unity trust bank

report and accounts 2017

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

Nine Brindleyplace
Birmingham
B1 2HB

Tel: 0345 140 1000
Fax: 0345 113 0003

Registered in England and Wales
No. 1713124

FCA Register No. 204570

Board of Directors

Alan Hughes (Chairman)
Margaret Willis (Chief Executive Officer)
Dave Prentis (President and Non-Executive Director)
Roderick Chamberlain (Independent Non-Executive Director)
Sandy Chen (Independent Non-Executive Director)
Jim Gunner (Independent Non-Executive Director)
John Hannett (Non-Executive Director)
Ed Sabisky (Non-Executive Director)
Susan Sternglass-Noble (Independent Non-Executive Director)
Allan Wylie (Non-Executive Director)

Company Secretary

Kate Eldridge

Executive Management

Margaret Willis, Chief Executive Officer
Nikki Fenton, Chief Financial Officer
Mark McEvitt, Chief Risk Officer
Dave Matkin, Director, Commercial Banking
Lindsey Podolanski, Chief Operating Officer
Julia Tarpey, Director, Human Resources
Daryl Wilkinson, Director, Customer Propositions and Strategic Marketing

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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The Chairman's Statement

Unity Trust was established in 1984 with a vision of a bank that serves the needs of its customers and helps enrich society as a whole. In 2015 Unity's shareholders acquired control of it from The Co-operative Bank. Unity has made very substantial progress indeed since then and it gives me great pleasure to be able to report to you on 2017.

Performance

Your directors' goal is to strengthen Unity so that it can: do more to support the customers and communities it serves; be able to give shareholders good returns; reward employees fairly. In 2017, Unity's return on shareholders' equity increased to 6.1% (up from 5.4% in 2016), profit after tax increased by 23% to £3.55m. Unity's key capital ratio 'CET1' was a very healthy 19.7%.

Underlying these excellent results has been a cautious approach to risk, we seek 'safe growth'. We have attracted 18% more new customers in 2017 than in 2016. We have continued to invest in training and improvements in our services to customers. Our imperative is to make banking with Unity as easy and rewarding as possible. We have continued to update our processes and to enable a greater range of online services. As ever, there is more to do.

Social Impact

We are proud of the positive social and community impact Unity and its customers achieve. In 2017 we served firms and organisations with record new loans of £96m for projects that will deliver community, economic, social or environmental benefit. This supported over 700 jobs directly and 30 community facilities. Nearly all Unity staff engaged in volunteering activities during the year. Unity is a real living wage employer. You can read more about this in our annual Social Impact Report, also published today.

Dividend and Profit Share

It is our policy to earn enough profit after tax to increase the capital of Unity for future growth and impact, to meet all regulatory requirements, to pay regular dividends to shareholders, and to share profits fairly with staff. We aim to sustain a return on shareholders' equity of at least 8-10% for this. Our upward trend is in line with our plan and therefore we will recommend a dividend 2.4p per share at the 2018 AGM, and we will pay a profit share of 5% of salary to all eligible staff.

Board

In November, we welcomed Susan Sternglass Noble to the Board. Susan brings a wealth of knowledge and experience in investor relations and corporate governance.

Roderick Chamberlain and John Hannett will retire from the Board at the 2018 AGM. Rod was Unity's only independent director in 2013/14 and has helped steward Unity through a time of very significant change, not least the separation from The Co-operative Bank.

The Board, and I in particular, are very appreciative of having had Rod's wise counsel throughout such a period. John likewise has been a considerable asset for which we are very grateful. John is retiring as General Secretary of USDAW in 2018. We wish Rod and John well for the future.

2018 Events and Trends

There are some key events and trends to report to you.

Pension Scheme

Unity historically participated in The Co-operative Group's (TCG) Pace pension scheme. This exposed Unity to a "last man standing" risk whereby an employer in Pace could end up responsible for all liabilities of all participating employers. The Board and its advisors have continued discussions with the trustees of the pension scheme and the Cooperative Group as to how to manage and reduce this risk. These discussions are well progressed. Protection of the interests of members is paramount for all parties to these arrangements.

External Factors

Interest rates are expected to rise in 2018. Brexit uncertainty and international trade concerns continue to depress confidence and investment. Unity will be alert to the effect of this on customers and its own finances. Customer affordability criteria will be central to this, consistent with the principle of treating customers fairly. Unity's social purpose sits well against this and we hope it will help us to attract more new custom, despite the economic conditions.

General Data Protection Regulation is a significant new regulation that comes into effect in May 2018. Our investment in technology and paper-less processes will make us more efficient as well as supporting compliance. Customers will soon see communications about this.

Unity Share Trading

We continue to work towards implementation of regular events that meet the needs of shareholders to sell shares from time to time and our desire to attract likeminded investors. This is likely to be a periodic opportunity for trading shares on the basis of matching sellers with buyers.

In Conclusion

Unity's journey to fully fledged, strong, fast but safely growing, independent bank with an enviable record of positive social impact will continue at pace. Now we will increase our attention on growing that impact. Our plan to raise additional capital continues. We will reach out to more new customers who find the Unity ethos and story very compelling. Bank with Unity, together we can help create a better society for all – and we shall.

The Directors and I would like to recognise, thank and congratulate all Unity's people for their excellent results.

Alan Hughes,
Chairman
Unity Trust Bank plc
28 March 2018

Strategic Report

The case for ethical banking is just as strong today as it was in 1984 when the Bank was founded. At Unity our focus on our people and our customers sets us apart, allowing us to deliver on our 'double bottom line' goal of sustainable returns with positive social impact.

Unity has no branches. Customers are served by personal relationship managers for our larger customers, knowledgeable customer services staff on the telephone, and through digital channels. All office based colleagues are located in the head office in Birmingham.

The Bank's strategy is focussed on extending our customer base; becoming the bank of choice for those businesses and organisations who share our values and philosophy.

Unity's strategic priorities are:

- to build lasting relationships, positive social impact, and sustainable financial returns;
- to maintain sound lending supported by a strong capital position and strong management of risks and controls; and
- to increase the scale of its business and impact.

Unity's profitability has grown strongly in 2017. The profit before tax for the year of £3.7m (2016: £2.7m) reflects the growth of lending and the increased volume of fee-based services.

The low interest rate environment continued to suppress Unity's margins on both customer liabilities and loan assets as well as returns on treasury assets. The November 2017 base rate rise, and any future increases, are likely to have a materially positive impact on Unity's interest income.

Capital

Unity ended the year with a Core Equity Tier 1 (CET1) ratio of 19.7%, well ahead of regulatory minima.

Liquidity

Unity continues to be 100% funded by customer accounts. Unity recognises that it benefits from a stable, loyal and growing customer deposit base. Customer deposit balances at the year-end were £949.9m (2016: £861.5m).

Unity invests some of its surplus cash resources in treasury investments which at year end are valued at £375.2m (2016: £370.8m). Deposits with the Bank of England at year end are £353.7m (2016: £310.9m). Total liquid resources have therefore grown to £728.9m (2016: £681.6m).

Financial performance

The 2017 financial results reflect the progress made in implementing the strategic priorities of growing the loan book and transforming the Bank.

The primary drivers of 2017 financial performance are:

Income
Net interest income for 2017 was £11.5m (2016: £10.2m) reflecting the growth in the loan book. Total loans and advances to customers at the end of the year were £279.3m (2016: £235.4m). Loans and advances originated during the year totalled £96.3m (2016: £76.9m), an increase of 25%.

Gross fees and commission income for the year totalled £3.8m (2016: £3.1m) reflecting a full year's impact in 2017 of the pricing changes mid-2016 which brought the Bank into line with market.

Operating expenses
Total operating expenses for the year were £10.3m (2016: £10.5m) of which £5.4m (2016: £6.1m) is attributable to staff costs.

Unity continues to strengthen its structures, processes and to increase the professional skills of its people. At the year-end there were 91 people working for Unity (2016: 86).

We appointed a new CFO in February 2018 after an extensive search; I am delighted that our internal candidate, Nikki Fenton, was successful. The Bank will continue to support and develop its people in all functions to provide excellent customer service delivery, strengthen capability and to facilitate succession.

Unity anticipates that there will be some increases in costs as we invest in people, premises and technology to support growth. In 2017, our cost income ratio improved significantly in 2017 to 72.9% (2016: 85.9%) and is expected to continue to improve.

Outlook

In 2017, Unity continued to prove the viability of its customer proposition, build sustainable financial results and safely grow lending.

Unity leverages its financial strength, strong liquidity, and social proposition to take advantage of market appetite for this. The Unity name, culture, strong employee and customer engagement creates clear differentiation. We believe this opportunity can grow.

Technology development remains key to supporting success and Unity will further invest in IT infrastructure in 2018 to maximise digital capability as well as to improve operational efficiency and our customer experience. While the economic outlook remains fragile and Brexit uncertainly remains Unity will continue, with the support of its shareholders, to focus on what it can influence, its people and its customers.

Principal risks and uncertainties

Unity has a risk management framework which provides a structured and consistent approach to anticipating, identifying, assessing and responding to risks. The key identified risks, many of which are inherent in all banking business, are monitored and managed through the risk control framework. Further information on risk management and the governance structure of the Bank can be found in the Pillar 3 disclosures on Unity's website.

The Board of Unity sets clear risk appetite statements within which the Executive team manages. The Bank operates a 'three lines of defence' risk management model whereby the first line of defence undertakes all aspects of operational management, the second line Risk team undertakes oversight and monitoring of first line processes and operations and the third line is the internal audit function which is currently outsourced to PwC. The annual internal audit plan covers the major risks impacting the business on a rolling basis.

Strategic Report continued

Risk	Mitigation
Credit Risk is the risk that counterparties will be unable or unwilling to meet a commitment that they have entered into with the Bank.	The Bank has an experienced credit underwriting team which reviews all applications against a Board approved lending policy. Treasury investments are subject to strict rules on the quality of counterparties which are restricted to financial and government related institutions. Second line resources ensure enhanced oversight, monitoring and control.
Market Risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets and liabilities.	The Bank has no direct exposure to foreign exchange risk. Market risks and economic indicators are considered at Board and Executive Committees and stress testing is reviewed regularly. Interest rate risk is monitored on a monthly basis as part of Asset and Liability Committee (ALCO) responsibilities.
Liquidity and Funding Risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet its commitments as and when they fall due.	The Bank considers liquidity risk at Board and Executive Committees, whilst working within the Individual Liquidity Adequacy Assessment Process (ILAAP) which is approved at ALCO and Board on an annual basis. Stress testing is reviewed regularly. The Treasury team manages liquidity on a day-to-day basis, with oversight from the Risk team. The Bank has a strong liquidity position due to the nature of its customer base.
Operational Risk is the risk that failures in the Bank's operational processes, including technology, cyber, or external events which cause monetary loss, service disruption or customer detriment.	The Bank's operational risk is monitored via the risk management framework. A system of controls and risk logs as well as event and near miss reporting is in place to monitor this risk and these are considered and reviewed at both Executive and Board Committees. The Board considers cyber risk to be an important facet of operational risk and has a board approved cyber security strategy. Execution risk, as the Bank effects its transformation, remains under discussion at Executive committees and the Board.

Risk	Mitigation
Strategic Risk, including capital risk, is the risk that the Bank fails to execute its strategic plan or fails to execute elements of its strategic plan effectively due to poor planning or changes in the economic environment.	The Executive team monitors performance trends on a weekly basis and monthly actual and forecast management information is discussed at both Executive and Board levels. Capital risk, the risk that the Bank will not have sufficient capital to fund its growth strategy, is closely monitored at ALCO and by the Board.
Conduct Risk is the risk that the Bank's customers suffer loss or detriment due to failures in product design, sales and marketing processes, poor customer service or operational delivery.	The Bank is committed to working with its customers and service providers to ensure that its products are simple, fair and transparent. Complaints are monitored along with a broad range of other conduct risk metrics at Executive and Board Committees on a monthly basis. New product governance is monitored by the Executive team.
Regulatory Risk is the risk that the Bank does not comply with changes in the regulatory environment.	The Bank's Risk and Compliance team monitors regulatory change and compliance and reports to the Executive and Board as appropriate.
Pension Risk is the risk to the Bank's capital and company funds from the Bank's exposure to the Pace defined benefit pension scheme, run by the Co-operative Group, and risks inherent in the valuation of scheme liabilities and assets. The pension scheme is structured on a 'last man standing' basis. As a participating employer in the scheme, the Bank would be liable for a greater proportion of the scheme's liabilities were one or more other participating employers to become insolvent.	The Bank closed its defined benefit pension scheme to future accrual as at October 2015. The Board has been in dialogue with its external advisors and Pace in relation to Unity's desire to mitigate or remove the last man standing risk.

By Order of the Board

Margaret Willis
Chief Executive Officer
Unity Trust Bank plc
28 March 2018

Results and Dividends

The results for the year, before taxation, amounted to a profit of £3.7m (2016: £2.7m). The Directors recommend a final dividend of 2.4p per share to be paid in 2018 (2016: 2.4p per share).

Post Balance Sheet Events

There are no post balance sheet events.

Directors

The Directors during the year and at the date of signing the accounts are:

Non-Executive Directors

Alan Hughes, Chairman
Dave Prentis, President and Non-Executive Director
Roderick Chamberlain, Independent Non-Executive Director
Sandy Chen, Independent Non-Executive Director
Jim Gunner, Independent Non-Executive Director
John Hannett, Non-Executive Director
Ed Sabisky, Non-Executive Director
Susan Sternglass Noble, Independent Non-Executive Director (appointed 3 November 2017)
Allan Wylie, Non-Executive Director

Executive Directors

Margaret Willis, Chief Executive Officer
Clare Gosling, Chief Financial Officer (resigned 28 February 2017)

During the year the Chief Financial Officer role was fulfilled by Paul Gittins, on an interim contract, who was not appointed to the Board.

Employee Share Ownership Plan

Unity EBT Ltd is a wholly owned subsidiary of the Bank and trustee of the Bank's Employee Share Ownership Plan (ESOP). During 2017 1,440 Ordinary £1 shares were purchased by Unity EBT Limited from members of staff who had left the Bank and 392 Ordinary £1 shares were bought to fulfil ongoing requirements of the ESOP, for a total of £5,072.50. These shares will be used in the operation of the ESOP scheme, including gifts of shares to employees at their first and tenth anniversary of service and shares purchased by staff on a Dealing Day.

During 2017, 2,900 Ordinary £1 shares were gifted to members of staff for service anniversaries at nil consideration.

Insurance and Indemnities

The Bank maintains Directors' and Officers' liability insurance cover. Deeds of Indemnity are provided by the Bank to each Director of the Bank and its subsidiary, Unity EBT Ltd. This constitutes a 'qualifying third party indemnity provision' for the purposes of Companies Act 2006 and applied to each of the Bank's Directors serving as at the date of approval of this report.

Future Developments

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

Change in Accounting Policy

No changes to accounting policy have been made in the year.

Taxation

The Bank participates in the Community Investment Tax Relief (CITR) scheme which encourages investment in disadvantaged communities by giving tax relief to companies who invest in Community Development Finance Institutions (CDFIs). Deductions from Corporation Tax totalling £742k (2016: £674k) were made regarding the CITR scheme.

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

£'000	**2017**	**2016**
Corporation tax borne	709	543
Employment tax borne		
• Employer NIC	515	485
Total taxes paid	**1,224**	**1,028**
Employment taxes collected		
• Employee PAYE and NIC	1,365	1,315
Total tax contributions	**2,589**	**2,343**

Corporate Governance

The Board considers the Corporate Governance Code as its benchmark for good corporate governance and adheres to the code where relevant and proportionate, for a company of its size.

Directors' responsibilities statement in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements 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 2016. 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 have been prepared on the 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 and capital resources. In addition, notes 26 and 27 to the financial statements include the Bank's policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk.

The Bank has considerable financial resources and the Directors believe that the Bank is well placed to manage its business risks successfully. 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 18 to 24.

Disclosure of Information to the Auditor

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

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

Auditor

The Board will recommend the reappointment of KPMG LLP to shareholders at the 2018 AGM.

By order of the Board

Kate Eldridge
Company Secretary

Registered Office:
Nine Brindleyplace
Birmingham
B1 2HB

28 March 2018

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

1 Our opinion is unmodified

We have audited the financial statements of Unity Trust Bank plc (“the Bank”) for the year ended 31 December 2017 which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion:
— the financial statements give a true and fair view of the state of the Company’s affairs as at 31 December 2017 and of the Company’s profit for the year then ended;
— the Company financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 7 March 1984. The period of total uninterrupted engagement is for the 34 financial years ended 31 December 2017.

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£148k (2016:£120k) 4% (2016: 9%) of profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Impairment of loans and receivables	◄►

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matter (unchanged from 2016), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Impairment of loans and receivables	**Subjective estimate**	Our procedures included:
Impairment provision £1.3 million; 2016: £1.9 million *Refer to page 21 (accounting policy) and page 28 (financial disclosures).*	The impairment provision relating to the Bank's loans to customers requires the Directors to make significant judgements and assumptions over the recoverability of loans and receivables. Impairment provisions are assessed on an individual and collective basis and we consider the key assumptions and risks for each in turn. *Individual impairment:* A critical assumption is the appropriate identification of the impairment trigger. For corporate loans, the primary impairment trigger is when a loan is allocated a higher 'risk grade', which is based on factors such as evidence of default, restructuring of a loan or indications that a borrower will enter bankruptcy. There is a risk that other impairment triggers are not identified on a timely basis. The other key assumption is the realisable value of collateral. This value is most sensitive to movements in the forced sale discount assumption. *Collective impairment:* Due to the Bank's limited loss experience, the collective impairment requires significant management judgement in estimating the cost of risk. This is most judgemental for loans made to the hotel and leisure industry.	**- Controls:** We tested the key controls over the acceptance, monitoring and reporting of credit risk. **- Test of detail:** We reviewed a sample of credit file reviews undertaken by management to identify any indicators of impairment on individual loans and critically assess the 'risk grade' allocated to individual loans. **- Historical comparisons:** We critically assessed the Bank's assumptions on forced sale discounts and cost of risk by comparing them to the Bank's historical experience. **- Benchmarking assumptions:** We compared the Bank's key assumptions on forced sale discount to comparable peer organisations. **- Our sector experience:** We challenged the Bank's key assumptions on impairment triggers and cost of risk by applying our own expectations based upon our knowledge of the Bank and experience of the industry in which it operates. **- Sensitivity analysis:** We performed sensitivity analysis over the Bank's key assumptions on forced sale discounts and cost of risk based upon our findings from the above procedures; and. **- Assessing transparency:** We critically assessed the adequacy of the Bank's disclosures about the sensitivity of the impairment of loans and receivables to changes in key assumptions reflected in the inherent risk. **Our results** We found the resulting estimate of the impairment of loans and receivables to be acceptable (2016: acceptable).

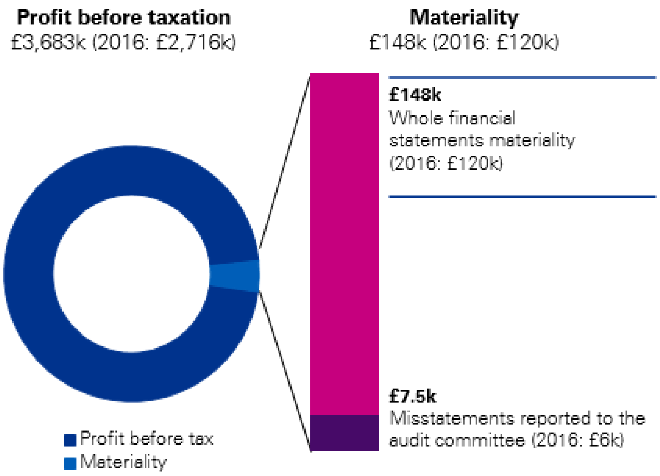
Independent Auditor's Report to the Members of Unity Trust Bank plc continued

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £148k (2016: £120k), determined with reference to a benchmark of profit before tax, of which it represents 4% (2016: 9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £7.5k (2016: £6k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the Bank's head office in Birmingham.



The Bank is adopting IFRS 9 Financial Instruments from 1 January 2018 and have included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 1. While further testing of the financial impact will be performed as part of our 2018 year-end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. We spent time assessing the key areas of judgement inherent in the IFRS 9 transition which supports our assessment of the appropriateness of the disclosure but also supports our 2018 year-end audit.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the Annual report. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:
— we have not identified material misstatements in those reports;
— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
— in our opinion those reports have been prepared in accordance with the Companies Act 2006 .

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion
— adequate accounting records have not been kept by the Bank, 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 7 and 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual accounts. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Bank's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition, we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct money laundering, and certain aspects of company legislation recognising the financial and regulated nature of the Bank's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Clark
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Snowhill
Snowhill Queensway
Birmingham
B4 6GH

28 March 2018

Income Statement for the year ended 31 December 2017

All amounts are stated in £000s unless otherwise indicated

	Notes	**2017**	2016
Interest receivable and similar income	5	**12,021**	11,362
Interest expense and similar charges	6	**(529)**	(1,123)
Net Interest Income		**11,492**	10,239
Fee and commission income		**3,793**	3,083
Fee and commission expense		**(1,138)**	(1,133)
Net fee and commission income		**2,655**	1,950
Total income		**14,147**	12,189
Operating expenses	7	**(10,318)**	(10,465)
Financial Services Compensation Scheme levies		**(19)**	(42)
Impairment (losses)/ credits on loans and advances	12	**(127)**	228
Gain on sale of asset		**-**	806
Profit before taxation	3	**3,683**	2,716
Taxation (charge)/ credit	9	**(133)**	166
Profit for the year attributable to shareholders		**3,550**	2,882

The accounting policies and notes on pages 18 to 42 form part of these financial statements.

The 2016 comparative figures have been restated as described in note 2.

Statement of Comprehensive Income for the year ended 31 December 2017

All amounts are stated in £000s unless otherwise indicated

	2017	2016
Profit for the year - equity shareholders	**3,550**	2,882
Other comprehensive income:		
Changes in available-for-sale assets		
Prior year charges	**83**	0
Net changes in fair value recognised directly in equity[1]	**(253)**	889
Reclassification adjustments included in profit[2]	**(70)**	(214)
Income tax	**65**	(135)
Other comprehensive (expense)/ income for the year, net of tax	**(175)**	540
Total comprehensive income for the year - equity shareholders	**3,375**	3,422

[1]Net changes in fair value of available for sale investment securities held by the Bank at year end are recognised within equity.

[2]For available for sale investment securities the amount removed from equity and recognised in income statement is disclosed separately.

The accounting policies and notes on pages 18 to 42 form part of these financial statements.

Statement of Financial Position as at 31 December 2017

All amounts are stated in £000s unless otherwise indicated

	Notes	2017	2016
Assets			
Cash and balances with the Bank of England	10	**353,666**	310,867
Loan and advances to banks	11	**2,829**	2,806
Loans and advances to customers	12	**279,347**	235,360
Investment securities - available for sale	13	**375,190**	370,751
Intangible fixed assets	14	**161**	199
Property, plant and equipment	15	**267**	289
Deferred tax assets	20	**24**	73
Other assets	16	**102**	24
Prepayments and accrued income	17	**758**	578
Current tax assets		**32**	-
Total assets		**1,012,376**	920,947
Liabilities			
Customer accounts		**949,933**	861,504
Other liabilities	18	**1,136**	965
Accruals and deferred income		**1,061**	924
Provisions for liabilities and charges	19	**150**	379
Total liabilities		**952,280**	863,772
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	22	**18,943**	18,943
Share premium account	22	**5,563**	5,563
Capital redemption reserve		**3,250**	3,250
Retained earnings		**31,615**	28,519
Other reserves - available for sale		**725**	900
Total equity		**60,096**	57,175
Total liabilities and equity		**1,012,376**	920,947

The accounting policies and notes on pages 18 to 42 form part of these financial statements.

Approved by the Board on 28 March 2018 and signed on its behalf by:

Margaret Willis, Chief Executive Officer

Alan Hughes, Chairman

Statement of Changes in Equity for the year ended 31 December 2017

All amounts are stated in £000s unless otherwise indicated

Attributable to equity holders of the Bank

2017	**Share capital**	**Share premium**	**Capital redemption reserve**	**Available-for-sale reserve**	**Retained earnings**	**Total equity**
At 1 January 2017	**18,943**	**5,563**	**3,250**	**900**	**28,519**	**57,175**
Total comprehensive income for the financial year	**-**	**-**	**-**	**(175)**	**3,550**	**3,375**
Dividend	**-**	**-**	**-**	**-**	**(455)**	**(455)**
At 31 December 2017	**18,943**	**5,563**	**3,250**	**725**	**31,615**	**60,096**

2016	Share capital	Share premium	Capital redemption reserve	Available-for-sale reserve	Retained earnings	Total equity
At 1 January 2016	17,000	3,733	3,250	360	25,637	49,980
Total comprehensive income for the financial year	-	-	-	540	2,882	3,422
Issue of Share Capital	1,943	1,830	-	-	-	3,773
At 31 December 2016	18,943	5,563	3,250	900	28,519	57,175

The accounting policies and notes on pages 18 to 42 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2017

All amounts are stated in £000s unless otherwise indicated

	Notes	**2017**	2016
Cash flows from operating activities			
Profit before taxation		3,683	2,716
Adjustments for non-cash items:			
(Decrease) in prepayments and accrued income		(180)	(22)
Increase in accruals and deferred income		137	371
Impairment gains/ (losses) on loans and advances		127	(228)
Depreciation and amortisation		224	259
Provision for liabilities and charges		(228)	93
		3,763	3,190
Increase in customer accounts		88,429	29,824
(Increase) in loans and advances to customers		(44,114)	(47,892)
(Increase) in Bank of England mandatory reserve	10	(30)	(244)
Net movement of other assets and other liabilities		93	400
Income tax received		32	122
Net cash flow from operating activities		48,173	(14,600)
Cash flows from investing activities			
Purchase of property, plant and equipment		(153)	(182)
Intangible asset additions		(11)	(73)
Purchase of investment securities		(121,593)	(209,060)
Proceeds from sale and maturity of investment securities		116,831	116,233
Net cash used in investing activities		(4,926)	(93,081)
Cash flows from financing activities			
Ordinary share dividends paid		(455)	-
Proceeds on issue of share capital net of transaction costs		-	3,773
Net cash flow from financing activities		(455)	3,773
Increase/(Decrease) in cash and cash equivalents		42,792	(103,908)
Cash and cash equivalents at the beginning of the financial year		313,374	417,282
Cash and cash equivalents at end of the financial year		356,166	313,374
Cash and balances with the Bank of England	10	353,337	310,568
Loans and advances to banks	11	2,829	2,806
		356,166	313,374

The accounting policies and notes on pages 18 to 42 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies

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

Basis of preparation

The Bank's report and accounts have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) 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.

Going Concern

The report and accounts have been prepared on the going concern basis.

Accounting standards require the Directors to assess the Bank's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on the Going Concern Basis Accounting and Reporting on Solvency and Liquidity Risks' published by the Financial Reporting Council in April 2016.

In order to assess the appropriateness of the going concern basis the directors considered the Bank's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them.

After performing this assessment, the Directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Report and Accounts.

Adoption of new and revised standards

Standards and interpretations issued and effective

In preparing these report and accounts, the Bank has adopted the following pronouncements during the year that are new or revised:

Amendments to IAS 7 'Disclosure Initiative'

Effective from 1 January 2017, the amendment requires that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities. This does not have a material impact on the Bank.

Amendments to IAS 12 'recognition of Deferred Tax Assets for unrealised losses'

Effective from 1 January 2017, the amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. This does not have a material impact on the Bank.

Standards and interpretations issued but not yet effective

IFRS 9 'Financial Instruments'

Effective from 1 January 2018 and endorsed by the EU on 22 November 2016. This replaces IAS 39 Financial Instruments: Recognition and Measurement and will be implemented for the year beginning 1 January 2018. The standard requires changes in three main areas, outlined below.

Classification and measurement

Financial assets will be classified and measured based on the business model under which they are held and on the characteristics of their contractual cash flows. Financial assets will be classified as either held at amortised cost, held at fair value through other comprehensive income or held at fair value through profit or loss. The Bank's assets have been analysed and there are no significant changes to classification and measurement under IFRS 9.

The contractual terms of the Bank's loan assets have been assessed for non-standard clauses or off-market rate conditions and in the Bank's assessment the assets meet the "Solely payments of principal and interest" (SPPI) criteria. Similarly, the intention under the Bank's business model is that treasury assets are sold for liquidity and asset realisation as required. As a result, no significant changes to classification and measurement are anticipated under IFRS 9. The IFRS 9 requirements on the classification and measurement of financial liabilities are largely unchanged from those in IAS 39.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

Impairment of financial assets

IFRS 9 replaces the existing IAS 39 incurred loss approach with an expected credit loss approach. This results in earlier recognition of credit losses.

The IFRS 9 model has three stages.

- On initial recognition, and for assets where there has been no significant increase in credit risk since initial recognition(Stage1) entities are required to recognise an impairment allowance in respect of losses expected over the next 12 months. These assets would generally have no provision under IAS 39.
- Where there has been a significant increase in credit risk, beyond that expected at the time the initial assessment was made, (Stage 2), entities are required to recognise an impairment allowance in respect of losses expected over the lifetime of the assets. The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology and involves quantitative measures such as forward looking probabilities of default that are derived from reasonable and supportable forecasts of future economic conditions, as well as from other qualitative factors, and therefore requires significant management judgement. The stage 2 assessment is also supported by an objective 'back stop' measure of arrears. This is likely to lead to an increase in provisions held under IFRS 9 for this category of assets.
- Where accounts are in default (Stage 3) they will be individually assessed for specific impairment. Provisions under IFRS 9 will be broadly similar to those held under IAS 39.

Impairment implementation

During the year the Bank has continued its project to ensure it is able to comply with the new requirements. The project includes finance, treasury and underwriting personnel, is sponsored by the Chief Financial Officer and reports to the Audit and Risk Committee.

The project has concentrated on the Bank's loan book, treated as a single asset group of around 350 loans. This has included analysis of historic credit performance metrics, model design and consideration of how external economic factors should affect IFRS 9 impairments.

The Bank's approach to staging criteria is based around its well-established process for risk-grading its loan assets through assessment of credit risk at inception of each loan, and through periodic review by the Underwriting team. Movements in risk grade are also the basis for the assessment of significant increases in credit risk on a loan-by-loan basis.

The Bank has aligned its macro-economic analysis to the economic scenarios defined by the Bank of England in its stress scenarios, which are used in the Bank's ILAAP. These are applied in assessing the impact of economic changes on both the probability of default, and on asset values, loan balances outstanding and sales discounts.

A base model has been completed for this asset class and indicative outputs have been provided to the Audit and Risk Committee. Work continues to finesse this model with the expected impact shown below.

Transition

The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, 1 January 2018, with no requirement to restate comparative periods.

Impact

These changes are expected to result in an increase in the Bank's balance sheet impairment provision for credit losses relating to loans and advances to customers in the range of £0.2-0.3m. The changes will not have a material impact on the Bank's treasury assets due to the high credit rating of the Bank's portfolio.

The increase in impairment will be deducted from reserves on transition, at 1 January 2018, and as such would immediately reduce the Bank's regulatory capital. However, the PRA has introduced transitional capital relief for firms when they move to IFRS9. This allows initial relief of 95% of the additional impairment provision on transition, reducing progressively over a five year period. The Bank has elected to adopt this transitional approach.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; to permit a greater variety of hedging instruments; and to remove or simplify some of the rule-based requirements in IAS 39.

The Bank does not currently use derivatives, and so this part of the standard will have no immediate impact.

IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2018 and endorsed by the EU on 22 September 2016. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This has no material impact on the Bank.

IFRS 16 'Leases'

Effective from 1 January 2019 and not yet endorsed by the EU. The standard replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Bank currently has no long term leases but work is in hand to assess any potential future impact on the Bank.

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

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

Revenue represents income derived from loans and advances to customers together with fees and commissions receivable. Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method 'EIRM'.

The EIRM is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate 'EIR' is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, the Bank takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions which are not considered integral to the EIR are recognised on an accruals basis when the service has been provided or received.

Fees and commissions

Fee and commission income is predominantly made up of fees received for banking services which are not spread across expected asset lives under the EIR method. These fees are taken to income on an accruals basis as services are provided.

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 payable are taken to the Income Statement on an accrual basis.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(b) Financial instruments

Financial assets

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

Regular way purchases and sales of financial assets are recognised on the settlement date for 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 as either:

i. Loans and receivables; or

ii. Available for sale.

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 a finite 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 cash flow 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.

Financial liabilities

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

(c) Impairment provisions

At the balance sheet date, the Bank assesses its financial assets for objective evidence that an impairment event has occurred.

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, or the disappearance of an active market for a security. In terms of forbearances, the Bank recognises all such cases within its provisioning methodology.

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 asset's 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.

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.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

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, in whole or in part, 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.

(d) 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.

The Bank did not hold any derivatives during the period under review.

Cash flow hedges

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

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

No derivatives are held for trading purposes.

(e) 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

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

Consultancy costs incurred in acquiring and developing software for internal use which is directly attributable to the functioning of computer hardware are capitalised as tangible fixed assets where software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Capital work in progress is not depreciated.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(f) Intangible assets

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

Software licenses grant a right of use for the Bank. In accordance with IAS 38 the development and acquisition cost for the licence is treated as an intangible asset separate from the tangible asset (computer) on which it is installed.

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.

(g) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, balances with the Bank of England 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.

(h) Taxation

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

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

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

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

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

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

(i) Pension costs

Defined contribution basis

With effect from 6 April 2006, the Bank participates in The Co-operative Pension Scheme (Pace). Pace is a hybrid scheme, consisting of a defined benefit section and a defined contribution section. There is currently insufficient information available to consistently and reliably identify the Bank's share of its liabilities in respect of this multi-employer scheme. As a result, the pension costs are accounted for on a defined contribution basis in accordance with IAS 19: Employee Benefits. Pension costs are recognised as an expense in the Income Statement.

(j) 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.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(k) 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.

(l) 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.

(m) Deferred income

Customer loan arrangement fees which are received from customers in advance are recognised as deferred income until the customer loan is drawn down and then carried as part of the loan balance.

(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. The Bank did not hold any sale and repurchase agreements during the period under review.

(o) Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Expenses and commissions paid on the issue of shares are written off against the share premium of the same issue.

(p) Capital redemption reserve

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. The nominal value of shares repurchased is transferred to the capital redemption reserve in equity.

All amounts are stated in £000s unless otherwise indicated

2 Critical estimates and judgements

In the preparation of the financial statements, the Bank makes critical judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities. Actual results may differ from these estimates. 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.

Impairment provisions

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.

Individual provisions

Individual provisions are recorded for corporate loans which are assessed for impairment on an individual basis. Each corporate loan is assessed and allocated a 'risk grade' to enable the Bank to monitor the overall quality of its lending assets. Loans with a higher risk grade indicate that lending is potentially at risk and provisions for future loss may be required.

The provision is calculated based on expectations of levels of future cash flows and the likelihood of loans being written off. Judgement is required by management in assessing the expected future cash flows, the customers' debt servicing capability, together with the realisable value of collateral. The actual amount of future cash flows and their timing may differ from the assumptions made for the purposes of determining the impairment provision.

An increase in the forced sale discount by 30% would see a reduction in the value of the security available and would result in an increase in impairment provision of £32k.

Collective provisions

Loans which have not been individually impaired are assessed for collective impairment. The collective provisions cover losses which have been incurred but not yet identified on loans subject to individual assessment and for homogeneous groups of loans that are not considered individually significant.

An assessment is made of the likelihood of the loan becoming recognised as impaired in the loss emergence period and for loans that are impaired, the likelihood of them moving to default over the outcome period.

The impact of increasing the collective provision by 10% would be £7k.

Effective interest rate (EIR)

In calculating the EIR to apply to financial assets and financial liabilities held at amortised cost, the Bank estimates future cash flows, considering all contractual terms of the financial instrument. A critical assumption used in the calculation is the expected life over which to measure future cash flows. The amortised cost of financial assets will change with slight variances in actual and expected term.

A decrease in the expected life of customer loans by one month would reduce the loans and advances to customers by £4k, with a corresponding increase to interest income.

Prior year reclassification

The Bank has reviewed the accounting policy applied for recognising financial assets on an amortised cost basis using an effective interest rate model, and has identified that a prior year reclassification is required in the year. The Bank has as a result adjusted the financial statements retrospectively, in accordance with accounting guidance.

The reclassification is between income lines, being a reduction in Fee and commission income and an equivalent increase in Interest receivable and similar income, as detailed below. There is no change to profit before taxation.

	2016 as reported	Adjustment	Restated 2016
	£'000	£'000	£'000
Interest receivable and similar income	**10,562**	800	11,362
Interest expense and similar charges	**(1,123)**		(1,123)
Net Interest Income	**9,439**		10,239
Fee and commission income	**3,883**	(800)	3,083
Fee and commission expense	**(1,133)**		(1,133)
Net fee and commission income	**2,750**		1,950
Total income	**12,189**		12,189

All amounts are stated in £000s unless otherwise indicated

3 Profit before taxation

The remuneration of the Bank's auditor is as follows:

	2017	2016
Audit services		
Fees payable for the audit of the annual accounts	**88**	65
Non-Audit services		
Fees payable for all other services	**5**	17
Total	**93**	82

4 Directors' emoluments

	2017	2016
Non-executive directors - emoluments	**178**	156
Executive directors - emoluments		
Remuneration as a director	**282**	425
Remuneration as an employee	**-**	17
Total	**460**	598

The highest paid director during the year was Margaret Willis, CEO, who received a total remuneration package of £249k in 2017 (2016: £231k). Executive Director remuneration includes salary, car allowance and pension.
Independent Non executive Directors received fees of £120k per annum for their services (2016: £105k). The Chairman of the Bank received a fee of £58k in the year (2016: £51k).

Shareholder Non executive Directors are not paid a fee by the Bank.

5 Interest receivable and similar income

	2017	2016
On financial assets not at fair value through profit or loss		
on loans and advances to customers	**8,454**	7,202
on loans and advances to banks	**970**	1,787
on investment securities	**2,597**	2,373
Total	**12,021**	11,362

6 Interest expense and similar charges

	2017	2016
On financial liabilities not at fair value through profit or loss		
on retail deposits	**529**	1,123
Total	**529**	1,123

7 Operating expenses

	Note	2017	2016
Staff costs	8	**5,433**	6,073
Administrative expenses		**4,276**	3,654
Amortisation of intangible fixed assets	14	**49**	101
Depreciation of property, plant and equipment	15	**175**	158
Operating lease rentals		**370**	379
Movement in provisions for liabilities and charges[1]	19	**15**	100
Total		**10,318**	10,465

1. This movement in provisions for liabilities excludes FSCS provisions.

All amounts are stated in £000s unless otherwise indicated

8 Staff costs

	2017	2016
Wages and salaries	**4,306**	4,321
Severance	**15**	717
Social security costs	**515**	485
Pension costs - defined benefit plans	**125**	124
Pension costs - defined contribution plans	**266**	294
Profit share	**206**	132
Total	**5,433**	6,073

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

	2017	2016
Full time	**76**	85
Part time	**15**	9
Total	**91**	94

9 Income tax

Tax Policy

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

Tax charge / (credit)	**2017**	2016
Current tax - current year	**22**	(135)
Current tax - prior year	**173**	(31)
Deferred tax - Current Year	**(28)**	33
Deferred tax - Prior Year	**(34)**	(33)
Total tax charge/ (credit) for the year	**133**	(166)

Further information about deferred income tax is presented in note 20. The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

Tax reconciliation	**2017**	2016
Profit before taxation	**3,683**	2,716
Tax calculated at a rate of 19.25% (2016: 20%)	**709**	543
Expenses not deductible for tax purposes	**2**	16
Exempt amounts	**3**	0
Adjustments to tax charge in respect of prior periods	**139**	(64)
Tax rate changes	**4**	13
Community Investment Tax Relief	**(724)**	(674)
Total tax charge for the year	**133**	(166)

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

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

All amounts are stated in £000s unless otherwise indicated

10 Cash and balances with the Bank of England

	2017	2016
Mandatory Reserve with the Bank of England	**329**	299
Cash and balances with the Bank of England	**353,337**	310,568
Total	**353,666**	310,867

Cash and balances with the Bank of England includes cash of £329k (2016: £299k) held in a mandatory reserve with the Bank of England. This is excluded from cash and cash equivalents within the statement of cash flows.

11 Loans and advances to banks

	2017	2016
Other loans and advances to banks	**2,829**	2,806
Total	**2,829**	2,806

12 Loans and advances to customers

	2017	2016
Gross loans and advances	**280,658**	237,245
Less: allowance for losses on loans and advances to customers	**(1,311)**	(1,885)
Total	**279,347**	235,360

Movement in allowance for losses on loans and advances:

	2017			2016		
	Individual	**Collective**	**Total**	Individual	Collective	Total
At 1 January	**(1,454)**	**(431)**	**(1,885)**	(2,104)	(485)	(2,589)
(Charges)/credit against profits	**(395)**	**198**	**(197)**	162	54	216
Amounts written off	**701**	**-**	**701**	486	-	486
Recoveries	**-**	**-**	**-**	(10)	-	(10)
Unwind of discount of allowance	**70**	**-**	**70**	12	-	12
At 31 December	**(1,078)**	**(233)**	**(1,311)**	(1,454)	(431)	(1,885)

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

	2017	2016
Administrative bodies and non-commercial	**162,193**	187,863
Property (excluding hotels and leisure)	**89,418**	30,571
Hotels & Leisure	**5,772**	7,025
Other	**23,275**	11,786
	280,658	237,245

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

13 Investment securities

	2017	2016
Available for sale		
Unlisted bank and building society certificates of deposit	**-**	29,966
Other listed transferable debt securities	**375,190**	340,785
Total	**375,190**	370,751

Movements during the year are analysed below:

	2017	2016
At 1 January	**370,751**	277,249
Fair value adjustment	**(323)**	675
Acquisitions	**121,593**	209,060
Disposals and maturities	**(116,831)**	(116,233)
At 31 December	**375,190**	370,751

14 Intangible assets

	2017	2016
Computer Software		
Cost		
At 1 January	**1,453**	1,380
Additions	**11**	73
At 31 December	**1,464**	1,453
Accumulated Amortisation		
At 1 January	**1,254**	1,153
Charge for the year	**49**	101
At 31 December	**1,303**	1,254
Net book value at 31 December	**161**	199

15 Property, plant and equipment

	Equipment & Fittings	**Computer Equipment**	**Total**
Cost			
At 1 January 2017	**637**	**1,939**	**2,576**
Additions	**80**	**73**	**153**
Disposals	**-**	**(5)**	**(5)**
At 31 December 2017	**717**	**2,007**	**2,724**
Accumulated Depreciation			
At 1 January 2017	**548**	**1,739**	**2,287**
Charge for the year	**41**	**134**	**175**
Disposals	**-**	**(5)**	**(5)**
At 31 December 2017	**589**	**1,868**	**2,457**
Net book value at 31 December 2017	**128**	**139**	**267**

Included within Computer Equipment is capitalised work in progress that is currently not being depreciated of £nil (2016: £53,439).

All amounts are stated in £000s unless otherwise indicated

15 Property, plant and equipment (continued)

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2016	576	1,875	2,451
Additions	61	121	182
Disposals	-	(57)	(57)
At 31 December 2016	**637**	**1,939**	**2,576**
Accumulated Depreciation			
At 1 January 2016	535	1,650	2,185
Charge for the year	13	145	158
Disposals	-	(56)	(56)
At 31 December 2016	**548**	**1,739**	**2,287**
Net book value at 31 December 2016	89	200	289

16 Other assets

	2017	2016
Amounts recoverable within one year:		
Trade debtors	**5**	2
Other assets	**97**	22
Total	**102**	24

17 Prepayments

	2017	2016
Amounts payable within one year:		
Other	**758**	578
Total	**758**	**578**

18 Other liabilities

	2017	2016
Amounts payable within one year:		
Trade creditors	**465**	337
Other liabilities	**671**	628
Total	**1,136**	**965**

19 Provisions for liabilities and charges

	Redundancy	**Customer claims**	**FSCS levy**	**Total**
At 1 January 2017	**324**	**12**	**43**	**379**
Income statement movements:				
Provided in the year	**15**	**-**	**28**	**43**
Utilised during the year	**(229)**	**(7)**	**(36)**	**(272)**
At 31 December 2017	**110**	**5**	**35**	**150**
Amounts falling due within one year	**110**	**5**	**35**	**150**
Amounts falling due after one year	**-**	**-**	**-**	**-**
	110	**5**	**35**	**150**

All amounts are stated in £000s unless otherwise indicated

19 Provisions for liabilities and charges (continued)

	Redundancy	Customer claims	FSCS levy	Total
At 1 January 2016	207	29	50	286
Income statement movements:				
Provided in the year	715	6	141	862
Utilised during the year	(598)	(23)	(148)	(769)
At 31 December 2016	324	12	43	379
Amounts falling due within one year	229	12	43	284
Amounts falling due after one year	95	-	-	95
	324	12	43	379

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, including the Bank, over this period.

The Bank's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2017/18. 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 the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year.

All amounts are stated in £000s unless otherwise indicated

20 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method. The movement on the deferred tax accounts are as follows:

	2017	2016
At 1 January - net deferred tax	**73**	73
Income statement charge	**(49)**	-
At 31 December - net deferred tax	**24**	73

Net deferred tax comprises:

Deferred tax asset	**24**	73

Deferred taxation	2017	2016
Investments	**(111)**	0
Other timing differences	**18**	4
Capital allowances on fixed assets	**117**	69
	24	73

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

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

21 Pensions

The Bank participates in The Co-operative Group Pension (Average Career Earnings) 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 companies, with the result that during the year 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 financial statements in respect of the Pace scheme for the period after 6 April 2006 is the actual contributions paid by the Bank.

22 Share capital

	2017	2016
Issued:		
Ordinary shares of £1 each	**18,943**	18,943
	18,943	18,943
Share premium account	**5,563**	5,563
	24,506	24,506

All issued share capital is allotted and fully paid.

All amounts are stated in £000s unless otherwise indicated

23 Contingent liabilities and commitments

The tables below show the nominal principal amounts and credit equivalent 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 has 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.

	2017		2016	
	Contract amount	**Credit equivalent amount**	Contract amount	Credit equivalent amount
Guarantees and irrevocable letters of credit	**4**	**-**	-	-
	4	**-**	-	-
Other commitments:				
Undrawn formal standby facilities, credit lines and other commitments to lend:				
-1 year and over	**63,438**	**-**	42,200	-
	63,438	**-**	42,200	-

Commitments under Operating leases

	2017		2016	
	Land and buildings	**Other leases**	Land and buildings	Other leases
At the year end, total commitments under non-cancellable operating leases were payable as follows:				
Expiring:				
-within one year	**311**	**31**	311	45
-between one and five years	**582**	**47**	893	87
-in five years or more	**-**	**-**	-	-
	893	**78**	1,204	132

Operating lease rental payments are disclosed in note 7.

The lease commitments refer to the Bank’s offices at 9, Brindleyplace, Birmingham, which expire in 2020.

Pensions

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

Other pensions risks and uncertainties include the risk to the Bank's capital and funds from the Bank's exposure to scheme liabilities (to the extent liabilities are not met by scheme assets), risks inherent in the valuation of scheme liabilities and assets, risks regarding the split of liabilities between the Bank and other participating employers while the Bank continues to participate in Pace.

All amounts are stated in £000s unless otherwise indicated

24 Related party transactions

The Bank has a related party relationship with its directors and executive management. The remuneration of the directors who are the key management personnel of the company is set out below in aggregate for each of the relevant categories specified in IAS 24 Related Party Disclosures.

Key management compensation

	2017	2016
Salaries and other short term benefits	**1,182**	1,011
Post employment benefits	**32**	50
	1,214	1,061

25 Country by country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within the scope of the Capital Requirements Directive (CRD IV). All of the activities of the Bank are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax paid as well as employee figures disclosed in note 8 are related to the United Kingdom. The Bank has not received any public subsidies.

26 Capital management

The Bank's policy is to maintain adequate capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank has complied with all externally imposed capital requirements throughout the period.

Regulatory capital

Regulatory capital stood at £56.6 million (2016: £54.5 million), in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis

	2017	2016
Tier 1		
Share capital	**18,943**	18,943
Share premium account	**5,563**	5,563
Capital redemption reserve	**3,250**	3,250
Retained earnings	**28,065**	25,637
AFS Reserve	**725**	900
Less: Adjustments to CET 1	**(536)**	(199)
Total Tier 1 capital	**56,010**	54,094
Tier 2		
Collective provisions	**233**	431
Total Tier 2 Capital	**233**	431
Total Tier 1 & Tier 2 Capital	**56,243**	54,525
Total regulatory capital	**56,243**	54,525
Common Equity Tier 1 ratio	**19.7%**	23.3%

All amounts are stated in £000s unless otherwise indicated

27 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 2017 and 31 December 2016 the book value of the Bank's financial instruments that have an active and liquid market were equivalent to the fair value of those instruments

Valuation of Financial Instruments

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

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

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

Primary Financial Instruments used by the Bank

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

Customer loans and deposits

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

Debt securities, wholesale market loans and deposits

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

Classification of financial instruments and fair values

	Loans and receivables	Available for sale	Fair value through equity	Fair value through profit & loss	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2017							
Assets							
Financial instruments measured at fair value							
Investment securities	**-**	**375,190**	**-**	**-**	**375,190**	**375,190**	**Level 1**
Financial instruments not measured at fair value							
Cash and balances with the Bank of England	**353,666**	**-**	**-**	**-**	**353,666**	**353,666**	**Level 1**
Loans and advances to banks	**2,829**	**-**	**-**	**-**	**2,829**	**2,829**	**Level 3**
Loans and advances to customers	**279,347**	**-**	**-**	**-**	**279,347**	**279,557**	**Level 3**
	635,842	**375,190**	**-**	**-**	**1,011,032**	**1,011,242**	
Liabilities							
Deposits from customers	**949,933**	**-**	**-**	**-**	**949,933**	**949,933**	**Level 2**
	949,933	**-**	**-**	**-**	**949,933**	**949,933**	

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

	Loans and receivables	Available for sale	Fair value through equity	Fair value through profit & loss	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2016							
Assets							
Financial instruments measured at fair value							
Investment securities	-	370,751	-	-	370,751	370,751	Level 1
Financial instruments not measured at fair value							
Cash and balances with the Bank of England	310,867	-	-	-	310,867	310,867	Level 1
Loans and advances to banks	2,806	-	-	-	2,806	2,806	Level 3
Loans and advances to customers	235,360	-	-	-	235,360	233,429	Level 3
	549,033	370,751	-	-	919,784	917,853	
Liabilities							
Deposits from customers	861,504	-	-	-	949,933	949,933	Level 2
	861,504	-	-	-	949,933	949,933	

• Loans and advances to banks

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

• Loans and advances to customers

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

• Investment securities available for sale

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

The fair value levelling of investment securities has been reviewed in the current year and this has resulted in these assets being classified differently compared to prior year financial statements. The prior year comparatives provided above have therefore been reclassified to ensure consistent treatment within the current year disclosure.

• Customer deposits

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

The fair value of customer loans and advances and loans and advances to bank have been categorised using level 3 as the value is not based on observable market data. The remaining financial assets and liabilities have been categorised using level 1 and level 2.

Credit Risk

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

All authority to take credit risk derives from the Bank’s Board. 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 Risk Management Framework is approved by the Board annually and determines the criteria for the management of corporate exposures. It specifies credit management standards, including country, sector and counterparty limits, along with delegated authorities.

The Bank’s Risk appetite 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 Audit and 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 treasury investments involves establishing limits for each of these counterparties based on their financial strength and credit rating.

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Credit Exposure

	Gross balance	**Credit commitments**	**2017 Credit risk exposure**	Gross balance	Credit commitments	2016 Credit risk exposure
Cash and balances at central banks	**353,666**	**-**	**353,666**	310,867	-	310,867
Loans and advances to banks	**2,829**	**-**	**2,829**	2,806	-	2,806
Loans and advances to customers	**279,347**	**63,442**	**342,789**	237,245	42,200	279,445
Investment securities - available for sale	**375,190**	**-**	**375,190**	370,751	-	370,751
	1,011,032	**63,442**	**1,074,474**	921,669	42,200	963,869
Allowance for impairment losses on loans and advances			**(1,311)**			(1,885)
Carrying amount			**1,073,163**			961,984

The Group's concentration exposure is outlined in note 12.

Credit risk analysis

31 December 2017

	Loans and advances to banks	**Loans and advances to customers**	**Investment securities**	**total**
Individually impaired				
90 days past due or evidence of impairment	**-**	**57**	**-**	**57**
Carrying amount	**-**	**57**	**-**	**57**
Collectively impaired				
Less than 90 days past due	**-**	**8,187**	**-**	**8,187**
Carrying amount	**-**	**8,187**	**-**	**8,187**
Past due but not impaired				
0-30	**-**	**62**	**-**	**62**
Carrying amount	**-**	**62**	**-**	**62**
Neither past due or impaired	**2,829**	**272,352**	**375,190**	**650,371**
Allowance for impairment losses on loans and advances	**-**	**(1,311)**	**-**	**(1,311)**
Total carrying amount	**2,829**	**279,347**	**375,190**	**657,366**

All loans classified as Grade 6 and 7-8 are included within the impaired or past due but not impaired buckets.

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

31 December 2016

	Loans and advances to banks	Loans and advances to customers	Investment securities	total
Individually impaired				
90 days past due or evidence of impairment	-	1,031	-	1,031
Carrying amount	-	1,031	-	1,031
Collectively impaired				
Less than 90 days past due	-	11,440	-	11,440
Carrying amount	-	11,440	-	11,440
Past due but not impaired				
0-30	-	410	-	410
Carrying amount	-	410	-	410
Neither past due or impaired	2,806	224,364	370,751	597,921
Allowance for impairment losses on loans and advances	-	(1,885)	-	(1,885)
Total carrying amount	2,806	235,360	370,751	608,917

Impairment definition

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

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

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

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

Past due but not impaired

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

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Collateral

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

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

As at 31 December 2017 £9.9 million (2016: £12.5 million) within loans and advances was unsecured.

At the reporting date, the fair value of collateral held as security against individually impaired assets was £3.3 million (2016: £0.3 million).

At the reporting date the fair value of collateral held as security against loans and advances to customers that are past due but not impaired was £nil (2016: £0.8 million).

Geographical concentration

At 31st December 2017, the majority of the Bank's treasury investment exposures were to UK and European countries. The Bank also had £105 million of exposures to non European countries as follows; Canada £70 million, Australia £35 million.

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 2017**
Germany	**-**	**-**	**-**	**-**	**-**
Norway	**-**	**-**	**36,180**	**-**	**36,180**
Sweden	**-**	**-**	**20,000**	**-**	**20,000**
Supranational	**-**	**-**	**45,000**	**-**	**45,000**
	-	**-**	**101,180**	**-**	**101,180**

The Bank had exposures to financial institutions in the following European countries at 31 December 2016:

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 2017
Germany	-	20,000	-	-	20,000
Norway	-	-	20,000	-	20,000
Sweden	-	-	-	-	-
Supranational	-	15,384	35,000	-	50,384
	-	35,384	55,000	-	90,384

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Interest rate risk

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

The Board receives at least quarterly reports on the management of balance sheet risk and the Asset and Liability Committee reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

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

31 December 2017	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 with the Bank of England	**353,666**	**-**	**-**	**-**	**-**	**-**	**353,666**
Loans and advances to banks	**2,829**	**-**	**-**	**-**	**-**	**-**	**2,829**
Loans and advances to customers	**266,658**	**-**	**-**	**3,703**	**10,298**	**(1,312)**	**279,347**
Investment securities - available for sale	**297,361**	**27,364**	**20,060**	**30,405**	**-**	**-**	**375,190**
Other assets	**-**	**-**	**-**	**-**	**-**	**1,343**	**1,343**
Total assets	**920,514**	**27,364**	**20,060**	**34,108**	**10,298**	**31**	**1,012,375**
Liabilities							
Customer accounts	**949,933**	**-**	**-**	**-**	**-**	**-**	**949,933**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**2,347**	**2,347**
Total equity	**-**	**-**	**-**	**-**	**-**	**60,095**	**60,095**
Total liabilities and equity	**949,933**	**-**	**-**	**-**	**-**	**62,442**	**1,012,375**
Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	
Interest rate sensitivity gap	**(29,419)**	**27,364**	**20,060**	**34,108**	**10.298**	**(62,411)**	
Cumulative gap	**(29,419)**	**(2,055)**	**18,005**	**52,113**	**62,411**	**-**	

31 December 2016	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 with the Bank of England	310,867	-	-	-	-	-	310,867
Loans and advances to banks	2,806	-	-	-	-	-	2,806
Loans and advances to customers	229,575	-	-	4,147	3,519	(1,881)	235,360
Investment securities - available for sale	271,934	10,972	36,038	51,807	-	-	370,751
Other assets	-	-	-	-	-	1,163	1,163
Total assets	815,183	10,972	36,038	55,954	3,519	(718)	920,947
Liabilities							
Customer accounts	861,504	-	-	-	-	-	861,504
Other liabilities	-	-	-	-	-	2,268	2,268
Total equity	-	-	-	-	-	57,175	57,175
Total liabilities and equity	861,504	-	-	-	-	59,443	920,947
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	(46,321)	10,972	36,038	55,954	3,519	(60,161)	
Cumulative gap	(46,321)	(35,349)	689	56,643	60,161	-	

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

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 core sectors. As a result, the deposit base remains stable whereas the contractual maturity is immediate for instant access deposits.

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

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

31 December 2017

	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	**353,666**						**353,666**
Loans and advances to banks	**2,829**	**-**	**-**	**-**	**-**	**-**	**2,829**
Loans and advances to customers	**2,647**	**8,412**	**9,351**	**57,009**	**201,928**	**-**	**279,347**
Investment securities - available for sale	**-**	**73,274**	**37,710**	**264,206**	**-**	**-**	**375,190**
Other assets	**-**	**-**	**-**	**-**	**-**	**1,344**	**1,344**
Total assets	**359,142**	**81,686**	**47,061**	**321,215**	**201,928**	**1,344**	**1,012,376**
Liabilities							
Customer accounts	**799,333**	**150,600**	**-**	**-**	**-**	**-**	**949,933**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**62,443**	**62,443**
Total liabilities and equity	**799,333**	**150,600**	**-**	**-**	**-**	**62,443**	**1,012,376**
Net liquidity gap on contractual basis	**(440,191)**	**(68,914)**	**47,061**	**321,215**	**201,928**	**(61,099)**	**-**

31 December 2016

	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	310,867						310,867
Loans and advances to banks	2,806	-	-	-	-	-	2,806
Loans and advances to customers	756	6	7,266	82,642	144,689	-	235,360
Investment securities - available for sale	-	56,809	78,159	235,783	-	-	370,751
Other assets	-	-	-	-	-	1,163	1,163
Total assets	314,429	56,815	85,425	318,425	144,689	1,163	920,947
Liabilities							
Customer accounts	723,100	138,404	-	-	-	-	861,504
Other liabilities	-	-	-	-	-	59,443	59,443
Total liabilities and equity	723,100	138,404	-	-	-	59,443	920,947
Net liquidity gap on contractual basis	(408,671)	(81,589)	85,425	318,425	144,689	(58,280)	-

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Gross expected cashflow maturity analysis – contractual

31 December 2017

	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	**949,933**	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**2,347**	**2,347**	**2,347**	**-**	**-**	**-**	**-**
Total recognised liabilities	**952,280**	**2,347**	**2,347**	**-**	**-**	**-**	**-**
Unrecognised loan commitments	**63,442**	**63,442**	**63,442**	**-**	**-**	**-**	**-**
Total	**1,015,722**	**65,789**	**65,789**	**-**	**-**	**-**	**-**

31 December 2016

	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	861,504	-	-	-	-	-	-
Other liabilities	2,268	2,268	2,268	-	-	-	-
Total recognised liabilities	**863,772**	**2,268**	**2,268**	**-**	**-**	**-**	**-**
Unrecognised loan commitments	42,200	42,200	42,200	-	-	-	-
Total	**905,972**	**44,468**	**44,468**	**-**	**-**	**-**	**-**

Glossary

The following glossary defines terminology within the Annual Report & Accounts to assist the reader:

Unity or The Bank	Unity Trust Bank plc
ALCO	Asset and Liability Committee
CDFI	Community Development Finance Institutions
CITR	Community Investment Tax Relief
CRD IV	Capital Requirements Directive (Directive 2013/36 EU)
FCA	Financial Conduct Authority
ILAAP	Individual Liquidity Adequacy Assessment Process
PRA	Prudential Regulation Authority

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