unity trust bank

report and accounts 2016

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

Nine Brindleyplace
Birmingham
B1 2HB

Tel: 0345 140 1000
Fax: 0345 113 0003

Registered in England and Wales
No. 1713124

FCA Register No. 204570

Board of Directors

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

Company Secretary

Kate Eldridge

Executive Management

Margaret Willis, Chief Executive Officer
Clare Gosling, Chief Financial Officer
Mark McEvitt, Chief Risk Officer
Dave Matkin, Director, Commercial Banking
Julia Tarpey, Director, Human Resources

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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The Chairman's Statement

It's just a year since I reported to you on the transformation at Unity: in particular, our new executive team, the increase in our capital base, the reaffirmation of our social purpose, and the separation from The Co-operative Bank. Unity was founded by trade unions on a philosophy of serving the common good; a Bank that helps to create a better society. This purpose is now formally enshrined in our constitution. We have a clear vision for Unity as the bank for viable businesses and organisations that also benefit society or the communities in which they operate. I'm delighted to be able to report to you on the considerable progress made in 2016.

At the beginning of the year Big Society Capital invested in Unity, adding its endorsement of Unity's purpose and potential. In April, John Hannett, the General Secretary of USDAW joined the board as a non-executive director. I'm delighted to welcome John to the Board. Clare Gosling, CFO, leaves the Bank at the end of February after having served since 2013 in both a non executive and then executive capacity. We wish her well for the future.

In 2016 we've strengthened our foundations for future safe growth, we've improved returns sustainably and we've shown the potential of our purpose and plans.

Business Performance

In 2016, lending to customers grew by over 25% and we strengthened the resilience of Unity's operations to meet the growth opportunities before us. After absorbing the costs associated with the successful upgrading of our core operations, and a counter-balancing one-off gain of £0.8m, pre-tax profit increased over threefold to £2.7 million. This was despite the strong headwinds of historically ultra-low interest rates and well publicised political uncertainties. The underlying improvement in performance is a pleasing step in the strengthening of Unity. We enter 2017 in a stronger position, as planned.

We attracted 442 new customers in the year and the substantial increase in our lending was attracted without altering our conservative, conventional and cautious credit risk appetite, as reflected by the net bad debt recovery for the year. All this speaks volumes for both the potential of Unity and the strength of our invigorated relationship management and credit teams.

Social Impact

In line with our double bottom line strategy, we're proud of the positive social and community impact Unity helped generate in 2016. £76.9m of new loans supported organisations with projects delivering community, economic, social or environmental benefit. This lending created and sustained 1,895 jobs and 15 community facilities. Also more than half of all Unity staff engaged in volunteering activities during the year and £6.5k was donated to good causes through staff fundraising. Unity is of course a Living Wage employer.

You will be able to read more about this in our next Social Impact Report, which will be published for the AGM in May 2017.

Customer Satisfaction

The strengthening of Unity's core operations necessitated changes. Change is never easy and our transition has, on occasion, caused disruption to customers and staff as we improved our practices. We're grateful for the flexibility and professionalism demonstrated by our staff and the patience of our customers.

Customer satisfaction is of paramount importance to everyone at Unity; we set ourselves very high standards. I'm sorry to say that we fell short of these at times in 2016 as we underwent the changes I mentioned, restructured our teams, simplified our product range, brought our pricing into line with market practice and improved our processes. Pleasingly, the benefits started to be evident by the end of the year and customer satisfaction is recovering.

Your Directors are confident we enter 2017 more efficient, able to grow and able to maintain great service standards. In 2017 we will improve our telephony and on-line banking services, and make it much easier to open an account and generally do business with us. The need is there, we must be able to meet it, we will.

Dividend

It is our policy to earn enough after tax to grow our capital base to enable growth, to increase our impact, meet regulatory requirements, and importantly to pay regular, good dividends to shareholders, and share profits fairly with staff. At current interest and inflation rates, this translates into consistently achieving a return on capital of 8-10% or more. In 2016, while we improved the return on capital significantly, it was still below this threshold.

Your Directors are cognisant and appreciative of the support of our shareholders and staff in making the great progress achieved in 2016. Unity is not just larger, but stronger. In recognition of the progress made, we have resolved to return to our dividend and profit share policy and anticipate declaring a dividend at the AGM, albeit at a modest level. In recognition of our staff we will be paying a profit share equal to 5% of salary to all eligible staff.

Unity Share Trading – Annual Dealing Day

In time, it is our intention to offer shareholders an opportunity each year to buy or sell shares, subject to demand of course.

Share Capital

Our healthy performance is in line with our plans. It will continue to strengthen; our opportunity for growth remains tremendous. Our plan is to raise additional capital over the coming years as we continue the growth trajectory begun in 2016 and take advantage of the opportunity before us to amplify returns and social good.

2017 – Purpose Unchanged

In common with other banks, Unity's financial performance will continue to be impacted by the broader economic and political environment; this includes the uncertainties of the Brexit process, ultra -low Bank of England base rates and increasingly volatile bond yields. The economic environment in 2017 looks set to be as challenging as 2016 but with our strengthened operation we will continue our exciting growth plans, confident in our purpose.

Unity will serve its customers well, operate with absolute integrity and amplify its positive social impact through its service to its customers. It will help to build a better society in all it does. We continue to be encouraged on this journey by the enthusiasm of our staff, the loyalty of our customers, and the energy in the communities we serve.

Alan Hughes
Chairman
Unity Trust Bank plc
24 February 2017

Strategic Report

The Bank's core business model continues to focus on the provision of banking services for organisations that share our 'double bottom line' philosophy, to achieve sustainable returns for itself and its members as well as delivering positive social impact. All new lending is subject to this social filter.

The Bank has no branches and services customers through relationship managers for larger customers, our person to person telephone service in Birmingham, and of course, digital channels.

The Bank's strategic plan is built on continuing to grow its customer relationships within both traditional segments of charity and social sector organisations and supporting businesses who share our vision.

The Bank's strategic priorities are to:

- work with customers to build lasting relationships;
- deliver positive social impact and sustainable financial returns for shareholders;
- maintain sound lending supported by a strong capital position and resilient management of risks and controls; and
- grow our portfolio, lending and impact.

2016 has been a year of substantial growth for the Bank. The profit before tax for the year of £2.7m (2015: £0.7m) reflects a growing loan book, increased fee income and a one off profit from the sale of treasury assets (£0.8m). This was offset by an unexpected fall in base rate and increased severance costs (£0.7m: 2015 £0.2m). The ongoing low interest rate environment continues to impact profitability, along with all other banks, suppressing margins on both customer liabilities and assets as well as returns on treasury assets.

Capital

The Bank ended the year with a Common Equity Tier 1 (CET1) ratio of 23.3% (2015 26.5%). In 2016 the Bank raised £3.8m capital net of costs (2015 £7.3m).

Whilst the Bank is well capitalised, it continues to seek additional capital to fuel its growth plans.

Liquidity

All of the Bank's funding comes from customer accounts. The Bank continues to benefit from a stable, loyal and growing customer deposit base. Customer deposit balances at the year-end were £861.5m (2015: £831.7m).

The Bank has invested more of its cash resources during the year in treasury investments which have grown from £177.2m in 2015 to £290.8m. Deposits with the Bank of England and gilts total £390m at the end of 2016 in comparison to £478m at the end of 2015. Total liquid resources have therefore grown from £655.2m in 2015 to £681.6m

Financial Performance

The 2016 financial results reflect the progress made in implementing the strategic priorities of growing the loan book and transforming the Bank. The primary drivers of 2016 financial performance are:

- A one off profit from the sale of treasury assets in the year of £0.8m
- Increased fees and commission income of £3.9m (2015: £2.3m)
- Costs of severance of £0.7m (2015: £0.2m)
- A net credit to impairment provisions of £0.2m (2015: £0.3m)

Income

Net interest income for 2016 amounted to £9.4m (2015: £9.2m) reflecting the impact of the fall in base rate. Total loans and advances to customers at the end of the year were £235.4m (2015: £187m). Loans and advances originated during the year totalled £76.9m (2015: £45.3m), an increase of 70%.

Gross fees and commission income for the year totalled £3.9m (2015: £2.3m) as the Bank's charging structure was brought in line with market practice.

The Bank sold gilts with a par value of £20m realising a profit of £0.8m.

Operating Expenses

Total operating expenses for the year are £10.5m (2015: £9.7m) of which £6.1m (2015: £5.1m) is attributable to staff costs. Included in the figure is severance costs of £0.7m (2015: £0.2m). Reflecting its independent status, the Bank continued to strengthen its technical structures and professionalise the workforce. The average number of staff employed during the year remained constant at 94. At the year end there were 86 people working for the Bank.

The Bank anticipates that its operational cost base will remain relatively stable as the functional structures are now in place to support the life of the strategic plan. The cost income ratio of 85.9% (2015: 93.9%) is expected to continue to improve.

Share Transaction Costs

As part of the capital raising, the Bank incurred transaction costs of £0.1m (2015: £0.3m). These costs were offset against gross share premium, giving a net increase in capital of £3.8m (2015: £7.3m), of which £1.8m (2015: £3.5m) was recorded as share premium.

Outlook

During the last twelve months, the Bank has undergone a significant transition, effecting structural change, building a scalable operational model and embedding its governance and risk and control framework. The Bank's purpose has been reinforced and the distribution model strengthened with an increased focus on loan growth and customer acquisition and service.

In 2016, the Bank has strengthened and built on its foundations, following independence. The growth of the loan book is very encouraging. Our 'double bottom line' strategy remains the bedrock of the Bank and aims to create positive benefit for customers, shareholders, staff and society.

The costs of running an independent Bank in a complex regulatory environment continue to increase and growth in our business is key for the Bank to meet shareholder, customer and regulatory expectations. The Bank continues to invest in infrastructure, technology, its people and its risk management capabilities.

Along with all other financial institutions, the Bank's execution of its plan is impacted by the economic environment and the continuing low base rate both of which may be prolonged or worsened by economic uncertainty The Bank has no first order risk associated with 'Brexit' however uncertainty remains as to how the outcome will affect the Bank's customers and markets.

The Bank leverages its financial strength and strong liquidity to capitalise on current market opportunities. The brand, culture, strong employee and customer engagement along with freedom from legacy issues create clear differentiation and a growth opportunity. Technology development remains key to supporting success and the Bank will further invest in IT infrastructure in 2017 to maximise digital capability as well as to improve both operational efficiency and customer experience.

Strategic Report continued

Principal risks and uncertainties

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

The Board of Unity Trust Bank sets clear risk appetite statements within which the Executive team manages.

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

Risk	Mitigation
Credit Risk is the risk that counterparties will be unable or unwilling to meet a commitment that they have entered into with the Bank.	The Bank has an experienced credit underwriting team which reviews all applications against a Board approved lending policy. Treasury investments are subject to strict rules on the quality of counterparties which are restricted to financial and government related institutions. Second line resources ensure enhanced oversight, monitoring and control.
Market Risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets and liabilities.	The Bank has no direct exposure to foreign exchange risk. Market risks and economic indicators are considered at Board and Executive Committees and stress testing is reviewed regularly. Interest rate risk is monitored on a monthly basis as part of Asset and Liability Committee (ALCO) responsibilities.
Liquidity and Funding Risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet its commitments as and when they fall due.	The Bank considers liquidity risk at Board and Executive Committees, whilst working within the Individual Liquidity Adequacy Assessment Process (ILAAP) which is approved at ALCO and Board on an annual basis. Stress testing is reviewed regularly. The Treasury team manages liquidity on a day-to-day basis, with oversight from the Risk team. The Bank has a strong liquidity position due to the nature of its customer base.
Operational Risk is the risk that failures in the Bank's operational processes, including technology, cyber, or external events which cause monetary loss, service disruption or customer detriment.	The Bank's operational risk is monitored via the risk management framework. A system of controls and risk logs as well as event and near miss reporting is in place to monitor this risk and these are considered and reviewed at both Executive and Board Committees.
	The Board considers cyber risk to be an important facet of operational risk and has a board approved cyber security strategy. Execution risk, as the Bank effects its transformation, remains under discussion at Executive committees and the Board.
Strategic Risk, including capital risk, is the risk that the Bank fails to execute its strategic plan or fails to execute elements of its strategic plan effectively due to poor planning or changes in the economic environment. .	The Executive team monitors performance trends on a weekly basis and monthly actual and forecast management information is discussed at both Executive and Board levels. Capital risk, the risk that the Bank will not have sufficient capital to fund its growth strategy, is closely monitored at ALCO and by the Board.
Conduct Risk is the risk that the Bank's customers suffer loss or detriment due to failures in product design, sales and marketing processes, poor customer service or operational delivery.	The Bank is committed to working with its customers and service providers to ensure that its products are simple, fair and transparent. Complaints are monitored along with a broad range of other conduct risk metrics at Executive and Board Committees on a monthly basis. New product governance is monitored by the Executive team.
Regulatory Risk is the risk that the Bank does not comply with changes in the regulatory environment.	The Bank's Risk and Compliance team monitors regulatory change and compliance and reports to the Executive and Board as appropriate.
Pension Risk is the risk to the Bank's capital and company funds from the Bank's exposure to the Pace defined benefit pension scheme, run by the Co-operative Group, and risks inherent in the valuation of scheme liabilities and assets. The pension scheme is structured on a 'last man standing' basis. As a participating employer in the scheme, the Bank would be liable for a greater proportion of the scheme's liabilities were one or more other participating employers to become insolvent.	The Bank has closed its defined benefit pension scheme to future accrual as at October 2015. The Board and its advisors are in dialogue with the trustees of the pension scheme and the Cooperative Group as to how to manage and reduce this risk.

By Order of the Board

Margaret Willis
Chief Executive Officer
Unity Trust Bank plc
24 February 2017

Report of the Directors for the year ended 31 December 2016

Results and Dividends

The results for the year, before taxation, amounted to a profit of £2.7m (2015: £0.7m). The Directors recommend a final dividend of £0.5m to be paid in 2017 (2015: nil).

Post Balance Sheet Events

There are no post balance sheet events.

Directors

The Directors at the date of signing the accounts are:

Non-Executive Directors

Alan Hughes, Chairman
Dave Prentis, President and Non-Executive Director
Roderick Chamberlain, Independent Non-Executive Director
Sandy Chen, Independent Non-Executive Director
Jim Gunner, Independent Non-Executive Director
John Hannett, Non-Executive Director (appointed 22 April 2016)
Ed Sabisky, Non-Executive Director
Allan Wylie, Non-Executive Director

Executive Directors

Margaret Willis, Chief Executive Officer
Clare Gosling, Chief Financial Officer (appointed 28 January 2016)

Employee Share Ownership Plan

Unity EBT Ltd is a wholly owned subsidiary of the Bank and trustee of the Bank's Employee Share Ownership Plan (ESOP). During 2016 the Bank gave Unity EBT Ltd £3,469 to fund the purchase of shares from staff that were leaving the Bank. 1,180 Ordinary £1 shares were purchased for £2.94 each, being the book value at 31 December 2015. This represented less than 0.1% of the Bank's nominal share capital.

These shares will be used in the operation of the ESOP scheme, including gifts of shares to employees at their first and tenth anniversary of service and shares purchased by staff on a Dealing Day. At 31 December 2016, Unity EBT Ltd held 5,123 Ordinary £1 shares. The Bank funds Unity EBT Ltd.

Insurance and Indemnities

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

Future Developments

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

Change in Accounting Policy

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

Taxation

The Bank participates in the Community Investment Tax Relief (CITR) scheme which encourages investment in disadvantaged communities by giving tax relief to companies who invest in Community Development Finance Institutions (CDFIs).

Deductions from Corporation Tax totalling £674,537 (2015: £249,000) were made regarding the CITR scheme.

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

£'000	**2016**	**2015**
Corporation tax borne	543	149
Employment taxes borne		
• Employer NIC	485	389
Total taxes paid	**1,028**	**538**
Employment taxes collected		
• Employee PAYE and NIC	1,315	1,089
Total tax contributions	**2,343**	**1,627**

Corporate Governance

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

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

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs, as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2016. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The financial statements have been prepared on the going concern basis.

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.

Disclosure of Information to the Auditor

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

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

Auditor

Following an external audit tender process in 2016, KPMG LLP were reappointed as the Bank's Auditor at the 2016 AGM. The Board will recommend the reappointment of KPMG LLP to shareholders at the 2017 AGM.

By order of the Board

Kate Eldridge
Company Secretary

Registered Office:
Nine Brindleyplace
Birmingham
B1 2HB

24 February 2017

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

We have audited the financial statements of Unity Trust Bank plc for the year ended 31 December 2016 set out on pages 10 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

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

24 February 2017

Income Statement for the year ended 31 December 2016

All amounts are stated in £000s unless otherwise indicated

	Notes	2016	2015
Interest receivable and similar income	5	**10,562**	10,857
Interest expense and similar charges	6	**(1,123)**	(1,692)
Net Interest Income		**9,439**	9,165
Fee and commission income		**3,883**	2,291
Fee and commission expense		**(1,133)**	(1,152)
Net fee and commission income		**2,750**	1,139
Total income		**12,189**	10,304
Operating expenses	7	**(10,465)**	(9,676)
Financial Services Compensation Scheme levies		**(42)**	(98)
Impairment credits/ (losses) on loans and advances	12	**228**	335
Fair value movement in derivatives		**-**	(129)
Gain on sale of asset		**806**	-
Profit before taxation	3	**2,716**	736
Taxation	9	**166**	128
Profit for the year attributable to shareholders		**2,882**	864

The accounting policies and notes on pages 15 to 37 form part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2016

All amounts are stated in £000s unless otherwise indicated

	2016	2015
Profit for the year - equity shareholders	**2,882**	864
Other comprehensive income:		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	**-**	(38)
Income tax	**-**	8
Changes in available-for-sale assets		
Net changes in fair value recognised directly in equity[1]	**889**	525
Reclassification adjustments included in profit[2]	**(214)**	-
Income tax	**(135)**	(106)
Other comprehensive income/ (expense) for the year, net of tax	**540**	389
Total comprehensive income for the year	**3,422**	1,253

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

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

Attributable to:		
Equity shareholders	**3,422**	**1,253**
Dividend paid in the year	**-**	**(164)**
	3,422	1,089

The accounting policies and notes on pages 15 to 37 form part of these financial statements.

Statement of Financial Position as at 31 December 2016

All amounts are stated in £000s unless otherwise indicated

	Notes	**2016**	2015
Assets			
Cash and balances with the Bank of England	10	**310,867**	377,983
Loan and advances to banks	11	**2,806**	39,354
Loans and advances to customers	12	**235,360**	187,240
Investment securities - available for sale	13	**370,751**	277,249
Intangible fixed assets	14	**199**	227
Property, plant and equipment	15	**289**	266
Deferred tax assets	20	**73**	73
Other assets	16	**24**	31
Prepayments and accrued income	17	**578**	556
Current tax assets		**-**	91
Total assets		**920,947**	883,070
Liabilities			
Customer accounts		**861,504**	831,680
Other liabilities	18	**965**	571
Accruals and deferred income		**924**	553
Provisions for liabilities and charges	19	**379**	286
Total liabilities		**863,772**	833,090
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	22	**18,943**	17,000
Share premium account	22	**5,563**	3,733
Capital redemption reserve		**3,250**	3,250
Retained earnings		**28,519**	25,637
Other reserves - available for sale		**900**	360
Total equity		**57,175**	49,980
Total liabilities and equity		**920,947**	883,070

The accounting policies and notes on pages 15 to 37 form part of these financial statements.

Approved by the Board on 24 February 2017 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 2016

All amounts are stated in £000s unless otherwise indicated

Attributable to equity holders of the Bank

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

2015	Share capital	Share premium	Capital redemption reserve	Available-for-sale reserve	Cashflow hedging reserve	Retained earnings	Total equity
At 1 January 2015	16,429	250	-	(59)	30	30,787	47,437
Total comprehensive income for the financial year	-	-	-	419	(30)	864	1,253
Issue of share capital	3,821	3,483	-	-	-	-	7,304
Own shares acquired during the financial year	(3,250)	-	3,250	-	-	(5,850)	(5,850)
Dividend	-	-	-	-	-	(164)	(164)
At 31 December 2015	17,000	3,733	3,250	360	-	25,637	49,980

The accounting policies and notes on pages 15 to 37 form part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2016

All amounts are stated in £000s unless otherwise indicated

	Notes	**2016**	2015
Cash flows from operating activities			
Profit before taxation		2,716	736
Adjustments for non-cash items:			
Increase in prepayments and accrued income		(22)	(13)
(Decrease) / Increase in accruals and deferred income		371	(289)
Impairment credits on loans and advances		(228)	(335)
Fair value changes of derivatives		-	275
Depreciation and amortisation		259	289
Provision for liabilities and charges		93	346
		3,190	1,009
Increase in customer accounts		29,824	48,919
(Increase)/ decrease in loans and advances to customers		(47,892)	(12,955)
Increase in Bank of England mandatory reserve	10	(244)	(55)
Net movement of other assets and other liabilities		400	(139)
Income tax received / (paid)		122	674
Net cash flow from operating activities		(14,600)	37,453
Cash flows from investing activities			
Purchase of property, plant and equipment		(182)	(159)
Intangible asset additions		(73)	(39)
Purchase of investment securities		(209,060)	(233,920)
Proceeds from sale and maturity of investment securities		116,233	296,411
Net cash used in investing activities		(93,081)	62,293
Cash flows from financing activities			
Ordinary share dividends paid		-	(164)
Buy back of own shares		-	(5,850)
Proceeds on issue of share capital net of transaction costs		3,773	7,304
Net cash flow from financing activities		3,773	1,290
Increase in cash and cash equivalents		(103,908)	101,036
Cash and cash equivalents at the beginning of the financial year		417,282	316,246
Cash and cash equivalents at end of the financial year		313,374	417,282
Cash and balances with the Bank of England	10	310,568	377,928
Loans and advances to banks	11	2,806	39,354
		313,374	417,282

The accounting policies and notes on pages 15 to 37 form part of these financial statements.

Notes to the Financial Statements

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies

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

Basis of preparation

The Bank's report and accounts have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and IFRS Interpretations Committee (IFRIC) guidance as adopted by the European Union.

The financial information has been prepared under the historic cost convention as modified by the revaluation of available for sale financial assets, derivative contracts, and certain other financial assets and financial liabilities held at fair value. The Bank applies the recognition measurement and disclosure requirements of IFRS in issue that are endorsed by the EU.

Going Concern

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

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

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

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

Adoption of new and revised standards

Standards and interpretations issued and effective

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

Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'

Effective from 1 February 2015 and endorsed by the EU on 9 January 2015. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. This does not have a material impact on the Bank.

Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'

Effective from 1 February 2016 and endorsed by the EU on 24 November 2015. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. This will have no impact on the Bank.

Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

Effective from 1 February 2016 and endorsed by the EU on 2 December 2015. The amendments clarify that the use of revenue based methods to calculate the depreciation of a tangible asset and amortisation of an intangible asset, is not appropriate because revenue generated by an activity that includes the use of an asset, generally reflects factors other than the consumption of the economic benefits embodied in the asset. This does not have a material impact on the Bank.

Standards and interpretations issued but not yet effective

IFRS 9 'Financial Instruments'

Effective from 1 January 2018 and endorsed by the EU on 22 November 2016. The standard replaces IAS 39: Financial Instruments: Recognition and Measurement. The Bank is currently assessing the impact that IFRS 9 will have on its financial statements and is on track to implement the revised practices and procedures required by the standard. The Bank has not yet estimated the financial effects, although it is expected to have a significant impact for the Bank in line with the wider industry. The Bank expects to be able to indicate the quantum of the impact in the 2017 Report and Accounts.

IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2017 and endorsed by the EU on 22 September 2016. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Bank.

Notes to the Financial Statements

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

IFRS 16 'Leases'

Effective from 1 January 2019 and not yet endorsed by the EU. The standard replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. It is not yet clear what impact this will have on the Bank.

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

Amendments to IAS 7 'Disclosure Initiative'

Effective from 1 January 2017 and not yet endorsed by the EU. The amendment requires that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities. This is unlikely to have a material impact on the Bank.

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

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

Amendment to IFRS 2 'Classification and measurement of share based payment transactions'

Effective from 1 January 2018 and not yet endorsed by the EU. The amendment seeks to clarify the classification and measurement of share based payment transactions. This is unlikely to have a material impact on the Bank.

Amendment to IAS 40 'Transfers of Investment Property'

Effective from 1 January 2018 and not yet endorsed by the EU. The amendment provides guidance on transfers to and from Investment Property and does not have an impact on the Bank.

Significant accounting policies

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

(a) Revenue recognition

Interest income

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

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

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

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

Fees and commissions

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

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

(b) Financial instruments (excluding derivatives)

Financial assets

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

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

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

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

i) Loans and receivables

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

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

ii) Available for sale

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

Financial liabilities

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

(c) Impairment provisions

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In terms of forbearances, the Bank recognises all such cases within its provisioning methodology.

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

The amount of the loss is the difference between the:

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

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the Income Statement and a corresponding reduction in the value of the financial asset is recognised.

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

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

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

Impairment of financial assets classified as available for sale

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(d) Derivative financial instruments and hedge accounting

Derivatives used for asset and liability management purposes

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

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

The Bank is currently not holding any derivatives.

Cash flow hedges

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

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

No derivatives are held for trading purposes.

(e) Property, plant and equipment

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

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

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

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

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

(f) Intangible assets

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

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

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

Banking system	10% per annum

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

(g) Cash and cash equivalents

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

All amounts are stated in £000s unless otherwise indicated

1 Basis of preparation and significant accounting policies (continued)

(h) Taxation

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

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

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

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

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

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

(i) Pension costs

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

(j) Offsetting

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

(k) Operating leases

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

(l) Provisions

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

(m) Deferred income

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

(n) Sale and repurchase agreements

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

(o) Share premium

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

(p) Capital redemption reserve

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

All amounts are stated in £000s unless otherwise indicated

2 Critical estimates and judgements

In the preparation of the financial statements, the Bank makes critical judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities. Actual results may differ from these estimates. Critical judgements and the assumptions used in calculating estimates are continually assessed and reviewed, and are based on historical experience and reasonable expectations of future events.

Impairment provisions

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

Individual provisions

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

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

An increase in the forced sale discount by 30% will see a reduction in the value of the security available and would result in an increase in impairment provision of £12k.

Collective provisions

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

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

The impact of increasing the collective provision by 10% would be £43k.

Effective interest rate (EIR)

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

A decrease in the expected life of customer loans by one month will reduce the loans and advances to customers by £2k, with a corresponding increase to interest income.

All amounts are stated in £000s unless otherwise indicated

3 Profit before taxation

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

	2016	2015
Audit services		
Fees payable for the audit of the annual accounts	**65**	69
Non-Audit services		
Fees payable for all other services	**17**	38
Total	**82**	107

4 Directors' emoluments

	2016	2015
Non-executive directors - emoluments	**156**	118
Executive directors - emoluments		
Remuneration as a director	**425**	327
Remuneration as an employee	**17**	412
Total	**598**	857

The highest paid director during the year w as Margaret Willis, CEO; total 2016 remuneration package of £231k. Executive Director remuneration includes salary, car allow ance, pension,profit share and travel allow ance. Not all directors w ere eligible for all elements of remuneration. Independent Non executive Directors, excluding the Chairman, received fees of £105k for their services. The Chairman of the Bank received a fee of £51k.

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

5 Interest receivable and similar income

	2016	2015
On financial assets not at fair value through profit or loss		
on loans and advances to customers	**6,402**	6,441
on loans and advances to banks	**1,787**	2,119
on investment securities	**2,373**	2,122
	10,562	10,682
On financial assets at fair value through profit or loss		
Net income on financial instruments	**-**	175
Total	**10,562**	10,857

6 Interest expense and similar charges

	2016	2015
On financial liabilities not at fair value through profit or loss		
on retail deposits	**1,123**	1,690
on bank and other deposits	**-**	2
Total	**1,123**	1,692

7 Operating expenses

	Note	**2016**	2015
Staff costs	8	**6,073**	5,122
Administrative expenses		**3,654**	3,617
Amortisation of intangible fixed assets	14	**101**	139
Depreciation of property, plant and equipment	15	**158**	150
Operating lease rentals		**379**	400
Movement in provisions for liabilities and charges	19	**100**	248
Total		**10,465**	9,676

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

8 Staff costs

	2016	2015
Wages and salaries	**4,321**	4,030
Severance	**717**	207
Social security costs	**485**	389
Pension costs - defined benefit plans	**124**	404
Pension costs - defined contribution plans	**294**	92
Profit share	**132**	-
Total	**6,073**	5,122

The defined benefit pension scheme w as closed to future accruals in 2015. The 2016 change relates to the funding of the deficit.
The above costs do not include the cost of temporary agency staff.
The average number of persons employed by the Bank during the year w as made up as follow s:

	2016	2015
Full time	**85**	83
Part time	**9**	11
Total	**94**	94

9 Income tax

Tax policy

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

Tax (credit)/ charge	**2016**	2015
Current tax - current year	**(135)**	(115)
Current tax - prior year	**(31)**	-
Deferred tax - Current Year	**33**	(13)
Deferred tax - Prior Year	**(33)**	-
Total tax charge/(credit) for the year	**(166)**	(128)

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 w ould arise using the corporation tax rate in the UK as follow s:

Tax reconciliation	**2016**	2015
Profit before taxation	**2,716**	736
Tax calculated at a rate of 20.00% (2015: 20.25%)	**543**	149
Expenses not deductible for tax purposes	**16**	2
Difference betw een depreciation and capital allow ances for period and other timing differences	**-**	(1)
Adjustments to tax charge in respect of prior periods	**(64)**	(29)
Tax rate changes	**13**	-
Community Investment Tax Relief	**(674)**	(249)
Total tax charge/(credit) for the year	**(166)**	(128)

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2016 w as 20%. This compares to a w eighted average rate of 20.25% for 2015.

The amount of corporation tax payable is low er than w ould 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 w ho 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 w orth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting w ith the year in w hich the investment is made.

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

10 Cash and balances with the Bank of England

	2016	2015
Mandatory Reserve with Bank of England	**299**	55
Cash and balances with the Bank of England	**310,568**	377,928
Total	**310,867**	377,983

Cash and balances with the Bank of England includes cash of £299k (2015: £55k) 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

	2016	2015
Placements with other banks	**-**	34,650
Other loans and advances to banks	**2,806**	4,704
Total	**2,806**	39,354

12 Loans and advances to customers

	2016	2015
Gross loans and advances	**237,245**	189,829
Less: allowance for losses on loans and advances to customers	**(1,885)**	(2,589)
Total	**235,360**	187,240

Movement in allowance for losses on loans and advances:

	2016 Individual	Collective	Total	2015 Individual	Collective	Total
At 1 January	**(2,104)**	**(485)**	**(2,589)**	(2,306)	(618)	(2,924)
Credit against profits	**162**	**54**	**216**	205	133	338
Amounts written off	**486**	**-**	**486**	-	-	-
Recoveries	**(10)**	**-**	**(10)**	-	-	-
Unwind of discount of allowance	**12**	**-**	**12**	(3)	-	(3)
At 31 December	**(1,454)**	**(431)**	**(1,885)**	(2,104)	(485)	(2,589)

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

	2016	2015
Administrative bodies and non-commercial	**187,863**	158,441
Property (excluding hotels and leisure)	**30,571**	9,854
Hotels & Leisure	**7,025**	8,851
Manufacturing	**-**	10
Other	**11,786**	12,673
	237,245	189,829

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

13 Investment securities

	2016	2015
Available for sale		
- Unlisted bank and building society certificates of deposit	**29,966**	30,083
- Other listed transferable debt securities	**340,785**	247,166
Total	**370,751**	277,249

Movements during the year are analysed below :

	2016	2015
At 1 January	**277,249**	339,215
Fair value adjustment	**675**	525
Acquisitions	**209,060**	233,920
Disposals and maturities	**(116,233)**	(296,411)
At 31 December	**370,751**	277,249

14 Intangible assets

Computer Software	**2016**	2015
Cost		
At 1 January	**1,380**	1,341
Additions	**73**	39
At 31 December	**1,453**	1,380
Accumulated Amortisation		
At 1 January	**1,153**	1,014
Charge for the year	**101**	139
At 31 December	**1,254**	1,153
Net book value at 31 December	**199**	227

Included within Intangible assets is capitalised work in progress that is currently not being depreciated of £32k (2015: £0).

15 Property, plant and equipment

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

Included within Computer Equipment is capitalised work in progress that is currently not being depreciated of £21k (2015: £0).

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

15 Property, plant and equipment (continued)

Cost			
At 1 January 2015	565	1,763	2,328
Additions	11	148	159
Disposals	-	(36)	(36)
At 31 December 2015	576	1,875	2,451
Accumulated Depreciation			
At 1 January 2015	526	1,545	2,071
Charge for the year	9	141	150
Disposals	-	(36)	(36)
At 31 December 2015	535	1,650	2,185
Net book value at 31 December 2015	41	225	266

16 Other assets

	2016	2015
Amounts recoverable within one year:		
Trade debtors	**2**	7
Other assets	**22**	24
Total	**24**	31

17 Prepayments

	2016	2015
Amounts recoverable within one year:		
Other	**578**	556
Total	**578**	556

18 Other liabilities

	2016	2015
Amounts payable within one year:		
Trade creditors	**337**	355
Other liabilities	**628**	216
Total	**965**	571

19 Provisions for liabilities and charges

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

19 Provisions for liabilities and charges (continued)

At 1 January 2015	-	68	62	130
Income statement movements:				
Provided in the year	207	44	130	381
Utilised during the year	-	(163)	(142)	(225)
At 31 December 2015	207	29	50	286
Amounts falling due within one year	207	29	50	286
Amounts falling due after one year	-	-	-	-
	207	29	50	286

Financial Services Compensation Scheme (FSCS)

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

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including the Bank, over this period.

The Bank's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2016/17. This amount was calculated on the basis of the Bank's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2016.

All amounts are stated in £000s unless otherwise indicated

20 Deferred tax

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

The movement on the deferred tax accounts are as follows:

	2016	2015
At 1 January - net deferred tax	**73**	60
Income statement credit/ (charge)		13
At 31 December - net deferred tax	**73**	73

Net deferred tax comprises:

Deferred tax asset	**73**	73

Deferred taxation

	2016	2015
Other timing differences	**4**	2
Capital allowances on fixed assets	**69**	71
	73	73

The deferred tax credit in the Income Statement comprises the following temporary differences:

	2016	2015
Capital allowances on fixed assets	**-**	(2)
	-	(2)

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

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

21 Pensions

The Bank participates in The Co-operative Group Pension Scheme (Pace). The Pace Scheme is a hybrid scheme, consisting of a defined benefit section which is now closed to future accrual and a defined contribution section, the assets of which are held in a separate fund administered by trustees. As a Group-wide pension scheme, the defined benefit section of the Pace scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other companies, with the result that there is no consistent and reliable basis for allocating the liabilities, assets and costs to individual companies participating in the Scheme. Therefore, the pension costs shown in these financial statements in respect of the Pace scheme for the period after 6 April 2006 are the actual contributions paid by the Bank. Risks associated with the Bank's participation in Pace are documented in the strategic report and note 23 in the report and accounts.

22 Share capital

	2016	2015
Issued:		
Ordinary shares of £1 each	**18,943**	17,000
	18,943	17,000
Share premium account	**5,563**	3,733
	24,506	20,733

A further 1.9 million of ordinary shares were issued during the year at a price of £2.00 per share. This share issuance resulted in a gross increase in share premium of £1.9 million. As part of the capital raising the Bank incurred transaction costs of £0.1 million. These costs were offset against the gross share premium amount, giving a net increase in capital of £3.8 million, of which £1.8 million was recorded as share premium.

All issued share capital is allotted and fully paid.

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

23 Contingent liabilities and commitments

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

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

	2016		2015	
	Contract amount	**Credit equivalent amount**	Contract amount	Credit equivalent amount
Guarantees and irrevocable letters of credit	**-**	**-**	171	86
	-	**-**	171	86
Other commitments:				
Undrawn formal standby facilities, credit lines and other commitments to lend:				
-1 year and over	**42,200**	**-**	26,994	-
	42,200	**-**	26,994	-

Commitments under Operating leases

	2016		2015	
	Land and buildings	**Other leases**	Land and buildings	Other leases
At the year end, total commitments under non-cancellable operating leases were payable as follows:				
Expiring:				
-within one year	**311**	**45**	27	27
-between one and five years	**893**	**87**	1,204	17
-in five years or more	**-**	**-**	-	-
	1,204	**132**	1,231	44

Operating lease rental payments are disclosed in note 7.

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

Pensions

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

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

All amounts are stated in £000s unless otherwise indicated

24 Related party transactions

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

Key management compensation

	2016	2015
Salaries and other short term benefits	**1,011**	872
Post employment benefits	**50**	120
	1,061	992

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 shown in the Income Statement 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 £54.5 million (2015: £49.4 million), in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis

	2016	2015
Tier 1		
Share capital	**18,943**	17,000
Share premium account	**5,563**	3,733
Capital redemption reserve	**3,250**	3,250
Retained earnings	**25,637**	24,773
Add: AFS Reserve	**900**	360
Less : Intangible assets	**(199)**	(227)
Total Tier 1 capital	**54,094**	48,889
Tier 2		
Collective provisions	**431**	485
Total Tier 2 Capital	**431**	485
Total Tier 1 & Tier 2 Capital	**54,525**	49,374
Total regulatory capital	**54,525**	49,374
Common Equity Tier 1 ratio	**23.3%**	26.5%

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities

The fair value represents the amount at which the instrument would be exchanged in an arm's length transaction between two willing parties. In the vast majority of cases, quoted market prices are readily available and are used, otherwise prices are obtained by using well established valuation techniques, which utilise present cash flows. The fair value will approximate to the carrying value when instruments are carried in the balance sheet at market value or where the instruments are short term or contain frequent repricing provisions. At 31 December 2016 and 31 December 2015 the book value of the Bank's financial instruments, including derivative financial instruments, that have an active and liquid market were equivalent to the fair value of those instruments.

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

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:
- level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

Classification of financial instruments and fair values

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

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Classification of financial instruments and fair values (continued)

	Loans and receivables	Available for sale	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2015					
Assets					
Financial instruments measured at fair value					
Investment securities	-	277,249	277,249	277,249	Level 2
Derivative financial instruments	-	-	-	-	Level 2
Financial instruments not measured at fair value					
Cash and balances at central banks or Bank of England	377,983	-	377,983	377,983	Level 1
Loans and advances to bank	39,354	-	39,354	39,354	Level 3
Loans and advances to customers	187,240	-	187,240	184,361	Level 3
	604,577	277,249	881,826	878,947	
Liabilities					
Deposits from customers	831,680	-	831,680	831,680	Level 2
	831,680	-	831,680	831,680	

• *Loans and advances to bank*
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 available for sale*
The fair value of investment securities available for sale is determined by reference to the quoted bid price at the balance sheet date.

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

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

Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities) and in 'other products' (such as lending transactions). Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Bank or its failure to perform as agreed.

All authority to take credit risk derives from the Bank’s Board. The level of credit risk authority delegated depends on seniority and experience, varying according to the quality of the counterparty or any associated security or collateral held.

The Bank's Risk Management Framework is approved by the Board annually and determines the criteria for the management of corporate exposures. It specifies credit management standards, including country, sector and counterparty limits, along with delegated authorities.

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

Credit policy for treasury investments involves establishing limits for each of these counterparties based on their financial strength and credit rating.

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Credit Exposure

	2016			2015		
	Gross balance	**Credit commitments**	**Credit risk exposure**	Gross balance	Credit commitments	Credit risk exposure
Cash and balances at central banks	**310,867**	**-**	**310,867**	377,983	-	377,983
Loans and advances to banks	**2,806**	**-**	**2,806**	39,354	-	39,354
Loans and advances to customers	**237,245**	**42,200**	**279,445**	189,829	27,165	216,994
Investment securities - available for sale	**370,751**	**-**	**370,751**	277,249	-	277,249
	921,669	**42,200**	**963,869**	884,415	27,165	911,580
Allowance for impairment losses on loans and advances			**(1,885)**			(2,589)
Carrying amount			**961,984**			908,991

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

Credit risk analysis

31 December 2016

	Loans and advances to banks	**Loans and advances to customers**	**Investment securities**	**Derivative financial instruments**	**Total**
Individually impaired					
90 days past due or evidence of impairment	**-**	**1,031**	**-**	**-**	**1,031**
Carrying amount	**-**	**1,031**	**-**	**-**	**1,031**
Collectively impaired					
Less than 90 days past due	**-**	**11,440**	**-**	**-**	**11,440**
Carrying amount	**-**	**11,440**	**-**	**-**	**11,440**
Past due but not impaired					
0-30	**-**	**410**	**-**	**-**	**410**
Carrying amount	**-**	**410**	**-**	**-**	**410**
Neither past due or impaired					
Grade 1-5 (performing)	**2,806**	**224,364**	**370,751**	**-**	**597,921**
Grade 6 (Watchlist - performing)[1]	**-**	**-**	**-**	**-**	**-**
Grade 7-8 (Default non-performing)[1]	**-**	**-**	**-**	**-**	**-**
Carrying amount	**2,806**	**224,364**	**370,751**	**-**	**597,921**
Allowance for impairment losses on loans and advances	**-**	**(1,885)**	**-**	**-**	**(1,885)**
Total carrying amount	**2,806**	**235,360**	**370,751**	**-**	**608,917**

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

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

31 December 2015

	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	3,026	-	-	3,026
Carrying amount	-	3,026	-	-	3,026
Collectively impaired					
Less than 90 days past due	-	14,768	-	-	14,768
Carrying amount	-	14,768	-	-	14,768
Past due but not impaired					
0-30	-	594	-	-	594
Carrying amount	-	594	-	-	594
Neither past due or impaired					
Grade 1-5 (performing)	39,354	171,441	277,249	-	488,044
Grade 6 (Watchlist - performing)	-	-	-	-	-
Grade 7-8 (Default non-performing)	-	-	-	-	-
Carrying amount	39,354	171,441	277,249	-	488,044
Allowance for impairment losses on loans and advances	-	(2,589)	-	-	(2,589)
Total carrying amount	39,354	187,240	277,249	-	503,843

Impairment definition

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

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

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

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

Past due but not impaired

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

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Collateral

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

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

As at 31 December 2016 £12.5 million (2015: £14.8 million) within loans and advances was unsecured.

At the reporting date, the fair value of collateral held as security against individually impaired assets was £0.3 million (2015: £1.3 million).

At the reporting date the fair value of collateral held as security against loans and advances to customers that are past due but not impaired was £0.8 million (2015: £1.4 million).

Geographical concentration

At 31st December 2016, the majority of the Bank's treasury investment exposures were to UK and European countries. The Bank also had £114 million of exposures to non European countries as follows; Canada £60 million, Australia £38 million, Supranational: Asian Development Bank £6 million and Inter- American Development Bank £9 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 2016**
Finland	**-**	**-**	**-**	**-**	**-**
France	**-**	**-**	**-**	**-**	**-**
Germany	**-**	**20,000**	**-**	**-**	**20,000**
Luxembourg	**-**	**-**	**-**	**-**	**-**
Netherlands	**-**	**-**	**-**	**-**	**-**
Norway	**-**	**-**	**20,000**	**-**	**20,000**
Sweden	**-**	**-**	**-**	**-**	**-**
Supranational	**-**	**15,384**	**35,000**	**-**	**50,384**
	-	**35,384**	**55,000**	**-**	**90,384**

The Bank had exposures to financial institutions in the following European countries at 31 December 2015:

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 2015
Finland	-	15,008	-	-	15,008
France	-	-	-	-	-
Luxembourg	-	-	-	-	-
Netherlands	-	10,022	-	-	10,022
Norway	-	-	-	-	-
Sweden	-	-	-	-	-
	-	25,030	-	-	25,030

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Interest rate risk

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

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

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

31 December 2016

	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of England	310,867	-	-	-	-	-	310,867
Loans and advances to banks	2,806	-	-	-	-	-	2,806
Loans and advances to customers	229,576	-	-	4,147	3,519	(1,881)	235,360
Investment securities - available for sale	271,934	10,972	36,038	51,807	-	-	370,751
Other assets	-	-	-	-	-	1,163	1,163
Total assets	815,183	10,972	36,038	55,954	3,519	(718)	920,947
Liabilities							
Customer accounts	861,504		-	-	-	-	861,504
Other liabilities	-	-	-	-	-	2,268	2,268
Total equity	-	-	-	-	-	57,175	57,175
Total liabilities and equity	861,504	-	-	-	-	59,443	920,947
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	(46,321)	10,972	36,038	55,954	3,519	(60,161)	
Cumulative gap	(46,321)	(35,349)	689	56,643	60,161	-	

31 December 2015

	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	377,983	-	-	-	-	-	377,983
Loans and advances to banks	39,354	-	-	-	-	-	39,354
Loans and advances to customers	182,725	-	-	906	6,198	(2,589)	187,240
Investment securities - available for sale	129,441	20,030	10,053	117,725	-	-	277,249
Other assets	-	-	-	-	-	1,244	1,244
Total assets	729,503	20,030	10,053	118,631	6,198	(1,345)	883,070
Liabilities							
Customer accounts	831,680	-	-	-	-	-	831,680
Other liabilities	-	-	-	-	-	1,410	1,410
Total equity	-	-	-	-	-	49,980	49,980
Total liabilities and equity	831,680	-	-	-	-	51,390	883,070
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	(102,177)	20,030	10,053	118,631	6,198	(52,735)	
Cumulative gap	(102,177)	(82,147)	(72,094)	46,537	52,735	-	

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Liquidity Gap

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

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

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

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

31 December 2016

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non cash items	Total
Assets							
Cash and balances at central banks	**310,867**						**310,867**
Loans and advances to banks	**2,806**	**-**	**-**	**-**	**-**	**-**	**2,806**
Loans and advances to customers	**756**	**5**	**7,266**	**82,642**	**144,689**	**-**	**235,360**
Investment securities- available for sale	**-**	**56,809**	**78,159**	**235,783**	**-**	**-**	**370,751**
Other assets	**-**	**-**	**-**	**-**	**-**	**1,163**	**1,163**
Total assets	**314,429**	**56,815**	**85,425**	**318,425**	**144,689**	**1,163**	**920,947**
Liabilities							
Customer accounts	**723,100**	**138,404**	**-**	**-**	**-**	**-**	**861,504**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**59,443**	**59,443**
Total liabilities and equity	**723,100**	**138,404**	**-**	**-**	**-**	**59,443**	**920,947**
Net liquidity gap on contractual basis	**(408,671)**	**(81,589)**	**85,425**	**318,425**	**144,689**	**(58,280)**	**-**

31 December 2015

	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	377,983	-	-	-	-	-	377,983
Loans and advances to banks	4,166	35,188	-	-	-	-	39,354
Loans and advances to customers	1,031	1,042	11,855	77,116	96,196	-	187,240
Investment securities- available for sale	-	15,005	45,112	217,132	-	-	277,249
Other assets	-	-	-	-	-	1,244	1,244
Total assets	383,180	51,235	56,967	294,248	96,196	1,244	883,070
Liabilities							
Customer accounts	677,228	154,452	-	-	-	-	831,680
Other liabilities	-	-	-	-	-	51,390	51,390
Total liabilities and equity	677,228	154,452	-	-	-	51,390	883,070
Net liquidity gap on contractual basis	(294,048)	(103,217)	56,967	294,248	96,196	(50,146)	-

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

27 Fair values of financial assets and liabilities (continued)

Gross expected cashflow maturity analysis - contractual

31 December 2016

	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	**861,504**				-	-	-
Other liabilities	**2,268**	**2,268**	**2,268**	-	-	-	-
	863,772	**2,268**	**2,268**	-	-	-	-
Derivative Liabilities	-	-	-	-	-	-	-
Total recognised liabilities	**863,772**	**2,268**	**2,268**	-	-	-	-
Unrecognised loan commitments	**42,200**	**42,200**	**42,200**	-	-	-	-
Total	**905,972**	**44,468**	**44,468**	-	-	-	-

31 December 2015

	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	831,680	831,738	738,523	93,215	-	-	-
Other liabilities	1,410	1,410	1,410	-	-	-	-
	833,090	**833,148**	**739,933**	**93,215**	-	-	-
Derivative Liabilities	-	-	-	-	-	-	-
Total recognised liabilities	**833,090**	**833,148**	**739,933**	**93,215**	-	-	-
Unrecognised loan commitments	26,994	26,994	26,994	-	-	-	-
Total	**860,084**	**860,142**	**766,927**	**93,215**	-	-	-

Glossary

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

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

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Registered in England and Wales no. 1713124
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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.