Unity Trust Bank plc

Registered number 1713124

31 December 2010

unitytrust bank

report and accounts 2010

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

Nine Brindleyplace
Birmingham
B1 2HB

Tel 0845 140 1000
Fax 0845 113 0003

Registered in England and Wales
No 1713124
FSA firm reference No 204570

Board of Directors

'A' Directors	Alternates
Dave Prentis (President)	Steve Tasker
Billy Hayes	Tony Kearns
Sharon Powell	
Allan Wylie	
John Youd	John Hannett

'B' Directors
Graham Bennett (Chairman)
Keith Alderson
Kevin Blake
John Brooks
Richard Goddard
Ian Morrison
Mike Osborne
Kevin Turmore
Stephen Watts

'C' Directors
Rhidian Jones

Secretary
Kate Eldridge LLB (Hons), ACIS

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

Executive Management

Kevin Turmore, Managing Director
John Brooks, Director, Sales and Marketing
Ian Morrison, Director, Operations
Mike Osborne, Director, Finance and Risk

Auditors
KPMG Audit Plc
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Shareholders

Represented on the Board

Communication Workers' Union
GMB
National Union of Rail, Maritime and Transport Workers
UNISON
UNITE
USDAW
The Co-operative Bank p l c

Other Trade Union Shareholders

Associated Society of Locomotive Engineers and Firemen
Broadcasting, Entertainment, Cinematograph and Theatre Union
Community
Educational Institute of Scotland
Fire Brigades Union
FDA
General Federation of Trade Unions
Musicians' Union
National Association of Colliery Overmen, Deputies and Shotfirers
National Association of Schoolmasters Union of Women Teachers
Nautilus International
National Union of Mineworkers
National Union of Teachers
Northern Ireland Public Service Alliance
Prospect
Public and Commercial Services Union
Trades Union Congress
Transport Salaried Staffs' Association
UCU
Unity

Shareholders and Capital

Individual trades unions and trade union federations own 73 23% of the total equity capital of Unity Trust Bank plc (14 64% in 'A' shares and 58 59% in 'C' shares) The Co-operative Bank p l c , through its subsidiary Co-operative Commercial Limited, owns 26 66% (14 64% in 'B' shares and 12 02% in 'C' shares)

Certain individuals between them own 0 11% of the equity capital, all in 'C' shares Total equity capital at 31 December 2010 was £16,429,301

The 'A' shares owned by trades unions and the 'B' shares owned by The Co-operative Bank p l c have certain class rights attached to them concerning the election of directors and certain other matters referred to in the Articles of Association and relating to the control of the Bank

Contents

The President's Statement

I am delighted that the Bank has continued to excel across many areas and has achieved good growth in customer numbers across our key business areas in the trade union and charitable and voluntary sectors

This is testament to the ongoing excellent service the Bank provides to its customers in these sectors who value the socially responsible and innovative way Unity operates and who act as willing ambassadors for the Bank in the wider community

However, it is always disappointing when the financial results of the business do not represent the good work that is going on within the organisation, and the Bank has taken steps to more closely align the business model with the realities of today's economy to make sure that future financial performance improves

I said last year that I was proud to be the President of a bank that is genuinely different from the mainstream and one that puts social responsibility and responsible lending at the heart of its business model I can't help but feel that if the rest of the banking community had been guided by these principles, the United Kingdom (UK) economy would probably be in a far better position than it is today Despite the financial results, staying true to our principles is what makes us different and I am therefore pleased to repeat this statement again

Economic recovery throughout every aspect of our lives has proved to be difficult and remains uncertain Some of our customers have been adversely impacted and others continue to manage in difficult circumstances The Bank will work with all of them to achieve good outcomes through the present difficult market conditions In the meantime it has been prudent to raise some precautionary provisions to reflect the operating environment and this has affected the results of the Bank for 2010

Our customers are proud to be associated with a bank that puts social responsibility at the core of its proposition, and this remains a very strong message in our marketplace, and a message which continues to attract new customers to the Bank

The underlying business for the Bank remains strong Unity has continued to be recognised within the industry for both its products and service We continued to win awards and receive public recognition not only for the quality of our service, but also for our approach to making banking easier for the customer I am particularly pleased that we received best marks for banking services as voted by the readers of Charity Finance magazine - for the sixth successive year We were also winners of Charity Times magazine's Best for Banking Services award, and our charity account was Highly Commended by Business Moneyfacts magazine Our ALTO MasterCard® prepaid card which we launched in 2010 was also shortlisted for Best New Prepaid Card in the Card & Payments Awards

This external recognition proves to me that our focus and desire to deliver products and services that our customers want continues to be the right one The fact that we receive recognition when tested against the main high street banks, as well as other specialist banks, means that if we continue to focus on the right things, we will see ourselves through this difficult period

During 2010, the Bank continued its financial and practical support for the wider trade union movement As well as providing formal support at both the TUC and STUC annual conferences, we also supported less formal trade union activities during the year This included the annual May Day TUC five-a-side football tournament and support for Trades Union councils up and down the country We also continued our support for the TUC's film competition aimed at budding film-makers The competition encourages the making of TV-style adverts to promote trade unions on the web The winners were presented with their award by Billy Ivory, the screenwriter of 'Made in Dagenham' and one of our panel judges The awards ceremony took place at the TUC conference in Manchester

Turning to another type of mutual organisation, credit unions, 2010 saw the Bank launch the National Credit Union Awards for Excellence in a ceremony in the House of Lords Open to all credit unions in the UK, these awards were devised by Unity and modelled on similar schemes in the United States and Canada

They are the first of their type in the UK, and their aim is to champion and pay tribute to the extraordinary work of the countless unsung individuals who give their time and expertise to the credit union movement The winners of the awards were selected by an eminent panel of judges including Lord Janner, Baroness Thornton, Juliet Davenport (Good Energy), Sir Stuart Etherington (NCVO), Stephen Robertson (Big Issue Foundation), Nigel Fawcett (HM Treasury), Steve Johnson (Advice UK) and Professor Paul Palmer (CASS Business School)

The awards were presented to the winners at a ceremony in London in February 2011

At a time when banks and the bonuses they pay to some staff are under increasing public and government scrutiny, it is important that I use this report to highlight Unity's continue commitment to enabling social development and supporting community development

2010 continued to see the success of the Bank's staff community-based involvement initiative - Unity in The Community - which was launched in 2009 This initiative encourages staff to provide time, energy and expertise to support local and national charities and good causes This is an excellent example of the Bank and its staff living and embodying its values to help others

These staff activities ranged across a broad spectrum and included helping marine conservation as a volunteer in Fiji, mentoring young people in various activities to help them achieve their potential, gardening in parks and open spaces in Birmingham and bringing our business and banking experience to many organisations by sitting on their boards and acting as business mentors

It is with great pride therefore that I can report that during 2010 staff from across the bank, as well as the Executive team, spent over 880 hours volunteering on these initiatives In addition, various fundraising events raised over £5,000 for charitable and other good causes This is a tremendous achievement, all the more so in these difficult financial times and I am very proud of their selfless achievements

As I report each year, it is the Bank's staff who are our greatest asset, and the activities I have reported on above bear tribute to that I look forward to continued efforts and achievements in 2011 That is why we will continue with our long-standing practice of giving all staff the opportunity to volunteer in their local communities by providing all employees with five days paid volunteer leave each year

The environment is rightly moving up the business agenda as the true cost of our "disposable" society is starting to fall back on businesses and council tax payers I am pleased to report therefore that the staff in the Bank's head office in Birmingham continue to work closely with our landlord to reduce, recycle and minimise waste This takes the form of very practical programmes such as the collection and recycling of plastics, aluminium and toner cartridges, promotion of a car share club, as well as being an active partner in our landlord's 'Green Week' In this same vein, I am pleased to be able to report that we were able to contribute to our landlord's successful ISO14001 Environmental Management System accreditation in the year ISO 14001 being the international standard that specifies a process for controlling and improving an organisation's environmental performance

Finally, I am pleased to report on how the Bank has continued its commitment to creating an environment of on-going learning and development for its staff Throughout the year training courses are devised and delivered in a way which not only helps staff learn but does so in a creative and fun manner It is no coincidence therefore that I can report that for the second year running that we won the coveted 'Outstanding Learning and Development' Award at the Training Journal's Annual Conference in London We received this award for our innovative staff-wide training programme, on anti money-laundering As well as training for staff and the Executive team, 2010 saw the launch of our formal training programme for Board members, a move that I know has been very well received by my colleagues

In addition, staff are encouraged to identify and pursue qualifications through our Personal Development Plan process This is completed annually, as part of developing an open and supportive learning environment I am pleased to report that during 2010 seven staff were pursuing external qualifications

As in the past, the Bank will continue to invest time and resource to ensure that its training and development programme remains a pertinent, relevant and enjoyable experience

2010 has undoubtedly been a difficult year for many - for the Bank, for many of its customers and for the economy as a whole However, as I look forward to 2011, I draw huge comfort from both the Bank's past achievements as well as its adherence to its core values of being socially focused, customer centred and commercially driven I believe it is this combination of factors that will see us continue to remain the bank of choice in our chosen sectors in 2011 and beyond

Finally, it is with great sadness that I have to report the untimely passing of two colleagues Graham Bennett's predecessor as Chairman, Lord Fyfe of Fairfield, passed away in February of this year During his nine years in office he played a pivotal role in the development of the Bank as well as making a significant contribution in his role as a member of the House of Lords

Steven Glover, a Board member since 2004, passed away in June 2010 He joined the RMT Union in June 2001, where he carried out a number of roles, most recently Finance Manager since 2006 He was a qualified banker and this industry experience was greatly valued by the Board

They will both be sadly missed by us all

Dave Prentis

President of Unity Trust Bank plc

The Chairman's Statement

Following an extended period of continuous profitability, the Bank's results for 2010 report a pre-tax loss of £1 2 million Operating performance before impairment losses and other operating expense generated a profit amounting to £3 1 million, which has been impacted by an increased level of loan impairment provisions for the year The current protracted economic recession has resulted in adverse trading conditions for our lending customers and increased the loan loss risk accordingly

The Bank continues to achieve success in terms of customer growth and consequently the balance sheet has continued to grow, with gross assets and liabilities increasing by 3 3% to more than £620 million at 31st December 2010

Your Board continues to be pleased by the level of support that is supplied by our shareholders, particularly given the results for this financial year For a number of years, the Bank had been able to reward shareholders by the payment of both interim and final dividends due to the level of the financial results over the period In view of the lowering of financial performance during 2010, the Board had not recommended the payment of an interim dividend during the year Given the losses that have arisen for the year as a whole, the Board is recommending that no final dividend is paid

In my statement in the 2009 Annual Report and Accounts, I noted that it was difficult to make any precise predictions for the UK economy That statement remains as true now as it was then With uncertainty over economic growth, the impact of the Government's programme for cuts and the prevalence of higher inflation, the outlook for the economy is not at all clear

Whilst the uncertain economic environment continues to impact business growth, the Bank remains confident in its underlying, long term business model of achieving growth by being socially focused, customer centred and commercially driven Our vision remains for the Bank to be the first choice for the trade union and social economy movements

The Bank has continued to support social enterprises both directly and indirectly through its wholesale funding to Community Development Financial Institutions (CDFIs) The Enterprise Finance Guarantee has provided a number of opportunities to further support the development work of these community based funds

CDFIs have an increasing role to play in making available finance to those in most need, be they individuals, social enterprises or small businesses A Government report published in 2010 found that CDFIs continue to address the consistent market failure to reflect the economic and social benefits of lending in underserved markets The Bank intends to continue to play an active part in developing their impact through loan funding In addition, through well established relationships with local CDFIs, we are able to support funding into most regions

I am pleased to be able to announce that the Bank has continued its previous successes in achieving key awards, particularly in relation to the provision of first class customer service In April 2010, we were awarded the accolade of being best rated for customer service and communication in Charity Finance Magazine's annual survey In addition, our outstanding banking service was recognised by lifting the Best for Banking Services award in the Charity Times Awards

In terms of staff support, during September 2010, we were awarded the Best Commercial Training Initiative in the under 1,000 employees category at the Training Journal's Annual Conference and Awards Ceremony held in the Commonwealth Club in London The award was received for our outstanding learning and development initiative

I would like to place on record my personal thanks to all the Bank's staff and management who worked so hard throughout the year to ensure we meet our customer's high expectations, recognised in these prestigious awards This remains a testament to our commitment to excellent customer service, reinforced in all our business plans

Our strengths include understanding and listening to customers, culminating in our commitment to a sustained high level of customer service In the continuing difficult economic climate, when financial hardship remains a concern for all, we can reaffirm our promise not to levy penalty charges or high levels of interest for temporary overdrafts provided customers continue to talk to us about their problems The Bank's Treating Customers Fairly culture includes continual review and assessment of customer complaints and pleasingly the level of complaints remains low and has reduced over 2010

Communication with customers is central to the Bank's philosophy, particularly in support of our commitment to maintain high quality customer service and satisfaction During the year we have undertaken surveys in order to monitor how customers feel about us, both via on-line and telephone channels A higher level of response has been received from customers in 2010 and that response exceeded our aspirations Similarly, whilst the economic environment remains in recession and confidence in the financial sector has been found wanting, our customer communication reinforces that, by the nature of our ownership and business activities, the Bank's business remains financially secure Our capital resources, supported by our risk management processes, remains strong and we maintain a robust liquidity position

The Bank continues to benefit from consumer confidence in the co-operative and mutual sector of the financial services marketplace and the support given to the Bank by its Co-operative shareholder improves our proposition

The Bank continues to support the development of credit unions in order to fight financial exclusion and this support has always been high on our agenda In the previous year we developed a prepaid MasterCard® card initiative, branded the ALTO card, which allows credit union members the facility to access electronic payment systems, including ATMs The card prohibits access to credit or borrowings facilities and members cannot go overdrawn In 2010 use of the card by customers, and credit union members of customers, have extended their use of the ALTO card and our card was short-listed for Best New Prepaid Card Product of the Year in the 2011 Card and Payments Awards

The financial pre-tax losses for 2010 indicate a significant change when compared to 2009 and earlier Operating performance is lower due to the direct impact of low interest rates and the downward movement was a change anticipated in the Bank's financial planning cycle The scale of the impact of loan impairment has been such that an overall financial loss resulted notwithstanding the strong support from shareholders, customers and our dedicated staff The Bank's support to others in making a positive impact in today's society continues and the strength of the organisation ensures that we will continue to do so into the future I would therefore like to reiterate my thanks to them all for their contribution which helps continue to set the Bank apart from other banking institutions

There have been a number of changes to the Board during the year I would like to welcome Stephen Watts who brings over nine years of financial services Board experience, firstly with Co-operative Financial Services Limited and secondly with The Co-operative Bank p l c Stephen replaces Ken Lewis as a Non-Executive Director Ken served on the Board since 2005 and in that time provided significant expertise, specifically focused on human resources Additionally, Paul Talbot resigned from the Board this year He served on the Board for over four years bringing a wealth of experience from his role as Assistant General Secretary, Unite

Finally, I would like to echo the sentiments expressed by Dave Prentis about the bereavements of Lord Fyfe of Fairfield and Steven Glover The contribution of both of these men and their involvement with the Bank will be long remembered and appreciated

Graham Bennett

Chairman of Unity Trust Bank plc

Business and Financial Review

Results summary £000s	2010	2009	Change	% Change
Net Interest income	9,265	12,397	(3,132)	(25 3%)
Net fee and commission income	1,434	1,520	(86)	(5 7%)
Operating expenses	(7,476)	(7,508)	32	0 4%
Financial services compensation scheme levy	(126)	(28)	(98)	350 0%
Operating profit before impairment losses and other operating (expense) / income	**3,097**	**6,381**	**(3,284)**	**(51 5%)**
Impairment loss on loans and advances	(4,157)	(884)	(3,273)	370 2%
(Loss) / Profit before other operating (expense) / income	**(1,060)**	**5,497**	**(6,557)**	**(119.3%)**
Other operating (expense) / income	(103)	1,008	(1,111)	(110 2%)
(Loss) / Profit before taxation	**(1,163)**	**6,505**	**(7,668)**	**(117.9%)**

The Bank reported a loss before tax of £1 2 million, compared to a profit before tax of £6 5 million achieved in 2009 At an operating level, the Bank reported a profit before swap recognition and impairment losses of £3 1 million compared to £6 4 million achieved in 2009

Whilst a loss has arisen for the financial year, the Bank has maintained a robust ongoing capital position with core tier 1 ratio standing at 17 6% at 31 December 2010 (2009 17 1%) The Board's risk appetite requires the Bank to maintain internal capital requirements significantly above those required by the Financial Services Authority (FSA) At 31 December 2010 the Bank held a capital buffer that was equivalent to 30 4% of the total FSA requirement (2009 30 8%)

Management of the Bank in line with the Board's risk appetite has been at the centre of business planning and throughout the year robust liquidity and strong capital ratios have been consistently maintained In particular, the Bank has undergone an internal liquidity assessment in line with regulatory requirements, the result of which has been to reaffirm the strength of the liquidity position derived from the Board's approach to risk management Bank liquidity remains strong as demonstrated by the retail lending/deposit ratio which remains below 35%

The Bank's growth strategy has proved successful in terms of extending the deposit base in our chosen sectors, and increasing the retail loan portfolio

During the year, total retail deposits have increased by 4 0% to £573 3 million (2009 £551 0 million), whilst loans and advances increased by 1 7% to £200 4 million (2009 £197 1 million) New business continues to be generated from activities and consequently the balance sheet has grown by 3 3% to £620 8 million at 31 December 2010 (2009 £601 0 million)

Balance sheet loan impairment provisions total £6 1 million (2009 £2 0 million) and represent 3 0% (2009 1 0%) of the total lending book The level of loan provisions raised represents a cautious approach to customer stress in a difficult economic environment Individual provisions resulting from loan impairment totalling £4 2 million (2009 £0 9 million) have been raised to mitigate the potential risk of loss

Net interest income fell by 25 3% in 2010 Treasury margins fell during the year after the short term LIBOR margin gains achieved in 2009 were not repeated, and subsequently income earned on the treasury portfolio reduced by 47% The fall in treasury return was partially offset by increased and recurring interest earnings from retail lending

Net fee and commission income totalled £1 4 million (2009 £1 5 million), primarily relating to the provision of banking services, and represents a 5 7% reduction compared against 2009 levels The lower level of non-interest income resulted primarily from the termination of certain third party fee channels Operating expenses amounted to £7 5 million (2009 £7 5 million)

The market value of the interest rate swaps at 31 December 2010 was £3 0 million above the contract price In line with the Bank's accounting policies, market value movements are generally transferred direct to reserves in order to reduce Income Statement volatility However, in the case of four hedge contracts, the contractual arrangements were ineffective as at 31 December 2010 and the decrease in individual market values totalling £0 1 million is reflected in the Bank's Income Statement Short term fluctuation gains or losses do not form part of the Bank's consideration of its overall capital strength

As reported in last year's Report and Accounts, a number of banking failures in earlier years have led to customers of those banks making claims for deposit losses suffered and the banking industry has been obliged to provide supportive funding to the Financial Services Compensation Scheme (FSCS) During the year, the Bank made payments into the Scheme of £114,000 and has provided a further £126,000 in the 2010 Income Statement

The Board is recommending that no dividends are proposed for the financial year to 31 December 2010 (2009 7 5 pence per share)

Business and Financial Review continued

Economic environment

The outlook for the economic environment, for growth, inflation and monetary stimulus remains highly uncertain The Monetary Policy Committee (MPC) has held interest rates at an historical low of 0 5% through 2010 in an attempt to help stimulate the economy, but recent market expectations are anticipating a rise in the first half of 2011 to counteract the high inflation rate However, those expectations also point to a relatively low interest rate environment through to the end of 2013 with rates gradually rising to around 3%

Fiscal rebalancing will have a significant impact on the economy over the next four years and the MPC will have to judge very carefully how quickly it withdraws monetary stimulus

Performance

Interest rates

In an environment of low bank base rates, together with the need to provide competitive rates of interest on its customer deposit base, interest margins on retail deposits remain low and continue to be compressed Looking forward, interest rates are expected to remain low for some time ahead and pressure on deposit interest margins will continue Lending interest rates are required to be competitive and are supported by the application of a minimum lending rate

The Bank's interest earnings derived from its investment in the money markets, principally certificates of deposit, is dependent upon the inter -bank interest rates and the liquidity needs of bank counterparties generally Interest margins earned during 2010 have been in line with expectations overall, but substantially lower than the previous year as the general financial environment has become less volatile Financial institutions must comply with the Bank's credit policy to be acceptable as credit counterparties for the Bank and this does impact on interest margins which can be achieved

During the year, the Bank entered into reverse repo transactions to meet the requirements of the FSA's new regulatory framework The transactions consist of a secured loan to The Co-operative Bank p l c which provides the Bank with instant access to £70 million of UK gilts

Overall, the interest margin earned during 2010 reduced to 1 6% (2009 2 2%) primarily due to the lowering of money market interest margins as the inter-bank markets settled after the turmoil of the previous year

Products and services

The Bank continues to operate in a niche market and provides banking and financial services for the trades unions and the wider social economy sector, with a focus on charities and voluntary organisations A proportion of asset based products are focused on the commercial lending sector, but within a managed spread alongside the Bank's core sectors

Retail deposit business is based on the provision of current and deposit accounts for the Bank's target sectors The Bank operates a successful model without a branch network, with electronic access for customers supported by a customer telephone contact centre based in Birmingham

Having established an increased retail loan portfolio of £197 1 million by 31 December 2009, the focus for 2010 has been for a more gradual increase and a greater emphasis on the Bank's core sectors The overall net growth in retail lending has resulted in a modest net increase for 2010 to £200 4 million

In 2009, the Bank decided not to impose penalty fees as these were inconsistent with its social values It was pleasing to note the reaction from the markets, and there has been no material reduction in fee income as a consequence

Following the completion of necessary development towards the end of 2009, the Bank was able to launch a prepaid debit card product ("ALTO card") which is aimed at the social economy market with a focus on the credit union sector where many members continue to be excluded from mainstream banking services, together with any organisations requiring expense facilitation The marketing of the card has proved successful and by the end of 2010 there were more than 7,000 cards in circulation, of which almost 3,800 were active up to 31 December 2010

New development work during 2010 also included a premium-priced cheque account entitled "Select Account", which is specifically aimed at the charity and voluntary market, providing a range of added value services for customers which have been provided in conjunction with a third party to be of relevance to its target sector

Sector development

The Bank's retail deposit book, together with ongoing development, is focused on the social economy sector Principal areas of activity within this sector continue to be with charitable and voluntary organisations, credit unions and professional associations

In support of the Bank's core social responsibility ethos, retail lending is based on target markets within the social economy sector, including Community Development Financial Institutions (CDFIs), together with focused segments of the commercial enterprise sector Growth during 2010 has been achieved steadily through more focus on the social economy sector, supported by some commercial enterprise growth The Bank's loan portfolio at the end of 2010 remains broadly split between all three core sectors trade unions, social economy and commercial enterprises

Information technology

The Bank's corporate website, www unity co uk, together with an internet banking channel enables customers to access their account details, undertake transactional activity and obtain information about products and services

The Bank continues to enhance the customer experience of internet based access, building on the successful launch of the updated website during 2010 Security remains at the core of the Bank's approach to its internet banking offering as does the ability for customers to access their accounts with the Bank via a range of web browsers

The Bank's customer account management system, which provides the backbone of account maintenance, continues to be developed with the addition of new workflow functionality and modules that allow for improved performance and efficiency gains Supporting customer needs is at the centre of the Bank's system development plans

Business and Financial Review continued

Governance and Risk Management

The Board is responsible for approving the Bank's strategy, its principal markets and the level of acceptable risks articulated through its risk appetite statements It is also responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management and that the level of capital held is consistent with the risk profile of the business

A strong risk management regime is in place that sets higher internal capital requirements than those required by the FSA and is supported by risk management practices focussing on credit, liquidity and capital stress and scenario testing

The overall risk governance and risk management framework is set out in the Corporate Governance section on pages 18 to 23 and the Risk Management Section on pages 32 to 43

Earnings and dividends

As a consequence of the pre-tax loss suffered, earnings per share are negative 5 2 pence in respect of 2010, a decrease, compared with positive earnings per share of 29 3 pence per share for the previous year

At the start of 2010, consolidated equity shareholders' funds totalled £45 8 million and, after the post tax loss arising for the year, reduced to £43 1 million This represents a net reduction in equity shareholders' funds of 5 9% The capital position remains very strong, however with core tier 1 ratio standing at 17 6% at 31 December 2010 (2009 17 1%)

The Board is recommending that no dividends are proposed for the financial year to 31 December 2010 (2009 7 5 pence per share)

Key Performance Indicators (non-financial measures)

In connection with the Strategic Review for the 2009-11 planning period, the Bank agreed to formally monitor a range of non-financial aspects of its activities An update in respect of those non-financial measures for 2010 is as follows

Customer satisfaction

The Bank remains customer-centric and within the business model is a high quality customer service and satisfaction approach We continue to monitor customer satisfaction in a variety of ways including online surveys, feedback postcards and direct telephone customer contact During the year, 311 responses were received (2009 173) and scored average marks of 8 7 out of 10 for satisfaction regarding how customers are treated by our customer services staff and 8 7 out of 10 for satisfaction that queries are dealt with quickly and in a professional manner We have set an aspirational benchmark score of 8 for both these areas and in 2010 more than 83% (2009 75%) of respondents believed that the Bank's service exceeded that target

Our survey of all new customers after three months was introduced at the end of 2009 and across 2010 the average marks for customer satisfaction were 9 6, out of a possible score of 10

As part of our ongoing Treating Customers Fairly culture, we review all customer complaints and any trends are identified Significant trends are reported to the Bank's Board together with details of corrective actions taken During 2010 we received 37 compliments (2009 70) and 29 complaints (2009 37) All of the complaints were satisfactorily resolved, with only one single referral to the Financial Services Ombudsman and there were no clear trends identified

Staff

The Bank continues to participate in the annual Best Companies survey and maintained the status 'one to watch' for two years running The Bank's aim is to become a 'one star' organisation within three years and will continue to work towards that goal throughout the forthcoming period

Training

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

Each employee received induction and job related training, together with support available to help individuals develop and improve their job performance and keep pace with industry developments In total, staff attended in excess of 1,600 hours of formal training sessions during 2010, an increase of almost 15% on the previous year, together with 160 hours of other development activities

Impact on the Community

The Bank operates its business within the wider 'civil society' charities, social enterprises, not for profit organisations, trades unions and SME owner managed businesses - and prides itself on being socially responsible in all of its activities During the previous year, 'Unity in the Community' was launched with a focus on encouraging staff to become more involved in their local communities by investing time in charitable and voluntary projects The initiative has proved successful and the Bank continues to support this by facilitating up to five paid volunteering days each year The total number of hours volunteered by Bank staff in 2010 was in excess of 900, with an average of 10 hours per member of staff

The initiative was also designed to be a key element in the personal development of our staff whilst offering the opportunity to help communities and support local good causes

Financial highlights

Loss / profit before taxation

The Bank reported a loss before taxation for the year of £1 2 million, compared with a reported profit in respect of 2009 amounting to £6 5 million

Net interest income and margins

The Bank's management and internal reporting structure is not formally segmented Total net interest income of £9 3 million was 25 3% lower than in 2009 The decrease was primarily due to lower LIBOR based interest earnings on treasury assets compared to the previous year The impact was partially offset by a higher interest earnings level from the retail loan book, both in terms of volume and margin

The net interest margin for the year was 1 6% (2009 2 2%), and was lower than the previous year primarily due to the reduced margin on the treasury portfolio

The Bank holds non-trading interest rate swap contracts with its parent company, The Co-operative Bank p l c , in accordance with its interest rate risk policy As at 31 December 2010, the notional value of the interest rate swaps amounted to £90 million (2009 £85 million)

Business and Financial Review continued

Due to short term market fluctuations, the market value of the interest rate swaps at 31 December 2010 was £3 0 million above the contract price The premium in market value is not generally reflected in the Bank's Income Statement but transferred direct to reserves Where it is not possible to match certain hedges in accordance with the terms of the relevant accounting standard, their net effect is reflected in that statement

Non-interest earnings

Total fees and commission income amounted to £2 3 million (2009 £2 4 million)

Overall, net banking fees and commission income amounted to £1 4 million, in line with the equivalent fees earned during the previous year Income derived from the Bank's financial services activity is non -core business and there was a modest reduction in earnings during the year to £0 2 million (2009 £0 3 million)

Operating expenses

Operating expenses for the year totalled £7 5 million in line with 2009 levels The cost income ratio for 2010 was 69 9% compared with 53 9% in respect of the previous year The ratio is measured before swap fair value adjustments and before provisions for the FSCS

The increase in the ratio results primarily from the lower level of interest income, despite a small reduction in costs for the year

Included within operating expenses is full provision for a significant customer cheque fraud of £0 4 million and one-off restructuring costs of £0 2 million

Staff

Staff costs in 2010 amounted to £4 2 million, 3 4% lower than 2009 The decrease was driven by Board's decision not to award any bonuses for the year Average staff numbers for the year held constant at 95

Included within operating expenses are restructuring costs of £0 2 million which represent the first stage of a process that will be concluded within 2011

Other costs

Total expenditure in respect of all other costs was £3 2 million (2009 £3 1 million) and represented an increase of 3 2% for the year

Balance Sheet

Deposits

Retail deposit balances as at 31 December 2010 were £573 3 million, representing a net increase of £22 3 million across the year Growth in new retail customer deposits for the year amounted to more than £41 1 million (2009 £51 7 million) and was predominantly derived from the charity and voluntary sector

Advances

The total of retail loans and advances at the end of the year amounted to £200 4 million (2009 £197 1 million) Loans and advances generated from new to Bank activity totalled £27 million (2009 £84 million)
The majority of loan growth was derived from activity within the commercial enterprise and social economy sectors

Non-performing assets and bad debt provisions

During 2010, loan portfolio growth was slower than the previous two years as the Bank approached its growth targets Due to continued pressures in the wider economy, monitoring the loan portfolio for signs of customer stress and identifying potential loan impairment has remained a priority for the Bank's credit team

At 31 December 2010, the Bank continues to take a cautious approach and, as a consequence, has raised further individual provisions in respect of customer loans and advances amounting to £4 2 million (2009 £0 9 million) The significant increase resulted from anticipated potential loan impairment, primarily within the commercial enterprise sector, where the continued downturn in the economy has impacted trading performance of many businesses and reduced the realisable value of underlying secured assets

Summary and Outlook

The difficult conditions evidenced in the economy generally, and the financial services sector specifically, have continued throughout 2010 and are not anticipated to reverse in the short term Base rate forecasts indicate a continuation of the current low levels for some time ahead and the Bank's business plans are anticipating that intense competition for retail deposits will continue

A comprehensive review of the Bank's operating model and cost base commenced in 2010 and will be finalised in 2011 From this there is the expectation of a significant cost reduction whilst capturing improvements to the service enjoyed by our customers, maintaining strong controls to meet increasing regulation, improving the control regime and ensuring that a strong risk management framework remains a priority

Kevin Turmore

Managing Director of Unity Trust Bank plc

Report of the Directors for the year ended 31 December 2010

The Directors submit their report and audited accounts for the year ended 31 December 2010

Principal Activities

Unity Trust Bank plc offers a range of banking, financial, and related services in the United Kingdom

Business Review

A review of the business activities and details of future developments are contained in the Business and Financial Review on pages 8 to 12 and is deemed to form part of the Directors' Report The Bank manages its performance through Key Performance Indicators (KPIs) Information on the Bank's KPIs are incorporated in the Business and Financial Review, including an update on the Bank's non-financial measures

This Report contains the Corporate Governance statement on pages 18 to 23 and the Risk Management section on pages 32 to 43, and these are deemed to form part of the Directors' Report The Corporate Governance Statement provides information relating to the Board and its Committees, and the Bank's system of internal controls The Risk Management section provides information relating to the principal risks and uncertainties facing the Bank and the use of financial instruments

Further review of the Bank's business activities are contained in the statements by the President and the Chairman on pages 4 and 6

Results and Dividends

The results for the year, before taxation, amounted to a loss of £1 2 million (2009 profit of £6 5 million) No interim dividends were paid during 2010 The Directors do not recommend payment of a final dividend (2009 £1 1 million) A more detailed review of the business is contained in the Business and Financial Review on pages 8 to 12

Directors - changes to the Board

The names of the present Directors and their biographies are set out below

The Directors of the Bank during the financial year are listed below They were appointed for the full period unless otherwise indicated

Steven Glover served as a Director of the Bank until he passed away on 11 June 2010 Ken Lewis resigned from the Board on 30 July 2010 and Paul Talbot resigned from the Board on 31 December 2010

Stephen Watts was appointed on 31 July 2010

Non-Executive Directors

Graham Bennett Age 60 (CCMI)
Joined the Board in 2000 and was appointed Chairman in June 2009 Previously served as Chairman of The Co-operative Bank p l c (2000 - 2009), and as a Non-Executive Director of Co-operative Group Limited (1984 - 2009), Co-operative Financial Services Limited (2002 - 2009), Co-operative Insurance Society Limited (2000 - 2009) and CIS General Insurance Limited (2005 - 2009) Chief Executive of Southern Co-operatives Limited (1983 - 2008)

Keith Alderson Age 51
Joined the Board in December 2009 Managing Director, Corporate and Business Banking, Co-operative Financial Services Limited and Director of Mortgage Agency Services Number One Limited, Illius Properties Limited and The Co-operative Asset Management Limited

Kevin Blake Age 52 (BA (Hons), ACIB)
Joined the Board in 2002 Business Leader - Banking Risk at Co-operative Financial Services Limited and Director of Mortgage Agency Services Number One Limited

Richard Goddard Age 53 (MA (Hons), FCA)
Joined the Board in 2004 Business Leader - Financial Control at Co-operative Financial Services Limited and Director of Western Mortgage Services Limited

Billy Hayes Age 57
Joined the Board in 2001 General Secretary of the Communication Workers' Union

Rhidian Jones Age 67 (MA (Hons Law), FCIS, FCMI, Solicitor)
Joined the Board in 2004 as an Independent Non-Executive Director Previously Deputy Chairman of Britannia Building Society where he was also Chairman of the Remuneration Committee, and Senior Independent Director of Serco Group plc and a director of Ealing Hospital NHS Trust at each of which he chaired the Audit Committee He also provides governance training to clients

Sharon Powell Age 53 (BSc (Hons)
Joined the Board in 2003 Executive Finance Director of Unite

Dave Prentis Age 62 (BA, MA)
Joined the Board in 2000 and was appointed President in 2003 General Secretary of Unison Past President of the TUC, Member of the TUC General Council and Executive Committee, and the Trade Union Labour Party Liaison Committee A member of the Institute of Public Policy Research's Policy Advisory Council, Fellow of Nuffield College Oxford and an advisor to the Warwick Institute of Governance and Public Management He is also a member of UK Commission for Employment and Skills

Stephen Watts Age 59 (MA (Cantab), MA (Econ))
Joined the Board in July 2010 Retired Pricing, Research and Information Officer Deputy Chair of Co-operative Group Limited, Director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited, CIS General Insurance Limited and The Co-operative Bank p l c

Allan Wylie Age 55 (MA, CA)
Joined the Board in 2004 Officer of the GMB Union

John Youd Age 57
Joined the Board in 2004 Central Treasurer of USDAW

Executive Directors

Kevin Turmore Age 49 (ACIB)
Joined the Board in 2005 and holds the position of Managing Director Also Executive Director of Kibble Developments Limited

John Brooks Age 52 (FCIB, DipFS, MCIM, MIoD)
Joined the Board in 2006 and holds the position of Director, Sales & Marketing

Ian Morrison Age 50 (ACIB)
Joined the Board in 2006 and holds the position of Director, Operations

Mike Osborne Age 54 (ACA)
Joined the Board in 1992 and holds the position of Director, Finance and Risk

Re-election of Directors

In accordance with the Articles of Association, 'A' Directors Billy Hayes and Sharon Powell, 'B' Directors Ian Morrison and John Brooks, and Rhidian Jones, the 'C' Director retire by rotation and being eligible, offer themselves for re-election Biographical information about these Directors can be found on page 13 None of the Directors offering themselves for re-election has a service contract with the Bank which has a duration of more than one year The re-election of these Directors will be proposed at the Annual General Meeting (AGM) to be held on 27 May 2011

Directors' and officers' liability insurance and indemnity

The Bank maintains appropriate directors' and officers' liability insurance cover, through the ultimate parent organisation, in respect of legal action against its directors and officers This constitutes a 'qualifying third party indemnity provision' for the purposes of Companies Act 2006 and applied to each of the Bank's Directors serving during the financial year The insurance cover was reviewed and renewed in 2010

Going concern

The financial statements are prepared on a going concern basis as the Directors have a reasonable expectation that the Bank has adequate resources to continue in business for the foreseeable future In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources For this reason, they continue to adopt the going concern basis in preparing the Bank's financial statements Further information relevant to the assessment is provided within the Basis of preparation of the financial statements on pages 29 to 31

Corporate Governance

The Bank is committed to high standards of corporate governance For the year ended 31 December 2010, Unity Trust Bank complied, on a voluntary basis, with the principles and provisions of the Combined Code on Corporate Governance ("the Code") as appropriate to the structure of Unity Trust Bank and its shareholder organisations, with the exception of the areas noted within the Corporate Governance report (refer to pages 18 to 23)

Employees

Unity Trust Bank is committed to ensuring that it is a safe, diverse, and fair environment to work in As at 31 December 2010, the Bank employed 93 members of staff (2009 96) The Bank recognises and accepts its duty to protect the health and safety of all staff, temporary employees, and contractors, as well as customers, suppliers, or members of the public that might by affected by operations

The Bank recognises that the development and training of its staff is fundamental to its continuing success By providing development opportunities, facilities, and financial support, the aim is to ensure that all staff are in possession of the knowledge, skills and experience necessary to perform to the highest standards

Each employee receives an induction and job related training, and resources are made available to enable individuals to develop and improve their current job performance and keep pace with internal and external developments

The Bank consults and communicates with staff on customer, organisation and performance issues through regular team meetings, surveys, conferences, and forums with Unite the Union, which represents the staff in employee and organisational discussions

Information and communication

Employees receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process Internal briefing documents, team meetings and electronic media communicate other information

Diversity

The Bank welcomes diversity and actively promotes equality of opportunity in employment for all employees and job applicants, regardless of sex, gender reassignment, marital status, sexual orientation, colour, race, and nationality, national or ethnic origin, religion or creed, disability, responsibility for dependants, age and membership, or non-membership of a trade union or political affiliation

Employees with Disabilities

Unity Trust Bank is committed to being an equal opportunities employer The Bank recognises its responsibilities for making reasonable adjustments for new staff with disabilities whilst in employment

The Bank is a holder of the "Positive about Disabled People" status, a recognition given by Jobcentre Plus to employers who have agreed to meet five commitments regarding the recruitment, employment, retention and career development of disabled people The Bank was also reaccredited as an Investor In People in 2009 The Bank has an Equal Opportunities Policy, which includes provisions to consider employment applications from people with disabilities and to match vacancies with an individual's particular aptitudes and abilities

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

Employees' Wellbeing

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

Report of the Directors for the year ended 31 December 2010 continued

Supplier payment policy and practice

The Bank's policy is to agree the terms of payment at the start of trading with the supplier, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other obligations Creditor days at 31 December were 24 days (2009 20)

Political and Charitable Donations

In 2010, as part of our delivering on one of our core values of supporting social development and community involvement, we made charitable donations totalling £2,012 to good causes(2009 £10,013)

No political donations were made in 2010 (2009 £nil)

Post Balance Sheet Events

The Directors consider that there have been no significant events since the balance sheet date that have had an effect on the Bank's position

Financial Statements

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

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs, as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

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

The Directors' statement with respect to going concern is included on page 14

Auditor

In accordance with Section 489 of the Companies Act 2006, resolutions for the appointment and remuneration of the auditors are proposed at the next AGM Further detail in relation to the appointment of the auditors is set out on page 23

By order of the Board K Eldridge

Kate Eldridge LLB (Hons) ACIS
Secretary
Registered Office
Nine Brindleyplace
Birmingham
B1 2HB

25 March 2011

Directors' Remuneration Report

The following information is provided on a voluntary basis

Key Elements of Executive Directors' Remuneration

1 Base Salary and Benefits

Remuneration policy is designed to ensure that base salary and benefits paid to each Executive Director are appropriate and competitive with similar posts in comparable organisations in the financial services sector Each role is externally evaluated and matched against external market data to guide salary and benefits decisions made by the Nomination and Remuneration Committee

The normal salary review date for Executive Directors is 1 April Base salary is the only element of remuneration that is pensionable Salaries received by Executive Directors during the financial year are set out in Table 1

2 Incentive Scheme

Executive Directors are eligible to participate in an annual incentive scheme Targets and eligibility are reviewed and approved each year by the Nomination and Remuneration Committee

Targets under the plan were approved by the Nomination and Remuneration Committee 75% of any award is based on achievement against budgeted pre-tax profit and the remaining 25% based on individual achievement against personal targets No payments are due if the level of pre-tax profit for the financial year falls below the budgeted target The Scheme requires a minimum return on shareholders' funds of 15% in the financial year in question and pre-tax profit to be greater than the previous financial year, unless amended at the discretion of the Nomination and Remuneration Committee

The target bonus level for the 2010 Scheme was 20% of base salary with the ability for bonus awards to range from 15% to a maximum of 25% of base salary

3 Pension Scheme

All Executive Directors are members of The Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme), which is a defined benefit pension scheme available to all employees The PACE Scheme, is a registered occupational pension scheme and provides pensions based on 1/60ths of average pensionable earnings, re-valued for inflation for each year of pensionable service from 6 April 2006 Accrued benefits as at 5 April 2006 continue to be linked to final pensionable salary at a member's date of leaving or retirement, which ever is earlier

Pensions are also payable to dependants on death and a lump sum is payable if death occurs in service

Members of the PACE Scheme currently contribute 6% of their pensionable salary towards the cost of providing pension benefits with the employer paying the balance

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

Executive Directors' service contracts

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

Appointments outside the Bank

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

Table 1 - Executive Directors' Emoluments

	Date of service contract or appointment	Basic salary	Performance related pay	Benefits in kind	Other payments	2010 Total emoluments	2009 Total emoluments
K Turmore	22 July 2005	147,000	-	-	11,500	158,500	187,200
M Osborne	18 September 1992	100,267	-	114	9,800	110,181	127,531
I Morrison	11 January 2006	72,477	-	-	9,800	82,277	94,907
J Brooks	07 December 2006	97,163	-	114	9,800	107,077	125,438
		416,907	-	228	40,900	458,035	535,076

At both 31 December 2010 and 31 December 2009 the above Directors had retirement benefits accruing under the defined benefit pension scheme operated by The Co-operative Group Limited (see note 18) Other payments relate to amounts paid in lieu of the car cash option scheme, together with a contribution to Directors' individual pension scheme payments in accordance with an agreement made by The Co-operative Group Limited in support of the changes to the terms of the Group pension scheme

Directors' Remuneration Report continued

Table 2 - Pension Details of Executive Directors

	Age at Year end	Years of company service	Total accrued pension at year end	Increase in accrued pension during the year (gross of inflation)	Increase in accrued pension during the year (net of inflation)	Transfer value of previous column at year end less director's contributions	Transfer value of accrued pension at start of the year	Transfer value of accrued pension at at year end	Transfer value at year end less transfer value at the start of the year less contributions
			(£)	(£)	(£)	(£)	(£)	(£)	(£)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
M Osborne	54	21	39,032	2,477	756	(2,756)	571,196	646,741	69,529
I Morrison	50	21	30,785	2,024	669	(177)	405,140	460,455	50,966
K Turmore	49	5	12,811	2,662	2,184	12,119	102,671	133,504	22,013
J Brooks	52	4	6,164	1,698	1,488	10,091	46,076	65,955	14,049

Notes

- The pension entitlement shown in column (3) is the annual pension payable on retirement based on the service and pensionable salary at the end of the year
- The increase in accrued pension during the year, shown in column (5), is after discounting the effect of inflation
- The values in columns (6),(7) and (8) have been calculated in accordance with the current transfer value method and basis in force for the PACE scheme
  This is set by the Trustee, after taking actuarial advice, to be consistent with the requirements of legislation and the rules of the scheme
- Column (9) shows the transfer value at the end of the year less the transfer value at the start of the year, less contributions paid in the year by the executive
- The age, service, and accrued pension and transfer values shown in columns (1), (2) (3), (6) and (8) have been calculated as at 31 December 2010
- All transfer values assume that pre-April 2006 benefits will become payable from the age of 60, whilst post April 2006 benefits are assumed to become payable from age 65

Non-Executive Directors' Remuneration

The Non-Executive Directors receive no remuneration from the Bank, and have no pension arrangements, incentive schemes or share option schemes for their services to the Bank with the exception of the Chairman and the Independent Professional Non-Executive Director (IPNED) who receive remuneration only During the year, two Co-operative Bank appointees were remunerated by that organisation

The Board of Unity Trust Bank plc includes the Chairman, an IPNED and Co-operative Bank appointees, who are

- Graham Bennett who was appointed as Chairman on 8 June 2009 and received remuneration of £38,542 during the year (2009 £21 260)
- Rhidian Jones, who was appointed to the Board on 26 March 2004 and received total remuneration of £25,673 during the year (2009 £25,047)
- Ken Lewis, who was appointed to the Board on 22 February 2005 and retired on 30 July 2010, and received remuneration of £12,837 during the year from The Co-operative Bank p l c (2009 £25,047)
- Stephen Watts, who was appointed to the Board on 31 July 2010, and received remuneration of £769 during the year from The Co-operative Bank p l c (2009 £nil)

On behalf of the Board

G Bennett

Chairman of Nomination and Remuneration Committee

Corporate Governance

UK Combined Code on Corporate Governance

For the year ended 31 December 2010, Unity Trust Bank complied, on a voluntary basis, with the principles and provisions of the Combined Code on Corporate Governance ("the Code") as appropriate to the structure of Unity Trust Bank and its shareholder organisations, with the exception of the areas noted within the Corporate Governance report The Bank intends to report against the recommendations of the UK Corporate Governance Code (UK Code) in the 2011 annual report, however, where the Bank has made changes in order to move towards compliance with the UK Code, this is indicated in this report

Board composition and Independence

The Board of Unity Trust Bank is made up of four Executive Directors, including the Managing Director, and twelve elected Non-Executive Directors, including the Chairman, and the President

The Non-Executive Directors are elected by the shareholders Seven of these, including the President, are elected by the 'A' shareholders, and five of the Non-Executive Directors, including the Chairman, and the four Executive Directors, are elected by the 'B' shareholder One Non-Executive Director, Rhidian Jones, is elected by the 'C' shareholders

The Code requires at least half of the Board, excluding the Chair, to be Independent Non-Executive Directors In accordance with the Code, it is for the Board to consider whether a Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement

The Board considers Rhidian Jones to be independent under the revised Combined Code His biography, detailing his business experience, can be found on page 13

Rhidian Jones assumes the role of Independent Professional Non-Executive Director (IPNED) He is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for communication

With the exception of Rhidian Jones, Non-Executives Directors are senior executives of business customers and shareholders of the Bank As a result they are not considered to be independent as defined by the Code They do not participate, however, in Board decisions directly relating to any organisation with which they have an executive relationship

As the Bank has only one Independent Director it does not comply with the requirements of the Code regarding the number of Independent Non-Executive Directors on the Board This also means that the Bank does not comply with the requirements of the Code in respect of the composition of the Audit Committee and the Nomination and Remuneration Committee

The Board composition is enshrined in the Bank's constitution The close relationship with the shareholders is reflected in the significant shareholder representation on the Board The Board election process under the Articles provides that each class of shareholder identifies and proposes Directors for election Furthermore, the Articles state that 'A' Directors must be Trade Union Officials, reflecting that all of the 'A' shareholders are Trades Unions Although the Articles do not provide for more than one Independent Director, the Board is considered to be balanced given the similar numbers of 'A' and 'B' Directors on the Board, and the greater number of Non-Executive Directors, compared to Executive Directors

As Directors are initially elected by the shareholders, and never appointed by the Board, Directors are not subject to re-election at their first Annual General Meeting (AGM) Directors are subject to re-election every six years under the Articles of Association with the exception of the Chairman, President and Managing Director As a result of these provisions, Directors having terms of office of over six years are not subject to re-election annually

The Board will be recommending to the shareholders at the AGM to adopt revised Articles of Association, providing that one third of the Directors in each share class retire by rotation on an annual basis, with the exception of the Independent Non-Executive Director who will retire by rotation every three years It is proposed that the Chairman and President will be subject to retirement by rotation under the revised Articles, however, Executive Directors will not

The Governance Committee (see page 20) has recently reviewed the constitution of the Board including mechanisms for the appointment of a second Independent Director It has been agreed not to change the Board structure under the Articles to accommodate a second Independent Director

The Governance Committee also considered the annual re-election of Directors serving longer than nine years and agreed that this would apply to Directors receiving remuneration from the Bank, noting the value of the experience long serving members bring to the Board

Role and responsibilities of the Board

The Directors are committed to leading and controlling the Bank effectively The Board is responsible for the long term success of the Bank within a framework of controls, which enables risk to be assessed and managed

It is responsible for

- agreeing objectives and setting strategy, values and standards,
- maintaining the policy and decision making framework in which this strategy is implemented,
- ensuring that the Bank's affairs are conducted and managed in accordance with its Articles of Association, and in accordance with the best interests of its stakeholders,
- ensuring that the necessary financial and human resources are in place to meet strategic aims,
- monitoring executive management and the Bank's performance against key financial and non-financial indicators,
- approval of delegated financial authorities,
- overseeing the system of risk management, and
- monitoring, with the assistance of various Committees, the key significant risks facing the Bank

Matters reserved for the Board's decision include

- approval of the annual budget and business plan,
- approval of the reported financial statements and dividends,
- establishing and setting the membership and Terms of Reference of Board Committees, and
- approval of key policies

The Board manages these matters at its Board meetings and details of attendance are noted on page 20 It met six times in 2010, and once for a strategy review meeting The Board is scheduled to meet six times in 2011

Board procedures

The agenda for Board meetings is agreed between the Chairman, the Managing Director and the Secretary based on an annual calendar of items Board and Committee papers are distributed at least one week in advance of meetings This provides the opportunity for Directors to prepare fully for meetings The minutes of all meetings are circulated to all Directors, with the exception of the minutes of the Nomination and Remuneration Committee which are not sent to John Brooks, Ian Morrison or Mike Osborne

There is regular communication between the Directors the Chairman and the Secretary between meetings When a Director is unable to attend Board or Committee meetings, the Alternate Director would be expected to attend in their place and issues can be relayed in advance to the relevant Chair A rolling schedule of matters arising from Board and Committee meetings is followed through

The roles of the Chairman and Managing Director

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

The Chairman is a Non-Executive Director, however, he cannot be described as independent as he represents the controlling shareholder As discussed above this is due to the nature of the Bank's constitution The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda He has no involvement in the running of the day to day business of the Bank The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders The Chairman has no additional professional commitments, and as a result the risk that such commitments could interfere with the Chairman's duties to the Bank does not arise His biography can be found on page 13

The Managing Director has direct responsibility for the Bank on a day to day basis and is accountable to the Board for the financial and operational performance of the Bank

Board Committees

With the agreement of the FSA, the Board has delegated certain responsibilities to the following Committees, all of which have written terms of reference covering the authority delegated to it by the Board, copies of which are available from the Secretary on request Each of these Committees has a role in overseeing the Bank In accordance with the Code the terms of reference for the Nomination and Remuneration Committee and the Audit Committee are available on the Bank's website www unity co uk

The Audit Committee

Until 9 December 2010, the Chairman of the Committee was Richard Goddard, a Non-Executive Director appointed by the 'B' shareholder, The Co-operative Bank The Committee also comprised of Kevin Blake, Rhidian Jones, Sharon Powell, and John Youd On 9 December 2010, Rhidian Jones was appointed as Chairman of the Committee on an interim basis in order to plan for Richard Goddard's forthcoming retirement from the Board at the end of March 2011

There were four meetings of the Committee during the year Richard Goddard brings recent and relevant financial experience

The main responsibilities of the Committee are to

- monitor the effectiveness of the external audit process in conjunction with CFS Audit and Regulatory Compliance Committee, and make recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor,
- ensure that an appropriate relationship between the Bank and the external auditor is maintained, including reviewing non-audit services and fees,
- review annually the Bank's systems of internal control and the processes for monitoring and evaluating the risks facing the Bank,
- review the effectiveness of the internal audit function and is responsible for approving, upon the recommendation of the Managing Director, the appointment and termination of the head of that function,
- review its terms of reference,
- review effectiveness annually and recommend to the Board any changes required as a result of the review, and
- ensure it complies with best practice and the Combined Code by agreeing a schedule of meeting and agenda items for the year ahead

In 2010 the Audit Committee discharged its responsibilities by reviewing

- the Bank's draft financial statements prior to the Board approval and reviewing the external auditor's detailed reports thereon,
- the appropriateness of the Bank's accounting policies,
- the audit fee and non-audit fees payable to the Bank's external auditor,
- the external auditor's plan for the audit of the Bank's financial statements, which included key risks in the financial statements, confirmations of auditor independence, and approval of the terms of engagement for the audit,
- an annual report on the Bank's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control,
- the risks associated with major business programmes, and
- the internal audit function's terms of reference, its work programme and reports on its work during the year

The Committee also monitored the Bank's Whistleblowing procedures, ensuring that appropriate arrangements were in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow up action

During the year the Committee reviewed its Compliance against the Smith guidance Members of the Audit Committee met KPMG, the external auditor, four times during 2010 The Committee Chairman met with internal audit four times in 2010, without the presence of management

Nomination & Remuneration Committee

The Committee is chaired by the Chairman of the Board, Graham Bennett Rhidian Jones, Richard Goddard and Dave Prentis also serve on the Committee The Committee met ten times in 2010

The Committee has approved a remuneration policy which covers the principles and factors governing all reward practices within the Bank

The Committee's role in respect of Executive Management and Executive Directors is to determine remuneration and employment policy, oversee contractual arrangements, review salaries, approve incentive schemes and any payments made under such schemes, and recommend appointments to the Board In respect of Non-Executive Directors, the Committee makes recommendations to the Board on the remuneration of the Independent Non-Executive Director and the Chairman The Committee receives remuneration advice from The Co-operative Bank p l c , its parent organisation

The Committee makes recommendations on appointments to Board Committees The Committee is responsible for overseeing succession planning

Corporate Governance

As described above, the current process for the appointment of Directors is through shareholder elections whereby each shareholder class identifies and proposes candidates for election Due to this, the extent of the involvement of the Board and the Nomination & Remuneration Committee in appointments of 'A' and 'B' Non-Executive Directors is limited, however, a skills analysis is underway

All Non-Executive Directors have role profiles which set out the responsibilities, time commitment expected and their legal obligations in this role Although the Chairman's role profile does not specifically mention that the role holder must be available in times of crisis, the Chairman is aware that this is expected

As a result of the election provisions in the Articles, neither advertising nor an external search consultant was required in order to appoint Stephen Watts

Advances Committee

Graham Bennett is Chair of the Committee, which also comprises Keith Alderson, Kevin Blake, Dave Prentis and Allan Wylie Steven Glover served on the Committee until his death on 11 June 2010 The Committee met six times during the year

The main responsibilities of the Committee are to

- consider and if appropriate, approve requests for

a) new loans and advances and renewals,
b) treasury facilities, and
c) individual or collective provisions against actual or potential bad debts, submitted by the Credit Committee where they exceed the delegated discretions,

- review the composition of the Bank's loans and advances portfolio, in terms of sector, maturity term, large exposures or any other measure deemed to be appropriate, and
- consider any other related matters at the request of the Board Advances Committee papers are sent to all Directors for information

Standing Committee

In January 2009, the Board established a Standing Committee The Standing Committee has the same remit as the Board, however, it meets only to consider matters of urgency in between Board meetings The members of the Committee are the Chairman of the Board, who also chairs this Committee, the Managing Director, the President and the Independent Non-Executive Director The Committee met once in 2010 and all Committee members attended the meeting

Governance Committee

In January 2010, the Board approved the establishment of a Governance Committee to consider

- the recommendations of the Walker Review,
- the UK Code on Corporate Governance ("UK Code"),
- the FSA's Code on Remuneration, and
- the Bank's constitution

The Committee comprises Dave Prentis, Allan Wylie, Stephen Watts, Rhidian Jones, Kevin Turmore, and Graham Bennett who chairs the Committee

Following the constitutional review and taking into consideration the recommendations of the Walker Review and the UK Code, the Committee has recommended a number of changes to the Bank's Articles of Association The Board has agreed to present these to the shareholders at the Bank's AGM on 27 May 2011

As a result of the review of the Walker Review and the UK Code, the Committee recommended a number of amendments to the Bank's governance procedures, such as changes to the Nomination and Remuneration Committee's Terms of Reference

Attendance

The following table sets out the frequency of, and attendance at, the Board and Board Committee meetings during 2010 by Directors serving at the financial year end

Directors	Main Board	Audit Committee	Advances Committee	Nominations and Remuneration Committee	Governance
Number of meetings held	**7**	**4**	**6**	**10**	**3**
Graham Bennett	7 (7)	-	6 (6)	10 (10)	3 (3)
Keith Alderson	3 (7)	-	1 (3)	-	-
Kevin Blake	7 (7)	3 (4)	6 (6)	-	-
John Brooks	6 (7)	-	-	-	-
Steven Glover	2 (3)	-	2 (3)	-	-
Richard Goddard	7 (7)	4 (4)	3 (3)	6 (6)	-
Billy Hayes*	0 (7)	-	-	-	-
Rhidian Jones	7 (7)	4 (4)	-	10 (10)	3 (3)
Ken Lewis	4 (5)	-	-	-	1 (1)
Ian Morrison	7 (7)	-	-	-	-
Mike Osborne	7 (7)	-	-	-	-
Sharon Powell	6 (7)	2 (4)	-	-	-
Dave Prentis*	6 (7)	-	5 (6)	9 (10)	3 (3)
Paul Talbot	0 (7)	-	-	-	-
Kevin Turmore	7 (7)	-	-	-	3 (3)
Steve Watts	2 (2)	-	-	-	1 (2)
Allan Wylie	7 (7)	-	6 (6)	-	1 (3)
John Youd*	7 (7)	3 (4)	-	-	-

*On some occasions, the Alternate Director attended the meeting
The number in brackets indicates the total number of meetings the Director was eligible to attend during the year

Corporate Governance continued

Provision of advice to Directors

Support is available to Non-Executive Directors on any matter relevant to the business through the Secretary and Executives on request Directors may also take independent professional advice at the Bank's expense in further care of their duties This is co-ordinated through the Secretary

Professional development

On appointment, the Directors take part in an induction programme which includes

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

Following a self-assessment exercise, one to one meetings with the Chairman and an analysis of the Directors' personal development plans, a Non-Executive Director learning and development programme has been developed Training sessions of the whole Board within and outside Board meetings, one to one briefings with Executive management, reading materials and presentations are planned to address the Directors learning and development requirements

Throughout their period in office the Directors are continually updated on the Bank's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Bank and the industry in which it operates by written briefings, meetings with senior executives and collective training workshops

During 2010, training topics included compliance and liquidity, and the Board received a presentation from an expert from one of the Bank's key customer sectors

Performance evaluation

The Code requires the Board to undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors

In December, the Directors were asked to complete a questionnaire evaluating the performance of the Board Directors also answered questions relating to their individual performance and that of the Chairman Sixteen Directors returned a completed questionnaire On analysis, the Directors were generally content with the way the Board and its Committees operated Actions were already scheduled to address many of the issues raised by Directors in the evaluation exercise, including succession plans, which are to be reviewed in light of the recent restructure of the Executive team The Learning and Development programme referred to above will be fully implemented during 2011 A skills analysis of the Non-Executive Directors is being collated into one document

Directors' satisfaction with their own performance tended to correlate with their attendance record

Directors were also satisfied with the performance of the Chairman during 2010 A meeting of the Directors without the Chairman's presence was held in January 2011 to discuss the results of the evaluation

The Secretary to the Board

The Secretary is professionally qualified and is responsible for advising the Board through the Chairman on all governance matters The Directors have access to the advice and services of the Secretary The Bank's Articles of Association provide that the appointment and removal of the Secretary is a matter for the Board's decision

The Executive

The Board has delegated management of the business to an Executive Committee, headed by the Managing Director The Executive, under the leadership of the Managing Director, are responsible for the day to day management of the Bank It is the responsibility of the Executive Management to implement the strategic objectives as agreed by the Board

During the financial year, some of the Committee, but not all, were Executive Directors The Executive Management was as follows

Kevin Turmore * Managing Director
John Brooks * Director, Sales & Marketing
Heather Brown Director, Operations
Ian Morrison * Director, Credit Risk & Compliance
Mike Osborne * Finance Director
Ian Wardle Director, Human Resources
*Executive Director

Since the year end, the above positions have been restructured and the new Executive Management team is

Kevin Turmore, Managing Director
John Brooks, Executive Director, Sales & Marketing
Ian Morrison, Executive Director, Operations
Mike Osborne, Executive Director, Finance and Risk

Relations with Shareholders

The Bank has one 'B' equity shareholder, The Co-operative Bank p l c , which through its subsidiary, Co-operative Commercial Limited, has majority control on the Board, and appoints the Chairman, four other Non-Executive Directors and four Executive Directors There are 27 'A' equity shareholders, all of whom are Trades Unions, who elect the President and six other Non-Executive Directors The Bank also has 75 'C' equity shareholders who can elect one Non-Executive Director

In fulfilment of the Chairman's obligations under the Code, the Chairman gives feedback to the Board on issues raised with him by shareholders All Directors normally attend the AGM and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended Proxy votes are not published on the website as this is not considered the most effective way of conveying the information to the Bank's particular shareholder base

Regular dialogue between the Chairman and representatives of the 'A' shareholders (who also own the majority of the 'C' shares) and the 'B' shareholders took place during 2010 In November 2010, a shareholder conference was held in order to provide members with year end projections and encourage informal discussions and networking amongst the shareholders and Directors The Chairman ensures that relevant feedback from these meetings is reported to management and at Board meetings

The Managing Director also meets representatives of the equity shareholders on a number of occasions each year to discuss matters of interest to the business of the Bank

The IPNED is available to shareholders if they have concerns, where contact through the normal channels of Chairman or Managing Director has failed to resolve the issue or for which such contact is inappropriate

Risk assessment

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

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

Management has the prime responsibility for identifying and evaluating significant risks and for designing and operating suitable controls

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

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

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

Details of the Bank's Risk Management framework are provided on pages 32 to 43

Internal Control

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

The Bank has adopted an internal control framework that contains the following key elements

Control environment

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

The control environment includes

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

Executive Risk Review Committee

The Committee comprises five members and is chaired by Kevin Turmore, the Managing Director of the Bank Other members of the Committee are the Executive, as listed on page 2, and Fiona Ritson, Head of Internal Audit The Committee met six times in 2010

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

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

Control procedures

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

Monitoring

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

The Audit Committee, on behalf of the Board, monitors the effectiveness of internal control Full details of the operation of the Committee can be found on page 19 The main role and responsibilities are set out in written terms of reference, which include some of the recommendations by the Smith Report for adoption in the Revised Combined Code The Audit Committee reviews and reports on internal controls in accordance with the Turnbull Report guidance

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

- monitoring the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and judgements contained therein,

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

The Directors believe that the Bank maintains an effective embedded system of internal controls and complies with the Turnbull Report guidance

External Audit

The external audit relationship, including appointment/ assessment is handled by the ultimate holding organisation, The Co-operative Group Limited ("The Co-operative Group"), through The Co-operative Group Audit & Risk Committee In 2003 the Board of The Co-operative Group approved the re-appointment of KPMG Audit Plc as the external auditors following a competitive tender exercise A repeat tender exercise is currently underway A resolution will be proposed at the Bank's next Annual General Meeting, on 27 May 2011, to give the Directors' authority to appoint the external auditors, who will hold office until the conclusion of the next general meeting at which accounts are laid before the company The auditor appointed will be auditor agreed by The Co-operative Group at its Annual General Meeting on 21 May 2011

Details of the amounts paid to the external auditor during the year for audit and other services are set out in the notes to the financial statements on page 45

The Audit Committee has put in place safeguards to ensure that the independence of the auditors is not compromised including a policy on the conduct of non-audit services from the external auditor The external auditors are not permitted to provide any non-audit services that are not pre-authorised by the Board and the parent organisation In addition, the following assignments are prohibited from being performed by the external auditors

- book keeping or other services related to the accounting records or financial statements,
- financial information systems design and implementation,
- actuarial services,
- internal audit outsourcing services,
- management functions or human resources, and
- any other services that the Audit Committee may determine

The performance of the external auditor is regularly monitored to ensure it meets the needs of the Bank and the results are reported to the Audit Committee

Internal Audit

The Internal Audit Function is an independent function, which derives its authority from the Board through the Audit Committee Its primary role is to provide assurance over the adequacy and effectiveness of the Bank's control framework including risk management Internal Audit seeks to discharge the responsibilities set down in its charter by completing a risk based internal audit plan Internal Audit also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed

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

Business Continuity

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

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

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

Health and safety

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

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

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

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

The Bank will so far as is reasonably practicable

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

Income Statement for the year ended 31 December 2010

All amounts are stated in £000s unless otherwise indicated

	Notes	2010	2009
Interest receivable and similar income		**10,753**	14,768
Interest expense and similar charges		**(1,488)**	(2,371)
Net interest income	3	**9,265**	12,397
Fee and commission income		**2,313**	2,436
Fee and commission expense		**(879)**	(916)
Net fee and commission income		**1,434**	1,520
Other operating (expense) / income	10	**(103)**	1,008
Operating income		**10,596**	14,925
Operating expenses	4	**(7,476)**	(7,508)
Financial services compensation scheme levies		**(126)**	(28)
Operating profit before impairment losses		**2,994**	7,389
Impairment losses on loans and advances	8	**(4,157)**	(884)
(Loss) / Profit before taxation		**(1,163)**	6,505
Income tax	6	**308**	(1,697)
(Loss) / Profit for the year attributable to shareholders		**(855)**	4,808
Earnings per share (basic and fully diluted)	23	(5 2)p	29 3p

The accounting policies and notes on pages 29 to 58 form part of these financial statements

Statement of Comprehensive Income for the year ended 31 December 2010

All amounts are stated in £000s unless otherwise indicated

	2010	2009
(Loss) / Profit for the year - equity shareholders	**(855)**	4,808
Other comprehensive income		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	**(867)**	(2,106)
Income tax	**243**	590
Net (losses) / gains transferred from equity to gains less losses from derivative financial instruments	**(144)**	8
Income tax	**40**	(2)
Changes in available-for-sale assets		
Net losses transferred from equity to profit or loss	**(86)**	(1,385)
Income tax	**24**	387
Other comprehensive expense for the financial year, net of income tax	**(790)**	(2,508)
Total comprehensive (expense) / income for the financial year	**(1,645)**	2,300
Attributable to		
Equity shareholders	**(1,645)**	2,300

The accounting policies and notes on pages 29 to 58 form part of these financial statements

Balance Sheet as at 31 December 2010

All amounts are stated in £000s unless otherwise indicated

	Notes	2010	2009
Assets			
Loan and advances to banks	7	**78,278**	592
Loans and advances to customers	8	**200,358**	197,074
Investment securities - available for sale	9	**335,688**	396,763
Derivative financial instruments	10	**3,494**	4,741
Intangible fixed assets	11	**669**	758
Property, plant and equipment	12	**446**	493
Deferred tax assets	17	**88**	81
Other assets	13	**83**	72
Prepayments and accrued income		**417**	416
Current tax assets		**1,259**	50
Total assets		**620,780**	601,040
Liabilities			
Customer accounts		**573,263**	550,975
Derivative financial instruments	10	**464**	47
Other liabilities	14	**2,285**	2,210
Accruals and deferred income		**758**	1,231
Provisions for liabilities and charges	16	**910**	764
Total liabilities		**577,680**	555,227
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	19	**16,429**	16,429
Share premium account	19	**250**	250
Retained earnings		**25,365**	27,288
Other reserves - available for sale		**50**	112
- cashflow hedging reserve		**1,006**	1,734
Total equity		**43,100**	45,813
Total liabilities and equity		**620,780**	601,040

Approved by the Board on 25 March 2011 and signed on its behalf by

Dave Prentis (President)
Graham Bennett (Chairman)
Kevin Turmore (Managing Director)

The accounting policies and notes on pages 29 to 58 form part of these financial statements

Registration No 1713124

Statement of Changes in Equity for the year ended 31 December 2010

All amounts are stated in £000s unless otherwise indicated

Attributable to equity holders of the Bank

Bank	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total equity**
At 1 January 2010	**16,429**	**250**	**112**	**1,734**	**27,288**	**45,813**
Total comprehensive income for the financial year	-	-	**(62)**	**(728)**	**(855)**	**(1,645)**
Dividend	-	-	-	-	**(1,068)**	**(1,068)**
At 31 December 2010	**16,429**	**250**	**50**	**1,006**	**25,365**	**43,100**

Attributable to equity holders of the Bank

Bank	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total equity**
At 1 January 2009	16,429	250	1,110	3,244	23,712	44,745
Total comprehensive income for the financial year	-	-	(998)	(1,510)	4,808	2,300
Dividend	-	-	-	-	(1,232)	(1,232)
At 31 December 2009	16,429	250	112	1,734	27,288	45,813

The accounting policies and notes on pages 29 to 58 form part of these financial statements

Statement of Cash Flows for the year ended 31 December 2010

All amounts are stated in £000s unless otherwise indicated

	2010	2009
Cash flows from operating activities		
Profit before taxation	(1,163)	6,505
Adjustments for		
Increase in prepayments and accrued income	(1)	(194)
(Decrease) / Increase in accruals and deferred income	(473)	227
Impairment losses on loans and advances	4,157	884
Fair value changes of derivatives	653	(1,365)
Depreciation and amortisation	330	356
Provision for liabilities and charges	146	(272)
(Profit) / loss on disposal of property, plant and equipment	(3)	1
	3,646	6,142
Increase in customer accounts	22,288	39,885
Increase in loans and advances to customers	(7,442)	(80,586)
Net movement of other assets and other liabilities	64	634
Income tax paid	(601)	(3,169)
Net cash flow from operating activities	17,955	(37,094)
Cash flows from investing activities		
Purchase of property, plant and equipment	(185)	(220)
Proceeds from sale of property, plant and equipment	16	15
Intangible asset additions	(22)	(40)
Purchase of securities	(1,380,000)	(1,190,000)
Proceeds from sale and maturity of investment securities	1,440,990	1,218,611
Net cash flow from investing activities	60,799	28,366
Cash flows from financing activities		
Ordinary share dividends paid	(1,068)	(1,232)
Net cash flow from financing activities	(1,068)	(1,232)
Increase/ (Decrease) in cash and cash equivalents	77,686	(9,960)
Cash and cash equivalents at the beginning of the financial year	592	10,552
Cash and cash equivalents at end of the financial year	78,278	592
Loans and advances to banks (note 7)	78,278	592

The accounting policies and notes on pages 29 to 58 form part of these financial statements

Basis of Preparation and Accounting Policies for the year ended 31 December 2010

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

Basis of preparation

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

The financial information has been prepared on the basis of recognition and measurement requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2010

Standards and interpretations issued and effective

In preparing these consolidated financial statements, the Bank has adopted the following pronouncements during the year that are new or revised but have no material impact on the financial statements

- *Amended IAS 39 Financial Instruments Recognition and Measurement – Eligible Hedged Items (2008)*

The standard was amended to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations

The following standards and interpretations which have been issued and are effective are not considered relevant to the Bank's operations

- Revised IFRS 3 Business Combinations (2008)
- Amended IAS 27 Consolidated and Separate Financial Statements (2008)
- IFRIC 17 Distributions of Non-cash Assets to Owners

Standards and interpretations issued but not yet effective

- *IFRS 9 Financial Instruments Classification and Measurement*

This new standard's objective is to gradually phase out IAS 39 Financial Instruments Recognition and Measurement Phase one of this process specifically requires financial assets to be classified as at amortised cost or at fair value Consequently, the available for sale (AFS) category currently used by the Bank will become void

Early adoption is permitted, once endorsed by the EU The impact of IFRS 9 is likely to be material to the Bank once it becomes effective as of 1 January 2013

- *Revised IAS 24 Related Party Disclosures*

IAS 24 requires entities to disclose in their financial statements information about transactions with related parties In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party

The standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted

The impact of this revision is considered to be immaterial to the Bank

The following standards and interpretations which have been issued but not yet effective are not considered relevant to the Bank's operations

- Revised IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amended IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 18 Transfer of Assets from Customers
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Going concern

The Bank's business activities together with its financial position, and the factors likely to affect its future development and performance are set out in the Business and Financial Review on pages 8 to 12 In addition, the risk management section on pages 32 to 43 includes the Bank's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk The capital management note on page 57 provides information on the Bank's capital policies and capital resources

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

Consequently, after making enquiries, the Directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described within the risk management section on pages 32 to 43 and the critical judgments section on page 44

Significant accounting policies

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

(a) Revenue recognition

Interest income

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

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

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been 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 reflected in interest income as part of the effective interest rate

(b) Financial instruments (excluding derivatives)

Recognition

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

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

The Bank classifies its financial assets as either

1 Loans and receivables, or
2 Available for sale

The Bank measures all of its financial liabilities at amortised cost

i) Loans and receivables

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

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

ii) Available for sale

Available for sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time These are measured at fair value based on current bid prices where quoted in an active market Movements in fair value are recorded in equity as they occur On disposal, gains and losses recognised previously in equity are transferred to the income statement

Impairment provisions

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, and the disappearance of an active market for a security

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

The amount of the loss is the difference between the

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

Impairment of financial assets carried at amortised cost

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

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

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

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

Impairment of financial assets classified as available for sale

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

(c) Derivative financial instruments and hedge accounting

Derivatives used for asset and liability management purposes

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

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

Cash flow hedges

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

Cumulative amounts recognised through equity are recycled to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement When a hedging relationship is broken or the hedge becomes ineffective, the cumulative unrealized gain or loss remaining in equity continues to be held in equity, and is transferred to the income statement only when the forecast transaction is recognised Fair values are based on quoted market prices in active markets

No derivatives are held for trading purposes

(d) Property, plant and equipment

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

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

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

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

(e) Intangible fixed assets

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

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

Banking system	10% per annum

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

(f) Cash and cash equivalents

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

(g) Income tax

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

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

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

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

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

(h) Pension costs

Defined contribution basis

With effect from 6 April 2006, the Bank Group, along with other businesses within the Co-operative Group, has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE scheme) This scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other group companies, with the result that there is no consistent and reliable basis for allocating liabilities, assets and costs to individual companies participating in the scheme Therefore pension costs in respect of the scheme are accounted for on a defined contribution basis and recognised as an expense in the income statement as incurred

(i) Offsetting

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

(j) Operating leases

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

(k) Dividend distribution

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

(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) 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

Risk Management

Risk Management Framework

The Board is responsible for approving the Bank's strategy, its principal markets and the level of acceptable risks articulated through its risk appetite statements It is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management and that the level of capital held is consistent with the risk profile of the business

The Board has established Board Committees and Executive Management Committees to administer, oversee and challenge the risk management process, identifying the key risks facing the business and assessing the effectiveness of planned management actions

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

The Advances Committee is a Board Committee, chaired by the Chairman of the Board It assesses and approves transactions that exceed the delegated authority of the Credit Committee and reviews key features of the loan portfolios and related credit strategy

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

The Audit Committee is a Board Committee, chaired by a Non-Executive Director It supports the Bank Board in carrying out its responsibilities for internal control and risk assessment The Committee monitors the ongoing process of identification, evaluation and management of all significant risks across the Bank and provides an independent review of risk management and controls The Committee is supported by Internal Audit and the Executive Risk Review Committee

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

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

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

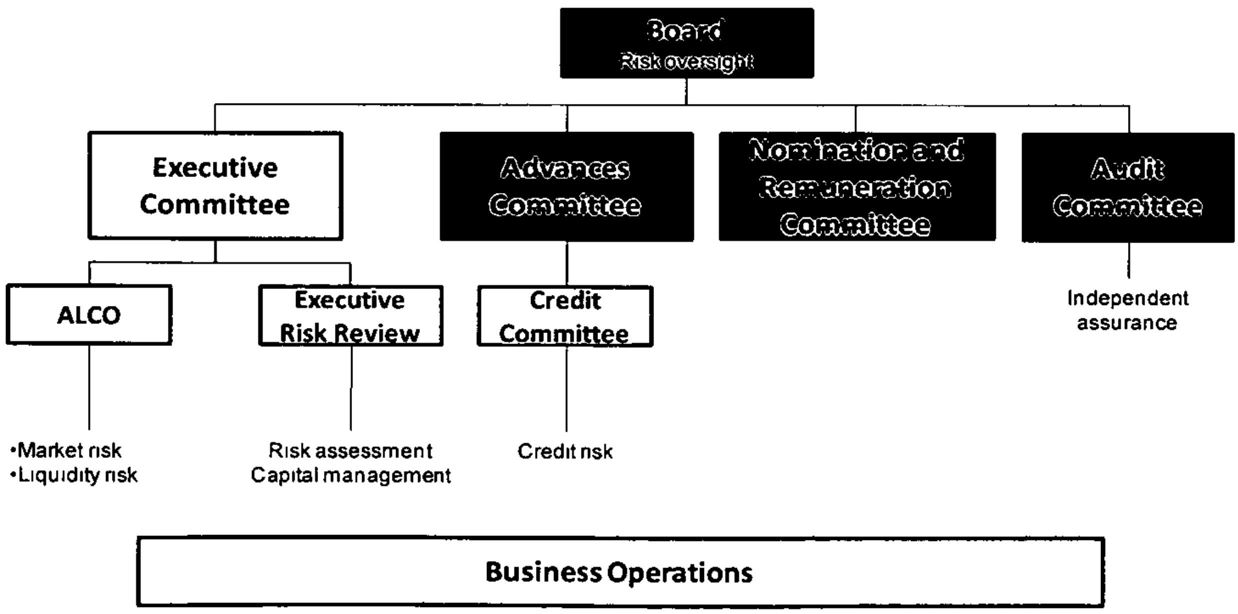
The Credit Committee is chaired by the Managing Director and includes a minimum of two additional Bank Executive Directors The Committee has delegated authority for approving credit facilities, managing lending and credit strategy within delegated limits set by the Board approved Credit Policy

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

The Bank's significant risks arise in four broad categories

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

Governance of Risk and Capital Management
Overview of risk management structure



Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Credit Risk

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

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

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

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

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

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

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

Credit Exposure

	2010			2009		
	Gross balance	**Credit commitments**	**Credit risk exposure**	Gross balance	Credit commitments	Credit risk exposure
Loans and advances to banks	**78,278**	**-**	**78,278**	592	-	592
Loans and advances to customers	**206,471**	**47,501**	**253,972**	199,039	40,071	239,110
Investment securities - available for sale	**335,688**	**-**	**335,688**	396,763	-	396,763
Derivative financial instruments - Designated at fair value	**-**	**-**	**-**	-	-	-
- Cash flow Hedged	**3,494**	**-**	**3,494**	4,741	-	4,741
	623,931	**47,501**	**671,432**	601,135	40,071	641,206
Allowance for impairment losses on loans and advances - note 8			**(6,113)**			(1,965)
Carrying amount			**665,319**			639,241

The Group's concentration exposure is outlined in note 8

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Credit risk analysis

31 December 2010

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	13,646	-	-	13,646
Allowance for impairment	-	(6,113)	-	-	(6,113)
Carrying amount	-	7,533	-	-	7,533
Neither past due or impaired					
Grade A-D (performing)	78,278	182,294	335,688	3,494	599,754
Grade E (close care - performing)	-	10,124	-	-	10,124
Grade F-H (non-performing)	-	407	-	-	407
Carrying amount	78,278	192,825	335,688	3,494	610,285
Total carrying amount	78,278	200,358	335,688	3,494	617,818

31 December 2009

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
Individually impaired					
90 days past due or evidence of impairment	-	7,785	-	-	7,785
Allowance for impairment	-	(1,965)	-	-	(1,965)
Carrying amount	-	5,820	-	-	5,820
Neither past due or impaired					
Grade A-D (performing)	592	180,305	396,763	4,741	582,401
Grade E (close care - performing)	-	10,933	-	-	10,933
Grade F-H (non-performing)	-	16	-	-	16
Carrying amount	592	191,254	396,763	4,741	593,350
Total carrying amount	592	197,074	396,763	4,741	599,170

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Analysis of assets and associated collateral

Impaired Assets

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

The loan portfolios are reviewed on a continuous basis to assess impairment In determining whether a bad debt provision should be recorded, judgments 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

At the balance sheet date, the Bank assesses its debt securities for objective evidence that an impairment loss has occurred For a debt security this may be the disappearance of an active market For available for sale debt securities particular consideration is given to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments

Past due but not impaired

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

The factors considered in determining if financial assets are individually impaired are stated above and within critical judgments on page 44

Description of collateral

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

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

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

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

As at 31 December 2010 £12 6 million (2009 £17 7 million) within loans and advances was unsecured

At the reporting date the fair value of collateral held as security against individually impaired assets was £10 8 million (2009 £6 8 million)

At the reporting date the fair value of collateral held as security against financial assets that are past due but not impaired was £nil (2009 £nil)

Market risk

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

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

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

Interest rate risk is primarily managed through assessing the sensitivity of the Banks non-trading book to standard and non-standard interest rate scenarios The Board has established a risk appetite of £3 million over the next twelve months to be at risk to a 200bp rise and fall in all yield curve rates, assuming the external rate on all retail products changes to maintain constant margins

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

	2010 200bp parallel shift	2009 200bp parallel shift
At year end	**922**	1 276
Average for the period	**1,234**	1,937
Maximum for the period	**2,246**	2,592
Minimum for the period	**754**	1,112

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

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Interest Rate Risk

Interest rate sensitivity gap

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

31 December 2010

	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							
Loans and advances to banks	78,278	-	-	-	-	-	78,278
Loans and advances to customers	193,830	-	-	-	12,641	(6,113)	200,358
Investment securities - available for sale	265,540	70,148	-	-	-	-	335,688
Other assets	-	-	-	-	-	6,456	6,456
Total assets	537,648	70,148	-	-	12,641	343	620,780
Liabilities							
Deposits by banks	-	-	-	-	-	-	-
Customer accounts	504,159	2,725	-	-	-	66,379	573,263
Other liabilities	-	-	-	-	-	4,417	4,417
Total equity	-	-	-	-	-	43,100	43,100
Total liabilities	504,159	2,725	-	-	-	113,896	620,780
Derivatives	(85,000)	-	10,000	75,000	-	-	
Interest rate sensitivity gap	(51,511)	67,423	10,000	75,000	12,641	(113,553)	
Cumulative gap	(51,511)	15,912	25,912	100,912	113,553	-	

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Interest Rate Risk continued

31 December 2009

	Within 3 months	Over 3 months but within 1 year	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Loans and advances to banks	592	-	-	-	-	-	592
Loans and advances to customers	183,878	15,161	-	-	-	(1,965)	197,074
Investment securities - available for sale	306,560	60,101	30,102	-	-	-	396,763
Other assets	-	-	-	-	-	6,611	6,611
Total assets	491,030	75,262	30,102	-	-	4,646	601,040
Liabilities							
Deposits by banks	-	-	-	-	-	-	-
Customer accounts	495,247	-	-	-	-	55,728	550,975
Other liabilities	-	-	-	-	-	4,252	4,252
Total equity	-	-	-	-	-	45,813	45,813
Total liabilities	495,247	-	-	-	-	105,793	601,040
Derivatives	(75,000)	10,000	10,000	55,000	-	-	
Interest rate sensitivity gap	(79,217)	85,262	40,102	55,000	-	(101 147)	
Cumulative gap	(79,217)	6,045	46,147	101,147	101,147	-	

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

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

Cash flow hedging is used by the Bank to manage interest rate risk The amount of ineffectiveness in the year amounted to £(0 1) million (2009 £1 0 million) and is disclosed as 'other operating (expense) / income' in the income statement

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Liquidity risk

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

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

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

The Bank manages liquidity risk by applying robust liquidity management with

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

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

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

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each quarter A pool of liquid assets of £70 million is held by the Bank, and management actions are in place to provide an additional £335 million of liquidity These sources of liquidity, totalling £405 million, are held in order to be available to meet unexpected liquidity requirements

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

Liquidity Gap

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

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

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

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

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

31 December 2010

	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							
Loans and advances to banks	8,201	70,077	-	-	-	-	78,278
Loans and advances to customers	37,796	15,029	3,658	23,291	120,584	-	200,358
Investment securities- available for sale	-	265,540	70,148	-	-	-	335,688
Other assets	-	-	-	-	-	6,456	6,456
	45,997	350,646	73,806	23,291	120,584	6,456	620,780
Liabilities							
Deposits by banks	-	-	-	-	-	-	-
Customer accounts	433,785	136,753	2,725	-	-	-	573,263
Other liabilities	-	-	-	-	-	47,517	47,517
	433,785	136,753	2,725	-	-	47,517	620,780
Net liquidity gap on contractual basis	(387,788)	213,893	71,081	23,291	120,584	(41,061)	-
Behavioural adjustments							
Customer accounts	216,892	(216,892)	-	-	-	-	-
Net liquidity gap on a behavioural basis	(170,896)	(2,999)	71,081	23,291	120,584	(41,061)	-

31 December 2009

	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							
Loans and advances to banks	592	-	-	-	-	-	592
Loans and advances to customers	28,163	10,506	9,500	30,421	118,484	-	197,074
Investment securities- available for sale	-	306,560	90,203	-	-	-	396,763
Other non cash assets	-	-	-	-	-	6,611	6,611
	28,755	317,066	99,703	30,421	118,484	6,611	601,040
Liabilities							
Deposits by banks	-	-	-	-	-	-	-
Customer accounts	413,496	137,479	-	-	-	-	550,975
Other non cash liabilities including Total equity	-	-	-	-	-	50,065	50,065
	413,496	137,479	-	-	-	50,065	601,040
Net liquidity gap on contractual basis	(384,741)	179 586	99,703	30,421	118,484	(43,454)	-
Behavioural adjustments							
Customer accounts	206,748	(206,748)	-	-	-	-	-
Net liquidity gap on a behavioural basis	(177,993)	(27,161)	99,703	30,421	118,484	(43,454)	-

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

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

Gross expected cashflow maturity analysis - contractual

31 December 2010

	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 banks	-	-	-	-	-	-	-
Deposits from customers	573,263	573,263	490,155	80,383	2,725	-	-
Other liabilities	3,953	3,953	3,953	-	-	-	-
	577,216	577,216	494,108	80,383	2,725	-	-
Derivative Liabilities	464	464	-	464	-	-	-
Total recognised liabilities	577,680	577,680	494,108	80,847	2,725	-	-
Unrecognised loan commitments	46,027	46,027	46,027	-	-	-	-
Total	623,707	623,707	540,135	80,847	2,725	-	-

31 December 2009

	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 banks	-	-	-	-	-	-	-
Deposits from customers	550,975	551,201	456,060	95,141	-	-	-
Other liabilities	4,205	4,205	4,205	-	-	-	-
	555,180	555,406	460,265	95,141	-	-	-
Derivative Liabilities	47	47	-	47	-	-	-
Total recognised liabilities	555,227	555,453	460,265	95,188	-	-	-
Unrecognised loan commitments	38,013	38,013	38,013	-	-	-	-
Total	593,240	593,466	498,278	95,188	-	-	-

Risk Management continued

All amounts are stated in £000s unless otherwise indicated

Gross expected cashflow maturity analysis - behavioural

The following is an analysis of gross expected cash flow maturity Liquidity cash flows are managed on a behavioural basis reflecting the actual behaviour of customers using the same assumptions defined on page 36 for liquidity gap analysis based on historic cash flow profiles over a period of ten years

31 December 2010

	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 banks	-	-	-	-	-	-	-
Deposits from customers	573,263	573,263	245,078	325,460	2,725	-	-
Other liabilities	3,953	3,953	3,953	-	-	-	-
	577,216	577,216	249,031	325,460	2,725	-	-
Derivative Liabilities	464	464	-	464	-	-	-
Total recognised liabilities	577,680	577,680	249,031	325,924	2,725	-	-
Unrecognised loan commitments	46,027	46,027	46,027	-	-	-	-
Total	623,707	623,707	295,058	325,924	2,725	-	-

31 December 2009

	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 banks	-	-	-	-	-	-	-
Deposits from customers	550,975	551,201	228,030	323,171	-	-	-
Other liabilities	4,205	4,205	4,205		-	-	-
	555,180	555,406	232,235	323,171	-	-	-
Derivative Liabilities	47	47	-	47	-	-	-
Total recognised liabilities	555,227	555,453	232,235	323,218	-	-	-
Unrecognised loan commitments	38,013	38,013	38,013	-	-	-	-
Total	593,240	593,466	270,248	323,218	-	-	-

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 2010 and 31 December 2009 the book value of the Bank's financial instruments, including derivative financial instruments, that have an active and liquid market were equivalent to the fair value of those instruments

Valuation of Financial Instruments

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

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

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

As at 31 December 2010 and 31 December 2009 all the Bank's financial assets and financial liabilities held at fair value are categorised as Level 1

Primary Financial Instruments used by the Bank

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

Customer loans and deposits

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

Debt securities, wholesale market loans and deposits

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

Foreign exchange

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

Derivatives

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

Operational Risk

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

Operational risk framework

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk assessments, formal internal control procedures, training, segregation of duties, delegated authorities, and contingency planning Operational risks are formally reviewed on a regular basis by the Executive Risk Review Committee, who have regular reports from the business and the Internal Audit department based on their own programme of internal audits

Responsibility

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

Risk Management continued

Risk themes

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

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

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

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

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

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

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

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

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

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

Principal risks

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

- Co-operative Group wide risks, to include pensions & reputational risk, and
- Business risk

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

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

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

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

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

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

Critical Judgments

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

Investment valuation and impairment

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

Valuation approach
The accounting treatment for the certificates of deposit is available for sale which means that they are fair valued in the balance sheet with movements passing through reserves

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

No significant assumptions are required

Impairment on loans and advances

The loan portfolios are reviewed on a continuous basis to assess impairment In determining whether an impairment provision should be recorded, judgments 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

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

Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme (FSCS) provides compensation to customers of financial institutions in the event that an institution is unlikely, or is likely to be unable, to pay claims against it As a result of a number of institutions failures during the year the FSCS has borrowed £19 7 billion on an interest only basis until September 2011 from HM Treasury in order to meet its obligations to the depositors These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the failed institutions The FSCS raises annual levies from the banking industry in order to meet its management expenses and compensation costs The annual levies are based upon the individual institutions proportion of protected deposits of the total market protected deposits at 31 December of each year The Bank has provided £0 2 million for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 30 September 2011 The provision includes estimates for the interest that the FSCS will pay on the loan and of the Bank's market participation in the relevant periods

At the date of these financial statements, it is not possible to estimate whether there will be ultimately additional levies on the industry, the level of the Bank's market participation or other factors that may affect amounts or the timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular periods

Notes to the Financial Statements

All amounts are stated in £000s unless otherwise indicated

1 Profit before taxation

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

	2010	2009
Audit services		
Fees payable to company auditor for the audit of parent company and consolidated accounts	64	65
Non-Audit services		
Fees payable to company's auditor and its associates for other services		
-Other services pursuant to legislation	2	2
All other services	18	-
Fees paid to the auditor	84	67

2 Directors' emoluments

	2010	2009
Non-executive directors - emoluments	64	63
Non-executive directors - compensation for loss of office	-	12
Executive directors - emoluments	458	535
	522	610

Retirement benefits are accruing to 4 Directors (2009 4) under defined benefit schemes

Further details of Directors' emoluments are included in the remuneration report on pages 16 to 17

3 Net interest income

	2010	2009
On financial assets not at fair value through income or expense		
on loans and advances to customers	4,748	3,365
on loans and advances to banks	97	22
on investment securities	3,062	8,260
	7,907	11,647
On financial assets at fair value through income or expense		
net income on financial instruments hedging assets	1,862	2,419
net income on financial instruments not in a hedging relationship	984	702
	10,753	14,768

Interest expense and similar charges

	2010	2009
On financial liabilities not at fair value through income or expense		
on retail deposits	1,480	2,361
on bank and other deposits	8	10
	1,488	2,371
	1,488	2,371

Interest income accrued on impaired financial assets during the year was £nil (2009 £nil) Interest due to unwinding of discount on impairment provisions relating to impaired financial assets amounted to £nil (2009 £29,000)

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

4 Operating expenses

		2010	2009
Staff costs	(Note 5)	**4,236**	4,385
Administrative expenses		**1,986**	2,192
Amortisation of intangible fixed assets	(Note 11)	**111**	107
Depreciation of property, plant and equipment	(Note 12)	**219**	249
(Profit) / Loss on sale of property and equipment		**(3)**	1
Operating lease rentals		**632**	631
Provisions for liabilities and charges provided in the year	(Note 16)	**375**	97
Provisions for liabilities and charges released during the year	(Note 16)	**(80)**	(154)
		7,476	7,508

5 Staff costs

	2010	2009
Wages and salaries	**3,341**	3,640
Social security costs	**293**	351
Pension costs - defined contribution plans	**409**	394
Bank payroll tax	**8**	-
Other staff costs	**185**	-
	4,236	4,385

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

	2010	2009
Full time	**82**	80
Part time	**13**	15
	95	95

6 Income tax

		2010	2009
Current tax - current year		**(308)**	1,720
Current tax - prior year		**7**	(4)
Deferred tax	(Note 17)	**(7)**	(19)
		(308)	1,697

Further information about deferred income tax is presented in Note 17 The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows

	2010	2009
(Loss) / Profit before taxation	**(1,163)**	6,506
Tax calculated at a tax rate of 28% (2009 28%)	**(326)**	1,822
Expenses not deductible for tax purposes	**8**	11
Difference between depreciation and capital allowances for period and other timing differences	**3**	2
Depreciation of expenditure not qualifying for capital allowances	**-**	2
Adjustments to tax charge in respect of prior periods	**7**	(4)
Expense adjustments	**(1)**	(1)
Community Investment Tax Relief	**-**	(135)
Income tax	**(308)**	1,697

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

7 Loans and advances to banks

	2010	2009
Included within cash and cash equivalents		
Items in course of collection from other banks	200	192
Placements with other banks	8,000	400
Other loans and advances to banks	70,078	-
Included in cash equivalents	78,278	592

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

8 Loans and advances to customers

	2010	2009
Gross loans and advances	206,471	199,039
Less allowance for losses on loans and advances to customers	(6,113)	(1,965)
	200,358	197,074

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances	2010 Individual	2009 Individual
At 1 January	(1,965)	(1,125)
Charge against profits	(4,157)	(884)
Amounts written off	9	15
Recoveries	-	-
Unwind of discount of allowance	-	29
At 31 December	(6,113)	(1 965)

All provisions are held against loans and advances to customers

Non-performing debt

	2010	2009
Bank advances	13,646	7,785
Provisions for bad and doubtful debts	(6,113)	(1,965)
	7,533	5,820

Concentration of exposure

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

	2010	2009
Administrative bodies and non-commercial	116,713	105,480
Property (including hotels and leisure)	63,390	65,198
Manufacturing	3,328	1,962
Utilities	-	5,000
Other	23,040	21,399
	206,471	199,039

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

All amounts are stated in £000s unless otherwise indicated

9 Investment securities - available for sale

	2010	2009
Debt securities - at fair value		
- Unlisted bank and building society certificates of deposit	**335,688**	396,763

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

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

	2010	2009
At 1 January	**395,169**	421,554
Fair value adjustment	**(86)**	(1,385)
Acquisitions	**1,380,000**	1,190,000
Disposals and maturities	**(1,440,000)**	(1,215,000)
At 31 December	**335,083**	395,169

	2010		2009	
	Balance sheet	**Market value**	Balance sheet	Market value
Bank and building society certificates of deposit	**335,688**	**335,688**	396 763	396 763

10 Derivative financial instruments

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

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

At 31 December 2010

	Contractual / notional amount	**Fair value assets**	**Fair value liabilities**
Derivatives held for non-trading purposes designated as cash flow hedging			
Interest rate swaps	**45,000**	**1,985**	**(351)**
Derivatives held for non-trading purposes for which hedge accounting has not been applied			
Interest rate swaps	**45,000**	**1,509**	**(113)**
Total recognised derivative assets / (liabilities) held for non-trading	**90,000**	**3,494**	**(464)**

At 31 December 2009

	Contractual / notional amount	Fair value assets	Fair value liabilities
Derivatives held for non-trading purposes designated as cash flow hedging			
Interest rate swaps	55,000	3,357	(31)
Derivatives held for non-trading purposes for which hedge accounting has not been applied			
Interest rate swaps	30,000	1,384	(16)
Total recognised derivative assets / (liabilities) held for non-trading	85,000	4,741	(47)

Other operating income	**Bank**	Bank
	2010	2009
Ineffective part of gain on cash flow hedge	**(103)**	1,008
Other operating income in Income Statement	**(103)**	1,008

All amounts are stated in £000s unless otherwise indicated

11 Intangible assets

Computer Software	2010	2009
Cost		
At 1 January	1,166	1,126
Additions	22	40
At 31 December	1,188	1,166
Accumulated Amortisation		
At 1 January	408	301
Charge for the year	111	107
At 31 December	519	408
Net book value		
At 31 December	669	758
At 1 January	758	825

12 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Motor Vehicles	Total
Cost				
At 1 January	649	1,361	149	2,159
Additions	-	185	-	185
Disposals	-	-	(58)	(58)
At 31 December 2010	649	1,546	91	2,286
Accumulated Depreciation				
At 1 January	504	1,058	104	1,666
Charge for the year	37	176	6	219
Disposals	-	-	(45)	(45)
At 31 December 2010	541	1,234	65	1,840
Net book value				
At 31 December 2010	108	312	26	446
At 1 January 2010	145	303	45	493
Cost				
At 1 January	630	1,267	177	2,074
Additions	19	201	-	220
Disposals	-	(107)	(28)	(135)
At 31 December 2009	649	1,361	149	2,159
Accumulated Depreciation				
At 1 January	449	987	100	1,536
Charge for the year	55	178	16	249
Disposals	-	(107)	(12)	(119)
At 31 December 2009	504	1,058	104	1,666
Net book value				
At 31 December 2009	145	303	45	493
At 1 January 2009	181	280	77	538

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

13 Other assets

	2010	2009
Amounts recoverable within one year		
Trade debtors	**32**	11
Other assets	**51**	61
	83	72

14 Other liabilities

	2010	2009
Amounts payable within one year		
Trade creditors	**216**	187
Other liabilities	**2,069**	2,023
	2,285	2,210

15 Investments in Group undertakings

The principal operating subsidiary undertaking which was directly held by Unity Trust Bank plc was

	Interest %	Acccounting Reference Date
Unity Leasing Limited (Computer Leasing)	100	31 December

The subsidiary undertaking was incorporated in Great Britain and operated in England and Wales The subsidiary undertaking was an unlisted company which was not a bank The company was dissolved on 24 November 2009

	2010 Fair value	2009 Fair value
At 1 January	-	100
Repayments	-	(100)
At 31 December	-	-

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

16 Provisions for liabilities and charges

	Vacant properties	Customer claims	FSCS levy	Total
At 1 January 2010	**354**	**192**	**218**	**764**
Utilised	**(140)**	**(21)**	**(114)**	**(275)**
Income statement movements				
Provided in the year	**5**	**370**	**136**	**511**
Released during the year	**(38)**	**(42)**	**(10)**	**(90)**
At 31 December 2010	**181**	**499**	**230**	**910**
Amounts falling due within one year	**181**	**499**	**110**	**790**
Amounts falling due after one year	**-**	**-**	**120**	**120**
	181	**499**	**230**	**910**
At 1 January 2009	517	215	304	1,036
Utilised	(129)	0	(114)	(243)
Income statement movements				
Provided in the year	20	77	103	200
Released during the year	(54)	(100)	(75)	(229)
At 31 December 2009	**354**	**192**	**218**	**764**
Amounts falling due within one year	172	192	118	482
Amounts falling due after one year	182	-	100	282
	354	**192**	**218**	**764**

The provision against vacant properties is a discounted estimate of future unavoidable lease payments and related costs for vacant properties not in use Payments under future unavoidable lease commitments, net of amounts receivable under sub-lettings, are due on leases terminating in 2011

The customer claims provision relates to cases where there are claims that cheque frauds have been perpetrated by employees of the Bank's customers They are expected to be concluded during 2011

In common with other financial institutions authorised by the Financial Services Authority (FSA), the Bank contributes to the Financial Services Compensation Scheme (FSCS) The FSCS covers financial institutions authorised to do business in the United Kingdom. When an institution is unlikely, or likely to be unable, to pay claims against it, its customers may be able to claim compensation from the FSCS The FSCS raises funds to meet the known compensation claims through levies on other FSA - authorised institutions

As a result of a number of institutions failing during 2008 the FSCS has borrowed £19 7 billion on an interest only basis until September 2011 from HM Treasury in order to meet its obligations to depositors These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the failed institutions

The FSCS raises annual levies from the banking industry in order to meet its management expenses and compensation costs The annual levies are based upon the individual institutions proportion of protected deposits of the total market protected deposits at 31 December each year

The Bank has provided for £0 2m (2009 £0 2m) for its share of the levies that will be raised by the FSCS including the interest on the loan from the HM Treasury in respect of the levy years to 31 March 2012 and 31 March 2011 respectively The provision includes estimates for the interest FSCS will pay on the loan and of the Bank's market participation in the relevant years

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of the Bank's market participation or other factors that may affect amounts or the timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular year

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

17 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 27% (2009 28%)

The movement on the deferred tax accounts are as follow s

	2010	2009
At 1 January - net deferred tax	**81**	62
Income statement credit	**7**	19
At 31 December - net deferred tax	**88**	81

Net deferred tax comprises

Deferred tax asset	**88**	81

Deferred taxation

	2010	2009
Other timing differences	**2**	2
Capital allow ances on fixed assets	**86**	79
	88	81

The deferred tax credit in the income statement comprises the follow ing temporary differences

	2010	2009
Capital allow ances on fixed assets	**7**	19
	7	19

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

After the balance sheet date the Directors proposed a final dividend of £nil (2009 £1 068 million) The dividends have not been provided for and there are no income tax consequences

There are no temporary differences associated w ith investments in subsidiaries, associates and interests in joint ventures, for w hich deferred tax liabilities had not been recognised

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

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate w ill reduce from 28% to 24% over a period of four years from 2011 The first reduction in the Uk corporation tax rate from 28% to 27% w as substantively enacted on 20 July 2010 and w ill be effective from 1 April 2011 This w ill reduce the company's future current tax charge accordingly As such, the deferred tax balances outstanding at the balance sheet date are stated at 27% It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this w ill further reduce the company's future current tax charge and reduce the company's deferred tax amounts accordingly

All amounts are stated in £000s unless otherwise indicated

18 Pensions

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

Key assumptions of the Group pension scheme

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

The principal assumptions used to determine the liabilities of the PACE scheme were

	2010	2009
Discount rate	**5 20%**	5 60%
Rate of increase in salaries	**5 20%**	5 30%
Future pension increases where capped at 5 0% pa	**3 70%**	3 80%
Future pension increases where capped at 2 5% pa	**2 50%**	2 50%

Assumptions used to determine net pension cost for the PACE scheme are

	2010	2009
Discount rate	**5 60%**	5 70%
Expected long term return on scheme assets	**6 50%**	6 40%
Rate of increase in salaries	**5 30%**	4 75%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the PACE scheme at the 2010 year end is

	Male	Female
Life expectancy		
Member currently aged 65 (current life expectancy)	**21 7**	23 3
Member currently aged 45 (life expectancy at age 65)	**23 2**	24 9

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

	2010	2009
Present value of funded obligations	**(5,794)**	(5,509)
Present value of unfunded obligations	**(4)**	(4)
Fair value of plan assets	**6,071**	5,514
	273	2

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

	2010	2009
Equities	**31%**	35%
Liability driven investments	**54%**	54%
Alternative growth	**9%**	6%
Property	**4%**	4%
Cash	**2%**	1%

To develop the expected long term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio This resulted in the selection of the 6 5% assumption for the year ended 31 December 2010

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

19 Share capital

	2010	2009
'A' Shares of £1 each	**2,500**	2,500
'B' Shares of £1 each	**2,500**	2,500
'C' Shares of £1 each	**15,000**	15,000
	20,000	20,000
Issued		
'A' Shares of £1 each	**2,405**	2,405
'B' Shares of £1 each	**2,405**	2,405
'C' Shares of £1 each	**11,619**	11,619
	16,429	16,429
Share premium account	**250**	250
	16,679	16,679

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

All issued share capital is allotted and fully paid

All amounts are stated in £000s unless otherwise indicated

20 Contingent liabilities and commitments

The tables below give, for the Group and the Bank, the nominal principal amounts, credit equivalent amounts and risk weighted amounts of contingent liabilities and commitments The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk The credit equivalent and risk weighted amounts have been calculated in accordance with the FSA 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

	2010				2009	
	Contract amount	**Credit equivalent amount**	**Average risk weight**	**Risk weighted amount**	Contract amount	Risk weighted amount
Guarantees and irrevocable letters of credit	**1,474**	**737**	**100%**	**737**	2,058	1,029
	1,474	**737**	**100%**	**737**	2 058	1,029
Other commitments						
Undrawn formal standby facilities, credit lines and other commitments to lend						
-1 year and over	**46,027**	-	**100%**	**46,027**	38,013	38,013
	46,027	-	**100%**	**46,027**	38,013	38,013

The Group and Bank had capital commitments authorised and contracted at 31 December 2010 of £nil (2009 £nil)

Commitments under Operating leases

	2010	2009
	Land and buildings	Land and buildings
At the year end, total commitments under non-cancellable operating leases were payable as follows		
Expiring		
-within one year	**161**	-
-between one and five years	**995**	361
-in five years or more	**-**	1,229
	1,156	1,590

Operating lease rental payments are disclosed in note 4

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

21 Related party transactions

Unity Trust Bank plc is a subsidiary undertaking of The Co-operative Bank p l c as The Co-operative Bank p l c controls the appointment of the majority of the Bank's Board of Directors

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

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

The ultimate holding organisation is The Co-operative Group Limited, (Formally known as The Co-operative Group (CWS) Limited), which is incorporated in England and registered under the Industrial and Provident Societies Acts The financial statements of the immediate and ultimate holding organisation are available on request from, New Century House, Manchester, M60 4ES

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

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

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

	2010	2009
Administrative expenses	952	915

Key management compensation

	2010	2009
Salaries and other short term benefits	458	450
Post employment benefits	67	65
	525	515

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

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

22 Capital management

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

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

Regulatory capital

Regulatory capital stood at £41 38 million (2009 - £39 63 million), well in excess of the minimum required by the Financial Services Authority

Regulatory capital analysis

	2010	2009
Tier 1		
Share capital	**16,429**	16,429
Share premium account	**250**	250
Retained earnings	**26,220**	23,742
Less net loss in financial year	**(855)**	-
Less other intangible assets	**(669)**	(758)
Total Tier 1 capital	**41,375**	39 663
Tier 2		
Total Tier 2 Capital	**-**	-
Total Tier 1 & Tier 2 Capital	**41,375**	39,633
Less investment in subsidiaries and associates	**-**	-
Total regulatory capital	**41,375**	39,633

Notes to the Financial Statements continued

All amounts are stated in £000s unless otherwise indicated

23 Earnings per share

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

	2010	2009
(Loss) / Profit attributable to equity shareholders of the Bank	(855)	4,808
Weighted average number of ordinary shares in issue	16,429	16,429
Basic earnings per share (expressed in pence per share)	(5 2)	29 3

Registration No 1713124

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 2010 set out on pages 24 to 58 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 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at
www frc org uk/apb/scope/private cfm

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 2010 and of its loss 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

K. J. Cooper

Kieren Cooper (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
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25 March 2011

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bank

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INVESTORS
IN PEOPLE