Pillar 3 Disclosures 2021

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1 Overview

1.1 Intro

Unity Trust Bank was launched on May 1, 1984. It was born out of a vision by trade unions to create a bank that would embrace the philosophy of serving the common good. Now a thriving commercial bank, Unity continues to embody its founding principles to provide prudent, profitable commercial lending in the UK and to support jobs, industries, and the British economy.

Unity's purpose is to create a better society by delivering impact across the UK. For more than 37 years we have helped thousands of socially-minded organisations to prosper and make a positive contribution to economic, social, and environmental needs in local communities. We are the bank that businesses can be proud to bank with.

Our values ensure we act in a way that helps to create a better society. They enable us to be at our best for our customers, communities, society, and other stakeholders.

- Enabling
- Collaborative
- Inclusive
- Straightforward

1.2 Purpose of Pillar 3 document

This document provides the Pillar 3 disclosures required of Unity Trust Bank Plc (referred to in this document as 'Unity' or 'the Bank') as of 31 December 2021. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'). Pillar 3 disclosures provide information on the approach used by the Bank to manage risk and maintain its capital resources. It sets out the Bank's:

- Approach to risk management
- Governance structure
- Asset information and capital resources; and
- Compliance with EU capital requirements regulations

1.3 Background and regulatory guidance

Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD) (together referred to as CRD V) implementing the Basel III framework came into force on 27 June 2019 (containing revisions to previously implemented CRD IV regulation). It is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA). The PRA published Policy Statement PS 29/20 to introduce changes agreed in Basel III which was implemented in the EU via the Capital Requirements Directive V (CRD V). This package of modifications to the rules reflects the experience since CRD IV was enacted in 2014.

The objective of CRD V is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy.

CRD V also sets out disclosure requirements relevant to banks and building societies under CRR Part Eight. These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review and evaluation process in Pillar 2. The Pillar 3 disclosures are aimed at promoting market discipline by enhancing the level of disclosure of risk exposures and the management of those risks.

The Bank uses the *standardised* approach to calculating Pillar 1 capital requirements, using the capital risk weighting percentages set out under CRD V.

CRD V requires a concise risk statement approved by the Executive Committee describing the institution's overall risk profile associated with its business strategy. The Bank has a low-risk appetite, particularly toward credit risk. This is evidenced within the lending portfolio with a whole book average LTV of c45%, 97% of lending within risk grades 1-5 and very low levels of default.

Summary of Key Metrics

	2021 £'000	2020 £'000
Capital		
Common Equity Tier 1 (CET1)	104,260	87,476
Risk weighted assets	589,551	524,088
Common Equity Tier 1 ratio (%)	17.7%	16.7%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (%)	2.5%	2.5%
Countercyclical buffer requirement (%)	0%	0%
Basel III Leverage Ratio		
Total Basel III leverage ratio exposure measure	1,673,611	1,481,176
Basel III leverage ratio (%)	5.7%	5.9%
Liquidity Coverage Ratio[1]		
Total HQLA	822,783	760,666
Total net cash outflow	303,007	229,721
LCR ratio (%)	272%	331%

[1] LCR balances included above are as of 31 December 2021 and do not agree to LCR balances disclosed in section 3.4 which reports average LCR balances.

Total Loss Absorbing Capital (TLAC) and Minimum Requirement for Eligible Liabilities (MREL) regulations became effective from 1 January 2019. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements also known as the Total Capital Requirement (TCR). The Bank's TCR as of 31 December 2021 is 10.14% (2020: 10.18%).

Additional information on the Bank's management of risk and its risk profile is included in the remaining sections of this document, and the Annual Report & Accounts.

Regulatory developments

The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer which creates a cushion for banks to absorb potential losses in the event of a stress. Following the economic recovery after the COVID-19 pandemic, the FPC announced an increase in the UK countercyclical capital buffer from 0% to 1% to be effective from December 2022. The effective rate of 0% is reflected in the summary of key metrics table above.

Revisions to the Capital Requirements Regulation, referred to as CRR II, were officially journaled by the EU in June 2019. Rules introduced by CRR II were timetabled to follow a phased implementation throughout 2020 and 2021. Significant changes include an enhancement to net stable funding ratio (NSFR) requirements and reduced reporting for small and non-complex institutions. Following the COVID-19 pandemic, a CRR "Quick Fix" package was released in June 2020, accelerating the application of key changes that were originally scheduled for June 2021. Key changes include the resetting of IFRS 9 provision transitional adjustment to CET1 capital and increased benefits from lending to SMEs.

The implementation date for those areas of CRR II which were not currently in force came into effect from 1 January 2022. The following aspects of CRR II are most relevant to Unity:

Area	Change	Impact on Unity
Leverage	This is now a binding regulation, rather than just a calculated ratio	Unity remains consistently above the minimum 3% requirement.
Net Stable Funding Ratio	This is now a binding regulation, rather than just a calculated ratio	Unity remains consistently above the minimum 100% requirement.
Large Exposure	The 25% exposure limit will be calculated on a narrower capital base, namely Tier 1 capital	The maximum size of loan Unity can complete will reduce, albeit internal risk appetites restrict this already.
Interest Rate Risk in the Banking Book	Unity is required to calculate the impact of six predefined shock scenarios on their own funds	Unity monitors the impact on economic value and remain within the maximum tolerance of 15% of Tier 1 capital.

The Basel Committee scheduled the Basel III Reforms for implementation by 1 January 2023. The PRA has previously stated that it will follow Basel's timetable. The European Commission has recently proposed delaying implementation in the EU until 1 January 2025. Unity will continue to monitor developments and consider the implications for our reporting and disclosures.

1.4 Basis and frequency of disclosures

This document, setting out the Pillar 3 disclosures for the Bank, has been prepared to give relevant information to calculating Unity's Basel III requirements and to explain the management of risks faced by the Bank in accordance with the rules laid out in CRR II Part Eight. The basis of these disclosures may differ from similar information in the Annual Report & Accounts prepared in accordance with International Financial Reporting Standards (IFRS); therefore, the information in these disclosures may not be directly comparable.

Pillar 3 disclosures are published annually, and concurrently with the Annual Report & Accounts in accordance with regulatory guidelines. The Financial Conduct Authority (FCA) has issued guidelines on disclosure frequency and the Bank considers that, given its size and complexity, summary Pillar 3 disclosures do not need to be made more frequently than annually in the absence of a material change in circumstances.

Both the Pillar 3 document and Annual Report & Accounts are published on the Bank's website www.unity.co.uk.

1.5 Verification

These disclosures have been reviewed by the Executive Committee and by the Bank's Board Audit Committee (BAC) on behalf of the Board and provided to the Bank's auditors. These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of the Bank's financial statements.

1.6 Remuneration and governance arrangements

In order to comply with the disclosure requirements of the CRR II Part Eight Article 450, the responsibilities, and decision-making processes for determining remuneration policy, the link between pay and performance and the design and structure of remuneration, including profit share pay plans, have been disclosed in Appendix 1.

1.7 Scope of disclosures

The Bank is regulated and authorised by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). The Bank has no trading subsidiaries. The information disclosed therefore relates to Unity Trust Bank plc only. No Pillar 3 information has been omitted as either being proprietary or confidential.

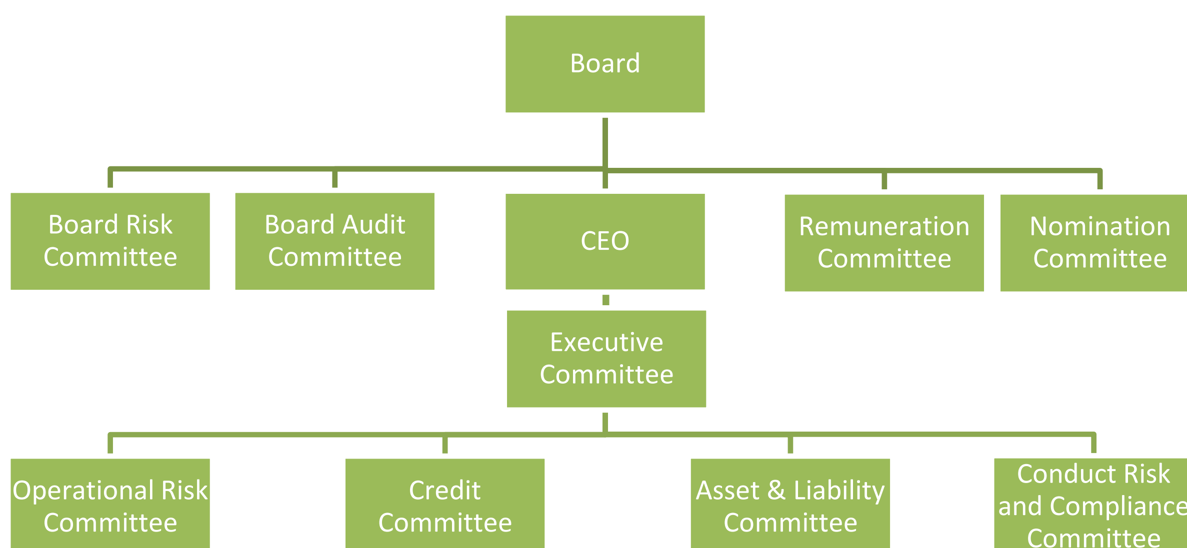
2 Risk management framework, objectives, and policies

2.1 Overview

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.

Specific Board authority is delegated to Board Committees and the Chief Executive Officer who may, in turn, delegate elements of discretion to appropriate members of Executive and senior managers. In addition BRC have delegated a lending authority directly to the CRO.

2.2 Committee structures



The **Board Risk Committee (BRC)** is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation, and management of all significant risks across the Bank and determining that all risks are being managed appropriately, in line with its Risk Appetite Statements, and that adequate capital and liquidity is maintained.

The **Board Audit Committee** is a Board Committee. It supports the Board in carrying out its responsibilities for internal control and risk assessment and receives reports from the Internal Audit function (outsourced). It monitors the integrity of the financial statements and the effectiveness of the external auditors.

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

The **Nomination Committee** is a Board Committee. It makes recommendations on the size, structure and membership of the Board and its committees and keeps under review the leadership needs of the Bank.

The **Executive Committee** is a management committee and oversees and monitors strategic performance and risks of the business in line with the Board's Risk Appetite Statement.

The **Asset and Liability Committee (ALCo)** is a management committee and is primarily responsible for managing the market, capital, and liquidity risks (and treasury aspects of credit) that affect the Bank. Specific focus includes the economic outlook, interest rate risk, liquidity and funding, capital risk and treasury counterparty credit risk. ALCo met bi-monthly in 2021 and is chaired by the Chief Financial Officer.

The **Operational Risk Committee (ORC)** is a management committee which is primarily responsible for managing all of the operational risks within Unity. It meets bi-monthly and is chaired by the Chief Operating Officer.

The **Conduct Risk and Compliance Committee (CCC)** is a management committee with responsibility for overseeing conduct, products, marketing, regulatory compliance, and financial crime risks at Unity. It meets bi-monthly and is chaired by the Director of Commercial Banking.

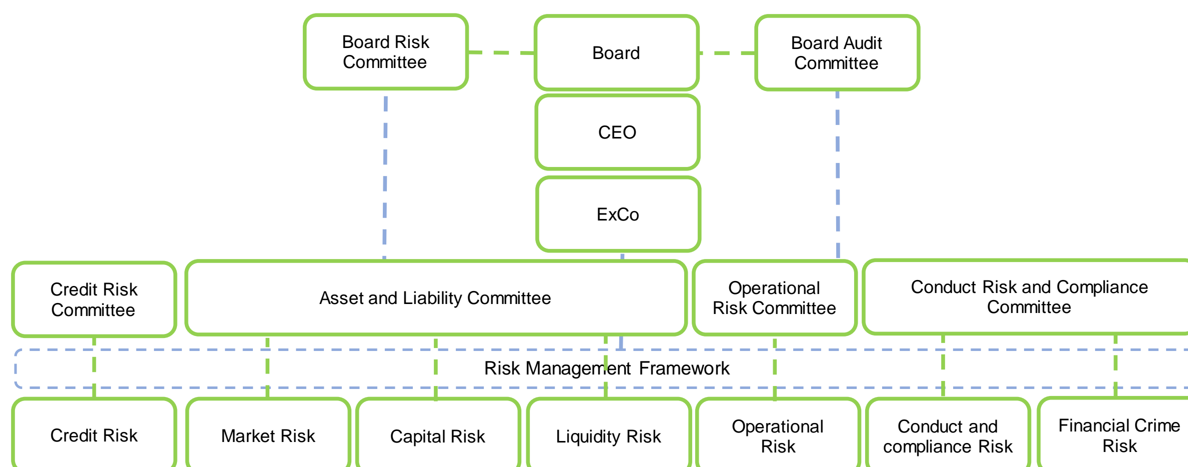
The **Credit Risk Committee (CC)** is a management committee with responsibility for overseeing all credit risks within Unity. It meets bi-monthly and is chaired by the Head of Credit Underwriting.

2.3 Significant Risks

The Bank's significant risks arise in seven principal risk categories:

- Credit risk
- Market risk
- Capital risk
- Liquidity risk
- Operational risk
- Conduct and Compliance risk
- Financial Crime Risk.

Committee diagram showing responsibilities for risks



2.3.1. Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (overdrafts, loans, and cards, as well as commitments to lend) and other activities (for example, treasury transactions). Credit risk is the risk that a borrower or counterparty fails to meet their financial obligations in accordance with agreed terms.

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

The Bank's Credit Risk Policy is agreed by BRC annually and determines the criteria for the approval of corporate exposures. It specifies credit management standards, including sector, credit rating and counterparty limits, along with delegated authorities.

The Bank's policy is to maintain a broad sectoral spread of exposures within the Bank's areas of expertise.

Credit exposures to customers are assessed individually and at least annually. The quality of the overall portfolio is monitored, using a credit scorecard system calibrated to anticipated probability of default and eventual loss. All aspects of credit management are controlled centrally. BRC receives regular reports on new facilities and changes in facilities, sector exposures, impairments and the realisation of problem and non-performing loans as covered in the monthly risk reporting pack.

The Bank's Treasury Credit Risk framework for wholesale market counterparties involves establishing limits for counterparties based on their credit rating. Due diligence on counterparties including a review of short-term credit ratings and Credit Default Swap pricing is also carried out, prior to transacting investments. Counterparty information is reported monthly to ALCo.

Description of collateral

The Bank takes security (secondary sources of repayment) to mitigate credit risk. Loans and advances to customers are generally secured on residential or commercial property. Commercial property taken as security can involve ownership through investment vehicles or owner-occupied premises.

Where exposures are agreed on a secured basis, security is accepted:

- where the security is legally enforceable and is of a tangible nature and type;
- after a discount is applied to the valuation, depending on the type of security involved.

Debentures and personal guarantees may also be used as security.

Impaired Assets and Forbearance

The Bank uses an internal credit rating scorecard model to inform the decision-making process. The scorecard rating output and definitions are as follows:

Scorecard ratings 1 to 5 are considered 'performing' with sub-categories as follows:
1 – Very strong credit risk
2 – Strong credit risk
3 – Good credit risk
4 – Acceptable credit risk
5 – Broadly acceptable credit risk but with some warning signs

'Problem debt' sub-categories are:
6 – Customers on Watchlist but still performing and expected to continue to operate
7 – Substandard – Risk of business failure although no loss anticipated
8 – Default – Risk of business failure and potential risk of loss to the Bank
9 – Default in Realisation

Customers are placed into the watchlist or substandard category if they show signs of unsatisfactory performance and require close control but are still expected to continue servicing their indebtedness with the Bank. These loans are still performing; events which may trigger Watchlist status include:

- Deteriorating balance sheet;
- Deteriorating profitability and/or material losses;
- Creditor pressure and/or poor account conduct;
- Trading difficulties (e.g. loss of material contracts, suppliers, or personnel);
- Breach of covenants (typically debt service, rental income, or LTV);
- Loan repayment reversal;
- Loan repayments that are a minimum of 60 days past due;
- Material reduction in value of security; or
- Any other reason where the Bank considers that closer control is required.

In such circumstances, the Bank works with the customer to resolve business problems and agree a clear strategy, sometimes with the support of external, independent professional advisors.

If the Bank is convinced of the customer's ability and commitment to address its difficulties, it may agree to grant concessions to the original contractual terms.

Such concessions typically include:

- restructuring, waiving or reserving rights in the event of covenant breaches - 19 cases;
- postponement of principal payments - 4 cases;
- restructures of principal payments - nil cases;
- extension of loan maturities - nil cases;
- partial or full capitalisation of interest payments - nil cases

For those customers that benefit from concessions, the Bank does not remove them from the problem debt portfolio until at least twelve months after the concession ends.

Other concessions the Bank may grant include:

- a partial write-off, followed by classification as default for at least twelve months; and
- a material postponement or forgiveness of interest or waiver and/or reduction of normal fees and charges.

Default status is for those accounts where the Basel III definition of default is met, i.e. the bank considers that the borrower is unlikely to repay its credit obligations without recourse by the bank to actions such as realising security and/or the borrower is past due more than 90 days on any material credit obligation.

An account is considered to be in default, even if the Bank expects to be fully repaid, where any one of the following applies:

- An instalment on a loan account is overdue for 90 days or more;
- An account has been in excess of its limit (or is overdrawn without an agreed limit) for 90 days or more;
- The Bank has applied forbearance;
- If as a result of lending being (either now or previously) at risk or in distress, the Bank has agreed to a material postponement or forgiveness of interest and/or “soft” rates or to a waiver and/or reduction of normal fees and charges;
- There has been a full or partial write-off of debt;
- The business has ceased trading and the customer is progressing with a voluntary realisation of assets; loan repayments have ceased, or interest only is being covered;
- There has been an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, Liquidator or Administrator;
- If the Bank considers that at some point (normally taken as within the next 12 months) actions such as issue of Formal Demand will be required in order to achieve full repayment;
- Any other critical occurrence which indicates that the Bank may have to resort to security

A scorecard rating of 7 is allocated if an account is sufficiently secured to the extent that a loss is not anticipated but the loan performance does not meet the definition of default.

A scorecard rating of 8 is allocated if the account is in default. There may be a shortfall in security cover to the extent that a loss is anticipated. Interest on these accounts is charged and may be suspended.

A scorecard rating of 9 is allocated for any accounts which are subject to a formal realisation process.

The Bank applies IFRS 9 Financial Instruments which calculates a loan loss provision based on a forward-looking expected loss model. The Bank categorises loans into one of three stages depending on the scorecard rating system explained above. Assets that have not seen a Significant Increase in Credit Risk (SICR) since their initial recognition (origination or acquisition) and those which have low credit risk are shown in stage 1; assets that have experienced a SICR since initial recognition, but for which there is no objective evidence of a credit loss event are in stage 2 and assets for which there is objective evidence of a credit loss event such as significant deterioration in financial performance or formal insolvency process are in stage 3. A provision is calculated in accordance with the stage allocation. Notes 1, 11 and 26 to the Bank’s Annual Report & Accounts gives further detail.

2.3.2. Market Risk

Market risk is the risk that changes in market rates or prices negatively impact our earnings or the market value of our assets and liabilities. The majority of the risk arises from changes in interest rates. The Bank does not have any foreign exchange exposure.

The Bank does not have a trading book; risks are limited to those intrinsic to the asset and liability products in the banking book. The interest rate risk appetite, approved as part of the Board risk appetite statement, together with the Treasury Policy, specifies the scope of the Bank's wholesale market activity, market risk limits and delegated authorities. Adherence to the Treasury policy is overseen by ALCo, which assesses the interest rate risk inherent in the maturity and re-pricing characteristics of the Bank's assets and liabilities. The principal analytical techniques involve assessing the impact of different interest rate scenarios over various time periods, focussing on fixed and floating rate assets and liabilities.

ALCo also monitors basis risk, reviewing the elements of floating rate assets and liabilities which are linked to different underlying reference rates as these may not always 'float' in the same way (for example Bank of England Base Rate and SONIA). The Bank has a policy with regards to the proportion of administered rate liabilities, such that it can control a significant proportion of its cost of funding and thereby manage its basis risk.

Unity also considers pension risk, the risk to the Bank's capital and company funds from the Bank's exposure to its defined benefit pension scheme and risks inherent in the valuation of scheme liabilities and assets.

2.3.3. Capital Risk

Capital risk is the risk that we do not meet minimum regulatory capital requirements under normal and stressed conditions. The Bank continuously monitors its capital levels through forecasting and stress/ scenario modelling. Stress testing is performed quarterly and reported to ALCo.

Further capital risks arise from changes to the Bank's business model and long term goals, specifically the risks 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. One example of strategic risk is the risk that the Bank suffers losses because income falls or is volatile relative to the fixed cost base.

In common with other financial institutions, Unity's financial performance continues to be impacted by the broader regulatory, economic and political environment; including the continuing uncertainties caused by COVID-19. Bank of England base rates remained at historical lows. The economic environment in 2021 has been challenging but the Bank has demonstrated the strength of its financial resilience and the Board is confident that it can achieve its future growth plans.

2.3.4. Liquidity and Funding Risk

Liquidity risk is the risk that we will fail to meet our financial obligations as they fall due or can only do so at excessive cost. The Bank's liquidity management processes and limits are set out in the Treasury Policy which is reviewed and approved annually by BRC and Board. Liquidity forecasting is monitored daily by the Bank's Treasury function to ensure the level of High-Quality Liquid Assets continue to meet the guidelines set in the Individual Liquidity Adequacy Assessment Process (ILAAP). The Bank holds overnight funds in the Bank of England Reserve Account and invests in high quality debt issued by financial institutions: Covered Bonds, Medium Term Notes and Floating Rate Notes. Stress testing is reported quarterly in accordance with the framework set out in the ILAAP.

During the year, the Board approved the Bank's ILAAP. The Bank's Liquidity Coverage Ratio (LCR) is significantly higher than the 100% minimum. The Bank also reviews its compliance with the liquidity systems and controls requirements as detailed in the PRA Rulebook. In 2020 the Pillar 2 liquidity regime was embedded and has been fully incorporated into the ILAAP assessment.

The Bank is 100% customer funded and does not require inter-bank funding. The Bank's Risk Appetite Statement includes limits on the loan to deposit ratio and the liquid asset ratio. The Bank is a member of the Financial Services Compensation Scheme (FSCS) and adopts the prevailing compensation rules.

2.3.5. Operational Risk (including Cyber Risk) and people, legal 3rd party supplier, change and data quality.

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, third party supplier failure, or external events. This includes fraud risk and the effectiveness of risk management techniques and controls to minimise operational losses.

The Board accepts that the Bank will incur operational losses as the Bank grows its business. The Bank's focus is to develop systems and controls that are robust, well-defined, and scalable, and to identify and respond to threats and emerging risks which could severely harm our customers or the viability of our business. Operational resilience arises from strong control of operational risks and in line with regulatory guidance; Unity has identified its important business services; mapped the resources needed to deliver these important services and has set impact tolerances for disruption for each important business service.

Operational risks are formally reviewed on a regular basis by ORC. The change in committee structure allow all first line risk committees to receive internal audit reports.

2.3.6. Conduct Risk and Compliance Risk (including Regulatory Risk)

Conduct risk is the risk that our behaviour, culture, or processes lead to customer detriment. Compliance risk is the risk of legal or regulatory sanctions, financial penalty, or reputational damage as a result of failure to comply with laws, regulations, or codes of practice. The Conduct Risk and Compliance Committee is a management committee and monitors trends in these areas. It meets monthly with matters escalated to sub-Board and Board committees as appropriate.

2.3.7. Financial Crime Risks

Financial crime risk is the risk that our product and services are used in connection with financial crime including fraud, money laundering, terrorist financing, bribery and corruption, and tax evasion. The Bank performs enhanced staff screening and due diligence checks during onboarding of employees and new customers. Second line risk and compliance reviews are conducted to test adherence to policies and procedures.

2.3.8. Emerging Risks

Climate change

The Bank recognises that climate change is a significant risk and a major challenge for the global economy and society. Extreme weather events and the impacts of transitioning to a low-carbon economy have the potential to disrupt business activities, damage property and otherwise affect the value of assets, and affect our suppliers and our customers' ability to repay loans.

The Bank's approach to developing its approach to climate change has been informed by supervisory guidelines. A plan is in place to design and deliver the Bank's approach to climate change risk with Board oversight. The initial phase of this plan is for the Bank to identify and quantify physical risks (flood, subsidence, and coastal erosion) and transition risks in its customer loan portfolio with stress testing informing of any capital requirement as a result of climate change risk.

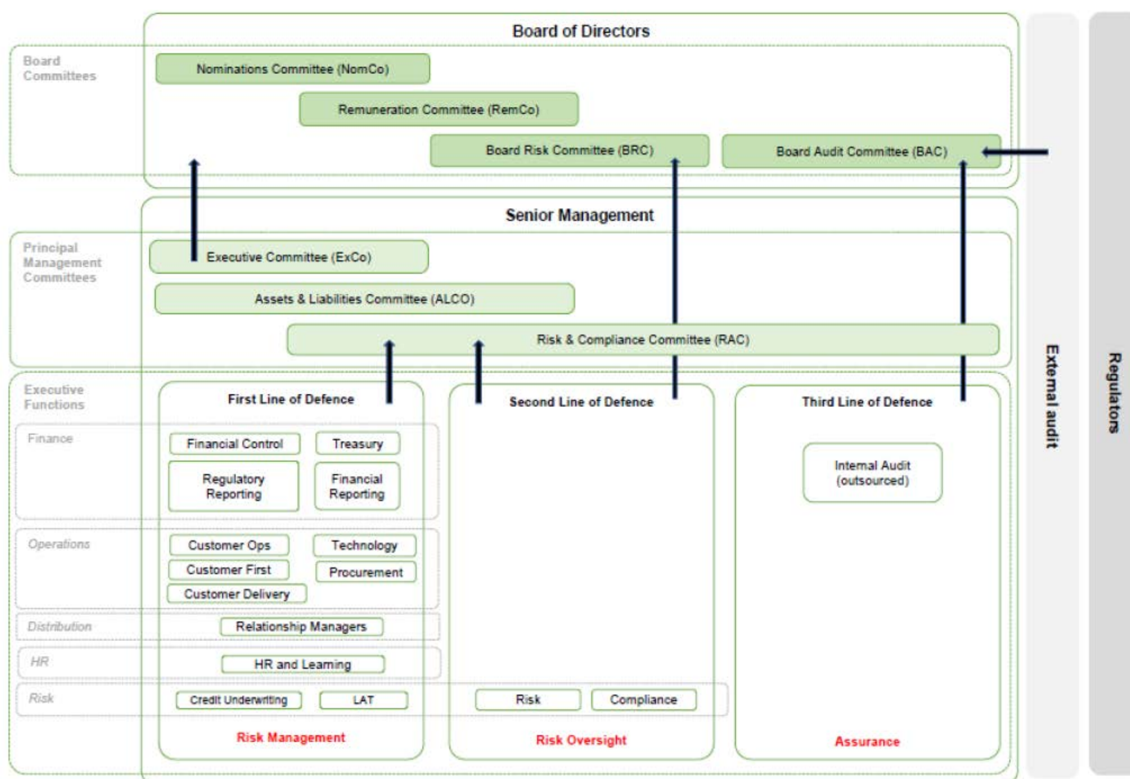
Economic Uncertainty

The pandemic has had a marked economic impact on all major economies. The uneven impact of Covid-19 restrictions and support mechanisms have led to different levels of financial pressure within industry segments and on our customers depending on their area of economic activity. Government support has been beneficial, enabling businesses to weather the impact of lockdowns. However, the ability of businesses to recover are unproven. The success to date of the vaccination programme and the government's progression out of Covid-19 restrictions are positive. We have reviewed and stress-tested our lending book and continue to plan for a range of different economic and business scenarios.

2.4 Risk management

The enterprise risk management framework sits above all of the processes and functions in the Bank and encompasses the requirements for identifying, assessing, managing, monitoring, and reporting on risk. Techniques involved include risk and control self-assessment, measurement against key risk indicators, reporting of detailed risk management information, risk modelling, risk registers, risk event reporting, current and emerging risk reporting, and regular stress testing.

The Bank uses the three lines of defence model in its approach to risk management.



First line activities

- Identify, assess, and manage risk
- Design, implement and operate controls to reduce or transfer risk
- Keep records of risks, controls, and control testing
- Run the business within Board-approved risk appetite
- Use key risk indicators to monitor risk exposures
- Report Risk Events and Near Misses
- Assess market conditions and external developments
- Produce management information and reports on risk

Second line activities

- Design, develop and maintain the ERMF
- Promote a consistent approach to risk measurement
- Advise, support and challenge risk management activities
- Monitor and report on risks and controls to risk committees
- Design and develop risk and compliance policies, set standards, and oversee implementation
- Oversee forward-looking risk at an aggregate level
- Act as secretariat to First Line Risk Committees

Third line activities

- Assess the effectiveness of internal control environment (including the operation of the ERMF)
- Liaise with senior management and the Board Audit Committee

The second line and third line review programmes are overseen by BAC and detailed findings are also reported into the appropriate management committee.

Stress testing is a key tool to understanding and managing risk. In support of this, the Bank has a framework that covers stress testing, reverse stress testing and scenario planning. As well as an understanding of the Bank's resilience to internal and external shocks, regular stress testing provides a key input to the Bank's capital and liquidity assessments and related tests of risk management and measurement assumptions.

ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is the Bank's evaluation of its risks, the capital requirements of the business based on these risks, assessed under the CRD V framework, and the adequacy of the Bank's capital resources against these requirements. The ICAAP provides details of the approach to managing risk across the Bank and assesses capital requirements against the Bank's current position, the position against the Business Plan period and during severe but plausible stresses. The ICAAP is reviewed and updated annually and reviewed by BRC. Stress testing is undertaken quarterly and reviewed by ALCo.

ILAAP

The Internal Liquidity Adequacy Assessment Process (ILAAP) is the Bank's documentation of its evaluation of its liquidity risks, the current liquidity position and its requirements, assessed against regulatory requirements and risk tolerance. An integral component of the approach to liquidity risk management is stress testing, using the latest guidance issued within prudential regulations and the Delegated Act for the LCR. The ILAAP is reviewed and updated annually; regular stress testing is undertaken and reviewed by ALCo.

Reverse stress testing

Reverse stress testing informs, enhances, and integrates with the Bank's quarterly stress testing by considering extreme events that could cause the failure of the Bank. As such, it complements the ICAAP and ILAAP approaches, helping to frame the severe but plausible scenarios against complete failure scenarios.

The analysis is formally completed in conjunction with the reviews of the ILAAP and the ICAAP documents and reviewed and approved by ALCo, BRC and the Board.

Recovery Plan and Resolution Pack

The Recovery Plan represents a 'menu of options' for the Bank to deal with firm-specific or market-wide stress which can be rolled out quickly as part of a credible and executable plan. The Recovery Plan is enacted if certain key triggers are breached, or events happen in the market which are likely to affect the Bank detrimentally (e.g. failure of a counterparty).

Orderly wind-up of the Bank is considered to be a viable recovery plan option for a small institution. The Resolution Pack provides the data required if it were necessary to wind up the Bank.

In preparing and planning for such extreme events, the Board ensures that it has taken these severe risks, however remote, into account in its planning and considered the mitigating actions available.

3 Capital resources and requirements

3.1 Overview

In order to protect customers and the wider financial markets from the risk of banking failure, the regulators require that sufficient loss-absorbing capital is held to cover the risk exposures entered into by the business activities.

Loss-absorbing capital resources are generally made up of a combination of equity and some debt holder funding plus any retained profits. Each firm calculates its specific capital requirements, either resulting from exposures to specific banking assets and activities or required as buffers in case of future 'stress events' or other unforeseen losses.

The CRD V framework (the Capital Requirements Regulations (CRR II) and Directive) is supplemented by technical standards published by the European Banking Authority (EBA), together with local implementing rules and guidance from the PRA. The information below gives further details as to the Bank's capital resources, risk weighted assets and assessment for operational, concentration and market risks.

3.2 Total available capital resources

As of 31 December 2021 and throughout the financial year, the Bank complied with the capital requirements in force as set out by European and national legislation.

The capital resources of the Bank are as follows:

		2021 £'000	2020 £'000
Share capital		24,678	22,421
Share premium		18,113	11,808
Reserves:	Capital redemption reserve	4,511	4,511
	Retained earnings	62,040	51,334
	Available for sale reserve	(342)	595
	ESOP reserve	(37)	-
Common Equity Tier 1 (CET1) capital before adjustments[1]		**108,963**	**90,669**
Adjustments to CET1			
Intangible assets		(60)	(110)
Prudent additional valuation adjustment		(208)	(252)
Defined benefit pension fund asset		(5,321)	(3,646)
IFRS 9 transitional adjustment		886	815
CET1 and Total Tier 1 capital resources		**104,260**	**87,476**
Tier 2 adjustments		-	-
Total Capital Resources		**104,260**	**87,476**

[1] CET1 capital before adjustment agrees to equity and reserves in the Annual Report & Accounts

3.3 Risk weighted exposure amounts and Pillar 1 capital requirements

Credit risk weightings for the Bank under Pillar 1 are determined under the *standardised* approach for credit risk and operational risk.

The following table discloses the exposure values for each asset class, the assigned risk weight and resulting capital requirement under Pillar 1. The average exposure value is calculated taking a simple average for the year.

31 December 2021

	Exposure value £'000s	Risk weight %	Risk weighted assets £'000	Pillar 1 capital requirement £'000	Average exposure value £'000
Loans and advances to zero risk weighted counterparties	760,570	0%	-	-	745,932
Debt security investments	79,259	20%/50%	18,826	1,506	85,788
Regulated covered bond investments	48,501	10%	4,850	388	57,360
Investments credit risk	**888,329**		**23,676**	**1,894**	**889,081**
Loans and advances to customers	723,243	35/75/150%	522,630	41,810	683,343
Fixed and other assets*	10,998	100%	3,894	311	5,631
Total credit risk	**1,622,850**		**550,200**	**44,016**	**1,578,054**
Operational risk (section 3.6)		x12.5	39,351	3,148	
Total			**589,551**	**47,164**	

31 December 2020

	Exposure value £'000s	Risk weight %	Risk weighted assets £'000	Pillar 1 capital requirement £'000	Average exposure value £'000
Loans and advances to zero risk weighted counterparties	645,200	0%	-	-	563,548
Debt security investments	99,150	20%	19,830	1,586	84,306
Regulated covered bond investments	77,121	10%	7,712	617	99,887
Investments credit risk	**821,471**		**27,542**	**2,203**	**747,741**
Loans and advances to customers	601,810	35/75/150%	453,482	36,279	555,004
Fixed and other assets*	8,217	100%	3,713	297	5,162
Total credit risk	**1,431,498**		**484,737**	**38,779**	**1,307,907**
Operational risk (section 3.6)		x12.5	39,351	3,148	
Total			**524,088**	**41,927**	

* Includes pension asset which is deducted from risk weighted assets and regulatory capital

Credit risk mitigation techniques

This table shows the use of Credit Risk Mitigation (CRM) techniques, broken down by loans and debt securities. This table includes both unsecured and secured exposures, and the value of exposures secured by collateral. The Bank does not utilise financial guarantees or credit derivatives.

31 December 2021

Carrying amount	Exposures unsecured £'000s	Exposures secured £'000s	Total exposures financial £'000	Exposures secured by collateral £'000
Total loans and advances to customers	160,600	562,923	723,523	562,923
Total investments	888,335	-	888,335	-
Total exposures	**1,048,935**	**562,923**	**1,611,858**	**562,923**

31 December 2020

Carrying amount	Exposures unsecured £'000s	Exposures secured £'000s	Total exposures financial £'000	Exposures secured by collateral £'000
Total loans and advances to customers	38,887	562,923	601,810	562,923
Total investments	821,471	-	821,471	-
Total exposures	**860,358**	**562,923**	**1,423,281**	**562,923**

Investments Credit risk

Credit risk is controlled by setting limits that consider a variety of factors including the credit rating of the counterparty. These ratings correspond to a credit quality step assessment which, in conjunction with the term of the investment, feeds a risk weighting under the Standardised Approach.

Treasury policy limits the maximum aggregated exposure to any single non-supranational counterparty to 1.75% of total assets (£26m) (or 2.75% of total assets if the holdings are 100% regulated covered bonds (£42m)). Supranationals and sovereigns are limited to 4.5% of total assets (£69m). Only ESG accredited exposures can be over five years and this maximum tenor tapers to 12 months at the lower end of the acceptable ratings spectrum.

The table below shows the breakdown of the counterparty exposures by credit quality, the risk weighting applied and corresponding Pillar 1 capital requirement.

Investment Credit Risk:

31 December 2021	Moody's rating	Risk weight %	Exposure value £'000	Capital requirement £'000
UK Government and Bank of England				
Credit quality step 1	Aa2	0%	680,112	-
Supranational Financial Institutions				
Credit quality step 1	Aaa-Aa1	0%	80,463	-
Financial Institutions				
Credit quality step 1	Aaa-Aa3	20%	68,838	1,101
Credit quality step 2	Aa1-A3	50%	9,913	397
Credit quality step 3	Baa1-Baa3	20%	508	8
Regulated Covered bonds				
Credit quality step 1	Aaa	10%	48,501	388
Total			**888,335**	**1,894**

31 December 2020	Moody's rating	Risk weight %	Exposure value £'000	Capital requirement £'000
UK Government and Bank of England				
Credit quality step 1	Aa2	0%	568,804	-
Supranational Financial Institutions				
Credit quality step 1	Aaa-Aa1	0%	76,396	-
Financial Institutions				
Credit quality step 1	Aaa-Aa3	20%	98,921	1,583
Credit quality step 3	Baa1-Baa3	20%	229	3
Regulated Covered bonds				
Credit quality step 1	Aaa	10%	77,121	617
Total			**821,471**	**2,203**

Customer loans credit risk and provisions

The credit risk profile of the lending portfolio of the Bank is analysed and discussed in notes 1, 11 and 26 to the Annual Report & Accounts.

Maturity analysis

The following table analyses assets and liabilities by remaining maturity based on the period from the reporting date to the contractual maturity date.

31 December 2021

	Repayable on demand £'000s	Up to 3 months but not repayable on demand £'000s	3 months – 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Non-cash items £'000	Total £'000
Assets							
Cash and balances at central banks	680,112	-	-	-	-	-	680,112
Loans and advances to banks	529	-	-	-	-	-	529
Loans and advances to customers	-	3,517	11,028	154,329	554,650	-	723,524
Investments	-	50,000	63,822	93,810	-	-	207,632
Other assets	-	-	-	-	-	10,998	10,998
	680,641	**53,517**	**74,850**	**248,139**	**554,650**	**10,998**	**1,622,795**
Liabilities							
Customer deposits	1,370,727	136,500	-	-	-	-	1,507,227
Other liabilities	-	-	-	-	-	115,568	95,869
	1,370,727	**136,500**	**-**	**-**	**-**	**115,568**	**1,622,795**

31 December 2020

	Repayable on demand £'000s	Up to 3 months but not repayable on demand £'000s	3 months – 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Non-cash items £'000	Total £'000
Assets							
Cash and balances at central banks	568,804	-	-	-	-	-	568,804
Loans and advances to banks	229	-	-	-	-	-	229
Loans and advances to customers	-	7,441	12,694	98,611	483,064	-	601,810
Investments	-	4,402	79,511	168,525	-	-	252,438
Other assets	-	-	-	-	-	8,313	8,313
	569,033	**11,843**	**92,205**	**267,136**	**483,064**	**8,313**	**1,431,594**
Liabilities							
Customer deposits	1,244,970	90,755	-	-	-	-	1,335,725
Other liabilities	-	-	-	-	-	95,869	95,869
	1,244,970	**90,755**	**-**	**-**	**-**	**95,869**	**1,431,594**

3.4 Analysis of the Bank's liquidity coverage ratio (LCR)

The liquidity coverage ratio is a measure which aims to ensure that the Bank maintains an adequate level of liquidity to meet its needs for a 30-day period under severe stress conditions.

The disclosure table sets out the abbreviated LCR disclosures in the format prescribed by the EBA. Disclosures are calculated based on a simple average for the reported year.

31 December 2021	Total unweighted value (average) £'000	Total weighted value (average) £'000
High-quality liquid assets (HQLA)		**832,118**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	513,439	47,975
Stable deposits	196,283	9,814
Less stable deposits	317,156	38,161
Unsecured wholesale funding, of which:	891,407	263,276
Operational deposits (all counterparties)	543,329	132,495
Non-operational deposits (all counterparties)	348,078	130,781
Credit and liquidity facilities	128,856	15,588
Total cash outflows	1,533,702	326,839
Cash inflows		
Inflows from fully performing exposures	31,111	27,693
Total cash inflows	**31,111**	**27,693**
Liquidity Coverage Ratio (%)		**278%**

31 December 2020	Total unweighted value (average) £'000	Total weighted value (average) £'000
Total HQLA		**675,422**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	480,415	43,787
Stable deposits	195,920	9,796
Less stable deposits	284,495	33,991
Unsecured wholesale funding, of which:	674,204	169,564
Operational deposits (all counterparties)	652,160	160,823
Non-operational deposits (all counterparties)	22,044	8,741
Credit and liquidity facilities	149,403	17,968
Total cash outflows	**1,304,022**	**231,319**
Cash inflows		
Inflows from fully performing exposures	29,050	27,847
Total cash inflows	**29,050**	**27,847**
Liquidity Coverage Ratio (%)		**332%**

3.5 Concentration risk

The following is an analysis of the Bank's exposures by geographical area:

31 December 2021

	UK £'000s	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	723,523	-	-	723,523
Cash and balances with central banks	680,112	-	-	680,112
Investments	68,872	20,019	119,271	208,162
Fixed and other assets	10,998	-	-	10,998
Total	**1,483,505**	**20,019**	**119,271**	**1,622,795**

31 December 2020

	UK £'000s	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	601,810	-	-	**601,810**
Cash and balances with central banks	568,804	-	-	**568,804**
Investments	77,351	62,448	112,868	**252,667**
Fixed and other assets	8,313	-	-	**8,313**
Total	**1,256,278**	**62,448**	**112,868**	**1,431,594**

The Bank's customer lending is entirely UK based and has a broad distribution of exposures throughout the UK. Geographical concentration is regularly monitored as part of the Bank's ongoing credit risk management, along with single name and sector concentrations. Risks in these areas are considered as part of the Bank's ICAAP and form part of the Pillar 2a capital assessment, with capital allocated based on the HHI methodology.

3.6 Operational risk

The Bank uses the basic indicator approach to operational risk under a Pillar 1 capital requirement assessment. Under this approach, 15% of the Bank's average operating income for the previous three years is used as a proxy for operational losses. An operational RWA is then calculated such that 8% of that RWA gives the Pillar 1 capital requirement.

3.7 Interest rate risk in the banking book (IRRBB)

The Bank is mainly exposed to interest rate risk where the Bank holds fixed rate assets and liabilities; when market rates change the value of these items is affected because their rate remains fixed. The Bank's appetite for IRRBB is calculated based on the standard PV200 calculation (described below).

A PV200 calculation assigns all balance sheet items to a "time bucket" based on the next interest re-pricing date (or maturity date if fixed) and discounts them back using a current market curve to assess its Present Value (PV_0). The discount factors can then be adjusted to simulate an immediate parallel 200bps increase and a 200bps decrease in rates. The difference between the PV_0 and the 2% shifts up and down indicate the Bank's sensitivity to interest rate movements from a value perspective.

The Bank's sensitivity to interest rate movements from an earnings perspective is disclosed in the Annual Report and Accounts note 26.

The Bank also assesses its IRRBB exposure using multiple shock scenarios to capture parallel as well as non-parallel gap risk measured in terms of EVE. Under this approach, capital requirements for IRRBB are measured by the scenario that results in the largest decline in EVE The Bank has assessed each and does not meet the outlier test for a change in EVE greater than 15% of capital.

3.8 Leverage

The leverage calculation determines a ratio based on the relationship between Tier 1 capital and exposures to on and off-balance sheet items. The leverage ratio does not distinguish between high and low risk weighted lending nor recognise the value of loan collateral (low LTVs).

The Bank's ratio calculated in accordance with the FPC's leverage regime is 5.7% at 31 December 2021 (2020: 5.9%). The UK leverage ratio framework sets a minimum ratio of 3.25%. Although not subject to the framework, the Bank follows the requirement as best practice and maintains its leverage ratio in excess of this minimum requirement.

The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of the risk appetite framework.

The following is a summary comparison of accounting assets versus leverage ratio exposure measure:

	2021 £'000	2020 £'000
Total consolidated assets as per published financial statements	1,622,660	1,431,595
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	51,418	48,850
Other adjustments	(467)	731
Leverage ratio exposure measure	**1,673,611**	**1,481,176**

Leverage ratio common disclosure template

	2021 £'000	2020 £'000
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs) but including collateral)	1,626,895	1,435,520
(Asset amounts deducted in determining Basel III Tier 1 capital)	(4,702)	(3,194)
Total on-balance sheet exposures (excluding derivatives and SFTs)	1,622,193	1,432,326
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	109,356	103,915
(Adjustments for conversion to credit equivalent amounts)	(57,937)	(55,065)
Total off-balance sheet items	51,418	48,850
Capital and total exposures		
Tier 1 capital	94,614	87,475
Total exposures	1,673,611	1,481,176
Leverage ratio (Basel III)	5.65%	**5.91%**

Appendix 1 – Remuneration policy and practices

Unity Trust Bank plc follows the PRA Remuneration Code and SYSC section 19D. Part eight disclosure requirements include qualitative and quantitative remuneration items. This statement also sets out the disclosures required under the Code as they apply to Unity.

Unity's Remuneration Committee is responsible for making recommendations to the Board in relation to bank-wide remuneration policy, employee share schemes and director remuneration, and determining the remuneration packages of executives. The Remuneration Committee comprises three Non-Executive Directors of whom at least one Director must be determined by the Board to be independent. The membership of the Committee is reviewed by the Nomination Committee on an annual basis. The Board appoints the Committee Chair who must be a Director determined by the Board to be independent. The committee members must together possess the necessary skills to exercise appropriate judgement. The committee meets at least twice annually.

The Remuneration Committee has reviewed and approved Unity's Remuneration Policy Statement (RPS). The Committee also reviewed Unity's remuneration policy and recommended it to the Board where it received approval. Where appropriate, shareholders and our recognised Trade Union representatives have been involved on remuneration matters.

To ensure compliance with the Remuneration Code, the PRA's recommended RPS template has been adopted. Unity has one business area, Business Banking, which consisted of 122 (2020: 107) paid individuals (including Directors but excluding contractors) as at 31 December 2021.

The staff costs were as follows:

	2021 £'000	2020 £'000
All Staff		
Total fixed staff employment costs	6, 364	6,133
Total variable staff costs	352	197
Total staff costs	**6,716**	**6,330**
Code Staff*		
Code staff fixed employment costs	1,656	1,516
Code staff variable costs	55	57
Total Code staff costs	**1, 711**	**1,573**

*Figures shown above are the staff costs relating to the 12 (2020: 12) members of staff identified during the year as Material Risk Takers ("MRT)", including any remuneration in the year received before or after they ceased to be MRT and any received prior to approval by the PRA, and including starters and leavers.

The Code requires that banks identify and designate as "Material Risk Takers" those members of senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.

In total 12 Material Risk Takers have been identified during the year (11 at year end) and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Material Risk Takers. All Board Directors (Executive and Non-Executive) are included as Material Risk Takers. No Material Risk Taker had either variable or total remuneration in excess of £500,000.

The Board takes the issue of diversity seriously. It actively promotes policies and practices of equality of opportunity, regardless of age, disability, ethnicity, gender, religion or belief or sexual orientation. The Board recognises that having members from different backgrounds and with different skills is key to being a challenging and effective Board.

The Board had agreed an aspirational goal to comprise a minimum of 33% females by 2022. The Board is currently 33% female (3 out of 9). In 2017 the Bank signed the Women in Finance Charter, reflecting the

commitment to gender diversity and inclusion. Since signing up for the Women in Finance Charter, we have achieved gender diversity across our executive team and Board of 46%.

Diversity and Inclusion remain core values of Unity.

The Bank has adopted a Board Diversity Policy which includes practical steps on how to continue to meet that target, including:

- considering diversity when making all independent non-executive director appointments;
- challenging management to ensure the management population is made up of the most talented individuals;
- ensure diversity is considered in succession planning; and
- setting a culture that is values driven and inclusive.

All Unity employees receive a salary that is not linked to performance and is benchmarked to market rates. There is a performance related aspect to remuneration available to eligible employees that meet a minimum performance criterion. At the beginning of each performance year, objectives are agreed for each individual based on overall company objectives and individual role specific objectives. Performance towards the achievement of these objectives is reviewed periodically throughout the year as part of the Bank's performance management process. At the end of the year an assessment is made of each individual's overall performance against the objectives agreed.

Unity has in place a discretionary Profit-Sharing Plan; awards are linked to whether Unity has met its overall business objectives based on the end of year financial results. For 2021 the Bank estimate an award in the region of 7% of salary will be made (2020: 6%). Awards under the scheme qualify as "variable remuneration" as defined in the Code. Any awards under the scheme that are payable to individuals will be paid as a one-off cash payment. In 2020 the Share Incentive Plan and a Company Share Option Plan were approved, in line with Unity's objective of increasing employee ownership and aligning the interests of employees and the long-term interests of the company. In 2021 the first awards were made under these schemes.

During the year Unity made inducements to no new joiners (2020: three) and agreed to make severance payments to six employees (2020: five).

The total severance charge included in expenses in the year is £65k (2020: £80k) of which £nil (2020: £nil) related to Material Risk Takers. The highest amount relating to one single person for the year was £15k (2020: £68k).

Staff members in control functions are remunerated independently of the businesses they oversee. Total staff employment costs (including variable remuneration) in 2021 were £6.7m of which the employment costs of Code staff were £1.7m.