as he is appointed solely by the controlling shareholder. As discussed, this is due to the nature of the Bank's constitution. The new board structure proposals seek to address this.

Contrary to Code Provision D.2.2, the Bank's Nomination and Remuneration Committee does not review the remuneration packages of senior management below Board level, given the size of the Bank and the overall remuneration policy.

Use of consultants

The Committee receives remuneration advice from The Co-operative Bank, its parent organisation.

During 2012, an external search consultant, Warren Partners, was used to fill the positions of Executive Director, Marketing & Business Development and Independent Director, both of whom were formally appointed in early 2013. In addition to the direct search conducted by Warren & Partners, on each occasion the vacancy was advertised on an executive appointments website and the Executive vacancy was publicised internally within The Co-operative Group. Role profiles and assignment briefs were produced in respect of each vacancy and candidates were initially screened against this brief by Warren Partners. The short list candidates were interviewed by the appropriate panel, the interview panel made recommendations to the Nomination & Remuneration Committee and, in turn, to the Board.

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

Committee performance and effectiveness

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

The Directors Remuneration Report detailing the Bank's pay policies and payments to Directors during 2013 can be found on page 24.

On behalf of the Nomination and Remuneration Committee

Graham Bennett, Chairman

Advances Committee

During 2013, the Advances Committee has monitored the management of the legacy commercial portfolio, for which bad debt provisions have been required in recent years. The Committee has also overseen the transition to the new Treasury Strategy, ensuring that counterparty limits are appropriate. As described above, the Committee was disbanded at the end of 2013 as its risk oversight responsibilities will be absorbed into the new Board Risk Committee. Its sanctioning remit has been taken on by the Board Sanction Panel. As Chair, I would like to thank those Directors who served on the Advances Committee over the years.

Role of the Committee
The role of the Advances Committee was to consider lending requests where aggregate exposure to any customer exceeds Credit Committee's delegated discretion, to review the composition of the Bank's Loans and Advances portfolio, to consider requests for Treasury facilities for financial institutions and to consider making provisions against actual or potential bad debts within the Bank's loan portfolio.

Composition
Graham Bennett was Chair of the Committee, which also comprised Paul Allton (12 June 2013), Richard France, Billy Hayes, Dave Prentis and Allan Wylie. Directors' attendance can be found on page 16.

Committee activities during 2013
During the year, the Committee focused on:

- the sector caps in the context of potential loans which the Bank was considering acquiring at that time;
- the Problem Debt portfolio, including the circumstances of specific accounts, particularly those where specific provisions were held;
- treasury counterparty limits in the context of the planned transition to the new Treasury strategy;
- overnight lending limit applicable to The Co-operative Bank in the context of its ratings downgrade; and
- credit risk stress testing.

On behalf of the Advances Committee

Graham Bennett, Chairman

Board Sanction Panel

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

The members of the Panel are Allan Wylie (Chair), Billy Hayes, Dave Prentis and Stephen Watts. The Panel met once during the year to consider a treasury counterparty matter and all of the Panel members were present.

Standing Committee
The Standing Committee has the same remit as the Board, however, it meets only to consider matters of urgency in between Board meetings. The members of the Committee are the Chairman of the Board, who also chairs this Committee, the Managing Director, the President and the Independent Non-Executive Director. The Committee met once during 2013 to consider the Audit Committee composition in the light of changes to the Board composition.

Insurance and Indemnities
The Bank maintains appropriate directors' and officers' liability insurance cover, through the ultimate parent organisation, in respect of legal action against its directors and officers. This constitutes a 'qualifying third party indemnity provision' for the purposes of Companies Act 2006 and applied to each of the Bank's Directors serving during the financial year. The insurance cover was reviewed and renewed in 2013.

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

Managing and controlling the Business
As referred to above, the Managing Director is empowered by the Board to run the business on a day to day basis, which takes effect through further delegation of authority to the staff. Information concerning staff policies and diversity is set out below.

The business of the Bank is operated within a risk management framework to ensure that there are appropriate checks and balances in place.

Employees
Unity Trust Bank 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 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 Trust Bank is committed to being an equal opportunities employer.

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

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

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.

Risk management

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

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

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

Risk assessments are updated on a regular basis and are reported to the Bank's Executive Risk Review Committee, the Audit Committee and the Board.

The Board accepts that there are risks which could impact on the achievement of the Bank's business objectives, but endeavours through positive risk management strategies as outlined in the risk management framework, to manage these in a manner that optimises returns within the confines of the business's risk appetite, whilst protecting members' interests and reserves. Details of the Bank's Risk Management framework are provided on pages 36 to 50.

Three lines of defence model

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

First line of defence

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

Second line of defence

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

Third line of defence

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

Internal Control

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

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

- an organisational structure with clear lines of responsibility, delegation of authority and reporting requirements;
- clearly defined policies for capital and revenue expenditure. Larger capital and revenue expenditure requires Board authorisation with strategic business initiatives individually approved by the Board;
- comprehensive systems of financial reporting. The three-year strategic plan which is updated annually, annual business plans and annual budgets are reviewed and approved by the Board. The Board reviews the progress of these plans and budgets regularly, including the Key Performance Indicators. Actual results compared to budget and prior year periods are reviewed by the Board at every meeting. A consistent and detailed financial reporting system underpins effective management by Executive and senior management;
- a whistleblowing policy, which provides the opportunity for any employee to report, in confidence, suspected serious malpractice; and
- an outsourced internal audit function that reviews the system of internal control.

Business Continuity

The Bank undertakes a regular review of the risks it faces and has a comprehensive Business Continuity Plan (the "Plan") designed to ensure effective continuity of business operations whilst being sufficiently flexible so that it can be tailored to meet a number of potential scenarios.

The Plan assumes that most disruptions will have a finite time span and that the existing infrastructure will eventually be restored. It is therefore focused primarily on establishing operational capability at a separate dedicated recovery site within 24 hours, using real time back-up systems, and then the ongoing operation of all core internal functions and provision of banking services to our customers pending relocation back to the Bank's Head Office at Brindleyplace, Birmingham. However it also allows for extended periods of working for up to eight weeks at the recovery site, in the event of permanent disruption, to allow time for the identification of alternative premises. This can be further extended if necessary subject to agreement.

The Bank has a Business Continuity Management Team which is responsible for re-establishing operational capability and which has the necessary delegated authority to act in the event it is necessary to invoke the Plan. The objective of this team is to manage all resources and oversee the effective operation of the Bank and all external communication until responsibility can pass back to the Executive and normal management structures. It is intended that this should happen within two days of the Plan being invoked. The Plan is regularly reviewed and updated, to reflect any changes in the risks faced or the core operating procedures and IT systems. The Plan is also tested on a regular basis using realistic test scenarios, including a full scale relocation of the Business Continuity Management Team and designated staff to the recovery site at least once a year, supplemented by specific IT tests and internal reviews. All tests are documented and lessons learned are used to update and refine the Plan as necessary.

Executive Risk Review Committee

The Committee comprises five members and is chaired by Richard Wilcox, the Managing Director of the Bank. Other members of the Committee are the Executive, as listed on page 2.The Committee met four times in 2013.

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

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

Control procedures

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

Internal Audit – the third line

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

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

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

Monitoring

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

The Audit Committee, on behalf of the Board, monitors the effectiveness of internal control. Full details of the operation of the Committee can be found on page 16. During the year, the Directors have conducted a review of the effectiveness if the Bank's risk management and internal control systems.

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

- monitoring the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and judgements contained therein;
- reviewing the external and internal auditors report on the systems of internal control and any material control weaknesses;
- discussing with management the actions taken on problem areas identified by the Board or in the internal and external audit reports;
- reviewing the effectiveness of the risk management process; and
- the Chair of the Audit Committee reports the outcome of its meetings to the Board and the Board receives the minutes of all Audit Committee meetings. Significant risk issues are referred to the Board for consideration.

External Audit

Each year, the external auditors provide a report to the shareholders of the Bank as can be found at page 62 of this report. As discussed in the Audit Committee report, the External Auditors are invited to all meetings of the Audit Committee and are able to report any control observations to the Committee through their regular reports.

During 2013, the external audit relationship, including appointment/ assessment was handled by the ultimate holding organisation, Co-operative Group Limited ("The Co-operative Group"), through The Co-operative Group Audit & Risk Committee. In 2011, the Board of The Co-operative Group approved the re-appointment of KPMG Audit Plc as the external auditors following a competitive tender exercise.

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

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

Future Developments

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

Report of the Directors for the year ended 31 December 2013 continued

Post Balance Sheet Events

The Directors consider that the only significant event since the balance sheet date that had an effect on the Bank's position, was 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.

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

Registered Office:
Nine Brindleyplace
Birmingham
B1 2HB

21 March 2014

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.

1 Remuneration Policy

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

- the importance of attracting, retaining and motivating senior executives of the appropriate calibre to further the success of the Bank;
- the linking of reward to business and individual performance and the strengthening of the Bank's values which include a strong belief in stewardship of all the Bank's resources and, therefore, does not encourage or reward excessive risk taking;
- ensuring 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.

1.1 Policy table

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

	Element	Link to strategy	High level details and operation
Fixed pay	Basic salary	To attract and retain talented executives.	Basic salaries are reviewed annually by the Committee. The annual salary review date is 1 April. 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: i. Pension Scheme

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

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

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

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

1.2 Policy on recruitment of executives and exit payment policy

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

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

1.3 Executive Directors' service contracts

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

1.4 Appointments outside the Bank

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

1.5 Consideration of pay and conditions elsewhere in the Bank

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

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.

1.6 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.

PART 2 Annual report on directors' remuneration

2.1 Executive Directors' emoluments

	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
		(£)	(£)	(£)	(£)	(£)	(£)
R Wilcox	01 January 2012	142,940	114	11,500	-	154,554	149,410
M Osborne	18 September 1992	107,540	114	9,800	-	117,454	120,277
I Morrison	11 January 2006	94,358	-	9,800	-	104,158	104,135
P 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 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.

2.2 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.

Directors’ Remuneration Report continued

2.3 Pension details of the Executive Directors

At 31 December 2013, R Wilcox, M Osborne and I Morrison had benefits accruing under the defined benefit section of the Pace Scheme. At this date, P 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%.

2.4 Payment to past directors

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

2.5 Code staff remuneration

Code staff is defined by the PRA as staff having a material impact on a firm’s risk profile, including a person who performs a significant influence function for a firm, a senior manager and risk takers.

Each Executive Director is considered to meet this definition.

On behalf of the Board

G Bennett

Chairman of Nomination and Remuneration Committee

Income Statement for the year ended 31 December 2013

All amounts are stated in £000s unless otherwise indicated

	Notes	2013	2012
Interest receivable and similar income	3	**9,529**	10,602
Interest expense and similar charges	3	**(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	11	**(354)**	(802)
Operating income		**9,223**	9,348
Operating expenses	4	**(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	9	**433**	(2,100)
Profit before taxation		**2,319**	398
Income tax	6	**(228)**	(75)
Profit for the year attributable to shareholders		**2,091**	323
Earnings per share (basic and fully diluted)	24	12.7p	2.0p

The accounting policies and notes on pages 31 to 61 form part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2013

All amounts are stated in £000s unless otherwise indicated

	2013	2012
Profit for the year - equity shareholder	**2,091**	323
Other comprehensive expense:		
Items that are or may be reclassified subsequently to profit or loss:		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	**(583)**	(257)
Income tax	**135**	63
Net losses transferred from equity to gains less losses from derivative financial instruments	**(35)**	(58)
Income tax	**9**	14
Changes in available-for-sale assets		
Net losses transferred from equity to profit or loss	**(33)**	(20)
Income tax	**8**	5
Other comprehensive expense for the financial year, net of income tax	**(499)**	(253)
Total comprehensive income for the financial year	**1,592**	70
Attributable to:		
Equity shareholders	**1,592**	70

The accounting policies and notes on pages 31 to 61 form part of these financial statements.

Balance Sheet as at 31 December 2013

All amounts are stated in £000s unless otherwise indicated

	Notes	**2013**	2012
Assets			
Cash and balances at central banks	7	**146**	505
Loan and advances to banks	8	**274,703**	260,057
Loans and advances to customers	9	**184,743**	174,166
Investment securities - available for sale	10	**255,252**	225,480
Derivative financial instruments	11	**533**	1,695
Intangible fixed assets	12	**455**	519
Property, plant and equipment	13	**217**	149
Deferred tax assets	18	**91**	85
Other assets	14	**49**	49
Prepayments and accrued income	15	**352**	405
Current tax assets		**946**	935
Total assets		**717,487**	664,045
Liabilities			
Customer accounts		**668,622**	616,368
Derivative financial instruments	11	**18**	52
Other liabilities	16	**1,575**	1,577
Accruals and deferred income		**528**	484
Provisions for liabilities and charges	17	**283**	514
Total liabilities		**671,026**	618,995
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	20	**16,429**	16,429
Share premium account	20	**250**	250
Retained earnings		**29,790**	27,880
Other reserves - available for sale		**(14)**	11
Other reserves - 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)

The accounting policies and notes on pages 31 to 61 form part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2013

All amounts are stated in £000s unless otherwise indicated

Attributable to equity holders of the Bank

Bank	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total equity**
At 1 January 2013	**16,429**	**250**	**11**	**480**	**27,880**	**45,050**
Total comprehensive income for the financial year	**-**	**-**	**(25)**	**(474)**	**2,091**	**1,592**
Dividend	**-**	**-**	**-**	**-**	**(181)**	**(181)**
At 31 December 2013	**16,429**	**250**	**(14)**	**6**	**29,790**	**46,461**

Attributable to equity holders of the Bank

Bank	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total equity**
At 1 January 2012	16,429	250	26	718	27,951	45,374
Total comprehensive income for the financial year	-	-	(15)	(238)	323	70
At 31 December 2012	16,429	250	11	480	27,880	45,050

The accounting policies and notes on pages 31 to 61 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2013

All amounts are stated in £000s unless otherwise indicated

	2013	2012
Cash flows from operating activities		
Profit before taxation	**2,319**	398
Adjustments for:		
Decrease / (Increase) in prepayments and accrued income	**53**	(126)
Increase / (Decrease) in accruals and deferred income	**44**	(270)
Impairment (gains) / losses on loans and advances	**(433)**	2,100
Fair value changes of derivatives	**511**	832
Depreciation and amortisation	**254**	270
Provision for liabilities and charges	**(231)**	(139)
	2,517	3,065
Increase in customer accounts	**52,254**	57,966
(Increase) / Decrease in loans and advances to customers	**(10,144)**	7,660
Net movement of other assets and other liabilities	**(2)**	93
Income tax paid	**(94)**	(650)
Net cash flow from operating activities	**44,531**	68,134
Cash flows from investing activities		
Purchase of property, plant and equipment	**(193)**	(40)
Intangible asset additions	**(65)**	(51)
Purchase of securities	**(845,016)**	(1,345,000)
Proceeds from sale and maturity of investment securities	**815,211**	1,435,155
Net cash flow from investing activities	**(30,063)**	90,064
Cash flows from financing activities		
Ordinary share dividends paid	**(181)**	(394)
Net cash flow from financing activities	**(181)**	(394)
Increase in cash and cash equivalents	**14,287**	157,804
Cash and cash equivalents at the beginning of the financial year	**260,562**	102,758
Cash and cash equivalents at end of the financial year	**274,849**	260,562
Cash and balances at central banks (note 7)	**146**	505
Loans and advances to banks (note 8)	**274,703**	260,057
	274,849	260,562

The accounting policies and notes on pages 31 to 61 form part of these financial statements.

Basis of Preparation and Accounting Policies for the year ended 31 December 2013

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

Basis of preparation

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

The financial information has been prepared under the historic cost convention as modified by the revaluation of available for sale financial assets, derivative contracts, and certain other financial assets and financial liabilities held at fair value. The bank applies the recognition measurement and disclosure requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2013.

Standards and interpretations issued and effective

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

- *Amendments to IFRS 7 (Disclosures Offsetting Financial Assets and Liabilities (2011))*

This amendment requires disclosures to include information that will enable users of an entity’s financial statements to evaluate the effect of netting arrangements, on the entity’s financial position.

The amendment to IFRS 7 has no material impact on the financial statements of the Bank.

- *Amended IAS 1 (Presentation of items of Other comprehensive income (2011))*

This amendment’s objective is to split the presentation of other comprehensive income into two sections. The different sections will distinguish between items which may or may not be recycled in to any future income or expense.

The amendment to IAS 1 has no material impact on the financial information of the Bank.

Standards and interpretations issued but not yet effective

- *IFRS 9 (Financial Instruments: Classification and Measurement 2010))*

This new standard replaces IAS 39 (Financial Instruments: Recognition and Measurement (2009)). Phase one requires financial assets to be classified as at amortised cost or at fair value. Further phases of IFRS 9 are scheduled to cover impairment and hedge accounting.

- *Amendments to IFRS 9 – Financial Instruments: Hedge Accounting and Amendments to IFRS 7 and IAS 39 (2013)*

The hedge accounting requirements in IFRS 9 align more closely with risk management, resulting in more useful information to users of financial statements. The requirements also establish a more principle -based approach to hedge accounting and address inconsistencies and weakness in the hedge accounting model in IAS 39.

The main changes relate to the hedge effectiveness, the eligibility of items as hedged items and hedging instruments.

The mandatory date of application has been temporarily removed from IFRS 9. The IASB will publish the new mandatory effective date once all phases of IFRS 9 are completed. The IASB is expected to finalise all phases of IFRS 9 during 2014 with a mandatory effective date no earlier than 1 January 2017.

The amendments will be applied once endorsed by the EU. The impact of the standard is not likely to be material to the Bank.

- *Amendments to IAS 32 Offsetting financial assets and financial liabilities*

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. This amendment clarifies the position when offsetting financial assets and financial liabilities. The legal right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amended disclosures will require more extensive disclosures than are currently required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

It becomes effective for accounting periods beginning on or after 1 January 2014. It has been adopted for use within the EU for accounting periods beginning on or after 1 January 2014. The impact of the amendment to IAS 32 is likely to be immaterial to the Bank.

- *Amendment to IAS 36 (Recoverable amount disclosures for non-financial assets (2013))*

This amendment changes the disclosure requirements required by IAS 36 when the recoverable amount is determined based on fair value less costs of disposal. The amendment removes the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets where there has been no impairment. In addition the amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less cost of disposal. The new amendment requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.

The amendments are effective from 1 January 2014 and will be adopted once endorsed by the EU. The impact of the standard is likely to be immaterial to the Bank.

- *Amendment to IAS 39 (Novation of derivatives and continuation of hedge accounting (2013))*

This amendment allows hedge accounting to continue, where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

The amendments are effective from 1 January 2014 and will be adopted once endorsed by the EU. The impact of the standard is likely to be immaterial to the Bank.

- *IFRIC 21 (Levies (2013))*

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

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

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

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

Going Concern

The Bank's business activities together with its financial position and the factors likely to affect its future development and performance are set out in the Strategic Report on pages 6 to 12. In addition, the risk management section on pages 36 to 50 includes the Bank's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. The capital management note on page 61 provides information on the Bank's capital policies and capital resources.

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

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

Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described within the risk management section on pages 36 to 50 and the critical judgements section on page 35.

Significant accounting policies

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

(a) Revenue recognition

Interest income

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

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at the inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Bank estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider future credit losses.

Fees and commissions

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

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

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

(b) Financial instruments (excluding derivatives)

Recognition

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

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

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

i. Loans and receivables; or
ii. Available for sale.

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

i) Loans and receivables

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

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

ii) Available for sale

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

Impairment provisions

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security. In terms of forbearances, the Bank recognises all such cases within its provisioning methodology. For further information on forbearance within impairments, as set out in 'Risk management' page 40.

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

The amount of the loss is the difference between the:

- asset's carrying amount; and

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

Impairment of financial assets carried at amortised cost

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

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

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

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

Impairment of financial assets classified as available for sale

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

(c) Derivative financial instruments and hedge accounting

Derivatives used for asset and liability management purposes

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

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

Cash flow hedges

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

Cumulative amounts recognised through equity are recycled to the income statement in the period in which the underlying hedged item matures (or in rare cases disposed of), and its associated gain or loss affects the income statement. When a hedging relationship is broken or the hedge becomes ineffective, the cumulative unrealized gain or loss remaining in equity continues to be held in equity, and is transferred to the income statement only when the forecast transaction is recognised. Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

No derivatives are held for trading purposes.

(d) Property, plant and equipment

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

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

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

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

(e) Intangible fixed assets

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

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

Banking system	10% per annum

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

(f) Cash and cash equivalents

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

(g) Income tax

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

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

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

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

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

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

(h) Pension costs

Defined contribution basis

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

(i) Offsetting

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

(j) Operating leases

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

(k) Comparatives

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

(l) Dividend distribution

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

(m) Provisions

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

(n) Sale and repurchase agreements

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

Critical Judgements

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

Investment valuation and impairment

Background

The Bank's investment portfolio primarily comprises bank and building societies certificates of deposit (CDs).

Valuation approach

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

The Bank's CDs are valued daily based upon an observable market price feed data.

No significant assumptions are required.

Impairment on loans and advances

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

The calculation of impairment loss is based on the likelihood of a loan or advance being written off and the estimated loss on such a write-off. This amount can be expressed as the cash flows that may result from foreclosure less the costs for obtaining and selling the collateral.

Collective provisions

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

Individual provisions

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

For further information on credit risk and impairment see 'Risk management' pages 36 to 50.

Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Bank pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period. Interest on the loan from HM Treasury will be charged at LIBOR + 100bps subject to a floor, which is the relevant Gilt reference rate.

The FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme years 2013/14 and 2014/15.This amount was calculated on the basis of the Bank's current share of protected deposits taking into account the regulator's estimate of total management expense levies for each scheme year.

In addition to the management levies, from scheme year 2014/15, triggered by participation in the market at 31 December 2013, the FSCS is to levy over three years the current estimated shortfall on capital loans outstanding. In common with the management expenses levy, the capital loan repayment was calculated on the basis of the Bank's current share of UK protected deposits.

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

During the first half of the year, the Board undertook a risk framework review which considered improvements in the Bank's "three lines of defence" model and towards the latter part of 2013, an Internal Capital Adequacy Assessment Process ("ICAAP") was undertaken and submitted to the Prudential Regulation Authority on 3 February 2014. As a consequence of these actions, the Board have incorporated revisions to its governance and risk management structure which enhance the oversight and challenge over the risk management process, identifying the key risks facing the business and assessing the effectiveness of planned management actions.

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

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

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

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

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

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

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

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

The **Credit Risk Management Committee** is currently chaired by the Managing Director. The Board have approved the appointment of an Executive Chief Risk Officer who will chair the Committee as and when appointed. The Committee has delegated authority to ensure that credit risks are identified, monitored and acted upon in a timely manner and that resources are allocated accordingly; managing credit strategy within delegated limits set by the Board approved Credit Risk Policies.

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

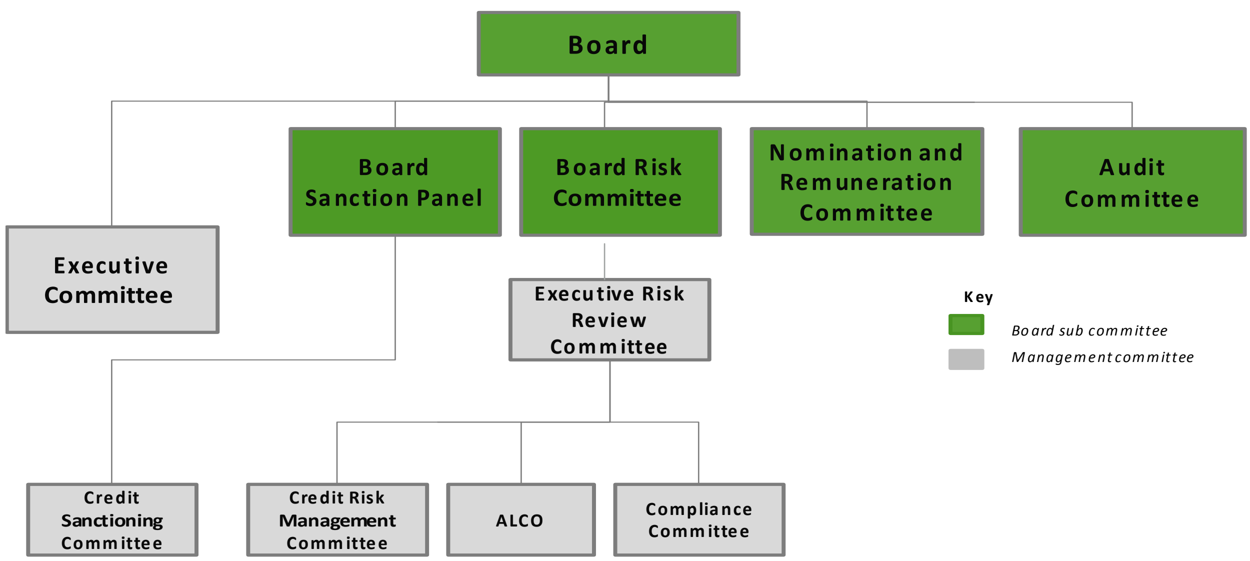
The **Credit Sanctioning Committee** is chaired by the Managing Director and has authority delegated by Board to sanction credit facilities up to specific limits.

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

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Governance of Risk and Capital Management

Overview of governance structure



All amounts are stated in £000s unless otherwise indicated

Credit Risk

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

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

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

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

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

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

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

Credit Exposure

	2013			2012		
	Gross balance	**Credit commitments**	**Credit risk exposure**	Gross balance	Credit commitments	Credit risk exposure
Cash and balances at central banks	**146**	**-**	**146**	505	-	505
Loans and advances to banks	**274,703**	**-**	**274,703**	260,057	-	260,057
Loans and advances to customers	**191,265**	**41,888**	**233,153**	181,791	31,037	212,828
Investment securities - available for sale	**255,252**	**-**	**255,252**	225,480	-	225,480
Derivative financial instruments - Designated at fair value	**-**	**-**	**-**	-	-	-
- Cash flow Hedged	**533**	**-**	**533**	1,695	-	1,695
	721,899	**41,888**	**763,787**	669,528	31,037	700,565
Allowance for impairment losses on loans and advances - note 9			**(6,522)**			(7,625)
Carrying amount			**757,265**			692,940

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

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Credit risk analysis

31 December 2013

	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	11,631	-	-	11,631
Allowance for impairment	-	(5,740)	-	-	(5,740)
Carrying amount	-	5,891	-	-	5,891
Collectively impaired					
Less than 90 days past due	-	9,499	-	-	9,499
Allowance for impairment	-	(782)	-	-	(782)
Carrying amount	-	8,717	-	-	8,717
Past due but not impaired					
0-30	-	2,285	-	-	2,285
Carrying amount	-	2,285	-	-	2,285
Neither past due or impaired					
Grade A-D (performing)	274,703	152,184	255,252	533	682,672
Grade E (Watchlist - performing)	-	15,666	-	-	15,666
Grade F-H (Default non-performing)	-	-	-	-	-
Carrying amount	274,703	167,850	255,252	533	698,338
Total carrying amount	274,703	184,743	255,252	533	715,231

31 December 2012

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	14,283	-	-	14,283
Allowance for impairment	-	(6,751)	-	-	(6,751)
Carrying amount	-	7,532	-	-	7,532
Collectively impaired					
Less than 90 days past due	-	10,788	-	-	10,788
Allowance for impairment	-	(874)	-	-	(874)
Carrying amount	-	9,914	-	-	9,914
Past due but not impaired					
0-30	-	-	-	-	-
Carrying amount	-	-	-	-	-
Neither past due or impaired					
Grade A-D (performing)	260,057	143,692	225,480	1,695	630,924
Grade E (Watchlist - performing)	-	12,908	-	-	12,908
Grade F-H (Default non-performing)	-	120	-	-	120
Carrying amount	260,057	156,720	225,480	1,695	643,952
Total carrying amount	260,057	174,166	225,480	1,695	661,398

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Analysis of impaired assets and associated collateral

Impaired Assets

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

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

Loans and advances to customers

Impairment definition

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

For all portfolios the actual provision will depend on the expected roll rate to charge off or anticipated cash flow, and the estimated value of any supporting collateral.

Once a loan is defined as impaired the provision will be calculated as the difference between the current carrying value of the asset (including fair value adjustments) and the expected future recovery, discounted at the loan's effective interest rate, taking into account the expected charge off rate and any supporting collateral.

Past due but not impaired

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

The factors considered in determining if financial assets are individually impaired are stated above and within critical judgements on page 35.

Description of collateral

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

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

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

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

As at 31 December 2013 £21.0 million (2012: £18.8 million) within loans and advances was unsecured.

At the reporting date the fair value of collateral held as security against individually impaired assets was £7.0 million (2012: £9.1 million).

At the reporting date the fair value of collateral held as security against financial assets that are past due but not impaired was £2.3 million (2012: £nil).

The table below shows:
- impaired customer balances as a percentage of gross customer balances; and
- impairment coverage as a percentage of impaired customer balances.

	2013	2012
Loans and advances to customers	**191,265**	181,791
Fair value - Amount set off	**88,161**	75,854
Other Accounting Adjustments	**156**	(19)
Gross customer balances	**279,582**	257,626
Impaired customer balances	**11,631**	14,283
Impaired as a percentage of gross customer balances	**4.2%**	5.5%
Impairment	**6,522**	7,625
Impairment as a percentage of impaired customer balances	**56.1%**	53.4%

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

The table below analyses the fair value of the property colleteral held against assets in the Public Houses & Hotels sector:

Public Houses & Hotels

	2013		2012	
	Exposure	**Collateral**	Exposure	Collateral
Individually impaired	**8,366**	**4,329**	10,416	6,129
Collectively impaired	**7,934**	**7,517**	9,448	8,489
On w atchlist	**-**	**-**	-	-
Neither Individually impaired nor on w atchlist	**7,913**	**7,913**	8,329	8,329
	24,213	**19,759**	28,193	22,947

Forbearance

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

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

- restructuring, waiving or reserving rights in the event of covenant breaches;
- postponement of principal payments;
- restructures of principal payments;
- extension of loan maturities; or
- partial or full capitalisation of interest payments.

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the Bank retains the forbearance status for as long as the concession remains in place and does not remove them from the watchlist until at least six months later. In the event of one off concessions (such as capitalisation of interest payments), the Bank removes the forbearance status 12 months after their occurrence, and retains the customers on the watchlist for at least the same period of time.

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

- balance sheet improvements (e.g. cash injection, agreement with creditors or funders on revised terms);
- return to an acceptable level of profitability and cash flow;
- improved account conduct;
- the loan to security value is restored, or additional security taken; or
- covenant breach cured or revised covenants agreed.

Removal from the watchlist usually requires the customer's management information to show that trading is achieving the revised plan with a reasonable expectation for this to continue. The internal guideline is for at least six months such satisfactory trading to have been evidenced.

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

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

Additional objective evidence of impairment include:

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

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

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

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

IAS provisioning adjustments are also recorded, as appropriate, against facilities whose interest terms have changed such that revised future cashflows on the facility discounted at the original interest rate.

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Eurozone risk

The Bank remains a low risk UK based operation. It has no sovereign exposure to Eurozone countries, including 'peripheral' countries (Portugal, Ireland, Italy, Greece and Spain).

Peripheral Eurozone counterparty and country limits have continued to be managed downwards. Additional management actions have been taken where necessary in light of any downgradings. The Bank has no exposure to Greek, Portuguese, Irish, Italian or Spanish financial institutions or any other counterparties.

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

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

The Bank has exposures to financial institutions in the following countries at 31 December 2012:

	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure 31 December 2012
Finland	-	20,050	-	**-**	20,050
France	20,020	-	-	**-**	20,020
Germany	-	10,005	-	**-**	10,005
Netherlands	-	20,022	-	**-**	20,022
Norway	10,007	10,005	-	**-**	20,012
Sweden	10,031	30,035	-	**-**	40,066
	40,058	90,117	-	-	130,175

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Market risk

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

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

The table below illustrates the sensitivity analysis relating to Bank's non–trading book, a primary measure in the approach to managing interest rate risk.

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

Change in net interest income based on 200bp shift in interest rates

	2013 **200bp parallel shift**	2012 200bp parallel shift
At year end	**834**	1,102
Average for the period	**1,022**	1,031
Maximum for the period	**1,396**	1,512
Minimum for the period	**738**	538

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

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Interest Rate Risk

Interest rate sensitivity gap

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

31 December 2013

	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central banks	146	-	-	-	-	-	146
Loans and advances to banks	274,703	-	-	-	-	-	274,703
Loans and advances to customers	158,599	-	-	16,144	16,522	(6,522)	184,743
Investment securities - available for sale	175,158	40,046	20,023	20,025	-	-	255,252
Other assets	-	-	-	-	-	2,643	2,643
Total assets	608,606	40,046	20,023	36,169	16,522	(3,879)	717,487
Liabilities							
Customer accounts	622,408	-	-	-	-	46,214	668,622
Other liabilities	-	-	-	-	-	2,404	2,404
Total equity	-	-	-	-	-	46,461	46,461
Total liabilities	622,408	-	-	-	-	95,079	717,487
Derivatives	(20,000)	5,000	-	15,000	-	-	
Interest rate sensitivity gap	(33,802)	45,046	20,023	51,169	16,522	(98,958)	
Cumulative gap	(33,802)	11,244	31,267	82,436	98,958	-	

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Interest Rate Risk continued.

31 December 2012

	Within 3 months	Over 3 months but within 1 year	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central banks	505	-	-	-	-	-	505
Loans and advances to Banks	260,057	-	-	-	-	-	260,057
Loans and advances to customers	164,874	-	-	-	16,917	(7,625)	174,166
Investment securities - available for sale	185,439	20,019	20,022	-	-	-	225,480
Other assets	-	-	-	-	-	3,837	3,837
Total assets	610,875	20,019	20,022	-	16,917	(3,788)	664,045
Liabilities							
Customer accounts	555,404	-	-	-	-	60,964	616,368
Other liabilities	-	-	-	-	-	2,627	2,627
Total equity	-	-	-	-	-	45,050	45,050
Total liabilities	555,404	-	-	-	-	108,641	664,045
Derivatives	(65,000)	20,000	25,000	20,000	-	-	
Interest rate sensitivity gap	(9,529)	40,019	45,022	20,000	16,917	(112,429)	
Cumulative gap	(9,529)	30,490	75,512	95,512	112,429	-	

The year-end position shown is regarded as materially representative of the Bank's position throughout the year and reflects the Bank's policies on risk management, subject to the following comments:

- the gap analysis disclosed reflects contractual repricing in accordance with accounting standards.
- Interest free current account balances are included in the 'non-interest bearing' maturity band.
- the Bank's net asset and liability policies reflect the historic stability of customer accounts.

Cash flow hedging is used by the Bank to manage interest rate risk. The amount of ineffectiveness in the year amounted to (£0.4 million) (2012: (£0.8 million)) and is disclosed as 'other operating expense' in the income statement.

Liquidity risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management policy is reviewed and approved annually by the Board and compliance reviewed quarterly by ALCO. Liquidity is monitored on a daily basis and managed by the Bank's Finance department and The Co-operative Bank's Treasury within the guidelines laid down by ALCO.

Liquidity risk arising from the structure of the balance sheet (structural liquidity) is managed to policies developed by ALCO. Stress testing is undertaken quarterly across a range of five stress tests.

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

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

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

Day-to-day cash flow is managed by finance within guidelines laid down by ALCO and in accordance with the standards established for all banks by the PRA.

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

The Bank’s liquidity position is monitored on a daily basis and reported to ALCO each quarter. A pool of liquid assets of £274 million is held by the Bank, and management actions are in place to provide an additional £255 million of liquidity. These sources of liquidity, totalling £529 million, are held in order to be available to meet unexpected liquidity requirements.

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

Liquidity Gap

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

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

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

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

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Liquidity risk *continued*

31 December 2013

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non cash items	Total
Assets							
Cash and balances at central banks	**146**	**-**	**-**	**-**	**-**	**-**	**146**
Loans and advances to banks	**700**	**274,003**	**-**	**-**	**-**	**-**	**274,703**
Loans and advances to customers	**2,220**	**5,422**	**12,636**	**74,875**	**89,590**	**-**	**184,743**
Investment securities- available for sale	**-**	**175,158**	**60,069**	**20,025**	**-**	**-**	**255,252**
Other assets	**-**	**-**	**-**	**-**	**-**	**2,643**	**2,643**
	3,066	**454,583**	**72,705**	**94,900**	**89,590**	**2,643**	**717,487**
Liabilities							
Customer accounts	**590,703**	**77,919**	**-**	**-**	**-**	**-**	**668,622**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**48,865**	**48,865**
	590,703	**77,919**	**-**	**-**	**-**	**48,865**	**717,487**
Net liquidity gap on contractual basis	**(587,637)**	**376,664**	**72,705**	**94,900**	**89,590**	**(46,222)**	**-**
Behavioural adjustments:							
Customer accounts	**295,352**	**(295,352)**	**-**	**-**	**-**	**-**	**-**
Net liquidity gap on a behavioural basis	**(292,285)**	**81,312**	**72,705**	**94,900**	**89,590**	**(46,222)**	**-**

31 December 2012

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non cash items	Total
Assets							
Cash and balances at central banks	505	-	-	-	-	-	505
Loans and advances to banks	8,000	252,057	-	-	-	-	260,057
Loans and advances to customers	4,585	3,964	11,908	63,588	90,121	-	174,166
Investment securities- available for sale	-	185,439	40,041	-	-	-	225,480
Other assets	-	-	-	-	-	3,837	3,837
	13,090	441,460	51,949	63,588	90,121	3,837	664,045
Liabilities							
Customer accounts	543,621	72,747	-	-	-	-	616,368
Other liabilities	-	-	-	-	-	47,677	47,677
	543,621	72,747	-	-	-	47,677	664,045
Net liquidity gap on contractual basis	(530,531)	368,713	51,949	63,588	90,121	(43,840)	-
Behavioural adjustments:							
Customer accounts	271,811	(271,811)	-	-	-	-	-
Net liquidity gap on a behavioural basis	(258,720)	96,903	51,949	63,588	90,121	(43,840)	-

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

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

Gross expected cashflow maturity analysis - contractual

31 December 2013

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	**668,622**	**668,622**	**643,515**	**25,107**	**-**	**-**	**-**
Other liabilities	**2,386**	**2,386**	**2,386**	**-**	**-**	**-**	**-**
	671,008	**671,008**	**645,901**	**25,107**	**-**	**-**	**-**
Derivative Liabilities	**18**	**18**	**12**	**6**	**-**	**-**	**-**
Total recognised liabilities	**671,026**	**671,026**	**645,913**	**25,113**	**-**	**-**	**-**
Unrecognised loan commitments	**41,553**	**41,553**	**41,553**	**-**	**-**	**-**	**-**
Total	**712,579**	**712,579**	**687,466**	**25,113**	**-**	**-**	**-**

31 December 2012

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	616,368	616,368	586,629	29,739	-	-	-
Other liabilities	2,575	2,575	2,575	-	-	-	-
	618,943	618,943	589,204	29,739	-	-	-
Derivative Liabilities	52	52	39	13	-	-	-
Total recognised liabilities	618,995	618,995	589,243	29,752	-	-	-
Unrecognised loan commitments	30,463	30,463	30,463	-	-	-	-
Total	649,458	649,458	619,706	29,752	-	-	-

All amounts are stated in £000s unless otherwise indicated

Gross expected cashflow maturity analysis - behavioural

The following is an analysis of gross expected cash flow maturity. Liquidity cash flows are managed on a behavioural basis reflecting the actual behaviour of customers using the same assumptions defined on page 45 for liquidity gap analysis based on historic cash flow profiles over a period of ten years.

31 December 2013

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	**668,622**	**668,622**	**348,163**	**320,459**	**-**	**-**	**-**
Other liabilities	**2,386**	**2,386**	**2,386**	**-**	**-**	**-**	**-**
	671,008	**671,008**	**350,549**	**320,459**	**-**	**-**	**-**
Derivative Liabilities	**18**	**18**	**12**	**6**	**-**	**-**	**-**
Total recognised liabilities	**671,026**	**671,026**	**350,561**	**320,465**	**-**	**-**	**-**
Unrecognised loan commitments	**41,553**	**41,553**	**41,553**	**-**	**-**	**-**	**-**
Total	**712,579**	**712,579**	**392,114**	**320,465**	**-**	**-**	**-**

31 December 2012

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	616,368	616,368	314,818	301,550	-	-	-
Other liabilities	2,575	2,575	2,575	-	-	-	-
	618,943	618,943	317,393	301,550	-	-	-
Derivative Liabilities	52	52	39	13	-	-	-
Total recognised liabilities	618,995	618,995	317,432	301,563	-	-	-
Unrecognised loan commitments	30,463	30,463	30,463	-	-	-	-
Total	649,458	649,458	347,895	301,563	-	-	-

Fair values of financial assets and liabilities

The fair value represents the amount at which the instrument would be exchanged in an arm's length transaction between two willing parties. In the vast majority of cases, quoted market prices are readily available and are used, otherwise prices are obtained by using well established valuation techniques, which utilise present cash flows.

The fair value will approximate to the carrying value when instruments are carried in the balance sheet at market value or where the instruments are short term or contain frequent repricing provisions.

At 31 December 2013 and 31 December 2012 the book value of the Bank's financial instruments, including derivative financial instruments, that have an active and liquid market were equivalent to the fair value of those instruments.

Valuation of Financial Instruments

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

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

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

As at 31 December 2013 and 31 December 2012 all the Bank's financial assets and financial liabilities held at fair value are categorised as a mixture of Level 1 and Level 2.

Primary Financial Instruments used by the Bank

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

Customer loans and deposits

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

Debt securities, wholesale market loans and deposits

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

Foreign exchange

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

Derivatives

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

Operational Risk

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

Operational risk framework

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

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

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

Responsibility

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

Risk Management continued

Risk themes

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

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

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

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

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

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

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

Supplier
The Bank looks to source cost-effective and quality services. Given the reliance on the Bank's business partners who provide services and products, a major or prolonged disruption to the supply of their services and products would impact on the Bank. Risks are monitored relating to the effectiveness of contracts and relationship management to ensure that the Bank's expected performance levels are achieved.

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

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

Principal risks

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

- The Co-operative Group wide risks, to include pensions & reputational risk; and
- business risk.

Pensions risk: the risk of the firm being unable to meet Pension Fund Commitments.

Pension risks are identified at the Co-operative Group level, with the impact of any potential changes to contribution assessed under the Bank's Risk Management Framework.

Reputational risk: failure to proactively develop, protect and optimise the value of the Bank's brand through inappropriate strategic decisions, poor business performance, or operational failure.

Reputational risks are identified at the Bank entity level. As part of the assessment of this risk, the impact of other Co-operative Group entities to the Bank is considered.

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

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

Notes to the Financial Statements

All amounts are stated in £000s unless otherwise indicated

1 Profit before taxation

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

	2013	2012
Audit services		
Fees payable to company auditor for the audit of a parent	**52**	51
Non-Audit services		
Fees payable to company's auditor and its associates for other services		
-Other services pursuant to legislation	**-**	24
-All other services	**21**	-
Fees paid to the auditor	**73**	75

2 Directors' emoluments

	2013	2012
Non-executive directors - emoluments	**70**	71
Executive directors - emoluments	**496**	472
	565	543

Retirement benefits are accruing to three Directors (2012: three) under defined benefit schemes and one Director (2012: one) under a defined contribution scheme.

Further details of Directors' emoluments are included in the remuneration report on pages 23 to 25.

3 Net interest income

	2013	2012
On financial assets not at fair value through income or expense		
on loans and advances to customers	**6,121**	5,797
on loans and advances to banks	**1,334**	931
on investment securities	**1,160**	2,155
	8,615	8,883
On financial assets at fair value through income or expense		
net income on financial instruments hedging assets	**517**	840
net income on financial instruments not in a hedging relationship	**397**	879
	9,529	10,602

Interest expense and similar charges

	2013	2012
On financial liabilities not at fair value through income or expense		
on retail deposits	**1,492**	1,617
on bank and other deposits	**3**	4
	1,495	1,621

Interest income accrued on specific impaired financial assets during the year was £112,000 (2012: £nil). Interest due to unwinding of discount on impairment provisions relating to impaired financial assets amounted to £178,000 (2012: £125,000).

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

4 Operating expenses

		2013	2012
Staff costs	(Note 5)	**3,973**	3,690
Administrative expenses		**2,835**	2,541
Amortisation of intangible fixed assets	(Note 12)	**129**	118
Depreciation of property, plant and equipment	(Note 13)	**125**	152
Operating lease rentals		**393**	405
Provisions for liabilities and charges provided in the year	(Note 17)	**26**	98
Provisions for liabilities and charges released and utilised during the year	(Note 17)	**(275)**	(258)
		7,206	6,746

5 Staff costs

	2013	2012
Wages and salaries	**3,105**	2,882
Social security costs	**292**	267
Pension costs - defined benefit plans	**449**	482
- defined contribution plans	**33**	1
Profit share	**94**	58
	3,973	3,690

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

	2013	2012
Full time	**75**	75
Part time	**13**	9
	88	84

6 Income tax

		2013	2012
Current tax - current year		**234**	82
Current tax - prior year		**0**	(5)
Deferred tax	(Note 18)	**(6)**	(2)
		228	75

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

	2013	2012
Profit before taxation	**2,319**	398
Tax calculated at a tax rate of 23.25% (2012: 24.5%)	**539**	98
Expenses not deductible for tax purposes	**4**	4
Difference between depreciation and capital allowances for period and other timing differences	**(5)**	8
Adjustments to tax charge in respect of prior periods	**(6)**	(2)
Expense adjustments	**0**	(6)
Community Investment Tax Relief	**(304)**	(27)
Income tax	**228**	75

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This results in a weighted average rate of 23.25% for 2013 (2012: 24.5%).

The amount of corporation tax payable is lower than would be implied by the current headline tax rate as the Bank has benefitted from Community Investment Tax Relief (CITR).

The CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs). The Bank has made such investments. The tax relief is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

7 Cash and balances at central banks

	2013	2012
Included within cash and cash equivalents:		
Items in course of collection from other banks	**146**	505
	146	505

8 Loans and advances to banks

	2013	2012
Placements with other banks	**700**	8,000
Other loans and advances to banks	**274,003**	252,057
Included in cash equivalents	**274,703**	260,057

Other loans and advances to banks relate to reverse repos transacted with The Co-operative Bank plc. in the normal course of business, which are secured by UK Gilts.

9 Loans and advances to customers

	2013	2012
Gross loans and advances	**191,265**	181,791
Less: allowance for losses on loans and advances to customers	**(6,522)**	(7,625)
	184,743	174,166

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances	**2013 Individual**	**Collective**	**Total**	2012 Individual	Collective	Total
At 1 January	**(6,751)**	**(874)**	**(7,625)**	(5,840)	(717)	(6,557)
Charge against profits	**341**	**92**	**433**	(1,943)	(157)	(2,100)
Amounts written off	**514**	**-**	**514**	907	-	907
Recoveries	**(22)**	**-**	**(22)**	-	-	-
Unwind of discount of allowance	**178**	**-**	**178**	125	-	125
At 31 December	**(5,740)**	**(782)**	**(6,522)**	(6,751)	(874)	(7,625)

All provisions are held against loans and advances to customers.

Non-performing debt:

	2013	2012
Bank advances	**11,631**	14,283
Provisions for bad and doubtful debts	**(5,740)**	(6,751)
	5,891	7,532

Concentration of exposure:

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

	2013	2012
Administrative bodies and non-commercial	**120,829**	95,420
Property (excluding hotels and leisure)	**25,679**	32,356
Hotels & Leisure	**24,213**	28,193
Manufacturing	**-**	1,477
Other	**20,544**	24,345
	191,265	181,791

The fair value of loans and advances to customers is not significantly different to the carrying value.

All amounts are stated in £000s unless otherwise indicated

10 Investment securities - available for sale

	2013	2012
Debt securities - at fair value		
- Unlisted bank and building society certificates of deposit	**235,227**	225,480
- Other	**20,025**	-
	255,252	225,480

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

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

	2013	2012
At 1 January	**225,030**	315,050
Fair value adjustment	**(33)**	(20)
Acquisitions	**845,016**	1,345,000
Disposals and maturities	**(815,000)**	(1,435,000)
At 31 December	**255,013**	225,030

	2013		2012	
	Balance sheet	**Market value**	Balance sheet	Market value
Debt securities comprising:				
Bank and building society certificates of deposit	**235,227**	**235,227**	225,480	225,480
Other	**20,025**	**20,025**	-	-
Bank and building society certificates of deposit	**255,252**	**255,252**	225,480	225,480

11 Derivative financial instruments

The Board of Directors has authorised the use of various derivative financial instruments for the purpose of supporting the management of the asset and liability positions in the Bank and reducing the risk of loss arising from changes in interest rates. The Bank takes no trading positions in derivatives. Other operating expense disclosed in the Income Statement relates to fair value changes in derivatives.

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

At 31 December 2013

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

At 31 December 2012

	Contractual / notional amount	Fair value assets	Fair value liabilities
Derivatives held for non-trading purposes designated as cash flow hedging			
Interest rate swaps	25,000	1,105	(15)
Derivatives held for non-trading purposes for which hedge accounting has not been applied			
Interest rate swaps	40,000	590	(37)
Total recognised derivative assets / (liabilities) held for non-trading	65,000	1,695	(52)

Other operating expense

	2013	2012
Ineffective part of gain on cash flow hedge	**(354)**	(802)
Other operating expense in Income Statement	**(354)**	(802)

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

12 Intangible assets

	2013	2012
Computer Software		
Cost		
At 1 January	**1,268**	1,217
Additions	**65**	51
At 31 December	**1,333**	1,268
Accumulated Amortisation		
At 1 January	**749**	631
Charge for the year	**129**	118
At 31 December	**878**	749
Net book value		
At 31 December	**455**	519
At 1 January	**519**	586

13 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January	**549**	**1,486**	**2,035**
Additions	**14**	**179**	**193**
Disposals	**-**	**(7)**	**(7)**
At 31 December 2013	**563**	**1,658**	**2,221**
Accumulated Depreciation			
At 1 January	**506**	**1,380**	**1,886**
Charge for the year	**10**	**115**	**125**
Disposals	**-**	**(7)**	**(7)**
At 31 December 2013	**516**	**1,488**	**2,004**
Net book value			
At 31 December 2013	**47**	**170**	**217**
At 1 January 2013	**43**	**106**	**149**
Cost			
At 1 January	538	1,499	2,037
Additions	11	29	40
Disposals	-	(42)	(42)
At 31 December 2012	549	1,486	2,035
Accumulated Depreciation			
At 1 January	497	1,279	1,776
Charge for the year	9	143	152
Disposals	-	(42)	(42)
At 31 December 2012	506	1,380	1,886
Net book value			
At 31 December 2012	43	106	149
At 1 January 2012	41	220	261

All amounts are stated in £000s unless otherwise indicated

14 Other assets

	2013	2012
Amounts recoverable within one year:		
Trade debtors	**9**	19
Other assets	**40**	30
	49	49

15 Prepayments

	2013	2012
Amounts recoverable within one year:		
Other	**352**	405
	352	405

16 Other liabilities

	2013	2012
Amounts payable within one year:		
Trade creditors	**166**	169
Other liabilities	**1,409**	1,408
	1,575	1,577

17 Provisions for liabilities and charges

	Vacant properties	**Customer claims**	**FSCS levy**	**Total**
At 1 January 2013	**-**	**338**	**176**	**514**
Utilised	**-**	**(39)**	**(113)**	**(152)**
Income statement movements:				
Provided in the year	**-**	**26**	**131**	**157**
Released during the year	**-**	**(236)**	**-**	**(236)**
At 31 December 2013	**-**	**89**	**194**	**283**
Amounts falling due within one year	**-**	**89**	**125**	**214**
Amounts falling due after one year	**-**	**-**	**69**	**69**
	-	**89**	**194**	**283**
At 1 January 2012	36	490	127	653
Utilised	(28)	-	(54)	(82)
Income statement movements:				
Provided in the year	-	98	104	202
Released during the year	(8)	(250)	(1)	(259)
At 31 December 2012	-	338	176	514
Amounts falling due within one year	-	338	114	452
Amounts falling due after one year	-	-	62	62
	-	338	176	514

All amounts are stated in £000s unless otherwise indicated

18 Deferred tax

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

The movement on the deferred tax accounts are as follows:

	2013	2012
At 1 January - net deferred tax	**85**	83
Income statement credit	**6**	2
At 31 December - net deferred tax	**91**	85

Net deferred tax comprises:

	2013	2012
Deferred tax asset	**91**	85

Deferred taxation

	2013	2012
Other timing differences	**2**	2
Capital allowances on fixed assets	**89**	83
	91	85

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

	2013	2012
Capital allowances on fixed assets	**6**	2
	6	2

Deferred tax assets are recognised for tax loss carry-forwards only to the extent that realisation of the related tax benefit is probable.

After the balance sheet date the Directors proposed a final dividend of £0.3 million (2012 - £0.2 million). The dividends have not been provided for and there are no income tax consequences.

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

Reductions in the tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

All amounts are stated in £000s unless otherwise indicated

19 Pensions

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

Key assumptions of the Group pension scheme

The key aspects of The Co-operative Group's Pace scheme are as follows:

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

	2013	2012
Discount rate	**4.45%**	4.60%
Rate of increase in salaries	**3.60%**	4.80%
Future pension increases where capped at 5.0% pa	**3.60%**	3.30%
Future pension increases where capped at 2.5% pa	**2.50%**	2.50%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the Pace scheme at the 2013 year end is:

	Male	**Female**
Life expectancy:		
Member currently aged 65 (current life expectancy)	**22.4**	24.1
Member currently aged 45 (life expectancy at age 65)	**24.3**	26.0

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

	2013	2012
	£m	£m
Present value of funded obligations	**(7,125.8)**	(6,532.1)
Present value of unfunded obligations	**(4.8)**	(4.5)
Fair value of plan assets	**7,486.5**	6,919.4
	355.9	382.8

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

	2013	2012
Equities	**32%**	31%
Liability driven investments	**45%**	49%
Alternative growth	**14%**	14%
Property	**4%**	4%
Cash	**5%**	2%

The expected contributions to the defined benefit & contribution plans for the next annual reporting period are £583k.
The Bank's proportion of the Group pension scheme is 0.7%.

All amounts are stated in £000s unless otherwise indicated

20 Share capital

	2013	2012
'A' Shares of £1 each	**2,500**	2,500
'B' Shares of £1 each	**2,500**	2,500
'C' Shares of £1 each	**15,000**	15,000
	20,000	20,000
Issued:		
'A' Shares of £1 each	**2,405**	2,405
'B' Shares of £1 each	**2,405**	2,405
'C' Shares of £1 each	**11,619**	11,619
	16,429	16,429
Share premium account	**250**	250
	16,679	16,679

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

All issued share capital is allotted and fully paid.

21 Contingent liabilities and commitments

The tables below gives for the Bank, the nominal principal amounts, credit equivalent amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit equivalent and risk weighted amounts have been calculated in accordance with the PRA guidelines implementing the Capital Requirements Directive (CRD).

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

	2013				2012	
	Contract amount	Credit equivalent amount	Average risk weight	Risk weighted amount	Contract amount	Risk weighted amount
Guarantees and irrevocable letters of credit	**335**	**168**	**100%**	**168**	574	287
	335	**168**	**100%**	**168**	574	287
Other commitments:						
Undrawn formal standby facilities, credit lines and other commitments to lend:						
-1 year and over	**41,553**	**-**	**100%**	**41,553**	30,463	30,463
	41,553	**-**	**100%**	**41,553**	30,463	30,463

The Bank had capital commitments authorised and contracted at 31 December 2013 of £nil (2012 £nil).

Commitments under Operating leases

	2013	2012
	Land and buildings	Land and buildings
At the year end, total commitments under non-cancellable operating leases were payable as follows:		
Expiring:		
-between one and five years	**293**	527
	293	527

Operating lease rental payments are disclosed in note 4.

All amounts are stated in £000s unless otherwise indicated

22 Related party transactions

Unity Trust Bank plc is a subsidiary undertaking of The Co-operative Bank plc as The Co-operative Bank plc controls the appointment of the majority of the Banks' Board of Directors.

The Directors regard The Co-operative Bank plc, which is incorporated in England and Wales, as the parent company of Unity Trust Bank plc.

The consolidated accounts of The Co-operative Bank plc, which represents the smallest group in which the results of the Bank are consolidated, are available to the public and may be obtained from: 1 Balloon Street, Manchester, M60 4EP.

The Bank had a related party relationship with its directors and executive officers.

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

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

	2013	2012
Administrative expenses	**714**	767

Key management compensation

	2013	2012
Salaries and other short term benefits	**496**	472
Post employment benefits	**66**	68
	562	540

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

Loans with The Co-operative Bank plc

	2013	2012
Loans owed to Bank	**274,849**	260,562

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

23 Capital management

The Bank's policy is to maintain a strong base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank's policy is to be more prudent than industry norms by having a higher proportion of core tier 1 as the Bank is not able to raise equity externally. However, the Bank still recognises the need to maintain a balance between higher returns that might be achieved with greater gearing, and the advantages and security afforded by a sound capital position.

The Bank's submissions to the Prudential Regulation Authority in the year have been shown that the Bank has complied with all externally imposed capital requirements throughout the period.

Regulatory capital

Regulatory capital stood at £44.8 million (2012 - £44.4 million), well in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis

	2013	2012
Tier 1		
Share capital	**16,429**	16,429
Share premium account	**250**	250
Retained earnings	**27,699**	27,557
Less : other intangible assets	**(455)**	(519)
Total Tier 1 capital	**43,923**	43,717
Tier 2		
Collective provisions	**874**	717
Total Tier 2 Capital	**874**	717
Total Tier 1 & Tier 2 Capital	**44,797**	44,434
Total regulatory capital	**44,797**	44,434

24 Earnings per share

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

	2013	2012
Profit attributable to equity shareholders of the Bank	**2,091**	323
Weighted average number of ordinary shares in issue	**16,429**	16,429
Basic earnings per share (expressed in pence per share)	**12.7**	2.0

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

We have audited the financial statements of Unity Trust Bank plc for the year ended 31 December 2013 set out on pages 23 to 61. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Kieren Cooper (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

21 March 2014

Unity Trust Bank plc
Nine Brindleyplace, Birmingham, B1 2HB
T. 0845 140 1000
F. 0845 113 0003
www.unity.co.uk