report and accounts 2018

Unity Trust Bank PLC

Registered Head Office and Customer Services Centre

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

Financial Services Register No. 204570

Board of Directors

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

Company Secretaries

Kate Eldridge
Christian Fleischmann (from 8 October 2018)

Executive Management

Margaret Willis, Chief Executive Officer
Nikki Fenton, Chief Financial Officer
Mark McEvitt, Chief Risk Officer
Steve Clarke, Director, Commercial Banking (from 30 October 2018)
Lindsey Podolanski, Chief Operating Officer
Julia Tarpey, Director, Human Resources

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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The Chairman's Statement

In 2018, your Bank made a record after-tax profit of £6.0 million (up 68%); we eliminated our liability for the Co-operative Group pensions (a legacy from pre-independence); we raised new capital for growth; and we contributed more than ever to society.

This is a massive improvement from four years ago; you can be rightly proud of your Bank again. 2018 completed the first phase of the journey we started in 2015 when, with your support, Unity achieved independence.

At the AGM, we are recommending increasing your dividend by 77% to 4.25p per share (nearly double the 2.4p paid in 2018).

Performance

Profit before tax, rose to £6.8 million, up 83% on 2017. Post-tax return on shareholders' equity rose to 8.8%, up from 6.1% in 2017. Our capital ratios, which measure our financial safety, were healthy.

Unity pursues benefit to customers, employees and society, not just good returns for shareholders. These increased too in 2018.

Society

We lend only to firms that benefit society as well as sustaining themselves. We increased lending to an all-time high of £366 million (up 30%) in 2018. Every loan we approve must deliver community, economic, social or environmental benefit as well as meeting our risk criteria. Total loans approved over the last three years has exceeded £500 million.

The loans advanced in 2018 supported over 950 jobs directly, created bed spaces, new community facilities and supported affordable housing.

In 2018, Unity became the first bank to receive the bronze Carbon Literacy award. You can find more details in our Social Impact Report, also published today.

Customers

Customer attraction increased for the third year running, with 17% more new customers joining Unity in the year. We continued to invest in operational improvements to drive speed, ease and certainty for our customers. We have more initiatives in 2019.

Employees

Your Directors favour employee share ownership. It enables employees to be rewarded for the value they create, as well as for their labour. The integrity of our values and the continuity of service to our customers demand a long-term perspective. Having an interest in value created over the long term encourages that. Also, it aligns the interests of employees with other shareholders. At the 2019 AGM we will propose to expand employee ownership through a new Unity Employee Share Plan.

Unity is a 'real living wage' employer. We hold gold level Investor in People status and are committed to the apprenticeship scheme. Employee engagement is measured through the independent Banking Standards Board survey, and in 2018, our results demonstrated improvements in every segment reported.

We will pay a profit share of 7% of base pay (2017: 5%) to all eligible employees.

Strategy

The Board's vision continues to be for Unity to serve the needs of its customers, develop its people and help enrich society as a whole. This 'double bottom line' strategy is the foundation of our future advancement.

We take a cautious approach to risk. We seek only safe growth, well-managed costs, great customer service and to be capital accretive. Our growth shows values-based banking is popular.

Pension scheme transfer and exceptional costs

Unity historically participated in The Co-operative Group's '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 other participating employers.

During the year, we established our own pension fund, providing members and pensioners with a fully-funded scheme. The transfer from Pace was successfully completed in October eliminating the legacy 'last man' risk. Protection of the interests of members was paramount.

Unity contributed £0.6 million to the new fund. The pension transfer incurred significant adviser costs of £0.4 million. These are shown as an exceptional item in our income statement.

New investors & capital

The new pension arrangements and the removal of the Pace risk reduced the capital we are required to hold by the regulator. This has released more of our capital for our growth.

In April, several shareholders and one new organisation invested in Unity; we are grateful for their confidence and support, raising a net £8.5m of new capital. The new shareholder is Sustainability, Finance, Real Economies ('SFRE'), an investment fund initiated by the Global Alliance for Banking on Values. We are delighted to welcome investors who share Unity's values.

Economic environment

Uncertainty is not conducive to investment and economic growth. That seemed to be proved in 2018. Combined with low Government investment this served to depress firms' confidence and some to delay investment plans.

The global trend towards protectionism and the well-publicised prevalence of misinformation and ignorance in politics generally, do not bode well for the immediate future.

We hope and expect that good sense will prevail. Unity is well-capitalised and has a resilient business model. We will continue to apply our "safe growth" strategy, be alert to customer affordability and always treat customers fairly, in accordance with our values.

Share trading

We will shortly be sharing with you the details of a share dealing day, to take place after the AGM. The net asset value of a share in Unity has increased from £3.17 to £3.36 in 2018.

In conclusion

The Directors and I would like to recognise, thank and congratulate all Unity's people for their outstanding commitment and expertise that contributed to the excellent results. We thank our customers too for their continued support, particularly during the operational changes in 2018.

It is a very great pleasure to be able to report these excellent results to you. Shareholders and employees can be justly proud of Unity.

Alan Hughes
Chairman, 05 March 2019

Strategic Report

The Bank's business model is straightforward: we provide current accounts and interest-bearing accounts and banking services to business customers and use that funding to meet the borrowing needs of creditworthy organisations who demonstrate social value.

Our focus is on extending our customer base; to become the bank of choice for businesses and organisations who share these values and philosophies.

Our 'double bottom line' strategy of sustainable financial returns and positive social impact set us apart from the mainstream banks; our personal service and specialist sector knowledge are important differentiators.

Supporting this strategy are Unity's key objectives:

- excellent customer service and ensuring positive customer outcomes;
- accrete capital which allows us to be self-sufficient in the medium term;
- distribute a fair dividend to our shareholders;
- develop and improve the capability and engagement of employees; and
- demonstrate our values-based banking culture in everything that we do.

Highlights from 2018

In addition to raising new capital and eliminating the last man standing risk, Unity completed several technological developments to improve the customer experience and making it easier for our customers to do business with us:

- **Online account opening**, including the ability to upload documents, which significantly reduces the time to open an account
- **Statement integration,** enabling easy access through internet banking
- **Online account maintenance**, allowing customers to change signatories, addresses and contact details through a quicker, more convenient process

During the final few months of 2018 we accelerated preparations for moving to our new head office. The move was successfully completed on 21 January 2019 with minimal disruption.

The new premises are bigger, brighter and more environmentally friendly, and allow us to invest further in technological solutions; reinforcing our social and environmental commitments and supporting our growth ambitions.

Financial performance

The primary drivers of the excellent 2018 financial performance are:

Income

Net interest income for 2018 was £15.6m (2017: £11.5m) reflecting the growth in the loan book and the impact of the base rate rise in August. Total loans and advances to customers at the end of the year were £362.4m (2017: £279.3m). Loans and advances originated during the year totalled £125.8m (2017: £96.3m), an increase of 31%.

Net fee and commission income for the year totalled £2.8m (2017: £2.7m) reflecting the Bank's decision to pass on minimal fee increases to customers.

Operating expenses

Total operating expenses for the year were £10.6m (2017: £10.3m), broadly flat for the third year in a row. This reflects the fixed cost base of the Bank's operations. £5.8m (2017: £5.4m) of these operating expenses are attributable to staff costs.

In 2018, the Bank incurred one-off costs relating to its exit from the Pace DB pension scheme amounting to £1.0m. Additionally, the Bank has recognised a pension asset of £4.0m and will account for actuarial gains and losses going forwards.

Our cost income ratio for the year – including exceptionals – improved significantly to 57.9% (2017: 72.9%). Unity continues to strengthen its structures, processes and to increase the professional skills and capability of its people. At the year-end there were 104 people working for Unity (2017: 91).

Impairment

The Bank has adopted IFRS 9 with effect from 1 January 2018, resulting in a £0.3m adjustment to opening reserves. Due to the transition method applied, the comparative year has not been restated and therefore may not provide a like for like comparison.

Capital

Shareholders equity includes £3.3m relating to the pension surplus of Unity's new defined benefit (DB) pension scheme. This amount is excluded from risk weighted assets and capital resources when calculating regulatory capital.

Unity ended the year with a Core Equity Tier 1 (CET1) ratio of 19.3%, well ahead of regulatory minima.

Liquidity

Unity lending book continues to be 100% funded by customer deposits. Unity recognises that it benefits from a stable, loyal and growing customer deposit base. Customer deposit balances at the year-end were £998.1m (2017: £949.9m).

Outlook

Unity is monitoring closely the impact of the uncertainties in the external environment on the Bank and its customers.

Having closed out some key risks in 2018 (capital and pension), in 2019 we are looking to upgrade our technological platforms and support customers through Open Banking.

Careful investment is planned, to maximise our digital capability, build scale, enhance automation and most importantly continue to improve the customer experience.

Our financial strength, strong liquidity, and social credentials create clear differentiation in the market and our potential is beginning to be recognised more widely.

Principal risks and uncertainties

Unity has an established 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 businesses, are mitigated 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 and the business is managed within this framework. The Bank operates a 'three lines of defence' risk management model whereby:

- The first line of defence sits within the business and seeks to manage the policies, processes and controls.
- The second line Risk team undertakes oversight and testing of first line risk control.
- The third line is the independent 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.

Risk	Mitigation
Credit Risk is the risk that counterparties will be unable or unwilling to meet a contractual commitment that they have entered into with the Bank, as well as supplier health and resilience.	The Bank has a very experienced credit underwriting team which reviews all applications against the Board approved lending and sector policies. The UK's impending departure from the European Union (Brexit) and the inevitable volatility in markets that will result is subject to regular and ongoing review. The Bank continues to evaluate the potential direct and indirect impacts on its business, our customers and suppliers. The challenges and issues will continue to be kept under constant review until the post Brexit trading environment becomes clear. Treasury investments are subject to strict rules, within the Board approved Treasury policy, regarding the quality of counterparties which are restricted to financial and government related institutions. The Risk function (second line), regularly oversee both credit and investment decisions to ensure appropriate approval decisions, together with risk aware monitoring and control of existing exposures. Ad hoc portfolio and sector reviews can lead to refinements to Credit Risk and Treasury policies.
Market Risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets and liabilities.	Market risk arises from the effect of changes in market prices of financial instruments and on income/expenses derived from the structure of the balance sheet. The majority of the risk arises from changes in interest rates as the Bank does not have any foreign exchange exposure. Interest rate risk is monitored on a monthly basis as part of Asset and Liability Committee (ALCO) responsibilities. Market risks and economic indicators are considered at Board and Executive Committees and stress testing is implemented and reviewed regularly.
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 its risk management framework. A system of controls, inherent risk registers and current and emerging risk logs, as well as risk event and near miss reporting is in place to monitor and assess the Bank's operational resilience. These risks are considered and reviewed at both Executive and Board Committees. Work continues to further strengthen the Bank's operational resilience framework, including the detailed analysis of the Bank's tolerance to disruption of key customer services. This ongoing work is helping to inform both our risk appetites and risk management framework. The Board considers cyber risk to be an increasingly important facet of operational resilience and has a board approved cyber security strategy in place. The Bank has further strengthened its approach to cyber risk with the ongoing engagement of a cyber resilience subject matter expert who provides additional oversight and assurance of our cyber risk strategy. As the Bank accelerates implementation of its IT investment programme, it will continue to engage appropriate independent validation and assurance.

Risk	Mitigation
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 in line with Bank of England guidance. The Treasury team manages liquidity on a day-to-day basis, with oversight from the Risk team. The Bank continues to benefit from a strong liquidity position due to the nature of its customer base.
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 impact of Brexit, whether or not an agreement is negotiated, is difficult to predict. The Bank completes capital and liquidity stress testing as part of its ongoing risk management processes. A Brexit stress scenario might include: stresses applied to the PDs and market value of security; extending the time and costs to realise security to reflect a market-wide stress; a general downgrade of bank bonds and currency devaluation driving up interest rates and impacting industry margins and customer affordability. These elements are already incorporated into the ICAAP stress testing. The Executive team monitors financial performance trends on a weekly basis and monthly actual and forecast management information is discussed at both Executive and Board levels. 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. To further develop its culture of delivering outstanding customer service the Bank entered into partnership with an experienced customer satisfaction research and survey company in the second half of 2018. This is to drive further enhancements and improvements to customer service. 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 overseen and monitored by a Product Governance committee and 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, with forward looking horizon scanning, reporting 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 its defined benefit pension scheme. The Bank also contributes to a Defined Contribution scheme.	The Bank closed its defined benefit pension scheme to future accrual as at October 2015. In October 2018, the Bank exited The Co-operative Group Pace DB pension scheme, which was a multi-employer scheme run on a 'last man standing basis'. On transfer from Pace, the Bank created its own Unity Trust Bank Pension Trustee Ltd trustee group to manage the DB scheme assets and liabilities. At 31 December 2018, the scheme was in surplus and therefore no contributions are currently required. Triennial valuations will indicate the future funding requirements and fluctuations in actuarial assumptions will be monitored regularly.

By Order of the Board

Margaret Willis
Chief Executive Officer
Unity Trust Bank plc
05 March 2019

Results and Dividends

The results for the year, before taxation, amounted to a profit of £6.8m (2017: £3.7m). The Directors recommend a final dividend of 4.25p per share to be paid in 2019 (2017: 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 (until 8 June 2018)
Sandy Chen, Independent Non-Executive Director
Jim Gunner, Independent Non-Executive Director
John Hannett, Non-Executive Director (until 8 June 2018)
Ed Sabisky, Non-Executive Director
Susan Sternglass Noble, Independent Non-Executive Director
Allan Wylie, Non-Executive Director

Executive Directors

Margaret Willis, Chief Executive Officer

Purchase of Own Shares

On 5 April 2018, the Bank purchased 1,260,554 Ordinary £1 shares from shareholders, for £2 per share. The total cost of the purchase was £2,534k (inclusive of costs). These shares were purchased from shareholders who indicated a wish to sell their shares. The Bank immediately cancelled the shares purchased. All of the Bank's shares are fully paid-up.

Employee Share Ownership Plan

Unity EBT Limited is a wholly-owned subsidiary of the Bank and trustee of the Bank's Employee Share Ownership Plan (ESOP). During 2018, 590 Ordinary £1 shares were purchased by Unity EBT Limited from employees who had left the Bank for a total of £1,855. It is intended that these shares will be used in the operation of employee share ownership schemes.

During 2018, 1,400 Ordinary £1 shares were gifted to employees in recognition of service anniversaries at nil consideration and 130 shares were purchased by employees for a total of £412.

Insurance and Indemnities

The Bank has purchased and maintains Directors and Officers liability insurance cover. In addition, the Bank indemnifies each of its Directors and the Directors of its subsidiary, Unity EBT Limited, against liability for wrongful or negligent acts. This arrangement constitutes a qualifying third-party indemnity provision for the purposes of the Companies Act 2006 and applied to each of the Bank's Directors serving in 2018 and as at the date of approval of this report.

Future Developments

An indication of future developments is in the Strategic Report.

Risk

Information on exposure to price risk, credit risk, liquidity risk and cash flow risk can be found in the Strategic Report.

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 £496k (2017: £724k) were made regarding the CITR scheme.

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

£'000	**2018**	**2017**
Corporation tax borne	1,283	709
Employment tax borne		
• Employer NIC	570	515
Total taxes paid	**1,853**	**1,224**
Employment taxes collected		
• Employee PAYE and NIC	1,412	1,365
Total tax contributions	**3,265**	**2,589**

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.

Statement of Directors' responsibilities in respect of the strategic report, 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 International Financial Reporting Standards as adopted by the European Union (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 Bank and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank 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 Bank'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 Britain's exit from the EU (Brexit), 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 22 to 30.

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 auditor is 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 auditor is 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

Following a tender exercise, the Board will recommend the appointment of Deloitte LLP to shareholders at the 2019 AGM.

By order of the Board

Christian Fleischmann
Company Secretary

05 March 2019

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 2018 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 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 Bank's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with the International Financial Reporting Standards as adopted by the European Union; and
- 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 first appointed as auditor by the shareholders on 7 March 1984. The period of total uninterrupted engagement is for the 35 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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 matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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 these matters.

The impact of uncertainties due to Britain exiting the European Union on our audit	Unprecedented levels of uncertainty	Our response
Refer to page 6 Strategic report.	All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans and advances to customers, interest receivable on loans and advances to customers – effective interest rate adjustment, valuation of defined benefit pension scheme obligation below, and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts. All of these depend on assessments of the future economic environment and the Bank's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. **Sensitivity analysis:** When addressing impairment of loans and advances to customers, interest receivable on loans and advances to customers – effective interest rate adjustment, valuation of defined benefit pension scheme obligation and other areas that depend on forecasts, we compared the Directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impact of impairment of loans and advances to customers, interest receivable on loans and advances to customers – effective interest rate adjustment, valuation of defined benefit pension scheme obligation on our audit we considered all of the Brexit disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks **Our results:** As reported under impairment of loans and receivables, we found the resulting estimates and related disclosures of impairment of loans and advances to customers, interest receivable on loans and advances to customers – effective interest rate adjustment, valuation of defined benefit pension scheme obligation and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a bank and this is particularly the case in relation to Brexit.

Impairment of loans receivables	Subjective estimate	Our procedures included:
£1.6m (2017: £1.3m) Refer to page 22 (accounting policy) and page 33 related disclosures	IFRS 9 was implemented by the Bank on 1 January 2018. The calculation of credit provisions in line with IFRS 9 is an inherently judgemental area within the financial statements and there is a risk that the key assumption used for calculating impairment provisions may not be supported by robust and objective evidence, or may be out of line with wider industry experience, or not reflective of external conditions. Under IFRS 9 the staging criteria used to define whether an asset has been subject to a Significant Increase in Credit Risk ('SICR') drive whether an asset requires a 12 month or lifetime expected credit loss ('ECL'). We have therefore determined the staging criteria to be the key assumption and have identified a significant risk over the appropriateness of the staging criteria determined by the bank and the application of these to assets within the ECL calculation.	**Test of detail:** We assessed the staging criteria used by the Bank to determine SICR and the application of that criteria to the loan book. We tested, on a sample basis, that assets were included in the correct staging bucket within the model. **Benchmarking:** We compared the Bank's key assumptions, e.g. forced sale discount against those of comparable lenders; **Assessing transparency:** We assessed the adequacy of the Bank's disclosures about the degree of estimation involved in arriving at the impairment recognised. **Our results:** We found the resulting estimate of the impairment of loans and advances to be acceptable. (2017: acceptable)

Interest receivable on loans and advances to customers – effective interest rate adjustment Balance sheet liability £3.2m (2017: £2.3m) Refer to page 22 (accounting policy) and page 33 (financial disclosures).	**Subjective estimate** Accounting standards require interest receivable on loans and advances to customers to be recognised using the effective interest rate ('EIR') method. This results in all directly attributable interest, fees and costs being recognised on an even yield basis over the expected life of the loans. The recognition of interest receivable on loans and advances to customers under the effective interest rate method requires the Bank to make significant judgements and estimates, with the most critical estimate being the loans' expected behavioural life. The Bank have determined this estimate with reference to the long term and historical customer behaviour. In addition, judgement is applied in assessing which fees and costs to include in the EIR calculation.	**Our procedures included:** **Historical comparison:** We assessed the reasonableness of the Bank's behavioural life assumptions against actual customer behaviour; **Test of detail:** We assessed the treatment of directly attributable fees and costs included in the effective interest rate against the requirements of the accounting standard; **Independent re-performance:** We checked the mathematical accuracy of the EIR model through re-performance of the model calculations; **Data capture:** We performed sample testing to assess the completeness and accuracy of the data inputs into the EIR model; **Sensitivity analysis:** We assessed the model for its sensitivities to changes in the key assumptions by considering alternative behavioural lives to help us assess the criticality of the assumptions used and identify areas for potential audit focus; and **Assessing transparency:** We assessed the adequacy of the Bank's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** We found the resulting estimate of interest receivable on loans and advances to customers recognised under the EIR method to be acceptable (2017: acceptable).

Valuation of defined benefit scheme obligation	Subjective estimate	Our procedures included:
Defined benefit obligation £4m; Refer to page 29 (accounting policy) and page 38 (financial disclosures).	During 2018 the Bank established its own defined benefit pension scheme. At year-end, the Bank holds a net defined benefit pension scheme asset on the statement of financial position, which includes gross pension obligations. Small changes in the assumptions and estimates used to value the Bank's pension obligation (before deducting scheme assets) would have a significant effect on the Bank's net defined benefit obligation. The effect of these matters is that, as part of our risk assessment, we determined that the defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 21) disclose the sensitivity estimated by the Bank.	**Evaluation of actuary:** We evaluated the competence, independence and objectivity of the Bank's actuary in assessing management's reliance upon their expert valuation services. **Benchmarking assumptions:** We critically assessed, using our own actuarial specialists, the key assumptions applied, such as the discount rate, inflation rate and mortality/life expectancy against externally derived data and internal experience; and **Assessing transparency:** We considered the adequacy of the Bank's disclosures in respect of the sensitivity of the obligation to these assumptions. **Our results:** We found the valuation of defined benefit obligation to be acceptable.

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 £300,000 (2017: £148,000), determined with reference to a benchmark of profit before tax (after adjusting for exceptional item), of which it represents 4% (2017: 4%)

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £15,000 (2017: £7,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease their operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Banks's business model and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Bank's available financial resources over this period was the availability of liquidity and capital in the event of a market-wide stress scenario including the impact of Brexit.

As these were risks that could potentially cast significant doubt on the Bank's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the erosion of customer confidence in the Bank which could result in a rapid reduction of available financial resources.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the Directors' report

The Directors are responsible for their strategic report and the Directors' report. Our opinion on the financial statements does not cover these reports and, accordingly, 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.

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

7 Respective responsibilities

Directors’ responsibilities
As explained more fully in their statement set out on page 8 to 9, 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
We identified relevant areas of laws and regulations that could have a material effect on the financial statements 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 correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.
Firstly, the bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of bank’s licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity recognising the financial and regulated nature of the Bank’s activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

05 March 2019

Income Statement for the year ended 31 December 2018

All amounts are stated in £000s unless otherwise indicated

	Notes	2018	2017
Interest income under EIR method	5	**16,874**	12,021
Interest expense and similar charges	6	**(1,323)**	(529)
Net Interest Income		**15,551**	11,492
Fee and commission income		**3,944**	3,793
Fee and commission expense		**(1,124)**	(1,138)
Net fee and commission income		**2,820**	2,655
Total income		**18,371**	14,147
Operating expenses	7	**(10,623)**	(10,337)
Impairment credit/(charge) on loans and advances	12	**52**	(127)
Operating profit before exceptional items		**7,800**	3,683
Exceptional item			
Pension scheme related costs	7	**(1,045)**	-
Profit before taxation	3	**6,755**	3,683
Taxation charge	9	**(788)**	(133)
Profit for the year attributable to shareholders		**5,967**	3,550

The Bank has adopted IFRS 9 with effect from 1 January 2018. Due to the transition method applied, the comparative year has not been restated.

The accounting policies and notes on pages 22 to 49 form part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2018

All amounts are stated in £000s unless otherwise indicated

	2018	2017
Profit for the year - equity shareholders	**5,967**	3,550
Other comprehensive income:		
Initial recognition of DB pension surplus	**4,277**	-
DB pension scheme remeasurements	**(275)**	
Income tax	**(680)**	-
Changes in assets held at FVTOCI		
Prior year charges	**(28)**	83
Net changes in fair value recognised directly in equity[1]	**(1,891)**	(253)
Reclassification adjustments included in profit[2]	**(10)**	(70)
Income tax	**322**	65
Other comprehensive income/(expense) for the year, net of tax	**1,715**	(175)
Total comprehensive income for the year - equity shareholders	**7,682**	3,375

[1]Net changes in the fair value of 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.

Attributable to:		
Equity shareholders	**7,682**	3,375
Dividend paid in the year	**(538)**	-
	7,144	3,375

The Bank has adopted IFRS 9 with effect from 1 January 2018. Due to the transition method applied, the comparative year has not been restated.

The accounting policies and notes on pages 22 to 49 form part of these financial statements.

Statement of Financial Position as at 31 December 2018

All amounts are stated in £000s unless otherwise indicated

	Notes	2018	2017
Assets			
Cash and balances with the Bank of England	10	**280,390**	353,666
Loans and advances to banks	11	**1,243**	2,829
Loans and advances to customers	12	**362,446**	279,347
Investment securities	13	**426,368**	375,190
Intangible assets	14	**220**	161
Property, plant and equipment	15	**1,195**	267
Pension scheme net assets	21	**4,020**	-
Deferred tax assets	20	**-**	24
Other assets	16	**48**	102
Prepayments and accrued income	17	**964**	758
Current tax assets		**-**	32
Total assets		**1,076,894**	1,012,376
Liabilities			
Customer accounts		**998,130**	949,933
Other liabilities	18	**479**	1,136
Accruals and deferred income		**1,527**	1,061
Provisions for liabilities and charges	19	**274**	150
Current tax liabilities		**708**	-
Deferred tax liabilities	20	**353**	-
Total liabilities		**1,001,471**	952,280
Capital and reserves attributable to the Bank's equity shareholders			
Ordinary share capital	22	**22,421**	18,943
Share premium account	22	**11,808**	5,563
Capital redemption reserve		**4,511**	3,250
Retained earnings		**37,555**	31,615
Financial asset valuation reserve		**(872)**	725
Total equity		**75,423**	60,096
Total liabilities and equity		**1,076,894**	1,012,376

The Bank has adopted IFRS 9 with effect from 1 January 2018. Due to the transition method applied, the comparative year has not been restated.

The accounting policies and notes on pages 22 to 49 form part of these financial statements.

Approved by the Board on 05 March 2019 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 2018

All amounts are stated in £000s unless otherwise indicated

2018	Share capital	Share premium	Capital redemption reserve	Financial asset valuation reserve[1]	Retained earnings	Total equity
At 31 December 2017	**18,943**	**5,563**	**3,250**	**725**	**31,615**	**60,096**
Effects of changes in accounting policies[1]	**-**	**-**	**-**	**-**	**(277)**	**(277)**
At 1 January 2018	**18,943**	**5,563**	**3,250**	**725**	**31,338**	**59,819**
Total comprehensive income for the financial year	**-**	**-**	**-**	**(1,597)**	**5,967**	**4,370**
Initial recognition of DB pension surplus	**-**	**-**	**-**	**-**	**3,322**	**3,322**
Issue of share capital	**4,739**	**6,245**	**-**	**-**	**-**	**10,984**
Own shares acquired during the financial year	**(1,261)**	**-**	**1,261**	**-**	**(2,534)**	**(2,534)**
Dividend paid	**-**	**-**	**-**	**-**	**(538)**	**(538)**
At 31 December 2018	**22,421**	**11,808**	**4,511**	**(872)**	**37,555**	**75,423**

[1]As discussed in note 1(d) assets previously classified as available for sale are now reclassified to fair value through other comprehensive income (FVTOCI), as a result of transitioning to IFRS 9 on 1 January 2018. This is held in the financial asset valuation reserve.

2017	Share capital	Share premium	Capital redemption reserve	Available -for-sale reserve[1]	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 paid	-	-	-	-	(455)	(455)
At 31 December 2017	18,943	5,563	3,250	725	31,615	60,096

The accounting policies and notes on pages 22 to 49 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2018

All amounts are stated in £000s unless otherwise indicated

	Notes	2018	2017
Cash flows from operating activities			
Profit before taxation		**6,755**	3,683
Adjustments for non-cash items:			
Increase in prepayments and accrued income		**(206)**	(180)
Increase in accruals and deferred income		**466**	137
Impairment (release)/losses on loans and advances		**(52)**	127
Depreciation and amortisation		**272**	224
Loss on disposal		**56**	-
Provision for liabilities and charges		**124**	(228)
		7,415	3,763
Increase in customer accounts		**48,197**	88,429
Increase in loans and advances to customers		**(83,356)**	(44,114)
Increase in Bank of England mandatory reserve	10	**(381)**	(30)
Net movement of other assets and other liabilities		**(621)**	93
Income tax received		**-**	32
Net cash flow from operating activities		**(28,746)**	48,173
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,153)**	(153)
Intangible asset additions		**(162)**	(11)
Purchase of investment securities		**(174,045)**	(121,593)
Proceeds from sale and maturity of investment securities		**120,951**	116,831
Net cash used in investing activities		**(54,409)**	(4,926)
Cash flows from financing activities			
Ordinary share dividends paid		**(538)**	(455)
Buy back of own shares		**(2,534)**	-
Proceeds on issue of share capital net of transaction costs		**10,984**	-
Net cash flow from financing activities		**7,912**	(455)
(Decrease)/increase in cash and cash equivalents		**(75,243)**	42,792
Cash and cash equivalents at the beginning of the financial year		**356,166**	313,374
Cash and cash equivalents at end of the financial year		**280,923**	356,166
Cash and balances with the Bank of England	10	**279,680**	353,337
Loans and advances to banks	11	**1,243**	2,829
		280,923	356,166

The accounting policies and notes on pages 22 to 49 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies

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 historical cost convention as modified by the revaluation of 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.

Changes in accounting policies

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:

IFRS 9 'Financial Instruments'

This standard was effective and adopted from 1 January 2018. This replaces IAS 39 'Financial Instruments: Recognition and Measurement', and represents a significant change, to the accounting for financial assets as well as aspects of the accounting for financial liabilities. Adoption of IFRS 9 has led to new accounting policies for interest income and expense, the classification and measurement of financial instruments and the impairment of financial assets and loan commitments, as well as additional disclosures as a result of consequential amendments to IFRS 7.

Under IFRS 9, the Bank has an accounting policy choice and can remain with IAS 39 hedge accounting. As the Bank does not currently use derivatives, this part of the standard has no immediate impact.

In accordance with the transition methods allowable under IFRS 9, the Bank has selected to apply the changes retrospectively by adjusting opening reserves as at 1 January 2018. Comparative periods have not been restated, therefore information presented as at 2017 may not be directly comparable.

Implementation of IFRS 9 has reduced net assets as at 1 January 2018 by £0.3m.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Accounting Policies note 1.

<u>Classification and measurement</u>

Financial assets have been classified and measured based on the business model reason for which they are held and on the characteristics of their contractual cash flows. The Bank's financial assets have been classified as either held at amortised cost or held at fair value through other comprehensive income (FVTOCI).

The contractual terms of the Bank's financial assets have been assessed for non-standard clauses and off-market rate conditions and in the Bank's assessment the assets meet the "solely payments of principal and interest" (SPPI) criteria. This means that interest is related to: return for the time value of money, credit risk or liquidity risk, amounts to cover expenses and a profit margin.

The intention under the Bank's business model is that treasury assets are sold for liquidity and periodic asset realisation as required and not for trading purposes.

Previously loans and advances to customers, loans and advances to banks and cash and balances with the Bank of England were classified as loans and receivables. There has been no change to the carrying amount of these assets on transition to IFRS 9.

All amounts are stated in £000s unless otherwise indicated

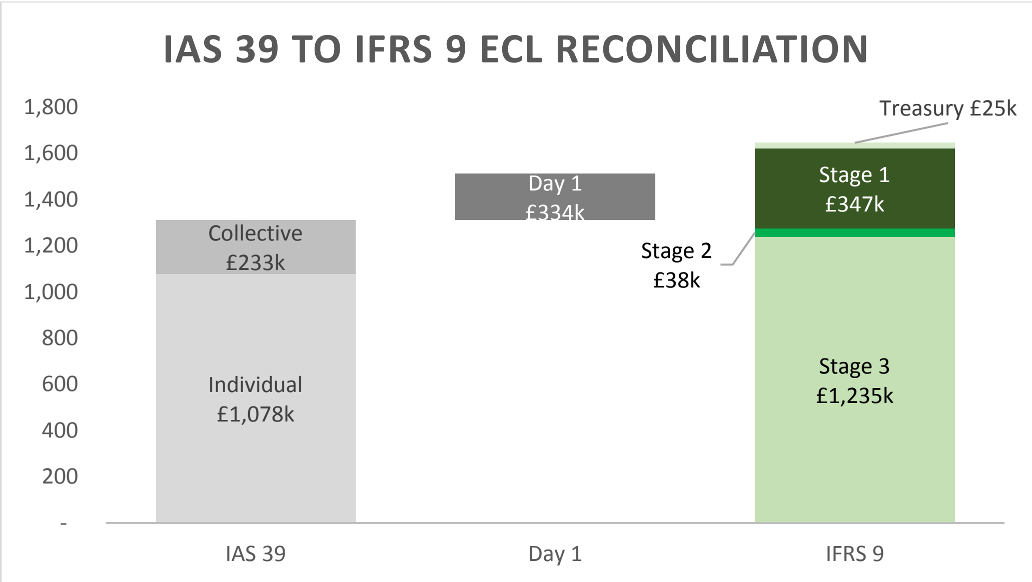
1 Basis of preparation and significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 'Financial Instruments' (continued)

Impairment

Presented below is a high-level reconciliation of the 2017 IAS 39 impairment provision as at 31 December 2017 to the IFRS 9 ECL allowance as at 1 January 2018.



The IAS 39 incurred loss impairment approach has been replaced with an IFRS 9 expected credit loss (ECL) approach. All impairment adjustments have arisen due to this change. ECLs are recognised for loans and advances to banks and customers, investment securities and certain loan commitments, held at amortised cost or FVTOCI.

The standard requires the Bank to identify assets that have been subject to a significant increase in credit risk (SICR) since initial recognition. The Bank has allocated the assets to the following three stages, aligning to internal credit risk management processes:

- Stage 1 – Loans and commitments with a risk grade of 1 to 5 on the internal scorecard are assumed not to have seen a SICR since initial recognition. Loans which meet certain criteria are subject to a quarterly management review as a backstop to assess the appropriateness of this assumption. The loss allowance applied to these assets is equal to 12 months ECL. Investment securities are also allocated to this stage due to their credit quality.

- Stage 2 – These are loans with a risk grade of 6 or 7, demonstrating that certain early warning indicators have been evidenced. It is considered that these assets have experienced a SICR. The loss allowance applied to these assets is equal to the loan's lifetime ECL.

- Stage 3 – These are loans with a risk grade of 8 or 9 and are in default or realisation and considered to be credit impaired (i.e. events which cause a negative impact on estimated future cashflows have arisen). The loss allowance for these assets is equal to the loan's lifetime ECL.

Transition

The classification, measurement and impairment requirements have been applied retrospectively by adjusting the opening reserves at the date of initial application, 1 January 2018, with no restatement of comparative periods.

The increase in the loss allowance has been deducted from reserves, at 1 January 2018, and as such has immediately reduced the Bank's regulatory capital. However, the PRA has introduced transitional capital relief for firms when they move to IFRS 9. This allows initial relief of 95% of the incremental impairment on transition; this 95% reduces progressively over a five-year period. The Bank has elected to adopt this transitional approach to regulatory capital.

Impact

The change in impairment methodology has resulted in an increase in the Bank's impairment provision for credit losses relating to loans and advances to customers of £0.3m. The changes have had no material impact on the Bank's treasury assets due to the high credit quality of the Bank's portfolio. The day 1 adjustment impacts opening reserves, directly in retained earnings, net of deferred tax. The net impact to retained earnings is £0.3m.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank's income was not impacted by the adoption of IFRS 15, as non-interest income relates to point in time transactions or monthly fees.

New accounting policies (issued, not yet effective)

IFRS 16 'Leases'

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The standard replaces IAS 17, IFRIC 4, SIC-15 and SIC-27.

The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

Transition

The Bank plans to apply IFRS 16, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Impact

The Bank will recognise new assets and liabilities for its leases of office premises, equipment and motor vehicles. The nature of expenses related to these leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

As at 31 December 2018, the Bank's assessment of the impact of the standard is to recognise right-of use assets and corresponding lease liabilities within the range of £2.3-£2.8m, with no impact to reserves. This will result in additional regulatory capital required of £0.3-£0.4m.

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. To provide additional clarity, policies which only apply to 2017 comparative figures are shown as a boxed paragraph.

(a) Interest income and expense – applicable from 1 January 2018

Interest income and expense are recognised for all financial instruments measured at amortised cost or FVTOCI using the effective interest rate method 'EIRM'.

The EIRM calculates the amortised cost of a financial asset or financial liability and allocates 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 to the net carrying amount, over the behavioural life of the financial instrument.

When calculating the EIR, the Bank takes into account all contractual terms of the financial instrument, 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 EIR, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the EIR to the gross carrying amount (the amortised cost of financial assets before adjusting for impairment) except for:

(a) POCI (Purchased or originated credit impaired) financial assets, for which the original credit-adjusted EIR is applied to the amortised cost of the financial asset.
(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired, for which interest income is calculated by applying the EIR to their amortised cost after adjusting for impairment.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(b) Revenue recognition – applicable prior to 1 January 2018

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 behavioural life of the financial instrument.

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.

(c) Fees and commissions

Fee and commission income is predominantly made up of fees received for banking services and do not meet the criteria for inclusion in the EIRM. These fees are recognised in 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 EIR. Other fees payable are taken to the Income Statement on an accruals basis.

(d) Classification and measurement of financial assets and liabilities – applicable from 1 January 2018

Classification is dependent on two tests, a contractual cash flow test (named SPPI: Solely Payments of Principal and Interest) and a business model assessment.

If the cash flows from the instrument are only principal and interest, then the business model assessment determines whether the instrument is classified as amortised cost or FVTOCI:

- If the instrument is being held to collect contractual cash flows, it is measured at amortised cost.
- If the intention for the instrument is to both collect contractual cash flows and potentially sell the asset, it is reported at FVTOCI.

FVTOCI assets are measured at fair value based on quoted market prices or prices obtained from market intermediaries. Unrealised gains and losses arising from changes in fair value are recognised directly in other comprehensive income, except for impairment, which is recognised in the Income Statement. Gains and losses arising on the sale of FVTOCI assets, including any cumulative gains or losses previously recognised in other comprehensive income, are reclassified to the Income Statement.

If the cashflows from the instrument are not solely principal and interest (for example, linked to inflation) or the instruments are held for trading purposes, the asset is reported at FVTPL with differences in fair value being recognised in profit or loss.

Assets are only reclassified if the business model for holding those assets changes. There are no instances of this in the year.

Investment securities previously classified as available for sale are now classified as FVTOCI, as the business model objective is both to collect contractual cash flows and sell financial assets for liquidity reasons.

Loans and advances to customers and customer accounts are both classified as held at amortised cost, as the business model intention is to collect contractual cash flows. Assets are recognised when the funds are advanced, and liabilities recognised when funds are received from customers. The carrying value of these financial instruments at initial recognition includes any directly attributable transactions costs.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(e) Financial instruments - applicable prior to 1 January 2018

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 EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR 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.

(f) Impairment of financial assets and loan commitments – applicable from 1 January 2018

The Bank assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVTOCI and that associated with the exposure arising from pipeline loan commitments. The change in the impairment provision is reported in profit and loss.

When an asset is originated, the ECL is measured as the present value of credit losses from default events over its lifetime. The provision recognised is either the amount expected over the next 12 months, or the amount expected over its lifetime (see below). If the credit risk reduces, after a curing period, the allowance can be reduced from lifetime to the amount expected over the next 12 months.

'Expected loss' is estimated considering a broad range of information, including:

- Past events, such as experience of historical losses for similar financial instruments
- Current conditions
- Reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instrument.

Credit Risk Categorisation

The Bank categorises its financial assets and loan commitments into one of three stages at the balance sheet date. Assets that are performing are shown in stage 1; assets where there has been a significant increase in credit risk (SICR) since initial recognition or 'watchlist' assets are in stage 2 and assets which are credit impaired are in stage 3. The Bank recognises a 12-month proportion of lifetime ECL allowance, being ECLs resulting from default events that are possible within 12 months after the reporting date, on all stage 1 assets and a lifetime ECL allowance on all stage 2 and 3 assets.

The Bank's approach to staging criteria is based around a well-established process through assessment of credit risk at inception of each loan, and through periodic review. Movements in risk grade provide the basis for the assessment of SICR on a loan-by-loan basis. The credit quality of all counterparties is reviewed and rated at least annually. In addition, the Bank's focus on relationship management, receipt of management information, monitoring of financial covenants and loan degradation reporting, supports the identification of early warning signs and the risk gradings allocated

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

Credit Risk Categorisation (continued)

- Stage 1 – Loans and commitments with a risk grade of 1 to 5 on the internal scorecard are assumed not to have seen a SICR since initial recognition. Loans which meet certain criteria are subject to a quarterly management review as a backstop to assess the appropriateness of this assumption. The loss allowance applied to these assets is equal to 12 months ECL. Investment securities are also allocated to this stage due to their credit quality.

- Stage 2 – These are loans with a risk grade of 6 or 7, demonstrating that certain early warning indicators have been evidenced. It is considered that these assets have experienced a SICR. The loss allowance applied to these assets is equal to the loan's lifetime ECL.

- Stage 3 - Risk grades 8 and 9 are accounts in default or realisation and are credit impaired. The Bank considers a loan to be in default when the borrower is unlikely to repay its credit obligations without recourse by the bank to actions such as realising security and/or the borrower is past due more than 90 days. Other examples of an account considered to be in default, even if the Bank expects to be fully repaid include a breach in financial covenant for 90 days or more; an account is in excess of its limit for 90 days or more; or there has been an event likely to result in insolvency which may involve bankruptcy, or the appointment of a Liquidator or Administrator.

Expected Credit Losses (ECL)

ECL are calculated based on information relating to:

1) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
2) The time value of money;
3) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Investment securities are considered to have low credit risk at both the origination and reporting dates; therefore these assets are allocated to stage 1 with an impairment allowance equal to 12-month ECL. External investment grades of the assets are regularly monitored.

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Assets are derecognised when the contractual cash flows expire. If terms and conditions of loan contracts are substantially modified, the Bank considers whether this results in derecognition of the existing loan and recognition of a new loan.

(g) Impairment provisions - applicable prior to 1 January 2018

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 EIR 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 EIR. This is reported through interest and similar income within the Income Statement and represents the unwind of the discount

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

Provisions are released, 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.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(g) Impairment provisions - applicable prior to 1 January 2018 (continued)

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.

(h) 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.

(i) 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 until the asset is available for use; i.e. it is in the location and condition necessary for it be capable of operating in the manner intended by management.

(j) 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 profit and loss.

(k) 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.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(l) 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

(m) Pension costs

The Bank operates a defined benefit pension scheme and a defined contribution scheme for employees. Contributions to the defined contribution pension scheme are recognised as an expense in the Income Statement as incurred, on an accruals basis.

From initial recognition, the Bank’s net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the scheme‘s assets and the amount of future entitlements earned by scheme members from service in prior periods, discounted back to present values using a rate based on an index of long-dated AA rated corporate bonds. This calculation allows the net obligation of the scheme to be expressed as either a surplus or deficit, which is recognised as either an asset or a liability respectively in the Bank‘s accounts at the Balance Sheet date.

Gains or losses arising from the remeasurement of the defined benefit plan are recognised in full, in the year they occur, in the Statement of Comprehensive Income.

A surplus is recognised in conjunction with IAS 19 and IFRIC 14, allowing for the surplus to be recognised as an unrestricted asset on the Balance Sheet, where there is an unconditional right to a refund of the surplus in defined circumstances and there are expected to be surplus assets. This unconditional right can arise in any of the following defined circumstances:

a) during the life of the pension scheme; or
b) assuming the gradual settlement of scheme liabilities over time until all members have left the scheme or
c) assuming the full settlement of the scheme liabilities in a single event.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(s) 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.

(t) 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.

2 Judgements in applying accounting policies and critical accounting estimates

The Bank makes judgements in applying its accounting policies which affect the amounts recognised in these financial statements. Estimates and assumptions are also made that could affect the reported amounts of assets, liabilities, income and expenses. These are continually assessed and reviewed and are based on historical experience and reasonable expectations of future events. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

Key judgements and critical estimates are made in the following areas and discussed within those notes:

- Impairment – note 12
- Effective interest rate – note 12
- Pensions – note 21

3 Profit before taxation

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

	2018	2017
Audit services		
Fees payable for the audit of the annual accounts	**85**	88
Non-Audit services		
Fees payable for all other services	**6**	5
Total	**91**	93

In addition to the above, during 2018, a fee of £35k was paid by the Bank, in relation to services engaged by a third-party. The costs related to the exit from the Pace pension scheme.

4 Directors' emoluments

	2018	2017
Non-executive Directors - emoluments	**228**	178
Executive Directors - emoluments		
Remuneration as a Director	**261**	282
Total	**489**	460

The highest paid Director during the year was Margaret Willis, CEO, who received a total remuneration package of £261k (2017: £249k). Executive Director remuneration includes salary and car allowance.

Independent Non-executive Directors received fees of £149k per annum in aggregate for their services (2017: £120k). The Chairman of the Bank receives a fee of £79k per annum (2017: £58k) in the year.

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

All amounts are stated in £000s unless otherwise indicated

5 Interest income under EIR method

	2018	2017
On financial assets at amortised cost:		
on loans and advances to customers	**11,247**	8,454
on loans and advances to banks	**2,041**	970
On financial assets at FVTOCI:		
on investment securities	**3,586**	2,597
Total	**16,874**	12,021

6 Interest expense and similar charges

	2018	2017
On financial liabilities not at fair value through profit or loss		
on customer deposits	**1,323**	529
Total	**1,323**	529

7 Operating expenses

	Note	2018	2017
Staff costs	8	**5,811**	5,433
Administrative expenses[1]		**5,200**	4,276
Amortisation of intangible fixed assets	14	**93**	49
Depreciation of property, plant and equipment	15	**179**	175
Operating lease rentals		**254**	370
Movement in provisions for liabilities and charges[2]	19	**131**	34
Total		**11,668**	10,337

[1]Includes £1,045k exceptional cost relating to the exit from Pace pension scheme and setting up the Bank's own DB scheme; the Bank contributed £600k to the new scheme and incurred adviser costs of £445k.
[2]As per note 19, this balance represents the movement in relation to customer claims and FSCS provisions. The movement for the redundancy provision is within staff costs.

8 Staff costs

	Note	2018	2017
Wages and salaries		**4,661**	4,306
Severance		**27**	15
Social security costs		**570**	515
Pension costs - defined benefit plans	21	**(18)**	125
Pension costs - defined contribution plans		**302**	266
Employee participation plan		**269**	206
Total		**5,811**	5,433

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

	2018	2017
Full time	**82**	76
Part time	**10**	15
Total	**92**	91

All amounts are stated in £000s unless otherwise indicated

9 Income tax

Tax Policy

The company adopted a tax policy on 27 February 2014, updated in December 2018. A copy is available on our website at https://www.unity.co.uk/taxation. The disclosures made in these financial statements comply with commitments made in that tax policy. The Bank is a member of the Fair Tax Mark.

Tax charge	**2018**	2017
Current tax on profits for the year	**707**	22
Adjustment in respect of prior years	**33**	173
Total current tax	**740**	195
Deferred tax		
Current year	**85**	(28)
Adjustment in respect of previous periods	**(28)**	(34)
Effect of changes in tax rates	**(9)**	-
Total deferred tax	**48**	(62)
Tax per income statement	**788**	133
Other comprehensive income		
Income items:		
Deferred tax current year charge/(credit)	**358**	(65)
Deferred tax prior year charge/(credit)	**28**	(83)
Tax per statement of comprehensive income	**386**	(148)

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	**2018**	2017
Profit for the period - continuing activities	**6,755**	3,683
Tax on profit at standard UK tax rate of 19.00% (2017: 19.25%)	**1,283**	709
Expenses not deductible for tax purposes	**3**	2
Exempt amounts	**3**	3
Adjustments to tax charge in respect of prior periods	**4**	139
Tax rate changes	**(9)**	4
Community Investment Tax Relief	**(496)**	(724)
Total tax charge for the year	**788**	133

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.

10 Cash and balances with the Bank of England

	2018	2017
Mandatory reserve with the Bank of England	**710**	329
Cash and balances with the Bank of England	**279,680**	353,337
Total	**280,390**	353,666

Cash and balances with the Bank of England includes cash of £710k (2017: £329k) 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

	2018	2017
Other loans and advances to banks	**1,243**	2,829
Total	**1,243**	2,829

All amounts are stated in £000s unless otherwise indicated

12 Loans and advances to customers

Effective interest rate (EIR)

In calculating the EIR to apply to customer loans held at amortised cost, the Bank estimates future cash flows, considering all contractual terms of the loan.

A key judgement is the determination of the fees directly attributable to the loan; which are deemed to be the arrangement and introducer fees only.

A critical assumption used in the calculation is the expected life over which to measure future cash flows. The amortised cost of the loans 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.

Impairment

The main judgement is the application of the internal risk grades (1-9) to the staging approach (1-3) and the identification of SICR.

As detailed in Note 1, the Bank's approach to staging criteria is based around its well-established process for risk-grading. Movements in risk grade are also the basis for the assessment of SICR on a loan-by-loan basis.

- Risk grades 1-5 are considered performing with no significant deterioration in credit risk; therefore these loans are allocated to stage 1.
- Loans which have dropped 3 risk grades from the point of origination or are risk grades 6 and 7 have exhibited SICR. Risk grades 6 and 7 are on watchlist or considered to shows signs of financial stress with turnaround in the short term. 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 are used, and therefore requires significant management judgement. The stage 2 assessment is also supported by an objective 'back stop' measure of arrears.
- Risk grades 8 and 9 are accounts in default or realisation and are credit impaired. These accounts are allocated to stage 3.

The key estimates and assumptions applied within the impairment modelling relate to:

- Probability of default (PD), Exposure at default (EAD) percentages and Loss given default (LGD) value
- Forward looking information

PD, EAD and LGD

PD% reflects actual experience of default over the last 10 years, and where the account had originated 12 months prior. PD is calculated for each risk grade (being 100% for those accounts already in default and credit impaired).

EAD% reflects the attrition profile of the book at the average probability from which a loan will default after reporting date. This is based on default experience over the past 10 years. EAD is calculated for stages 1 and 2, as for accounts in stage 3 the actual exposure can be determined as the account is in default.

LGD is determined by considering drawn and committed loan balances, adjusted for indexed market value of security and applying forced sale discounts (FSD) based on historical experience.

Forward looking information

Expectations of future economic conditions are incorporated through the different economic scenarios applied to the model. The use of different scenarios allows for the calculation of ECL to capture a range of possible outcomes, in an appropriately wide range of plausible economic scenarios, with the provision increasing in unfavourable conditions. The ECL provision reported within these financial statements is the probability weighted sum of the provision calculated under four scenarios: base, improved, stressed and severe stressed.

Scenario	Derivation	Weighting
Base	Represents the most likely economic forecast and aligned with the scenario used in the Bank's financial planning process	60%
Improved	PD% reduced from base, subject to a floor. No other changes from base	5%
Stressed	Increase in base PD%, haircut applied to MV of security prior to FSD	30%
Severe stressed	Significant increase in base PD%, greater haircut applied to MV of security prior to FSD. The assumptions align to those used in the Bank's ICAAP stress test	5%

All amounts are stated in £000s unless otherwise indicated

12 Loans and advances to customers (continued)

The ECL provision has the greatest sensitivity to the economic scenario weightings. Movements to individual parameters are not sensitive and unrealistic as these parameters would not move in isolation. Sustained movement in parameters would be reflected within economic conditions. As at 31 December 2018, the customer loan provision is £1,554k, applying 100% weighting to Base results in a provision of £1,273k; and applying 100% weighting to Stress leads to a £1,760k provision.

	2018	2017
Gross loans and advances[1]	**364,000**	280,658
Less: allowance for losses on loans and advances to customers[1]	**(1,554)**	(1,311)
Total	**362,446**	279,347

[1] Gross loans and advances and the loss allowance differ to those shown in the credit risk tables in note 27 due to commitments. Irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements. These commitments represent authorised overdraft balances and separately identifiable commitments for loan pipeline, where the facilities remain undrawn. The commitments of £53.2m (1 January 2018: £39.7m) are not recognised on the balance sheet, whilst the total associated provision of £28k (1 January 2018: £20k) is included within the allowance for losses on loans and advances to customers within stage 1.

The 2018 figures are stated on an IFRS 9 basis, with the 2017 figures based on IAS 39. In accordance with the transitional provisions of the standard, comparatives have not been restated. See note 1 for further information. The fair value of loans and advances to customers is shown in note 27.

The following table reconciles the opening and closing impairment provision for loans and customers in different stages, from 1 January 2018 to 31 December 2018. As mentioned above, the comparatives have not been restated and the prior year reconciliation is shown on an IAS 39 basis.

	Non-credit impaired		**Credit impaired**	
	Stage 1 12 month ECL £000	**Stage 2 Lifetime ECL £000**	**Stage 3 Lifetime ECL £000**	**Total £000**
Impairment provision at 1 January 2018 (IFRS 9 basis)	**347**	**38**	**1,235**	**1,620**
Transfers:				
Transfers to stage 2	**(1)**	**1**	**-**	**-**
Utilisation	**-**	**-**	**(14)**	**(14)**
Charges/(credit) to profit and loss:				
Changes in provision	**(44)**	**19**	**179**	**154**
Unwind of discount of allowance	**6**	**9**	**(10)**	**5**
New provisions	**119**	**13**	**-**	**132**
Provisions that have been derecognised during the period	**(63)**	**-**	**(280)**	**(343)**
Impairment provision at 31 December 2018	**364**	**80**	**1,110**	**1,554**

Movement in allowance for losses on loans and advances:

	Individual	Collective	2017 Total
At 1 January	(1,454)	(431)	(1,885)
(Charges)/credit against profits	(395)	198	(197)
Amounts written off	701	-	701
Recoveries	-	-	-
Unwind of discount of allowance	70	-	70
At 31 December	(1,078)	(233)	(1,311)

All amounts are stated in £000s unless otherwise indicated

12 Loans and advances to customers (continued)

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.

	2018	2017
Administrative bodies and non-commercial	**186,964**	162,193
Property (excluding hotels and leisure)	**130,604**	89,418
Hotels & leisure	**3,970**	5,772
Other	**42,462**	23,275
	364,000	280,658

13 Investment securities

	2018	2017
Fair value through other comprehensive income		
Other listed transferable debt securities	**426,368**	375,190
Total	**426,368**	375,190

Movements during the year are analysed below:

At 31 December 2017	**375,190**	
Effects in changes in accounting policies[1]	**(25)**	
At 1 January 2018	**375,165**	370,751
Fair value adjustment	**(1,891)**	(323)
Acquisitions	**174,045**	121,593
Disposals and maturities	**(120,951)**	(116,831)
At 31 December 2018	**426,368**	375,190

[1]Impact of transitioning to IFRS 9 at 1 January 2018, representing expected credit losses – see note 1 for further details.

14 Intangible assets

	2018	2017
Computer Software		
Cost		
At 1 January	**1,464**	1,453
Additions	**162**	11
Write offs	**(1,251)**	-
At 31 December	**375**	1,464
Accumulated Amortisation		
At 1 January	**1,303**	1,254
Charge for the year	**93**	49
Write offs	**(1,241)**	-
At 31 December	**155**	1,303
Net book value at 31 December	**220**	161

All amounts are stated in £000s unless otherwise indicated

15 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2018	**717**	**2,007**	**2,724**
Additions	**-**	**155**	**155**
Disposals	**(639)**	**(1,847)**	**(2,486)**
Work in progress	**605**	**393**	**998**
At 31 December 2018	**683**	**708**	**1,391**
Accumulated Depreciation			
At 1 January 2018	**589**	**1,868**	**2,457**
Charge for the year	**41**	**138**	**179**
Disposals	**(590)**	**(1,850)**	**(2,440)**
At 31 December 2018	**40**	**156**	**196**
Net book value at 31 December 2018	**643**	**552**	**1,195**

Capitalised work in progress, as shown above, is currently not being depreciated. Of the total work in progress £921k relates to the fit-out of the new head office in Birmingham, split between £605k equipment & fittings and £316k computer 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

16 Other assets

	2018	2017
Amounts recoverable within one year:		
Trade debtors	**-**	5
Other assets	**48**	97
Total	**48**	102

17 Prepayments & accrued income

	2018	2017
Amounts payable within one year:		
Other	**964**	758
Total	**964**	758

18 Other liabilities

	2018	2017
Amounts payable within one year:		
Trade creditors	**234**	465
Other liabilities	**245**	671
Total	**479**	1,136

All amounts are stated in £000s unless otherwise indicated

19 Provisions for liabilities and charges

	Redundancy	Customer claims	FSCS levy	Total
At 1 January 2018	**110**	**5**	**35**	**150**
Income statement movements:				
Provided/(released) in the year	**27**	**140**	**(9)**	**158**
Utilised during the year	**(27)**	**-**	**(7)**	**(34)**
At 31 December 2018	**110**	**145**	**19**	**274**
Amounts falling due within one year	**110**	**145**	**19**	**274**
Amounts falling due after one year	**-**	**-**	**-**	**-**
	110	**145**	**19**	**274**

	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

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 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 2018/19. 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.

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:

	Fixed assets	Short term timing differences	Pension	Investment	IFRS 9 transitional	Total
At 1 January 2018	**(118)**	**(18)**	**-**	**111**	**(57)**	**(81)**
Current year deferred tax charge	**56**	**-**	**3**	**12**	**6**	**76**
Charge/(credit) to OCI	**-**	**-**	**680**	**(322)**	**-**	**358**
At 31 December 2018	**(62)**	**(18)**	**683**	**(199)**	**(51)**	**353**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date. The Finance Act No.2 2015 reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective from 1 April 2020). These changes to the main tax rate had been enacted at the balance sheet date and are reflected in the measurement of deferred tax balances.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of £221k in respect of capital losses amounting to £1,301k that can be carried forward against future taxable chargeable gains.

All amounts are stated in £000s unless otherwise indicated

21 Pensions

Scheme

Up to 19 October 2018, the Bank participated in the defined benefit section of the Co-operative (Pace) Pension Scheme. On 19 October 2018, a transfer payment was made by Pace to the Bank's newly established defined benefit pension scheme (the Scheme), and Unity ceased to participate in the defined benefits section of Pace. For the period up to 19 October 2018, Unity has accounted for its pension obligations on the basis of the contributions paid to Pace during this period. This is in line with previous accounting periods.

For the period from 19 October 2018 to 31 December 2018, the Bank is accounting for its pension obligations in the Scheme on a defined benefit basis. This resulted in the initial recognition of a surplus of £4.3m, decreasing to £4.0m as at 31 December 2018, with the movement going through profit and loss and other comprehensive income, as shown in the tables below.

The Scheme is a UK registered trust-based pension scheme that provides defined benefits for some employees and former employees. Pension benefits are linked to the members' pensionable salaries and service at their retirement (or date of leaving if earlier). Defined benefit accrual ceased with effect from October 2015.

The Trustee is responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustee of the Scheme is required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustee Directors are nominated by the members of the Scheme.

There are three categories of pension scheme members:

- In-service deferred members: currently employed by Unity who may have retained a salary link to their benefits and are not yet in receipt of a pension;
- Deferred members: former employees of Unity not yet in receipt of pension; and
- Pensioner members: in receipt of pension.

At the date of transfer Unite the Union Trustee Company Limited and Unite the Union Second Trustee Company Limited provided a PPF guarantee over the punctual performance of all present and future obligations and liabilities of the Bank, to make payments under the Scheme. A fee of £50,000 was paid by the Bank in 2018, to be shared by the guarantors. An ongoing fee, calculated in reference to the 'buy-out' (s75) value, results in a minimum of £10,000 and a maximum of £75,000 to be paid annually.

The defined benefit obligation is valued by projecting the best estimate of future benefit outflow (allowing for future salary increases for in-service deferred members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The valuation method used is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2018 was 21 years.

Judgements

The key judgements relate to the recognition of the scheme net surplus and the actuarial assumptions used.

International Financial Reporting Interpretations Committee statement 14 (IFRIC 14) requires that a net defined benefit asset should only be recognised to the extent that an entity has the ability to access the pension scheme surplus in the form of a refund or reduction in future contributions. This requires judgement to be made around the legal rights to which the scheme trustees could unilaterally act in order to restrict the availability of the entity to seek a refund or reduction in future contributions.

The Bank has recognised an asset in respect of the surplus as at 31 December 2018. Whilst the Bank is unable to release funds from the scheme, the asset has been recognised based on the obligations being settled as they fall due and the surplus being used to reduce future contributions, and the surplus being available to the Bank on full settlement of the scheme liabilities in a single event. Significant judgements (on areas such as future interest, salary increases and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the defined benefit scheme, and hence of its net surplus/ deficit. These are outlined in further detail below.

The impact of a 0.5% absolute decrease in the rate used to discount the future value of the assets and liabilities would increase the defined benefit obligation (DBO) by 11% (£3.5m). The impact of a one year increase in assumed life expectancy would increase the DBO by 3% (£1.0m). The impact of a 0.5% increase in inflation would be to increase the DBO by 9% (£2.9m).

Future funding obligation
The scheme rules do not place any minimum funding requirements on the Bank, beyond the statutory funding objective requirements imposed by the Pensions Act 2004.

The Trustee is required to commission an actuarial valuation within 12 months of the Scheme being set up, and every 3 years thereafter. The first full actuarial valuation of the Scheme will be carried out by the Scheme Actuary for the Trustee as at 31 December 2018.

Method and assumptions

The results of the opening position as at 19 October 2018 have been updated to 31 December 2018 by a qualified independent actuary. The assumptions used were as follows:

All amounts are stated in £000s unless otherwise indicated

21 Pensions (continued)

Significant actuarial assumptions:

	As at 31 December 2018	As at 19 October 2018
Discount rate	**2.7% pa**	2.7% pa
RPI inflation	**3.3% pa**	3.3% pa
CPI inflation	**2.3% pa**	2.3% pa

Other actuarial assumptions:

	As at 31 December 2018	As at 19 October 2018
Salary increases	**3.6% pa**	3.6% pa
Pension increases:		
Post 88 GMP	**2.1% pa**	2.1% pa
RPI max 5% pa	**3.2% pa**	3.2% pa
RPI max 2.5% pa	**2.3% pa**	2.3% pa
Revaluation of deferred pensions in excess of GMP	**RPI: 3.3% pa** **CPI: 2.3% pa**	RPI: 3.3% pa CPI: 2.3% pa

Mortality assumptions:

	As at 31 December 2018	As at 19 October 2018
Mortality (pre- & post-retirement)	**100% S2PMA** **100% S2PFA** **CMI_2017_M/F** **1.25% (yob)**	101% S2PMA 105% S2PFA CMI_2017_M/F 1.25% (yob)

Life expectancies (in years)

	As at 31 December 2018		As at 19 October 2018	
	Males	**Females**	Males	Females
For an individual aged 65 in 2018	**22.0**	**23.9**	21.9	23.5
At age 65 for an individual aged 45 in 2018	**23.4**	**25.4**	23.3	25.1

Risks

Through the Scheme, the Bank is exposed to a number of risks:

- Asset volatility: the Scheme’s defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, but the Scheme also invests in growth funds. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.

- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme’s defined benefit obligation, although this would be partially offset by an increase in the value of the Scheme’s bond holdings.

- Inflation risk: a significant proportion of the Scheme’s defined benefit obligation is linked to inflation. Therefore, higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place).

- Life expectancy: if Scheme members live longer than expected, the Scheme’s benefits will need to be paid for longer, increasing the Scheme’s defined benefit obligation.

The Trustee and the Bank manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

- Investment strategy: the Trustee is required to review the Scheme’s investment strategy on a regular basis.

- LDI approach: holding assets that display similar interest rate and inflation sensitivity to the Scheme’s liabilities.

All amounts are stated in £000s unless otherwise indicated

21 Pensions (continued)

Assets

The scheme's assets as at 31 December 2018 were held as follows:

Asset class	As at 31 December 2018 Market Value	% of total assets
Diversified growth fund	**6,013**	**17%**
Diversified credit fund	**6,939**	**19%**
Corporate bonds	**5,279**	**15%**
Liability driven investment	**7,377**	**21%**
Gilts	**9,920**	**28%**
Cash	**331**	**<1%**
Net current assets	**(9)**	**<1%**
Total	**35,850**	**100%**
Actual return on assets over period	**356**	

Note: all assets listed above have a quoted market price in an active market.

Reconciliation to the balance sheet

	As at 31 December 2018	As at 19 October 2018
Market value of assets	**35,850**	36,220
Present value of defined benefit obligation	**(31,830)**	(31,943)
Funded status	**4,020**	4,277
Adjustment in respect of minimum funding requirement	**-**	-
Pension asset/(liability) recognised in the balance sheet before allowance for deferred tax	**4,020**	4,277

A surplus may be recognised if the economic benefits are available in the form of a refund or reduction in future contributions. The Rules of the Scheme state that the Bank will be entitled to any surplus remaining if the Scheme is run on until the last member exits the Scheme. Surpluses are therefore recognised in full.

Analysis of changes in the value of the define benefit obligation over the period

	As at 31 December 2018
Value of defined benefit obligation as at 19 October 2018	**31,943**
Interest cost	**169**
Past service cost	**-**
Benefits paid	**(701)**
Actuarial (gains)/losses:	
Change to GMP equalisation reserve	**(253)**
Changes in demographic assumptions	**672**
Changes in financial assumptions	**-**
Value of defined benefit obligation at the end of the period	**31,830**

Analysis of changes in the value of the scheme assets over the period

	As at 31 December 2018
Market value of assets as at 19 October 2018	**36,220**
Interest income	**192**
Actual return on assets less interest	**144**
Benefits paid	**(701)**
Administration costs	**(5)**
Market value of assets at the end of the period	**35,850**

All amounts are stated in £000s unless otherwise indicated

21 Pensions (continued)

Amounts recognised in the income statement

	From 19 October - 31 December 2018
Administration costs	**5**
Past service cost	**-**
Net interest	**(23)**
Amount charged/(credited) to income statement	**(18)**

Amounts recognised in other comprehensive income

	From 19 October - 31 December 2018
Actuarial gains/(losses) on defined benefit obligation	**(419)**
Actual return on assets less interest	**144**
Amounts recognised in other comprehensive income	**(275)**

22 Share capital

	2018	2017
Issued:		
Ordinary shares of £1 each	**22,421**	18,943
Share premium account	**11,808**	5,563
	34,229	24,506

In April 2018, 4,739,210 of ordinary shares were issued at a price of £2.344 per share. This share issuance resulted in a gross increase in share premium of £6.4m. In addition, 1,260,554 shares were repurchased by the Bank at a price of £2.00 per share. The repurchased shares were subsequently cancelled. The cancellation of existing share capital resulted in a transfer of £1.3m to the capital redemption reserve.

As part of these equity transactions, the Bank incurred transaction costs of £141k. These costs were offset against the share premium amount and retained earnings, giving a net increase in capital of £8.5m, of which £6.2m was recorded as share premium.

All issued share capital is allotted and fully paid.

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 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.

	2018 Contract amount	2017 Contract amount
Guarantees and irrevocable letters of credit	**16**	4
	16	4
Other commitments: Undrawn formal standby facilities, credit lines and other commitments to lend:		
-1 year and over	**98,594**	63,438
	98,594	63,438

All amounts are stated in £000s unless otherwise indicated

23 Contingent liabilities and commitments (continued)

Commitments under operating leases

	2018		2017	
	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	**351**	**23**	311	31
-between one and five years	**1,754**	**24**	582	47
-in five years or more	**1,383**	**-**	-	-
	3,488	**47**	893	78

Operating lease rental payments are disclosed in note 7.

The building lease commitments refer to the Bank's offices in Birmingham, which expire in 2028.

24 Related party transactions

The Bank has a related party relationship with its Directors, executive management and the defined benefit pension scheme. The remuneration of non-Director 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. Director remuneration is disclosed in note 4.

Key management compensation

	2018	2017 (re-presented)
Salaries and other short-term benefits	**806**	933
Post-retirement benefits	**54**	32
	860	965

Transactions with the DB pension scheme are described in notes 7 and 21.

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 £71.8m (2017: £56.6m), significantly in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis

	2018	2017
Tier 1		
Share capital	**22,421**	18,943
Share premium account	**11,808**	5,563
Capital redemption reserve	**4,511**	3,250
Retained earnings[1]	**34,233**	28,065
Pension reserve	**3,322**	-
Less: financial asset valuation reserve	**(872)**	725
Common Equity Tier 1 (CET1) capital before adjustments	**75,423**	56,546

[1]The 2018 reserves are prepared with inclusion of FY18 profit in eligible capital. This approach differs to 2017 and as a result the balances are not directly comparable.

All amounts are stated in £000s unless otherwise indicated

26 Capital management (continued)

Adjustments to CET1		
Other intangible assets	**(220)**	(161)
Prudent additional valuation adjustment	**(426)**	(375)
Net pension asset	**(3,337)**	-
IFRS 9 transitional adjustment	**361**	-
CET1 and Total Tier 1 capital resources	**71,801**	56,010
Tier 2 Adjustment for collective provisions	**-**	233
Total Tier 2 Adjustments	**-**	233
Total regulatory capital	**71,801**	56,243
Unaudited		
Common Equity Tier 1 ratio	**19.3%**	19.7%

27 Financial risk management

The fair value represents the amount at which the instrument would be exchanged in an arm's length transaction between two wiling 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 2018 and 31 December 2017, 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 non-traded investment securities. Wholesale market loans secured by UK gilts are held as the Bank’s High Quality Liquid Asset and together with debt securities underpin the Bank’s liquidity requirements and generate incremental net interest income.

	Loans and receivables	FVTOCI	FVTPL	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2018						
Assets						
Financial instruments measured at fair value						
Investment securities	**-**	**426,368**	**-**	**426,368**	**426,368**	**Level 1**
Financial instruments not measured at fair value						
Cash and balances with the Bank of England	**280,390**	**-**	**-**	**280,390**	**280,390**	**Level 1**
Loans and advances to banks	**1,243**	**-**	**-**	**1,243**	**1,243**	**Level 3**
Loans and advances to customers	**362,446**	**-**	**-**	**362,446**	**322,706**	**Level 3**
	644,079	**426,368**	**-**	**1,070,447**	**1,030,707**	
Liabilities						
Deposits from customers	**998,130**	**-**	**-**	**998,130**	**998,130**	**Level 2**
	998,130	**-**	**-**	**998,130**	**998,130**	

All amounts are stated in £000s unless otherwise indicated

27 Financial risk management (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 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	

• 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 unpredictable customer behaviour.

• Investment securities

The fair value of investment securities 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, impairment 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 Financial risk management (continued)

Maximum exposure to credit risk

	2018				2017		
	Gross balance	**Credit commitments**		**Credit risk exposure**	Gross balance	Credit commitments	Credit risk exposure
		Pipeline[1]	**Other**				
Cash and balances at central banks	**280,390**	**-**	**-**	**280,390**	353,666	-	353,666
Loans and advances to banks	**1,243**	**-**	**-**	**1,243**	2,829	-	2,829
Loans and advances to customers	**364,000**	**53,208**	**45,386**	**462,594**	279,347	63,442	342,789
Investment securities	**426,393**	**-**	**-**	**426,393**	375,190	-	375,190
	1,072,026	**53,208**	**45,386**	**1,170,620**	1,011,032	63,442	1,074,474
Impairment allowance for:							
Loans and advances				**(1,554)**			(1,311)
Treasury investments				**(25)**			
Total				**1,169,041**			1,073,163

[1]As detailed in note 12, irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements. These commitments represent authorised overdraft balances and separately identifiable commitments for loan pipeline, where the facilities remain undrawn. The commitments are not recognised on the balance sheet. The provision is recognised within stage 1 ECL.

The Bank's concentration exposure for loans and advances is outlined in note 12 and for treasury investments further below within this note.

Credit risk analysis

The following table analyses the ECL stages split by the number of days past due (DPD) and illustrates the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance. This analysis includes loans and advances to customers, including pipeline commitments and investment securities, and represents their exposure to credit risk. There are no assets >30 DPD or >90 DPD.

As discussed in the accounting policy (note 1), assets are allocated to the following stages, (subject to other qualitative triggers not being met): internal risk grades 1-5 are classified as stage 1, risk grades 6-7 are stage 2 and risk grades 8-9 are stage 3.

The definitions of these risk grading are as follows:

1 – Very strong credit risk
2 – Strong credit risk
3 – Good credit risk
4 – Acceptable credit risk
5 – Broadly acceptable credit risk but with some warning signs
6 – Customers on Watchlist but still performing and expected to continue to operate
7 – Work out – Risk of business failure although no loss anticipated
8 – Default impaired – Risk of business failure and potential risk of loss to the Bank
9 – Default and in realisation

	Stage 1 12 month ECL £000	**Stage 2 Lifetime ECL - SICR £000 <30 DPD**	**Stage 3 Lifetime ECL – credit impaired £000 <90 DPD**	**Total £000**
Impairment provision at 1 January 2018	**372**	**38**	**1,235**	**1,645**
Gross carrying amount as at 1 January 2018	**687,295**	**5,408**	**2,835**	**695,538**
Individual financial assets transferred from stage 1	**(3,731)**	**3,731**	**-**	**-**
Individual financial assets transferred from stage 2	**866**	**(866)**	**-**	**-**
New financial assets originated or purchased	**304,346**	**87**	**13**	**304,446**
Financial assets that have been derecognised	**(145,552)**	**(1,037)**	**(831)**	**(147,420)**
Other changes	**(8,467)**	**(427)**	**(70)**	**(8,964)**
Gross carrying amount as at 31 December 2018	**834,757**	**6,896**	**1,947**	**843,600**
Impairment provision at 31 December 2018	**389**	**80**	**1,110**	**1,579**

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Other changes relate to balance reductions due to contractual repayments and movements in accounting balances (accrued interest and EIR).

All amounts are stated in £000s unless otherwise indicated

27 Financial risk management (continued)

Credit risk analysis (continued)

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

Collateral

Collateral is only held for loans and advances to customers. Any shortfall of security for an exposure is generally regarded as unsecured and assessment includes this element of residual risk. As at 31 December 2018 £7.3 million (2017: £9.9 million) within loans and advances was unsecured. Where the security, post any market value haircuts (as discussed in note 12), is greater than the loan exposure, no impairment allowance is recognised. As at 31 December 2018 (£201.3m) within loans and advances required no provision.

Collateral held relates to the underlying property, on which the loan is secured. This mainly comprises real estate within the commercial and residential markets, the market value of which is assessed on a regular basis.

At the reporting date, the fair value of collateral held as security against credit impaired (stage 3) assets was £1.25m.

Geographical concentration

At 31st December 2018, the majority of the Bank's treasury investment exposures were to UK and European countries. The Bank also had £112 million of exposures to non European countries as follows; Canada £87 million, Australia £25 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 2018**
Germany	**-**	**-**	**-**	**-**	**-**
Norway	**20,000**	**-**	**16,180**	**-**	**36,180**
Sweden	**-**	**-**	**20,000**	**-**	**20,000**
Supranational	**-**	**15,000**	**40,000**	**-**	**55,000**
	20,000	**15,000**	**76,180**	**-**	**111,180**

The Bank had exposures to financial institutions in the following European countries at 31 December 2017:

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

All amounts are stated in £000s unless otherwise indicated

27 Financial risk management (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 2018

	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	**280,390**	**-**	**-**	**-**	**-**	**-**	**280,390**
Loans and advances to banks	**1,243**	**-**	**-**	**-**	**-**	**-**	**1,243**
Loans and advances to customers	**351,577**	**-**	**-**	**11,245**	**1,178**	**(1,554)**	**362,446**
Investment securities	**366,580**	**19,935**	**29,980**	**9,873**	**-**	**-**	**426,368**
Other assets	**-**	**-**	**-**	**-**	**-**	**6,447**	**6,447**
Total assets	**999,790**	**19,935**	**29,980**	**21,118**	**1,178**	**4,893**	**1,076,894**
Liabilities							
Customer accounts	**998,130**	**-**	**-**	**-**	**-**	**-**	**998,130**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**3,341**	**3,341**
Total equity	**-**	**-**	**-**	**-**	**-**	**75,423**	**75,423**
Total liabilities and equity	**998,130**	**-**	**-**	**-**	**-**	**78,764**	**1,076,894**
Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	
Interest rate sensitivity gap	**1,660**	**19,935**	**29,980**	**21,118**	**1,178**	**(73,871)**	
Cumulative gap	**1,660**	**21,595**	**51,575**	**72,693**	**73,871**	**-**	

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	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	-	

All amounts are stated in £000s unless otherwise indicated

27 Financial risk management (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 2018	**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	**280,390**						**280,390**
Loans and advances to banks	**1,243**	**-**	**-**	**-**	**-**	**-**	**1,243**
Loans and advances to customers	**-**	**2,017**	**10,786**	**82,343**	**267,300**	**-**	**362,446**
Investment securities	**-**	**366,581**	**49,914**	**9,873**	**-**	**-**	**426,368**
Other assets	**-**	**-**	**-**	**-**	**-**	**6,447**	**6,447**
Total assets	**281,633**	**368,598**	**60,700**	**92,216**	**267,300**	**6,447**	**1,076,894**
Liabilities							
Customer accounts	**860,110**	**138,020**	**-**	**-**	**-**	**-**	**998,130**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**3,341**	**3,341**
Total equity	**-**	**-**	**-**	**-**	**-**	**75,423**	**75,423**
Total liabilities and equity	**860,110**	**138,020**	**-**	**-**	**-**	**78,764**	**1,076,894**
Net liquidity gap on contractual basis	**(578,477)**	**230,578**	**60,700**	**92,216**	**267,300**	**(72,317)**	**-**

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	-	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)	-

All amounts are stated in £000s unless otherwise indicated

27 Financial risk management (continued)

Gross expected cashflow maturity analysis – contractual

31 December 2018

	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	**998,130**	**998,183**	**928,183**	**70,000**	**-**	**-**	**-**
Other liabilities	**3,341**	**3,341**	**3,341**	**-**	**-**	**-**	**-**
Total recognised liabilities	**1,001,471**	**1,001,524**	**931,524**	**70,000**	**-**	**-**	**-**
Unrecognised loan commitments	**91,409**	**91,409**	**91,409**	**-**	**-**	**-**	**-**
Total	**1,092,880**	**1,092,933**	**1,022,933**	**70,000**	**-**	**-**	**-**

31 December 2017(re-presented)

	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	949,946	879,946	70,000	-	-	-
Other liabilities	2,347	2,347	2,347	-	-	-	-
Total recognised liabilities	952,280	952,293	882,293	70,000	**-**	**-**	**-**
Unrecognised loan commitments	63,442	63,442	63,442	-	-	-	-
Total	1,015,722	1,015,735	945,735	70,000	**-**	**-**	**-**

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
CET1	Common Equity Tier 1
CDFI	Community Development Finance Institutions
CITR	Community Investment Tax Relief
CRD IV	Capital Requirements Directive (Directive 2013/36 EU)
EAD	Exposure at default
ECL	Expected credit loss(es)
EIRM	Effective interest rate method
FCA	Financial Conduct Authority
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
ILAAP	Individual Liquidity Adequacy Assessment Process
LGD	Loss given default
PD	Probability of default
PPF	Pension Protection Fund
PRA	Prudential Regulation Authority
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest

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Registered in England and Wales no. 1713124

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