unity trust bank

For Businesses. For Communities. **For Good.**

Annual Report and Accounts

31 December 2022

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

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Unity Trust Bank plc ('Unity') is a public company limited by shares
Registered in England and Wales
No. 1713124

Financial Services Register No. 204570

Board of Directors

Alan Hughes (Chairman)

Deborah Hazell (Chief Executive Officer)

Sandy Chen (Independent Non-Executive Director)

Christine Coe (Independent Non-Executive Director)

Graham Dow (Non-Executive Director)

Alex Ryan (Non-Executive Director)

Susan Sternglass Noble
(Independent Non-Executive Director)

Dominic Wade (Chief Financial Officer)

Company Secretary

Kate Eldridge

Executive Management

Deborah Hazell, Chief Executive Officer

Mark Clayton, Chief Operating Officer

Martin Coward, Chief Risk Officer

Alexandra Rice, Chief Commercial Officer

Julia Tarpey, Director of Human Resources

Dominic Wade, Chief Financial Officer

Auditor

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham
B1 2HZ
United Kingdom

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Chairman's Statement

Alan Hughes
Chairman,
7 March 2023

Purpose - For businesses, communities and the common good.

Unity serves businesses & organisations who, like us, seek to benefit the common good as well as deliver sustainable returns for our shareholders. Unity has pursued these principles since its foundation in 1984 by Trade Unions and the Cooperative Bank. Since its independence in 2015 Unity has prospered on these principles. Our strong 2022 results were driven by this and helped by the rapid rise in Bank Rate.

Performance - Safe Growth

In 2022 we increased our lending to £836.6m (2021: £723.5m); our deposits to £1,539m (2021: £1,507m); annual after-tax earnings to £22.8m (2021: £9.7m); and return on shareholders' equity to 19.6% (2021: 9.7%). At the end of 2022 Unity's capital base was strong by the Bank of England's CET1 measure at a healthy 18.3%. The Unity defined benefit pension scheme remained in surplus despite the volatility in financial markets.

Shareholders – and Dividend

We aim to deliver consistent & reliable returns to shareholders. We are recommending an increase in our annual dividend of 43% to 5.50p per share (2021: 3.85p). This recommendation allows Unity to retain profits and strengthen its capital at a time of economic uncertainty & to continue to advance its purpose. The next share-trading platform auction is scheduled to take place in June, with settlement in August.

Customers - and the Common Good.

We have supported more customers and with them have helped improve the futures of thousands of people across the UK in 2022. Our lending supported communities where it is needed the most with nearly half (43%) of our loans made to organisations based in areas of high deprivation. Unity's social metrics are given in our 2022 'Impact' Report, published today on our website.

People

2022 saw investment in our people at all levels. We expanded to meet customer demand and prepared more people for the opportunities ahead. We kept to our remuneration policy and ensured lower-paid people in particular were protected against inflation with an additional interim pay increase.

We were deeply saddened by the untimely death of our esteemed, highly respected, and extremely well-liked colleague, Jim Gunner. Jim became a Director of Unity in 2015 and served until his death. His vast experience of banking, his good humour and always sound advice were invaluable assets as we built up the newly-independent Unity.

Allan Wylie, our longest standing Director, retired during the year after a record 33 years as an alternate and full Director of Unity. Allan was a great stalwart, part of the foundations of Unity, we are deeply grateful to him for his unfailing support.

Lady Frances O'Grady also retired as Director at the end of the year alongside her retirement from the Trades Union Congress (TUC). Although with us for a relatively short time, Frances' impact was very considerable. We are grateful to her for her considerable wisdom and support. We congratulate her on her well-deserved elevation to the House of Lords.

It would be remiss of me not also to congratulate our long-standing former Director and President, Dave Prentis, who also entered the House of Lords. We're delighted that both Frances and Dave have agreed to serve in this way. We know first-hand just how well they will serve the Country.

Graham Dow was appointed to the Board during the year as a shareholder-nominated, non-executive Director. Christine Coe was appointed on 3 March 2023 as an independent non-executive Director to succeed Jim. Chris has an exemplary background in banking risk. Each bring a wealth of experience and desire to advance Unity's principles. Our Board benefits from the diverse perspectives of its directors and we are committed to having a diverse workforce.

Outlook

The economic outlook became more uncertain during 2022 and there are severe challenges for many people. High inflation and low growth present an environment not seen in a generation. The experience many of our senior people have of previous economic cycles will be highly valuable at this time.

We have reaffirmed Unity's emphasis on only 'safe growth' and furthering the common good, using relationship-led banking. Our financial performance and continued investment in people and systems is establishing a more resilient platform to support the Bank's and our customers' needs through this period of economic uncertainty.

Thank you

Our results today demonstrate how far Unity has come since it became independent from the Co-operative Bank in 2015. I thank our shareholders, all staff and my fellow directors for the support which has enabled Unity to prosper and do more. Our growth improves our resilience and allows us to support a better society for all.

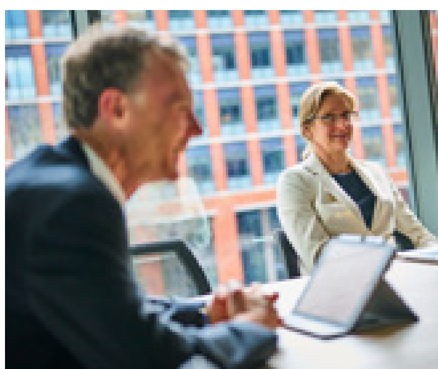
Highlights

18.3%
CET 1 ratio

2021: 17.7% CET 1

16%
growth in loans to customers

£836.6m (2021: £723.5m)



147%
increase in profit before tax

Record £27.4m (2021: £11.1m)

Earnings Per Share
£0.92

2021: £0.41

80%
Customer satisfaction score[1]

2021: 81%

Named one of the top 3 of social lenders in the UK by size[2]

Top quartile bank for organisational culture[3]

2021: 22%

Maintained carbon neutral[4] accreditation

Reported quantitative carbon emission and energy usage for the first time

Five year financial performance summary

	2018	2019	2020	2021	2022
	£000s	£000s	£000s	£000s	£000s
Profit before taxation	6,755	9,076	7,546	11,053	**27,352**
Profit after taxation	5,967	7,981	7,027	9,671	**22,843**
Total loans to customers	362,446	477,554	601,810	723,523	**836,576**
Shareholders' funds	75,423	85,132	90,669	108,963	**123,815**

	2018	2019	2020	2021	2022
Net interest margin	1.50%	1.77%	1.47%	1.42%	**2.68%**
Cost income ratio	63.56%	58.85%	57.47%	54.16%	**36.8%**
Return on equity	8.81%	9.94%	8.00%	9.69%	**19.63%**
Dividend per ordinary share[5]	4.25p	3.00p	3.30p	3.85p	**5.50p**

[1]Calculated as the unweighted mean average of 885 customers' responses to the question 'Having reflected in detail on the service from Unity Trust, overall, how satisfied are you with your experience of Unity Trust Bank's service to you?'
[2]Unity has grown to become one of the top 3 UK social investment lenders according to Big Society Capital's 2021 Market Sizing Data.
[2]First quartile of banks in 89% of the Financial Services Culture Board's areas of assessment of organisational culture
[3]Calculated as the unweighted mean average of 885 customers' responses to the question 'Having reflected in detail on the service from Unity Trust, overall, how satisfied are you with your experience of Unity Trust Bank's service to you?'
[4]Offsetting carbon emissions by financially supporting projects that help provide solutions to climate change.
[5]Dividend per ordinary share is quoted with respect to the financial year to which it relates, not the year of payment. The dividend in respect of the 2022 financial year is recommended for approval at the 2023 AGM.

APMs are described in the glossary.

Chief Executive's Review

Deborah Hazell
Chief Executive Office
7 March 2023

Introduction

I am delighted to present a year of substantial progress for Unity, with an increase in loan book size, customers and profitability in 2022. The Bank was also reported in the top three social lenders in the UK by size for the first time.

Our customers are central to everything we do. I am pleased that processing times and responsiveness to customer enquiries has improved significantly in 2022. Positive customer feedback and higher 'net promoter' scores reflect this. Investment in operational resilience, IT systems and people continued, as a key enabler to efficiency and the provision of excellent levels of personalised customer service.

Unity is acutely aware of the challenging economic conditions facing the UK. Difficult trading conditions and a cost of living crisis affect the communities we support. Increases in borrowing rates, high inflation, supply chain disruption and changes in consumer needs each challenge the financial and operational resilience of organisations in the UK.

Unity believes in delivering impact, not simply maximising profits. The Bank has increased lending to socially minded organisations across the UK in 2022, to £836.6m (2021: £723.5m) enabling us to deliver greater positive impact. Our Impact Report, published on our website provides information of how Unity has delivered against its purpose of being a bank with a social conscience.

Unity's five year Strategic Plan was agreed with the Board in 2022, reaffirming our commitment to the safe growth of the Bank through relationship led banking and driving positive impact.

I would like to thank Unity colleagues, those new to the Bank in 2022 and those of longer standing for their contributions over the past year, for supporting our customers and for supporting one another.

Financial performance

2022 marked a period of significant financial growth for Unity. Profit before tax for the year more than doubled to £27.4m (2021: £11.1m). The compound annual growth rate of our lending portfolio since independence in 2015 was 23.8%. The Net Asset Value per share rose to £5.01 at the end of the year (2021: £4.42).

The primary drivers of the 2022 performance were:

Income

Net interest income increased by 104% to £43.8m (2021: £21.5m) reflecting the growth and diversification of the loan book and the transition away from an exceptionally low interest rate environment. Unity's Net Interest Margin increased from 1.44% to 2.68%. Loans and advances to customers at the end of the year were £836.6m (2021: £723.5m), with £224.7m drawn down in the year, up 17.0% (2021: £192.0m).

Rate increases were applied to our savings accounts, promptly following each Bank rate change, ensuring we provide a competitive return to our customers, whose balances support the social impact that we make through our lending.

Unity's treasury assets comprise investment securities and deposits placed with the Bank of England. UK Base rates increased from 0.25% to 3.50% throughout the year. The increase in rates, in conjunction with a higher proportion of treasury assets invested in Securities helped improve income returned on the assets whilst remaining within risk appetite. Interest on treasury assets increased eight-fold to £12.8m (2021: £1.6m), reflecting higher interest rates and an increased proportion of investment in treasury assets.

Net fee and commission income for the year decreased to £3.4m (2021: £3.6m), mainly due to an increase in transaction costs in the year.

Operating expenses

Investment in operational resilience, digital banking, infrastructure and our workforce increased operating expenses by 28% to £17.4m (2021: £13.6m). Investment spend included within operating expenses increased from £0.9m in 2021 to £1.4m in 2022.

The cost income ratio improved to 36.8% (2021: 54.2%) reflecting higher net interest income, together with careful cost oversight to manage the increased costs that support the Bank's growth.

Impairment

Lending quality and credit risk management practices continues to remain a high priority. An impairment provision charge of £2.5m was raised in the year (2021: £0.5m). The increased provision reflects the changed macro-economic factors in the UK; increasing interest rates, inflation, geo-political instability and supply chain disruptions. A single, £1k credit write off was recorded in the year (2021: none).

The balance sheet provision for loan impairment at 31 December 2022 was £6.1m (2021: £3.6m) resulting in a provision coverage ratio of 0.69% (2021: 0.49%). 96% of lending customers are classified within stage 1 risk grades under IFRS 9 (2021: 97%).

Fair value movements recognised in reserves

A £6.4m fair value loss on Investment Securities (2021: fair value loss of £1.2m) was recognised within reserves in 2022 as the UK yield curve rose reflecting expectations of future increases in interest rates in the UK due to fiscal uncertainty, particularly around the mini budget in September 2022. Such declines are accounting adjustments which will reverse over time as the Investment Securities are held to maturity.

Capital

To support Unity's continued safe growth strategy and commitment to capital strength, the Bank conducted an inaugural mid-year profit verification, allowing accretion of £7m of capital in September. Risk Weighted Assets increased by £83.3m due to additional lending and Unity ended the year with a Common Equity Tier 1 (CET1) ratio of 18.3% (2021: 17.7%), a substantial surplus to regulatory requirements.

On 13 December 2022 the Financial Policy Committee increased the UK Countercyclical Buffer (CCyB) rate from 0% to 1%. In the latest published Financial Stability Report the Financial Policy Committee re-affirmed their proposal to increase the CCyB to 2%, increasing the amount of capital Unity is required to hold. This rate will come into effect from 5 July 2023.

Unity's capital buffers did benefit from the removal of the temporary PRA buffer adjustment introduced under the policy 'Pillar 2A: Reconciling capital requirements and macroprudential buffers'. This was effective from 31 December 2022.

As at 31 December 2022, the Bank's Defined Benefit pension scheme was in surplus by £3.8m (2021: £7.1m). This surplus, net of deferred tax, is excluded from risk weighted assets and from capital resources when calculating regulatory capital.

Liquidity

Unity is 100% funded by our customer's deposits which, along with our own resources, enables Unity to create and facilitate positive social and environmental impact. Customer deposits at the year-end increased marginally to £1,539m (2021: £1,507m), maintaining Unity's regulatory liquidity metrics in excess of the regulatory minima. The Liquidity Coverage Ratio, which measures a bank's ability to meet short term obligations, remained strong at the end of the year at 220% (2021: 272%).

Customer numbers also grew throughout 2022 from 8,391 to 9,129, representing an 8.8% increase in new customer relationships.

Net lending in the year grew by £113.1m representing a 16% increase on 2021. The loan to deposit ratio increased to 54% (2021: 48%) as Unity utilised some of its excess liquidity to increase returns and drive impact. Full liquidity metrics are included within the Pillar 3 document, available on Unity's website.

Investment

Investment spend increased by 55.6% in 2022, focusing on building a stronger foundation, and improving technology and processes to support the future growth of the Bank.

Significant investment was made in digital banking, with improving the customer experience and fulfilling customer needs at the heart of the programme which launches in 2023. Unity also invested in operational resilience across key areas including technological infrastructure.

A number of customer initiatives were completed during 2022 including CASS current account switching and Pay As You Go pricing.

People

Alongside investment in systems and controls, significant investment has been made in people, increasing capabilities and upskilling teams for the opportunities ahead. Headcount was expanded by 27% from 110 to 140 (year-end full time equivalent). New teams and roles have been created in areas including Impact & Sustainability, Financial Crime, Operational Risk and Data Strategy.

The 2022 Financial Standard Culture Board survey showed employee engagement is almost wholly in the first quartile relative to peers.

Unity remains committed to maintaining a diverse and inclusive workplace, with events during the year to promote these values.

Social Impact and Sustainability

During 2022, the Bank became the newest UK member of the Global Alliance for Banking on Values (GABV), demonstrating further Unity's commitment to using money to deliver positive impact.

New lending of over £97m was committed into deprived areas during 2022, as measured by the Indexes of Multiple Deprivation (2021: £69m). We continue to assess all new loan opportunities against their alignment to key United Nations Sustainable Development Goals (UN SDGs) with our primary alignment to UN SDG 3 (Health & Wellbeing), UN SDG 1 (No Poverty) and UN SDG 4 (Quality Education) reflecting our focus on social impact.

Unity & Me, an employee led initiative was launched during the year. Colleagues have set specific areas of delivering social and environmental impact including supporting colleague wellbeing, volunteering and community engagement, charity partner management and improving Unity's sustainability performance. 1,168 hours of colleague volunteering was delivered directly to communities in 2022, a 14% increase on 2021.

Unity has been carbon neutral since 2019 with verification and offsetting provided by Carbon Footprint Limited. The Bank's loan portfolio and treasury investments do not contribute to global climate change via the production of fossil fuels, mining or heavy manufacturing. The Bank remains an active member of the 'Financing a Just Transition Alliance', formed to progress actions from the Paris Agreement on climate change.

Quantitative carbon emission and energy usage information has been presented within this report for the first time, see page 25, with historical performance presented in the Impact Report available on the website. Our Impact Report, details our overall impact framework for the Bank and provides more information on how we have driven positive impact during the year.

Suppliers

We retained our policy of paying suppliers within 30 days.

Priorities for 2023

The economic outlook remains highly uncertain with the impact of the current downturn expected to be more fully observed in 2023. The Bank's 5 year Strategic Plan was approved during the year which sets out clear priorities for the future:

- Drive social impact through safe lending growth.
- Provide exceptional customer service via relationship based banking to like minded organisations.
- Increase our customer base, attract deposits and diversify income streams.
- Investment in technology and infrastructure.
- Develop People capability and a growth mindset.

Deborah Hazell
Chief Executive Officer
Unity Trust Bank plc
7 March 2023

About Unity Trust Bank

Our proud history

Unity Trust Bank was launched on May 1, 1984 by the Trade Unions and the Cooperative Bank. It was born out of a vision 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:

- Unity's first mission was to provide prudent, profitable commercial lending in the UK and to support jobs, industries and the British economy.
- The first few years were spent developing banking facilities for our Trade Union shareholders and providing additional services specifically to benefit their members.
- During the 1990s we tailored our products and services to meet the needs of socially-minded organisations.
- In 2012 we committed to a 'double-bottom line' strategy to continue delivering positive social impact alongside sustainable financial returns.
- In December 2015, Unity became fully independent after the Cooperative Bank was bought out.

Unity's Impact Reports and Annual Reports evidence our progress and the way we support our customers, shareholders and society as a whole.

Why we are unique

Unity believes in delivering impact, not simply maximising profits.

We provide banking services to business customers and only lend to creditworthy organisations that deliver social value.

Every lending proposal that comes to us is aligned with one or more of the United Nations' Sustainable Development Goals (SDGs) to ensure that our funding has quantifiable impact.

Our purpose

The purpose of Unity:

- to be the bank with a social conscience;
- to provide banking services to viable organisations, sole traders or individuals that contribute community, economic, social or environmental benefit to society, including, but not limited to, Trade Unions, co-operatives, charitable and commercial enterprises; and
- to achieve sustainable returns for itself and its members as well as a social benefit. This is described as a "double bottom line" approach to all business the Company does.

Our vision

Our vision is to become the bank of choice for all socially-minded organisations in the UK. We provide exceptional commercial banking to businesses that share our values and want to help improve the lives of local communities.

Our strategy

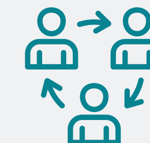
Unity's strategy is to:

- positively impact society and the environment;
- provide excellent customer service;
- accrete capital to support growth;
- distribute dividends; and
- develop employees and enhance our operations.

Our values

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, stakeholders and society as a whole.

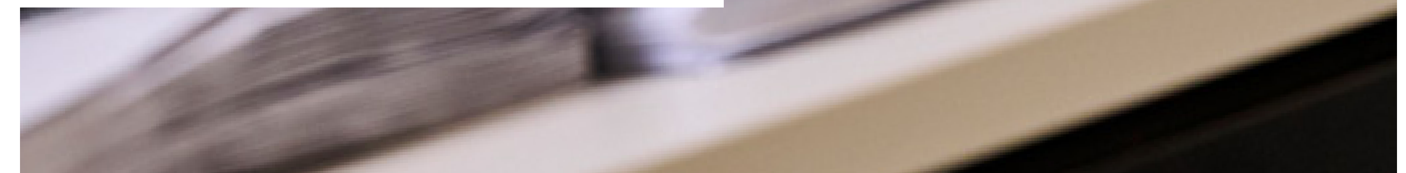
Enabling



Collaborative

Inclusive

Straightforward



Key Performance Indicators

The following Key Performance Indicators (KPIs) compare the 2022 full year results against full year 2021, 2020, 2019 and 2018 audited results.

This report includes a number of Additional Performance Measures ('APM's)[1] which provide useful additional information about Unity.

Key performance indicator	Performance
Profit before tax, as reported in the Income Statement for 2022. Profit contributes to capital which provides financial resilience and facilitates investment in the future.	**Profit before Tax (PBT) (£k)** 2018: 6,755 2019: 9,076 2020: 7,546 2021: 11,053 2022: 27,352
Return on Equity indicates the ratio of profit after tax divided by average shareholder equity. Return on Equity demonstrates how efficiently equity is utilised to generate profits for our shareholders.	**Return on Equity (ROE)** 2018: 8.8% 2019: 9.9% 2020: 8.0% 2021: 9.7% 2022: 19.6%

Profit before Tax (PBT) (£k)

2018	2019	2020	2021	2022
6,755	9,076	7,546	11,053	27,352

Return on Equity (ROE)

2018	2019	2020	2021	2022
8.8%	9.9%	8.0%	9.7%	19.6%

Key performance indicator	Performance
Cost income ratio shows the operational expenses (including exceptional items) as a proportion of 'Total income' as shown on the Income Statement. The cost income ratio shows Unity's operational efficiency to generate income. A lower ratio indicates higher efficiency.	**Cost income ratio**
Loans and advances to customers are shown net of any loan loss provisions. Loans and advances drive Unity's impact, performance and value.	**Loans and advances to customers (£m)**

Cost income ratio

2018	2019	2020	2021	2022
63.6%	58.8%	57.5%	54.2%	36.8%

Loans and advances to customers (£m)

2018	2019	2020	2021	2022
363	478	602	724	837

[1]Further information on APMs is available in the glossary on page 102.

Principal Risks and Uncertainties

Unity maintains an Enterprise Risk Management Framework ('ERMF') which encourages a structured and consistent approach to existing and emerging risks.

Unity's principal risk categories are overseen through a small number of specific risk committees. This allows close management attention to individual risks and provides clear focus for Unity to remain within our agreed risk appetite and quickly identify changes in risk profile.

The post pandemic economy, including volatility and changes in regulations has not resulted in a change in our approach to risk management. Whilst the level of inherent risk for some of Unity's principal risks and uncertainties has changed; Unity's risk controls continue to provide mitigation in accordance with our risk appetite.

The principal risks, many of which are inherent in all banking businesses, are mitigated and managed through the ERMF. Further information on risk management and the governance structure of the Bank can be found in the Pillar 3 disclosures on Unity's website.

The Board of Unity sets a risk appetite statement representing the aggregate level and types of risk that Unity is willing to take in pursuit of its objectives. The business operates within this appetite; actively monitoring exposure using key risk indicators and early warning indicators. The Bank operates a 'three lines' risk management model whereby:

- The first line comprises the business functions, who identify, assess, and manage risks arising from their day-to-day activities. They pursue Unity's corporate objectives and run the business in line with agreed risk appetite (risk ownership).
- The second line comprises the Risk function, which specialises in risk and compliance management. It supports and guides the first line of defence to manage risk within risk appetite. The second line helps develop risk policies, frameworks, tools, and techniques (risk oversight).
- The third line is provided by an independent internal audit function. The third line reviews how the first and second lines operate and reports to the Board Audit Committee on the internal control environment. Unity outsources the internal audit function.

The principal risks below remain consistent from the previous financial year.

Credit Risk (including climate risk sub-risk)

The risk that a borrower or counterparties fail to meet their contractual or financial commitments with the Bank, or that the Bank does not appropriately understand or meet its financial risks from climate change obligations.

Physical risks arise from changes in the natural environment (e.g. weather, flooding) and transitional risks arise as we move to a low carbon economy.

Mitigation	Impact	Year on year change
Experienced Credit Risk team which shape and review all lending requests against the Board approved lending and sector policies. Credit Risk team conduct ad hoc portfolio and sector reviews to provide early warning of deteriorating exposures. Specialist internal resource dedicated to those few customers experiencing financial distress; providing support and close monitoring. Relationship Management model enables prompt conversations with those customers showing early signs of financial distress. Relationship Managers work with all borrowing customers to monitor our individual exposure and assess the impact of our lending on climate change. Portfolio impact scenarios have been conducted as part of the ICAAP, including stress testing for supply chain and labour disruption as well as increasing interest costs. Stress testing, using scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has been conducted to inform the capital held for climate change risks. Unity is diversifying its lending portfolio; controlled with sector caps and linked to our 'impact' objectives and UN Social Development Goals (UN SDGs). Unity does not provide banking services to organisations involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources. The Treasury team invest within a very low risk appetite mandate.	Losses if a customer fails to make repayments. Losses if an investment fails to perform. Increased provisions for credit losses whilst heightened economic uncertainty remains. Increased management time/costs. Reduced ability to report 'impact' against UN SDGs Damaged reputation. Customer detriment.	Whilst the acute impacts of the pandemic have passed, the UK faces difficult economic conditions. Increases to interest rates, energy prices and staff wages as well as supply chain disruption as a response to the current economic uncertainty continues to put pressure on our customers' businesses and increases credit risk. Risk grades are assessed and updated accordingly.

Market Risk

The risk that changes in market rates or prices negatively impact our earnings or the market value of our assets and liabilities.

Mitigation	Impact	Year on year change
Standalone management through a Treasury function that works within defined appetite limits. Interest rate risk is monitored regularly and reported monthly as part of Asset and Liability Committee (ALCO) responsibilities. Stress testing for interest rate risk is performed and reviewed regularly. Propriety trading is not undertaken and there is no foreign exchange or equities/commodities exposure. The defined benefit pension scheme aims to hold assets that display broadly similar interest rate and inflation sensitivity to the scheme's liabilities, and the scheme's funding position is monitored on a regular basis.	Losses due to the inability to pass on interest rate changes. Potential reduction in liquidity/ funding. Losses due to temporary changes in the fair value of treasury assets. If there is a deficit on the defined benefit pension scheme's statutory funding basis, then a recovery plan must be put in place. The last triennial actuarial valuation as at 30 June 2021 revealed a funding surplus of £4.9m, so no recovery plan was put in place, and no contributions are currently required from Unity Trust Bank.	The post-pandemic economy continues to show volatility and uncertainty due to economic and geopolitical challenges. Within the year, increases in interest rates had a marked impact on the fair value of fixed rate treasury instruments. These fair value impacts are temporary accounting adjustments which will reverse if held to maturity. The IAS 19 surplus has decreased recently. This is partly because the investment strategy of the scheme does not explicitly hedge against market movements on an IAS 19 basis. The buy-out shortfall has improved (decreased) recently. During September/October 2022 the gilt markets saw significant volatility. As part of the leveraged LDI approach the scheme did not require any additional collateral calls outside of the agreed protocol contained in the Statement of Investment Principles and was able to comfortably maintain its position with no operational issues.

Liquidity Risk

The risk that the Bank will fail to meet our financial obligations as they fall due or can only do so at excessive cost. Unity is entirely deposit funded; therefore, changes in market conditions could impact the level of funding available for normal business activity and growth plans.

Mitigation	Impact	Year on year change
Internal Liquidity Adequacy Assessment Process (ILAAP). Liquidity is managed through an independent Treasury function. Stress testing conducted in line with Bank of England guidance, with the assumption that COVID-19 linked liquidity increases are rapidly depleted. Intra-day liquidity monitoring. Principles of liquidity pricing set and monitored through ALCO. Alternative funding options are kept under constant review.	Unsustainable funding. Uncompetitive liability pricing leading to liquidity shortfalls. Regulatory liquidity requirements being breached. Mismatch in the timing of cashflows. Customer detriment.	Unity continues to be well funded. Rate increases were applied promptly to our savings accounts following each Bank rate change, ensuring we deliver a competitive return to our customers. With continued economic uncertainty, customers may require increased cash flow support.

Capital Risk

The risk that Unity does not meet minimum regulatory capital requirements under normal and stressed conditions, has insufficient capital to operate within Board risk appetite or support strategic growth plans.

Mitigation	Impact	Year on year change
Internal Capital Adequacy Assessment Process (ICAAP). Stress/scenario/IFRS 9 testing and modelling to reflect ongoing economic uncertainty, continued impacts from COVID-19 and Brexit, and climate change. Regular dialogue between senior management and prudential regulatory bodies. Close control of lending portfolio mix to avoid capital or business type distortion. Business plan focussing on growing non-interest income contribution. Regular shareholder communications.	Growth and investment plans not achieved. Regulatory capital buffers could require utilisation.	Capital Requirements increased through safe growth in the lending book and the return of the Countercyclical Capital Buffer to 1%. Capital resources have significantly increased due to the financial performance of the Bank over the last year. IFRS 9 transition relief reduced from 50% to 25%. Unity continues to provide fair returns to shareholders and customers.

Conduct Risk

The risk that the Bank's behaviour, culture or processes lead to customer detriment.

Compliance Risk

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.

Mitigation	Impact	Year on year change
Measured through specific customer centric metrics. Compliance risks and controls assessed using the judgement of a specialist Compliance function. Appropriate and established policies and procedures; employee training and oversight from first and second line. Product development and supporting processes designed to deliver fair outcomes for customers. Customer satisfaction measured independently. Individual solutions provided based on customer need and circumstance.	Inappropriate customer outcomes, jeopardising our business plan. Reputational damage from poor customer service and outcomes. Additional regulatory scrutiny and financial penalties.	The evolving regulatory landscape increases this risk, given the volume of current and projected changes. Whilst Consumer Duty will have a significant impact across the sector, delivering fair outcomes is already at the core of Unity's culture. Treatment of vulnerable customers and accessibility continues to be a core focus for the Bank. Recruitment of experienced resource strengthened second line risk management.

Financial Crime Risk

The risk that the Bank's products and services are used in connection with financial crime including fraud, money laundering, terrorist financing, bribery and corruption, and tax evasion.

Mitigation	Impact	Year on year change
Unity is committed to improve activities to reduce the inherent risk exposure and ensure it continues to meet regulatory expectations on AML and wider financial crime control frameworks. Staff screening and enhanced due diligence for those certified under the Senior Managers Regime. Extensive staff mandatory training on both anti-money laundering (AML) and anti-bribery and corruption (ABC). Tiered authorities and segregation of duties within departments releasing payments and funds. New customer risk assessment model for onboarding and periodic reviews. KYC, customer due diligence and enhanced due diligence procedures updated with external industry input. Provision of dual and triple authorities for customer business banking. Fraud awareness and support to customers to help keep their money and financial information safe.	Breach of AML or ABC regulations. Fraud causing the loss of customer funds or data, leading to regulatory scrutiny and financial penalty. Customer detriment and reputational damage.	The current economic climate, financial pressures on individuals and changes in working practices lead to increases in motivation and opportunity for financial crime across the sector and within our own business.

Operational Risk

The risk of loss arising from inadequate or failed internal processes or systems, human error, third party supplier failure, or from external events.

Operational Risk is diverse in nature and covers People, Legal, Third Party Supplier, Cyber and Information Security, Change and Data Quality.

Mitigation	Impact	Year on year change
Training and development plans for all employees based on roles; succession and development plans for key roles. Shortening recruitment lead time to increase resourcing resilience. Legal and Compliance expertise maintained in-house. Cyber resilience programme implemented to improve National Institute of Standards and Technology (NIST) and International Organisation for Standardisation (ISO) scores. Increased automation used to manage both the change process and data loss prevention. Automation used to track and report risk events; business unit risk and control assessments and follow up audit actions. Data centralisation and control, to provide one source, with a Business Insight team providing one version of data. External professionals and subject matter experts used to validate key projects before and during execution. Third party providers' resilience assessed at contract initiation and as a minimum annually depending on materiality. Contract reviews completed in accordance with PRA outsourcing guidelines. Third party supplier dashboard developed to monitor changes in supplier operational resilience. Due diligence undertaken toward all third party suppliers regarding their cyber defences; their supplier due diligence and their approach towards climate change. Review, approval and monitoring at Operational Risk Committee.	Unacceptable operational losses. Financial loss or loss of customer data. Inability to maintain our important business services within acceptable tolerances, causing harm to our customers or our business. Continuity of service disruption from the introduction of inappropriate system changes. Incomplete or inaccurate regulatory reporting due to poor data quality. Customer detriment. Regulatory censure. Negative publicity.	Operational risk increases due to supply chain disruption, economic pressures and the conflict between Russia and Ukraine. Cyber risk has greater prevalence due to the geopolitical situation. Successful implementation of remote working due to pandemic control measures, is now integrated within the operating model. Ongoing investment in IT architecture and infrastructure to enable the Bank to scale its operations, improve functionality, extend channel choice, and further improve operational resilience.

Emerging risks

Unity's risk register summarises both active and emerging risks. Principal emerging risks which are managed as part of the ERMF include:-

- data integrity, addressing multiple touch points as data moves between legacy systems;
- resource planning, to better anticipate the impact of a growing business; and
- regulatory change; embedding new guidance and delivering fair and balanced customer outcomes.

Corporate Responsibility

Directors' regard to stakeholder interests - Section 172 statement

The Directors have a duty to promote the success of the company for the benefit of its shareholders whilst having regard to factors (a) to (f) in section 172 Companies Act 2006.

The information below provides examples to describe how Directors have regard to these requirements when performing their duties.

1. Five year strategy – invest and grow for long term resilience

In 2022, the Board discussed the five year strategy at a number of meetings. Additional employees have been recruited to ensure that the Bank is adequately resourced to reflect its growth following limited hiring during the pandemic in 2020 and 2021. The Bank's growth in lending and the development of a new internet banking platform required the creation of new roles, including in the Commercial and IT teams. When determining the strategy, the Board discussed:

The long-term sustainability of the Bank – The balance between the need to enhance operational resilience, the risk of increasing fixed costs in an uncertain economic environment, Unity's underlying growth rate and our goal to become capital self-sufficient has been debated.

Financial crime prevention and cyber security - Resource has been added and further enhancements are being made in these areas.

Maintaining robust standards and supplier relationship management - A Vendor Manager has been hired to ensure robust standards are in place in order to manage supplier relationships.

Key person dependency risk - In some areas, hiring additional colleagues mitigated key person dependency risk.

Customer feedback – Customers told us that their overriding priority was for their account to function effectively. This further highlights the importance of operational resilience and managing third party supplier risk, as failures at our suppliers can cause interruptions to our services.

Our safe growth strategy - The Bank remains committed to our safe growth strategy from both a credit quality and an operational resilience perspective.

2. Customer and technology

The ongoing investment in IT architecture and infrastructure, to enable the Bank to scale its operations, improve functionality, extend channel choice, and further improve operational resilience accelerated in 2022. The Board recognised the importance of:

Serving and retaining our customers in the long term – The Board agreed that strengthening Unity's digital foundations was necessary for long term customer retention and efficiency for the Bank whilst also helping our customers.

The value of its loyal customers and shareholders during the current interest rate environment – The Board values the support of our customers and shareholders and is not complacent. It was agreed that paying competitive interest rates on the customer deposits that support the positive social impact Unity creates was essential as was clearly communicating with customers and shareholders at a time when the Bank Rate was increasing. Customer retention, fairness, and the market are considered each time the Bank changes the interest applicable to its deposit accounts.

Customer feedback – Unity has listened to customer input during the year, in particular in relation to our customer service, the design of the website and the new internet banking service. Ensuring accessibility from a usability and diversity perspective is built into the Digital Banking programme.

Customer insight gathered included how they use the current internet banking site, the existing features they value, such as the dual and triple authentication features of the Bank's internet banking service, and new feature requests. This was reported to the Board as part of the Digital Banking Programme update presented at each meeting.

Unity's relationship banking model - Our Relationship Managers communicate regularly with borrowing customers. This personal service not only helps the Bank to manage credit risk but also allows us to understand the customer's business and how they create a positive impact in their communities, provide support and receive feedback.

3. Employee Wellbeing and benefits

The Bank enhanced employee remuneration and benefits during the year including increased employer pension contributions, improved Primary Carer Leave and Family Leave, and agreed to purchase Group Income Protection insurance to support any employee who develops long term health problems. A Key Person Share Option Plan was also established during the year. The Directors considered:

The affordability of the increased employer pension contribution rates - It was concluded that the increase in cost was proportionate to the benefit.

The distribution of profits to employees and shareholders - In 2022, an employee profit sharing award of 7% salary was awarded to employees based on 2021 performance. As part of this decision, the Directors considered the level of dividend to be recommended to shareholders, alongside profit retention for capital and future growth.

The impact of the cost of living crisis on employees - The Board recognised the potential impact of the cost of living crisis on employees and endorsed pay increases in March and October in recognition of inflation during the year.

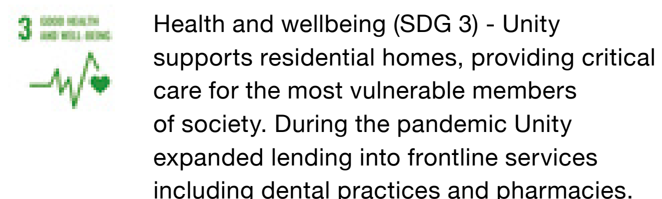
The interests of stakeholders in the design of the Key Person Share Option Plan - The Remuneration Committee designed a scheme that was appropriate and fair, balancing many requirements: the scheme must comply with regulatory requirements, positively incentivise participants, be affordable for the Bank, not materially dilutive for shareholders, aligned to Unity's values, protect the reputation of shareholders and stakeholders, and encourage the right behaviours. Controls were incorporated into the scheme to prevent unexpected outcomes. The pay ratio of recipients compared to the median employee in the lowest quartile was also considered, reflecting awareness of equality concerns compared to all Bank employees and society more broadly.

All shareholders are encouraged to attend the AGM and share their views with Directors and senior management. We also provide quarterly shareholder updates and welcome any questions that may arise throughout the year.

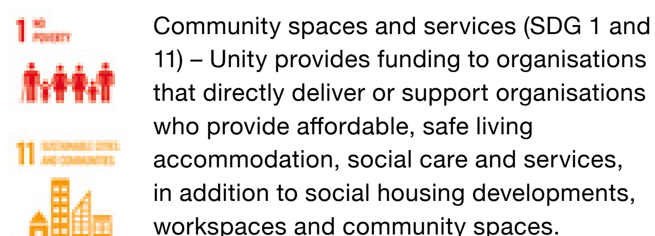
How we enable positive social impact

Unity has always followed an impact led approach. As a bank with a Social Conscience, we consider our double bottom line (contribution to social impact) in everything we do.

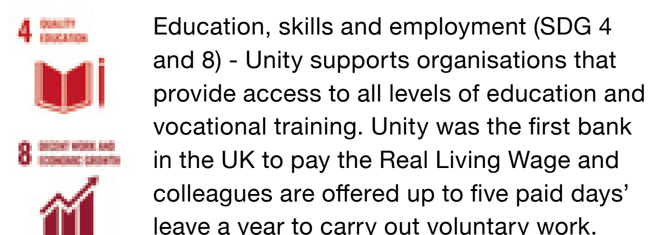
Strengthening our commitment to environmental, social and governance (ESG) principles, Unity aligns all lending activities to the United Nations Sustainable Development Goals (SDGs) and prioritises five social outcome areas:



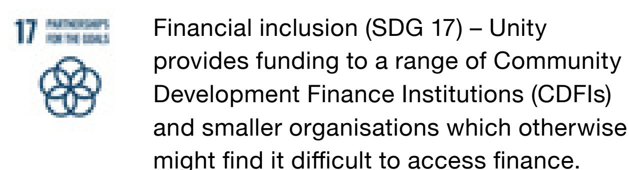
Health and wellbeing (SDG 3) - Unity supports residential homes, providing critical care for the most vulnerable members of society. During the pandemic Unity expanded lending into frontline services including dental practices and pharmacies.



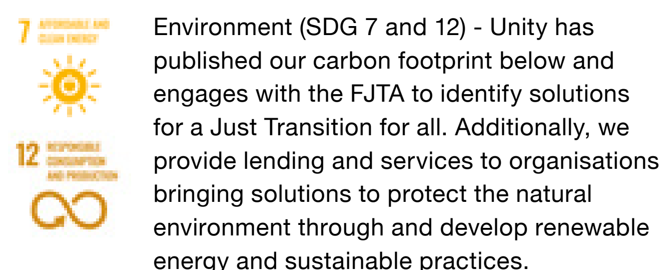
Community spaces and services (SDG 1 and 11) – Unity provides funding to organisations that directly deliver or support organisations who provide affordable, safe living accommodation, social care and services, in addition to social housing developments, workspaces and community spaces.



Education, skills and employment (SDG 4 and 8) - Unity supports organisations that provide access to all levels of education and vocational training. Unity was the first bank in the UK to pay the Real Living Wage and colleagues are offered up to five paid days' leave a year to carry out voluntary work.



Financial inclusion (SDG 17) – Unity provides funding to a range of Community Development Finance Institutions (CDFIs) and smaller organisations which otherwise might find it difficult to access finance.



Environment (SDG 7 and 12) - Unity has published our carbon footprint below and engages with the FJTA to identify solutions for a Just Transition for all. Additionally, we provide lending and services to organisations bringing solutions to protect the natural environment through and develop renewable energy and sustainable practices.

Unity's alignment to the SDGs provides a negative screening for lending to sectors that may directly create social or environmental harm. Through our impact management approach, detailed in our Impact Report, we measured the following achievements in 2022:

- We provided loans across every region of the UK and 43% of our lending went to areas of high deprivation[1] as measured by the Index of Multiple Deprivation.
- Lending to companies supporting UN SDG 3 – Health and Wellbeing made up 39% of our number of new loans in 2022, contributing to over 1,500 provisions care and health services.
- 94% of our lending customers stated they were satisfied or extremely satisfied with the service they received.

Our Impact Report, also published today on our website, provides more information on how we have enabled positive social impact in the year across our products, colleague volunteering engagement, charity partners and sustainability management.

Our response to climate change

Unity continues to strengthen our approach to understanding the environmental impact of our operations and lending. The Bank has measured and achieved carbon neutral status since 2019 and which was a key achievement in Unity's response to climate change. The Bank's 2022 Streamlined Energy and Carbon Reporting (SECR), presented for the first time, can be seen below. Our greenhouse gas (GHG) emissions have been independently calculated by Carbon Footprint Ltd for the period 1 January to 31 December 2022. Comparative information is not required to be presented in the first year that The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155) (the Energy and Carbon Regulations) applies to an entity but this has been provided in our Impact Report.

The Bank's energy and Greenhouse Gas emissions data is compliant with SECR requirements and has been calculated in accordance with the GHG Protocol and SECR guidelines. Energy and GHG emissions are reported from buildings and transport where operational control is held – this includes electricity, natural gas and business travel in grey fleet (private cars used for Bank business). All Scope 1 and 2 emissions are reported from measured consumption data. Scope 3 emissions include conservative (i.e. high emissions calculations) where direct measurement data is not complete.

[1]'High Deprivation' defined as being in the top 4 deciles of deprivation according to the IMD.
[2]Average FTE equivalent for the year (129).

Within SECR reported emissions, grey fleet and cash-opt out is based on mileage reported calculated against vehicle type. Additional to SECR emissions, Unity reports hotel, train, flights, and homeworking, using GHG Protocol recommended methodologies. Specifically on homeworking, all homeworking is assumed to be single-occupancy and it is assumed office-based employees worked from home 60% of the time to reflect flexible working practices. The table below shows the performance summary of regulated SECR energy and GHG emission sources.

Energy (kWh):	Total 2022
Natural gas	199,224
Electricity	113,442
Grey fleet and cash opt-out	32,664
Total energy	**345,330**

		Total 2022 Market based approach	Total 2022 Location based approach
Emissions (tonnes of CO2e):			
Scope 1	Natural gas	36.37	36.37
Scope 2	Electricity	1.74	21.93
Scope 3	Grey fleet and cash opt-out	7.34	7.34
Total SECR emissions		**45.45**	**65.64**
Other Scope 3 emissions		61.32	61.32
Purchased offsets		127.00	
Net carbon outturn		**-**	**0**

Emision intensity ratio pre-offsets:	2022
Location-based emissions intensity (tCO2e / FTE[2])	**0.98**

Our response to climate change (continued)

Category	Description
Scope 1	Direct GHG emissions that originate from assets that Unity owns or controls.
Scope 2	Indirect GHG emissions from the generation of purchased electricity. Under the GHG Protocol, the Bank is required to report scope 2 emissions of both market and location-based approaches. Market based approach – reflects emissions from electricity that the Bank has purposefully chosen, e.g. renewable energy. Location based approach – reflects the average emissions intensity on the grids upon which energy consumption occurs.
Scope 3	All other indirect emissions that occur across the Bank's value chain. At present scope 3 emissions reporting is voluntary and is an emerging area of focus to achieve net zero emissions. For 2022, the Bank's scope 3 emissions include business travel and homeworking only. We intend to include additional scope 3 emission categories in future reporting once processes have improved.

We recognise the increasing influence that climate change has on the lives of our customers, our suppliers, our people and the wider community. Unity is committed to playing our part in ensuring that the financial system is resilient to climate-related financial risks and developing how we can reduce our contribution to these risks.

Unity does not fund industries that have a significant measured negative impact towards climate change, such as coal-fired power stations, mining industries or organisations that burn toxic waste.

Physical and transitional risks associated with climate change were integrated into Unity's enterprise risk management framework in 2021, as set out in the Principal Risk and Uncertainties on pages 16 to 21.

Unity has been awarded carbon neutral status for four years.

Unity is a contributing member of the 'Financing a Just Transition Alliance', formed to progress actions from the Paris Agreement on climate change.

We are also identifying the potential opportunities that will come through climate risk adaptation and how Unity can positively contribute to the UK's transition to a net-zero carbon economy. In 2022, Unity was the first financial institution to support the HACT Arctica 'Retrofit Credits' programme, directly improving the energy efficiency and quality of UK social housing to contribute to a just transition.

We have several customers whose business purpose includes support for and protection of the environment. We are committed to support more housing providers investing in affordable and quality energy efficient homes and organisations active in driving low carbon initiatives in renewable or community energy and heating schemes, and technologies or bringing to life the principles of the circular economy. Unity actively seeks to work with suppliers who understand their own contribution to climate change and share our desire to amplify positive impacts wherever possible.

Unity assesses all lending to ensure that there is no intentional or high risk of unintentional negative impact to society and the environment, in line with our risk appetite statement and credit policies. Each of our Sector Credit Policies incorporate detail on the potential risks and opportunities from social, environmental and climate change factors. Stress tests, using scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have been included within our ICAAP to inform the capital held for climate change risks.

Our Supplier and Procurement Procedures include social and environmental criteria covering both selection of new suppliers and ongoing management of existing partners. This is a focus area for supplier reviews throughout 2022 which will identify and reduce climate risk to our operations and stakeholders.

Throughout 2022, Unity has not identified any customer or supplier relationship that presented a breach of our climate change risk appetite.

Throughout 2023, we will identify opportunities to support the UK's transition to net-zero carbon by 2050.

Approved by the Board of Directors and signed on behalf of the Board by:

Deborah Hazell
Chief Executive Officer
Unity Trust Bank plc
7 March 2023

Directors' Biographies

Alan Hughes

Independent Non-Executive Chairman

Appointed to the Board in 2015.

Skills brought to the Board: retail & commercial banking & finance; successful innovation; fintech; marketing; non-executive and chair experience. He believes in innovation for the public good.

Alan chairs the Board and the Nomination Committee and is a member of the Remuneration Committee.

Alan spent 35 years at HSBC rising to its UK/EU executive board as General Manager with responsibility for all products, service, pricing, and marketing. He was Chief Executive of First Direct Bank, ran significant subsidiaries of HSBC and was a main board director of its commercial asset finance group. He was responsible for commercial invoice finance throughout HSBC Group.

Alan has taught banking as a visiting lecturer at Warwick University (voted MBA teacher of the year four times) and at Oxford University Saïd Business School.

Alan serves as Chairman of Equals Group plc (AIM listed) and is a Director and Chair Designate of Mitsubishi HC Capital UK plc (formerly Hitachi Capital UK plc).

He is a Fellow of the Chartered Institute of Bankers and the Royal Society for Arts, Manufactures and Commerce (RSA) and he holds an MBA from Henley Management College and an honorary doctorate from Loughborough University.

Deborah Hazell

Chief Executive Officer

Appointed to the Board in August 2021.

Skills brought to the Board: Strategic leadership in financial services businesses, investment expertise, stakeholder engagement, risk management, and a champion for social impact.

Debbie has over 35 years' experience in financial services, most recently as CEO of HSBC Global Asset Management (USA) and Regional Head of HSBC Global Asset Management, Americas. Previously she was the CEO of FFTW, a fixed income asset management business operating in five countries. Earlier in her career she had roles in client service and business development working with Central Bank clients and for many years was a portfolio manager managing global fixed income investments.

Debbie is on the board of the School of Leadership Afghanistan (SOLA) a boarding school for Afghan girls.

Debbie has a BA (Hons) in Social Studies (Economics) from New York University, an MA (Hons) in Organisational Psychology (Change Leadership) from Columbia University, and an MIS in International Development from American University.

Sandy Chen

Independent Non-Executive Director

Appointed to the Board in 2015.

Skills brought to the Board: Leading financial analyst, deep knowledge of bank accounting, reporting and regulation, macro-economics and the economic environment, regulatory & central bank policy, UK banking innovation.

Sandy chairs the Board Audit Committee and is a member of the Board Risk Committee, and the Nomination Committee.

Sandy has over 20 years of experience in the financial services industry, as analyst and executive. He has published a book titled 'Integrated Bank Analysis and Valuation: A Practical Guide to the ROIC Methodology' (Palgrave, 2013), has advised the UK government on banking issues and occasionally appears in the media as a commentator on business and macroeconomic issues.

Sandy is the Chief Executive Officer and Co-Founder of Graphene Composites Ltd.

Sandy holds a BA 'magna cum laude et cum honoribus' in International Relations and a BA in Economics from Brown University (US) and was awarded Phi Beta Kappa academic honours; he also attended Phillips Academy Andover (US).

Christine Coe

Independent Non-Executive Director

Appointed to the Board on 3 March 2023.

Skills brought to the Board: commercial banking, credit and operational risk, banking regulation, SME lending, financial crime and anti fraud experience

Chris is Chair of the Board Risk Committee and a member of the Board Audit Committee and the Nomination Committee.

Chris has over 40 years' global credit and risk experience which she gained through a variety of roles at HSBC. Most recently she provided advisory and expert witness support to the HSBC legal team on regulatory matters arising from the 2008 financial crisis. Prior to this she served as HSBC's Managing Director and Global Head of Funds' Due Diligence and Control, their Global Head of Funds Risk, and was Chief Risk Officer at HSBC Securities Services.

Chris serves on the Board of Atom Bank plc, a retail digital mortgage and savings bank. She is the owner and Practice Director of The George Road Clinic, a multi-disciplinary Private Medical Practice providing a range of out-patient services. Chris is also a Director and Charity Trustee of the British Pig Association and UK Tag, a non-profit concerned with the development of livestock exports.

Chris has a BA, Politics and Economics and a Finance Houses Association Diploma.

Directors' Biographies (continued)

Graham Dow

Non-Executive Director

Appointed to the Board in July 2022.

Skills brought to the Board: Knowledge and experience of accountancy and knowledge of Trade Unions. Currently holds Non-Executive Director positions within a not-for-profit financial service organisation.

Graham is a member of the Board Audit Committee.

Throughout his career, Graham has specialised in accountancy gaining extensive experience in a range of industries and sectors; commercial catering, both onshore and offshore, engineering and leisure.

Graham was Chief Accountant at GMB since January 1998 until he was appointed to the Union's Senior Management Team as Head of Finance in November 2021. He has managed several large and complex projects, working with directors, stakeholders, and the Union's Senior Management team. Graham is responsible for the financial and statutory reporting for the union, at GMB, and its relationship with various external organisations and has played an active role in the general management, financial stewardship, investments, banking and asset management of the union.

Graham has a BA in Business Administration from the University of Strathclyde. He became a member of the Institute of Chartered Accountant of Scotland in 1981 and is a Fellow of the Association of Chartered Certified Accountants.

Alex Ryan

Non-Executive Director

Appointed to the Board in 2020.

Skills brought to the Board: Knowledge of Trade Unions, corporate governance, investor relations, pensions, and non-executive experience.

Alex is a member of the Board Risk Committee. He is Chair of the Unity Trust Bank Pension Scheme.

Alex has over 20 years' experience working in the Trade Union sector, and has worked with a number of FTSE 100 companies. In his role as Head of Pensions at Unite the Union, Alex is responsible for the operation of a £1billion defined benefit pension scheme and is an active voice within the pensions industry, particularly around Environmental, Social and Governance issues.

Alex is also a Director of Evolve Pensions Limited.

Susan Sternglass Noble

Independent Non-Executive Director

Appointed to the Board in 2017.

Skills brought to the Board: Financial services business models, accounting and regulation; investment management, impact analysis and start-up experience.

Susan is Chair of the Remuneration Committee and a member of the Board Audit and Nomination Committee.

Susan joined the bank with a 30 year career as an analyst and investor in financial services. She was an early board member of the Swedish internet stockbroker Avanza AB. She was a Commissioner on the Dormant Assets Commission, tasked with unlocking money for the charitable sector, and as a Specialist Adviser to the Treasury Select Committee of the House of Commons.

Susan serves on the board of Asia Dragon Trust plc, a listed investment trust. She is a Senior Adviser to the Investor Forum CIC and an active angel investor, particularly in fintech.

Susan has a B.A. from Cornell University and an M.S.F.S. from the Georgetown School of Foreign Service. She is a Fellow of The Royal Society for the Arts, Manufactures and Commerce, and a Member of Chapter Zero and an Ambassador for Women on Boards UK.

Dominic Wade

Chief Financial Officer

Appointed to the Board in 2020.

Skills brought to the Board: Strategic leadership, business transformation, financial accounting, treasury and regulatory reporting.

Dom has over 20 years' experience working for global banks, undertaking various Managing Director level roles at RBS including leading the Group response to Brexit. He was extensively involved in RBS's restructuring post the Financial Crisis, managing the Financial Planning and Regulatory teams through the de-risking of the Global Markets business, before running groupwide Cost Transformation. He previously held senior positions at Credit Suisse, UBS and Merrill Lynch.

Dom has a degree in Accountancy and Management Information Systems and is a member of the Institute of Chartered Accountants in England and Wales.

Corporate Governance Report

Corporate Governance statement

Unity Trust Bank is an unlisted company and therefore the UK Corporate Governance Code (2018) (the Code) does not apply. The Board considers the Code as the benchmark for good corporate governance and takes account of its principles and provisions when reviewing the Bank's corporate governance arrangements.

Introduction

Recognising the importance of Corporate Governance disclosures which are proportionate to our size, we have expanded our disclosures in this year's Annual Report in the following areas:

- Included a new Remuneration Report on page 34 setting out Unity's remuneration policy, components of remuneration for all employees including Directors and also the Directors remuneration for the year (previously included in note 8 to the ARA).
- Reported quantitative carbon emission and energy usage for the first time on page 25.

Board Leadership and Company Purpose

Business model – The Bank's business model is set out on page 12. This describes how the Bank maintains sustainable financial returns and positive social impact in all it does.

Culture – The Board recognises the importance of ensuring a healthy and supportive culture within the Bank. We monitor this through direct employee engagement activities and discussions with the executive Directors, the Director of Human Resources and other members of management. Our values set out on page 12 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.

Engagement with stakeholders – Significant time and effort is invested in providing detailed and transparent information to current and potential shareholders and in maintaining regular and effective dialogue with them. The CEO and CFO engage directly with investors on a regular basis throughout the year. Page 22 explains how the Directors have had regard to shareholder and wider stakeholder needs, including employees when performing their duty under s172 of the Companies Act.

Division of responsibilities

The Board currently comprises two executive Directors and six non-executive Directors. The non-executive Directors include the Chairman, three independent Directors and two shareholder Directors. There is a clear division of responsibilities between the offices of Chairman and Chief Executive Officer (CEO). The Chairman is responsible for promoting the highest standards of integrity, probity and corporate governance throughout the Bank and particularly at Board level. The CEO is responsible, with the executive team, for implementing the decisions of the Board and its Committees. The CEO has established the Executive Committee to assist in the management of the business and deliver against the approved strategic plan in an effective and controlled manner.

The Board

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 (see page 16) 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.

Board Committees

The Board Audit Committee – 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 Board Risk Committee – 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 Remuneration Committee – See page 34 for details.

Nomination Committee – Makes recommendations on the size, structure and membership of the Board and its committees and keeps under review the leadership needs of the Bank.

Chairman's Statement
Highlights
Strategic Report
Governance
Audit Report
Financial Statements

Remuneration Report

Introduction – Fair and proportionate pay

Unity Trust Bank is committed to compliance with the regulatory requirements on Remuneration as well as to offer a reward package which attracts, motivates, and retains appropriately qualified and experienced people. Fair and proportionate pay is considered at all levels within the Bank. Unity has been Living Wage accredited for 10 years and is a certified Investor in People (Gold standard).

Two pay reviews were conducted during the year (2021: two), ensuring that colleague pay continues to be a fair reflection of market rates. Employer pension contributions were increased significantly during the year. The components of remuneration are set out below. This includes Employee Profit Share and Share Incentive Plan awards, both of which are also awarded to all eligible employees and Executive Directors at the same percentage of basic pay up to any relevant tax limits (as set out below).

Unity remains committed to maintaining a diverse and inclusive workplace. The Board's diversity policy is available on the Bank's website. This also provides an indication of the Board's approach to diversity in Executive and senior management positions for the purpose of succession planning. Unity is an accredited Disability Confident employer and has made a commitment to both the Women in Finance Charter and Race at Work Charter.

Unity's gender pay gap for 2022 was 8% (2021: 25%). This measure shows the difference in average earnings between women and men. Due to Unity's small workforce, this measure can fluctuate significantly year on year. The Bank's employee policies are designed to promote gender and ethnic equality. Unity has committed to support the progression of women into senior roles by targeting to have at least 40% female directors by 2025 (37% achieved for 2022).

Remuneration Committee

The Remuneration Committee determines the level of funds available for annual salary reviews for Bank employees, the remuneration for members of the Executive Committee (other than as noted below) and reviews and approves the annual Remuneration Policy Statement required by regulators. The Committee makes recommendations to the Board in relation to bank-wide remuneration policy, the Employee Profit Share Plan, employee share schemes, Executive and Non-Executive Director remuneration and significant changes to employee benefits.

Remuneration policy

The Bank's remuneration policy is:

- to align our people's interests with the Bank's purpose, its strategy, risk appetites and its values, and with the long-term interests of its shareholders, its customers and society as a whole;
- to enable Unity to attract and retain the best people for this purpose, who share its values, taking into account the competitor landscape;
- to enable sound risk management and control within our appetites and regulators' expectations;
- to comply with the Remuneration Code and other applicable legal and regulatory requirements;
- to make awards which seek to achieve an appropriate balance between short and long-term rewards, rewarding employees for the value they create as well as for their contribution; and
- to take into account the implications of awards on the long term financial position of the Bank.

Components of remuneration: Employees (including Executive Directors)

The Bank recognises the need to recruit and retain motivated people to work for the Bank. How employees are engaged, appraised, trained and motivated plays a key part in the Bank's culture of fairness and consequently, the fair treatment of customers. To achieve this aim, the Bank provides a competitive remuneration package commensurate with businesses of a similar size and nature. In setting remuneration, the Bank consults with its recognised Trade Union representatives. The overall remuneration package consists of a number of elements which are set out below.

Fixed remuneration

Basic salary – The Bank seeks to pay basic salaries which attract and retain talent. Paid to all employees including Executive Directors, reviewed on a semi-annual basis.

Benefits - Benefits include life assurance and health plans. Paid to all employees including Executive Directors.

Pension - Contribution to a defined contribution scheme. Paid to all employees including Executive Directors. The defined benefit pension scheme is now closed.

Variable remuneration

The Bank does not pay individual cash bonuses.

Profit share – Subject to the Bank's overall performance, an annual profit share award may be paid to eligible employees at the discretion of the Remuneration Committee and the Board. The profit share is set as a percentage of basic salary, with the same percentage applied to all employees including Executive Directors. The profit share for 2022 was 9% (2021: 7%).

Share based remuneration – The Bank operates three share based schemes, the Share Incentive Plan (SIP), the Company Share Option Plan (CSOP) and the Key Person Share Option Plan (KSOP), details of each are provided below.

Share based schemes operated by Unity (audited)

The Bank has established several share based schemes designed to encourage employee ownership and increase retention whilst also aligning employee interests with those of shareholders, customers and stakeholders. Shares and Share Options may be awarded at the sole discretion of the Board, as recommended by the Remuneration Committee. Key highlights of the schemes are set out below with further detail provided in Note 27.

The key points in the life of share based schemes are as follows:

- Grant – The initial award. The Grant date is when holders start to earn the rights to the award;
- Vesting – This is when the holders have earned the rights to their award, however for option schemes such as the CSOP and KSOP, holders may not access the benefits until the exercise date; and
- Exercise – This is when, for option schemes, holders are able to access the benefits of the award.

Share Incentive Plan

All employees who meet the service requirements (including Executive Directors) are eligible to participate in the SIP. The SIP is a tax advantaged equity-settled plan under which employees are entitled to Free shares, subject to £3,600 per annum cap. Employees can also purchase partnership shares, up to the value of £1,800 per annum cap and these may be matched by the Bank up to a maximum ratio of 2:1. The Free and Matching shares vest over a 3 year period contingent on continuing employment with the Bank.

Company Share Option Plan

The CSOP is intended for selected employees (including Executive Directors) across the Bank. Options are awarded, entitling the option holder the right to acquire shares at a pre-determined exercise price after the end of the vesting period. Subject to the option holder remaining in employment with the Bank, the shares vest over 5 years, with one third vesting in year 3, one third vesting in year 4 and the residual portion vesting in year 5. As a tax-advantaged scheme, employees are not individually allowed to hold options with a market value exceeding £30,000 in the scheme at any time (increasing to £60,000 in April 2023).

Key Person Share Option Plan

The KSOP is intended for selected employees (including Executive Directors) across the Bank, with inclusion based on an annual assessment and recommendation from Remuneration Committee for Board approval. The KSOP was approved by the shareholders at the 2021 AGM. Fair and proportionate pay to all staff is an essential principle for Unity and the KSOP scheme is designed to strike a balance between being appropriate to motivate and retain essential skills within the Bank, whilst not distorting the pay ratio of the highest earner and others in the organisation. Options are awarded, entitling the option holder the right to acquire shares at their nominal value after the end of the vesting period. Vesting is subject to the option holder remaining in employment with the Bank and the performance conditions summarised below.

The shares vest over three years and are exercisable after a further two years, subject to board discretion and the clawback provisions set out below. Option holders earn rights to the benefits of the KSOP (vesting) by meeting defined, graduated targets (performance conditions).

The graduated targets, which are aligned to the delivery of the Bank's strategic ambition are as follows:

- Financial Performance – Return on Equity and Earnings per Share (basic).
- Non-Financial Performance – Customer satisfaction, Employee engagement and Social & environmental goals.
- Individual Performance – Based on Unity's standard performance gradings.
- Risk Overlays – Credit losses compared to risk appetite, the nature and number of risk events and management of regulatory capital.

To ensure that the scheme remains proportionate and fair, a cap on the values of grant, vesting and annual exercise, at 75% of the gross annual basic salary of each participant applies. The Board retains an overriding discretion over the final level of vesting and can scale back if the value has been unduly influenced by external circumstances, or determine that a claw-back shall apply within two years of the date the option is exercisable.

Directors' emoluments (audited):

	2022 £'000	2021 £'000
Non-executive Directors - emoluments	**234**	259
Executive Directors - emoluments		
Remuneration as a Director	**637**	771
Remuneration as an Employee	**-**	87
Total	**871**	**1,117**

The highest paid Director during the year was the Chief Executive Officer (CEO), who received emoluments of £368k during the year (2021: Former CEO: £367k). This includes salary, profit sharing payments and car allowance. Additionally during the year, the CEO was awarded 50,904 share options under the KSOP scheme (2021: none), no share options under the CSOP scheme (2021: 7,792) and 1,628 Free and Matching Shares under the SIP (2021: none). The value of share based schemes is reflected within emoluments in the year of vesting.

The aggregate value of company pension contributions paid, or treated as paid, to directors for the year was £10k (2021: £17k). The number of directors who accrued retirement benefits during the year was one (2021: one). No gains were made by directors on the exercise of share options during the year (2021: £nil).

No directors exercised share options during the year (2021: none), and the number of directors in respect of whose qualifying services shares for the year were received or receivable under long-term incentive schemes was two (2021: two).

The year-end value of the 2022 KSOP options granted to Executive Directors representing the number of options which are expected to vest was £242k (see note 27 for the valuation approach). This value represents the cost to the bank of this equity settled scheme over 5 years, with £6k recognised in 2022. Non-market performance criteria will be re-assessed each year with a resulting change in the accounting cost. No KSOP awards were made in 2021.

The Bank is mindful of the 'fair approach to remuneration' of the High Pay Centre and we aim for the highest paid person to be paid no more than 20 times the median pay of the lowest quartile of the workforce. The CEO pay ratio for 2022 was 13:1 (2021: 14:1). This ratio excludes the cost of the KSOP which will be included in the CEO pay ratio in the year of vesting. The cost of the award attributable to the CEO recorded in 2022 was £3k (2021: nil).

Independent Non-executive Directors received fees of £142k per annum in aggregate for their services (2021: £168k). The Chairman of the Bank received a fee of £92k (2021: £91k) in the year. Shareholder Non-executive Directors were not paid a fee by the Bank.

Report of the Directors

for the year ended 31 December 2022

Results and Dividends

The results for the year, before taxation, amounted to a profit of £27.4m (2021: £11.1m). The Directors recommend a final dividend for 2022 of 5.50p per share to be paid in 2023 (2021: 3.85p per share).

Post Balance Sheet Events

There are no significant post balance sheet events to report.

Directors

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

Non-Executive Directors

Alan Hughes, Chairman

Sandy Chen, Independent Non-Executive Director

Christine Coe, Independent Non-Executive Director (appointed 3/3/23)

Graham Dow, Non-Executive Director (appointed 28/7/22)

Jim Gunner, Independent Non-Executive Director (deceased 20/5/22)

Frances O'Grady, Non-Executive Director (resigned 31/12/22)

Alex Ryan, Non-Executive Director

Susan Sternglass Noble, Independent Non-Executive Director

Allan Wylie, Non-Executive Director (resigned 28/7/22)

Executive Directors

Deborah Hazell, Chief Executive Officer

Dominic Wade, Chief Financial Officer

Insurance and Indemnities

The Bank has purchased and maintains Directors and Officers liability insurance cover. In addition, the Bank indemnifies each of its Directors and the Directors of its subsidiary, Unity EBT Limited, against liability for wrongful or negligent acts. This arrangement constitutes a qualifying third-party indemnity provision for the purposes of the Companies Act 2006 and applied to each of the Bank's Directors serving in 2022 and as at the date of approval of this report.

Future Developments

An indication of future developments is included in the Strategic Report.

Risk

Information on exposure to, and management of price risk, credit risk, liquidity risk and cash flow risk can be found in the Strategic Report and note 26.

Environmental

Climate-related Financial Disclosures can be found on pages 25 and 26 of the Strategic Report.

Engagement with suppliers, customers and others

Information on how Unity has had regard for suppliers, customers and other stakeholders is included within the Section 172 statement. Unity's policy is to pay suppliers promptly and within 30 days.

Taxation

The Bank participates in the Community Investment Tax Relief (CITR) scheme which encourages investment in disadvantaged communities by giving tax relief to companies who invest in Community Development Finance Institutions (CDFIs). Deductions from Corporation Tax totalling £752k (2021: £632k) were made regarding the CITR scheme.

Expenditure on research and development (R&D) activities is recognised as an expense in the period in which it is incurred apart from capital expenditure which is spread across the life of the development. R&D relief is claimed for qualifying expenditure, relating to technology investment.

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

£'000	2022 £'000	2021 £'000
Corporation tax	**3,180**	1,370
VAT	**1,034**	845
Employment tax		
Employer NIC	**949**	740
Total taxes paid	**5,173**	**2,955**
Employment taxes collected		
Employee PAYE and NIC	**2,361**	1,928
Total tax contributions	**7,534**	**4,883**

Going Concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Bank has adequate resources to continue in business for the foreseeable future.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources, the potential risks affecting these, including those arising from a higher interest and inflation environment, and climate change. A range of different plausible scenarios have been modelled, considering possible mitigating management actions, in addition to capital and liquidity stress and reverse stress testing.

In addition, notes 25 and 26 to the financial statements include the Bank's policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk.

The Bank has considerable financial resources and the Directors believe that the Bank is well placed to manage its business risks successfully. For this reason, they continue to adopt the going concern basis in preparing the Bank's financial statements.

Further information relevant to the assessment is provided within the basis of preparation of the financial statements on page 58.

Disclosure of Information to the Auditor

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

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

Auditor

The Board will recommend the re-appointment of Deloitte LLP to shareholders at the 2023 AGM.

Approved by the Board of Directors and signed on behalf of the Board by:

Kate Eldridge
Company Secretary
7 March 2023

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as adopted by the UK.

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Bank's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Kate Eldridge
Company Secretary
7 March 2023

Independent auditor's report to the members of Unity Trust Bank plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Unity Trust Bank plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – effective interest rate accounting; and • Impairment of receivables. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £630,000 which was determined on the basis of 0.5% of net assets.
Scoping	A full scope audit was performed.
Significant changes in our approach	There have been no significant changes to our audit approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- involving prudential regulation specialists to assess capital and liquidity requirements linked to the business model by evaluating management's regulatory documentation and key regulatory ratios;
- challenging key assumptions used in the forecasts such as growth rates based on historic trends and future outlook, including the impact of the current macro-economic uncertainty, and assessing the amount of headroom and the impact of sensitivity analysis; and
- testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue recognition – effective interest rate accounting ("EIR")

Key audit matter description	The company recognised interest income of £34.4m (2021: £20.0m) and an EIR creditor of £5.5m (2021: £4.7m) in relation to interest receivable on loans and advances to customers. We identified a key audit matter that revenue may be inappropriately recognised whether due to fraud or error. The company holds loans and advances to customers which meet the criteria of financial assets under IFRS 9. The recognition of interest income on loans under IFRS 9 requires the use of an EIR method in which management makes various assumptions, including the behavioural life of each loan. There is therefore judgement involved in the determination of interest income under the EIR method. The key assumption in the EIR model is the derivation of the cash flow run-off profiles which determine the behavioural life of the loans and timing of the expected future cash flows. The company's accounting policies are detailed in note 1.2 to the financial statements while the significant judgements involved in the revenue recognition process are outlined in note 11, with note 5 quantifying interest income under the EIR method recognised during the year.

5.1. Revenue recognition – effective interest rate accounting ("EIR") (continued)

How the scope of our audit responded to the key audit matter

We obtained an understanding of relevant controls that the company has in place to manage the risk of inappropriate behavioural life assumptions being applied in the EIR model.

In conjunction with our IT specialists, we tested the general IT controls over the loan administration system and evaluated the manner in which data is extracted from these systems to determine interest income and the EIR creditor.

We challenged the appropriateness of the behavioural lives adopted by management by reference to historical customer redemptions, over which we tested the accuracy and completeness of a sample of the underlying data.

Additionally, we challenged any amendments made to the behavioural lives by management during the course of the year, based on recent customer redemption activity and the impact of product changes.

As part of our wider assessment of the key audit matter we independently recalculated a sample of EIRs and tested the adjustment posted to recognise interest income over the behavioural life on a sample of loans.

We involved our data analytics specialists to independently recalculate the interest income and EIR creditor in order to evaluate the accuracy of management's model.

We also assessed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the company's EIR model. We tested the inputs which are used to determine interest income by agreeing a sample of customer loans back to underlying source data.

Key observations

We concluded that the behavioural lives used within the company's revenue recognition process were reasonable and the EIR model to be working as intended.

We determined the accounting for interest income and the EIR creditor to be appropriate and materially in line with the requirements of IFRS 9.

5.2. Impairment of receivables

Key audit matter description

The company held an impairment provision of £6.1m (2021: £3.6m) against loans and advances to customers of £842.7m (2021: £727.2m). We identified a key audit matter that the impairment provisions may be inappropriately recognised whether due to fraud or error.

For financial assets held at amortised cost, IFRS 9 requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimates relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling.

These assumptions are informed using historical behaviour and management's experience. They are also affected by management's consideration of the future economic environment.

The most significant assumptions and judgements applied in the impairment model are:

- the determination and application of staging criteria; and
- the appropriateness of macro-economic scenarios ("MES") and their weighting for the purposes of determining impairment provisions.

The company's accounting policies are detailed in note 1.2 to the financial statements while the significant judgements involved in the impairment provisioning process are outlined in note 11, with note 11 quantifying the impairment provisions at year-end.

How the scope of our audit responded to the key audit matter

We obtained an understanding of relevant controls that the company has in place to manage the risk of inappropriate staging or MES assumptions being used within the impairment provisioning model.

In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the impairment provision balance.

Where a significant increase in credit risk had been observed, and for customers that had been placed on a watchlist by management, we challenged the determination of staging criteria with reference to both quantitative and qualitative criteria including our knowledge of the industry, historical data and through benchmarking to peers. Additionally, we evaluated the remainder of the portfolio to identify whether there are any customers who may be experiencing signs of financial distress.

We challenged the appropriateness of the MES methodology and assumptions, which included evaluating the sources used as the basis for deriving economic inputs, challenging management judgements applied in assessing how economic variables correlate to the company's default history, externally benchmarking key assumptions such as scenario weightings against a similar peer group and with the involvement of our economics specialists, we independently challenged the assumptions adopted.

As part of our wider assessment of impairment and the appropriateness of the loss given default calculation, we involved our valuation specialists to independently assess collateral valuations for a sample of stage 2 and stage 3 cases.

We also challenged the appropriateness of other assumptions used within the determination of impairment provisions such as probability of default, forced sale discount, time horizon to sale and commercial property price inflation. Procedures performed included benchmarking to peers, performing independent recalculations and evaluating data sourced by management from external third parties.

We assessed the rationale for any management overlays through our understanding of the company's loan book, the external environment and the current macro-economic uncertainty.

We involved our data analytics specialists to independently recalculate the impairment provisions in order to determine the accuracy of management's model.

We also tested the accuracy and completeness of the inputs which were used to determine the impairment provision back to underlying source data.

Key observations

We found management's impairment provisioning methodology, model and data inputs to be appropriate, with our stand back assessment concluding that the level of impairment provisions recorded is towards the middle of an acceptable range.

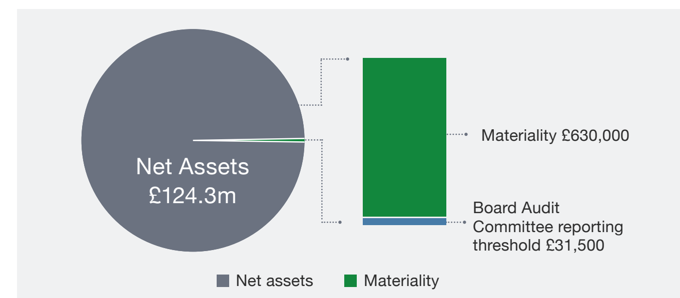
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£630,000 (2021: £530,000)
Basis for determining materiality	0.5% of net assets (2021: 0.5% of net assets)
Rationale for the benchmark applied	Net assets is considered to be an appropriate basis for materiality for the company due to the importance of regulatory capital to its supervision as an authorised deposit-taker, the company's strategy being centred around maintaining a stable capital base, and net assets being considered a stable base.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2022 audit (2021: 65%). In determining performance materiality, we considered that 65% of materiality continues to be appropriate in light of the level of uncorrected misstatements identified in the prior periods, as well as the increased control risks inherent within the business in light of the current levels of macro-economic uncertainty and the potential impacts on the company's future financial position.

6.3. Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of £31,500 (2021: £26,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company, its environment including entity-wide controls, and assessing the risks of material misstatement relevant for the company. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We identified key IT systems for the company in respect of the financial reporting system and lending and customer deposits system. We tested the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to adopt a controls reliance approach in relation to the lending and customer deposits business cycles, with relevant automated and manual controls being tested across these cycles. Based on the completion of these procedures being satisfactory, we were able to adopt a controls reliance approach across the lending and customer deposits cycle.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its financial statements. The company continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on pages 25 and 26.

As a part of our audit, we have obtained management's climate-related risk assessment and held discussions with the company to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the company's financial statements, including the company's going concern assessment as disclosed in note 1.

We performed our own risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional risks of material misstatement.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the directors and the Board Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they had knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant specialists, including tax, valuations, economics, credit risk, prudential regulation, pensions, financial instruments and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and impairment of receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the requirements set by the Financial Conduct Authority and Prudential Regulatory Authority.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and impairment of receivables as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Board Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and Prudential Regulation Authority as appropriate; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 24 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Board Audit Committee, we were appointed by the Board of Directors on 20 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2019 to 31 December 2022.

15.2. Consistency of the audit report with the additional report to the Board Audit Committee

Our audit opinion is consistent with the additional report to the Board Audit Committee which we are required to provide in accordance with ISAs (UK).

16. Use of our report

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.

Matthew Perkins FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
7 March 2023

Income Statement

for the year ended 31 December 2022

	Note	2022	2021
Interest income under EIR method	5	**47,121**	21,693
Interest expense and similar charges	6	**(3,327)**	(204)
Net Interest Income		**43,794**	21,489
Fee and commission income		**4,548**	4,422
Fee and commission expense		**(1,159)**	(774)
Net fee and commission income		**3,389**	3,648
Total income		**47,183**	25,137
Operating expenses	7	**(17,354)**	(13,614)
Impairment charge on loans and advances	11	**(2,477)**	(470)
Profit before taxation	3	**27,352**	11,053
Taxation charge	9	**(4,509)**	(1,382)
Profit for the year attributable to shareholders		**22,843**	9,671

The accounting policies and notes on pages 58 to 100 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2022

	Note	2022	2021
Profit for the year - equity shareholders		**22,843**	9,671
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation losses taken to equity[1]	12	**(6,385)**	(1,193)
Taxation		**1,596**	256
Items that will not subsequently be reclassified to profit or loss			
Actuarial (losses)/gains on defined benefit obligations	20	**(3,170)**	2,718
Taxation		**799**	(953)
Other comprehensive (charges)/income for the year, net of tax		**(7,160)**	828
Total comprehensive income for the year - equity shareholders		**15,683**	10,499

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

	2022	2021
Attributable to:		
Equity shareholders	**15,683**	10,499
Dividend paid in the year	**(949)**	(741)
	14,734	9,758

The accounting policies and notes on pages 58 to 100 form part of these financial statements.

Statement of Financial Position

for the year ended 31 December 2022

	Notes	2022	2021
Assets			
Cash and balances with the Bank of England	10	**567,701**	680,112
Loans and advances to banks		**-**	529
Loans and advances to customers	11	**836,576**	723,523
Investment securities	12	**256,638**	207,632
Intangible assets	13	**22**	60
Property, plant and equipment	14	**653**	760
Right of use assets	15	**1,581**	1,824
Pension scheme net assets	20	**3,788**	7,095
Other assets		**278**	126
Prepayments and accrued income	16	**1,149**	1,090
Current tax assets	9	**-**	43
Deferred tax assets	19	**793**	-
Total assets		**1,669,179**	1,622,794
Liabilities			
Amounts owed to banks		**85**	-
Customer deposits		**1,538,657**	1,507,227
Other liabilities	17	**3,448**	3,689
Accruals and deferred income		**1,493**	1,111
Provisions for liabilities and charges	18	**368**	175
Current tax liabilities	9	**1,313**	-
Deferred tax liabilities	19	**-**	1,629
Total liabilities		**1,545,364**	1,513,831

	Notes	2022	2021
Capital and reserves attributable to the Bank's equity shareholders			
Ordinary share capital	21	**24,730**	24,678
Share premium account	21	**18,150**	18,113
Capital redemption reserve		**4,511**	4,511
Retained earnings		**81,615**	62,040
Financial asset valuation reserve		**(5,131)**	(342)
Employee share ownership plan (ESOP) reserve	28	**(60)**	(37)
Total equity		**123,815**	108,963
Total liabilities and equity		**1,669,179**	1,622,794

The accounting policies and notes on pages 58 to 100 form part of these financial statements.

Approved by the Board on 7 March 2023 and signed on its behalf by:

Deborah Hazell, Chief Executive Officer

Alan Hughes, Chairman

Statement of Changes in Equity

for the year ended 31 December 2022

2022	**Share capital**	**Share premium**	**Capital redemption reserve**	**FVTOCI**	**Retained earnings**	**ESOP reserve**	**Total equity**
At 1 January 2022	**24,678**	**18,113**	**4,511**	**(342)**	**62,040**	**(37)**	**108,963**
Profit for the financial year	-	-	-	-	**22,843**	-	**22,843**
Issue of share capital – Capital raise (note 21)	-	-	-	-	-	-	-
Issue of share capital – Share Incentive Plan (note 21)	**52**	**37**	-	-	-	-	**89**
Adjustment for equity-settled share-based payments (note 27)	-	-	-	-	**52**	**(23)**	**29**
Actuarial loss on Defined Benefit pension (note 20)	-	-	-	-	**(3,170)**	-	**(3,170)**
Deferred Tax movements (note 9)	-	-	-	**1,596**	**799**	-	**2,395**
Net movement in Fair value through other comprehensive income (note 12)	-	-	-	**(6,385)**	-	-	**(6,385)**
Total	**52**	**37**	-	**(4,789)**	**20,524**	**(23)**	**15,801**
Dividend paid[1]	-	-	-	-	**(949)**	-	**(949)**
At 31 December 2022	**24,730**	**18,150**	**4,511**	**(5,131)**	**81,615**	**(60)**	**123,815**

2021	Share capital	Share premium	Capital redemption reserve	FVTOCI	Retained earnings	ESOP reserve	Total equity
At 1 January 2021	22,421	11,808	4,511	595	51,334	-	90,669
Profit for the financial year	-	-	-	-	9,671	-	9,671
Issue of share capital – Capital raise (note 21)	2,205	6,277	-	-	-	-	8,482
Issue of share capital – Share Incentive Plan (note 21)	52	28	-	-	-	-	80
Adjustment for equity-settled share-based payments (note 27)	-	-	-	-	11	(37)	(26)
Actuarial gain on Defined Benefit pension (note 20)	-	-	-	-	2,718	-	2,718
Deferred Tax movements (note 9)	-	-	-	256	(953)	-	(697)
Net movement in Fair value through other comprehensive income (note 12)	-	-	-	(1,193)	-	-	(1,193)
Total	2,257	6,305	-	(937)	11,447	(37)	19,035
Dividend paid[1]	-	-	-	-	(741)	-	(741)
At 31 December 2021	24,678	18,113	4,511	(342)	62,040	(37)	108,963

[1]Dividend paid in 2022 in respect of the 2021 financial year at 3.85p per share (paid in 2021 respect of the 2020 financial year: 3.3p per share).

The accounting policies and notes on pages 58 to 100 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2022

	Notes	2022	2021
Profit before taxation		**27,352**	11,053
Adjustments for:			
Finance costs		**249**	240
Impairment losses, net of reversals, on financial assets		**2,477**	470
Depreciation of property, plant and equipment		**270**	305
Depreciation of right-of-use assets		**269**	276
Amortisation of intangible assets		**38**	50
Loss on disposal of property, plant and equipment		**-**	12
Increase/(decrease) in provisions		**320**	88
Other non-cash movements		**(3,871)**	244
		27,104	12,738
Operating cash flows before movements in working capital			
Increase in prepayments and accrued income		**(59)**	(424)
(Increase)/decrease in other operating assets		**(151)**	28
Advances to customers		**(115,530)**	(122,183)
Bank of England mandatory reserve	10	**(355)**	(1,294)
Increase in accruals and deferred income		**382**	28
Increase in customer deposits		**31,430**	171,502
(Decrease)/increase in other operating liabilities		**(101)**	655
Cash generated by operations		**(57,280)**	61,050
Income tax paid		**(3,180)**	(1,328)
Net cash (outflow)/inflow from operating activities		**(60,460)**	59,722

	Notes	2022	2021
Investing activities			
Purchase of property, plant and equipment		**(163)**	(390)
Intangible asset additions		**-**	-
Purchase of investment securities		**(261,001)**	(30,302)
Proceeds from sale and redemption of investment securities		**209,523**	73,666
Net cash (used in)/from investing activities		**(51,641)**	42,974
Financing activities			
Dividends paid		**(949)**	(741)
Repayment of lease liabilities		**(380)**	(186)
Proceeds on issuance of share capital, net of transaction costs		**50**	8,520
Net cash (used in)/from financing activities		**(1,279)**	7,593
Net (decrease)/increase in cash and cash equivalents		**(113,380)**	110,289
Cash and cash equivalents at beginning of year		**677,238**	566,949
Cash and cash equivalents at end of year		**563,858**	677,238
Cash and balances with the Bank of England	10	**563,943**	676,709
(Amounts owed to banks)/Loans and advances to banks		**(85)**	529
		563,858	677,238

The accounting policies and notes on pages 58 to 100 form part of these financial statements.

Notes to the Financial Statements

1 Basis of preparation and significant accounting policies

The Bank's 2022 report and accounts have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as adopted by the UK. All amounts are stated in £000s unless otherwise indicated.

The financial information has been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value.

Unity Trust Bank plc formed and commenced operating a subsidiary company, Unity EBT Limited on 2 January 2013. The Bank holds 100% of the issued share capital of Unity EBT Limited comprising one, £1 ordinary share. Unity EBT Limited is the trustee of the Employee Share Ownership Plan (closed plan) and the Share Incentive Plan (SIP, for which own shares held are reflected in the Statement of Financial Position within the 'ESOP reserve'). Unity EBT Limited is registered in England and Wales. See note 27 for further details of share-based payments. The results and position of this subsidiary and those of Unity Trust Bank plc have not been presented on an IFRS 10 consolidated basis, on the grounds of materiality under Companies Act 2006, s405 (2). An election has been made to present the combined results and position on an extended entity basis. Under the extended entity basis, the results and position of the Unity Trust Bank plc and Unity EBT Limited are combined in an equivalent way to a consolidation with any intercompany balances eliminated. References to 'the Bank' reflect combined results and position on an extended entity basis, unless otherwise stated.

Going concern

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

In order to assess the appropriateness of the going concern basis the Directors considered the Bank's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them, including those arising from emerging issues arising from a higher interest and inflation environment, and climate change. Scenario planning considers impacts to interest income and loan impairment, due to deterioration in the wider economy. A range of different plausible scenarios have been modelled, considering possible mitigating management actions, in addition to capital and liquidity stress and reverse stress testing.

After performing this assessment, the Directors have a reasonable expectation that the Bank has adequate resources to remain in operation for at least 12 months from the signing date of the Report and Accounts. They therefore consider it appropriate to continue to adopt the going concern basis in preparing the Report and Accounts.

Changes in accounting policies

1.1 New IFRS Standards that are effective for the current year

The IFRS that are effective for the current year do not have a material impact on the Bank.

1.2 Revised IFRS Standards in issue but not yet effective

The standards and amendments in issue but not yet effective relevant to the Bank are listed below. Each will be adopted on their effective date. The directors do not expect that their adoption will have any / a material impact on the financial statements of Unity in future periods, unless specified below:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. These amends affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IAS 1 – Amended by Non-current Liabilities with Covenants

These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after January 1, 2024. The amendments are applied retrospectively.

Amendments to IAS 1 and IFRS Practice Statement 2 – Making Materiality Judgements, Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 about disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. The amendments set out requirements to disclose accounting policy information based on materiality. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The amendment also provides clarification of concepts relating to changes in accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Annual Improvements to IFRS Standards 2018–2022

The Annual Improvements relevant to Unity include amendments to IFRS 9 and IFRS 16. The Bank will apply the above standards and interpretations on the date they become effective.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

1.2 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) Interest income and expense

Interest income and expense are recognised for all financial instruments measured at amortised cost or Fair Value Through Other Comprehensive Income (FVTOCI) using the Effective Interest Rate Method 'EIRM'. The EIRM calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The Effective Interest Rate 'EIR' is the rate that exactly discounts estimated future cash flows to the net carrying amount, over the shorter of the contractual or behavioural life of the financial instrument.

When calculating the EIR, the Bank takes into account the behavioural life of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

(b) Fees and commissions

Fee and commission income is predominantly made up of fees received for banking services and do not meet the criteria for inclusion in the EIRM. These fees are recognised in income on an accruals basis as services are provided. Fees and commissions payable to brokers in respect of obtaining lending business, where these are direct and incremental costs related to the issue of a loan, are included in interest income as part of the EIR.

1.2 Significant accounting policies (continued)

(c) Classification and measurement of financial assets and liabilities

Classification is dependent on two tests, a contractual cash flow test (named SPPI: Solely Payments of Principal and Interest) and a business model assessment. If the cash flows from the instrument are only principal and interest, then the business model assessment determines whether the instrument is classified as amortised cost or FVTOCI:

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

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

If the cashflows from the instrument are not solely principal and interest (for example, linked to inflation) or the instruments are held for trading purposes, the asset is reported at FVTPL with differences in fair value being recognised in profit or loss. Assets are only reclassified if the business model for holding those assets changes. There are no instances of this in the year.

Investment securities are classified as FVTOCI, as the business model objective is both to collect contractual cash flows and sell financial assets for liquidity reasons or periodic asset realisation.

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

(d) Impairment of financial assets and loan commitments

The Bank assesses, on a forward-looking basis, the Expected Credit Losses ('ECL') associated with its financial assets carried at amortised cost and FVTOCI and that associated with the exposure arising from pipeline loan commitments. Changes in impairment provision are reported in profit and loss.

When an asset is originated, the ECL is measured as the present value of credit losses from default events over its lifetime. The provision recognised is either the amount expected over the next 12 months (the lifetime cash shortfalls that would be expected to occur if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring), or the amount expected over its lifetime (see below).

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

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

Credit Risk Categorisation

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

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

Default

Default is considered to have occurred when at least one of the following events have taken place: Where the Bank considers that the borrower is unlikely to repay its credit obligations without recourse by the Bank to actions such as realising security (if held); the borrower is past due more than 90 days on any material credit obligation; forbearance is deemed to have been applied; or the customer enters bankruptcy, administration, liquidation etc.

Curing

If the credit risk reduces, after a curing period of a minimum of six months, the loan can move from stage 3 to 2 or stage 2 to 1. In the instance where a loan is deemed to have decreased by more than 3 risk grades from initial recognition (see above for SICR), the curing period is a minimum of 12 months, before the loan can move back to stage 1, and the allowance can be reduced from lifetime to the 12 month ECL.

Write off

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Assets are derecognised when the contractual cash flows expire. If terms and conditions of loan contracts are substantially modified, the Bank considers whether this results in derecognition of the existing loan and recognition of a new loan. If the changes are not deemed to be substantial, then the current financial asset is retained and assessed for modification gains or losses.

Expected Credit Losses (ECL)

ECL are calculated based on information relating to:

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

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

(e) Derivative financial instruments and hedge accounting

The Bank has the ability to use derivatives for asset and liability management purposes to manage interest rate exposures related to non-trading positions. The instruments to be used are interest rate swap contracts. Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement except where derivatives qualify for cash flow hedge accounting. The Bank did not hold any derivatives during the current or prior year.

(f) Property, plant and equipment

Items of property, plant and equipment are stated at cost less any accumulated depreciation or impairment. Depreciation is provided on a straight-line basis at the following rates, which are estimated to write down the assets to realisable values at the end of their useful lives.

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

All items of property, plant and equipment are regularly reviewed for indications of impairment. Any impairment identified would be charged to the Income Statement. Consultancy costs incurred in acquiring and developing software for internal use which is directly attributable to the functioning of computer hardware are capitalised as tangible fixed assets where software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Capital work in progress is not depreciated until the asset is available for use; i.e. it is in the location and condition necessary for it be capable of operating in the manner intended by management.

(g) Intangible assets

Costs directly associated with the development of identifiable and unique software products that will generate benefits exceeding costs beyond one year, are recognised as intangible assets. Software licenses grant a right of use for the Bank. In accordance with IAS 38 the development and acquisition cost for software licences are treated as an intangible asset separate from the tangible asset (computer) on which it is installed. Costs which are determined as a Software as a Service are not capitalised.

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

Computer software	33% per annum

Amortisation is recognised within operating expenses in the Income Statement. The banking system is regularly reviewed for indications of impairment. Any impairment identified would be charged to profit and loss.

(h) Cash and cash equivalents

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

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

1.2 Significant accounting policies (continued)

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

(j) Pension costs

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

From initial recognition, the Bank's net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the scheme's assets and the amount of future entitlements earned by scheme members from service in prior periods, discounted back to present values using a rate based on an index of long-dated AA rated corporate bonds. This calculation allows the net obligation of the scheme to be expressed as either a surplus or deficit, which is recognised as either an asset or a liability respectively in the Bank's accounts at the balance sheet date. Gains or losses arising from the remeasurement of the defined benefit plan are recognised in full, in the year they occur, in the Statement of Comprehensive Income.

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

a) during the life of the pension scheme; or

b) assuming the gradual settlement of scheme liabilities over time until all members have left the scheme; or

c) assuming the full settlement of the scheme liabilities in a single event.

(k) 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.

(l) Provisions

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

(m) Deferred income

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

(n) Share premium

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

(o) Capital redemption reserve

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

(p) Leases

As a lessee, the Bank recognises a right-of-use asset representing the right to use the underlying asset and a lease liability representing the obligation to make lease payments.

Whether a contract is or contains a lease is assessed at inception of the contract. Unity recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, Unity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Unity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Unity did not make any such adjustments during the periods presented.

Right of use assets

These comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. IAS 36 is applied to determine whether an asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses a lease specific incremental borrowing rate.

If a lease has service/maintenance costs as part of the lease payment, and it is not practicable to separate, these costs are treated as one single payment for the calculation of the present value of the lease obligation. For the premises lease, the service charge is easily identifiable and therefore not included within the lease liability and will be recognised on an accruals basis within operating expenses.

The incremental borrowing rate applied to each lease is determined by taking into account the risk-free rate, adjusted for factors linked to the life of the underlying lease agreement. The weighted average incremental borrowing rate applied by Unity was 5.00% (2021: 4.98%).

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- fixed service costs associated where applicable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees; and
- payments of penalties for terminating the lease, if the lease term reflects the right to terminate the lease.

(q) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of the number of equity instruments that will eventually vest. At each reporting date, the Bank revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

2 Judgements in applying accounting policies and critical accounting estimates

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

Significant accounting estimates and assumptions:

- IFRS 9 Impairment – The determination of macroeconomic scenarios and their weightings, see note 11 for details.
- Pensions – The estimation of the IAS 19 valuation, see note 20 for details.

Critical judgements:

- IFRS 9 Impairment – The transition criteria from stage 1 to stage 2, see note 11 for details.
- Share based payments – Classification of the share based payments as equity settled, see note 27 for details.

3 Profit before taxation

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

	2022	2021
Audit services		
Fees payable for the audit of the annual accounts	**199**	137
Non-Audit services		
Fees payable for all other services – Review of the interim results	**41**	-
Total	**240**	**137**

There were no non-audit services in the prior year.

4 Directors' emoluments

Directors' emoluments for the year are set out with the Remuneration Report on page 34.

5 Interest income under EIR method

	2022	2021
On financial assets at amortised cost:		
on loans and advances to customers	**34,405**	20,045
on loans and advances to banks	**8,785**	713
	43,190	20,758
On financial assets at FVTOCI:		
on investment securities	**3,931**	935
Total	**47,121**	**21,693**

6 Interest expense and similar charges

	2022	2021
On financial liabilities measured at amortised cost:		
on customer deposits	**3,215**	88
On lease liabilities interest	**112**	116
Total	**3,327**	**204**

7 Operating expenses

	Note	2022	2021
Staff costs	8	**10,530**	8,032
Administrative expenses		**5,682**	4,596
Amortisation of intangible fixed assets	13	**38**	50
Depreciation of property, plant and equipment	14	**270**	305
Depreciation of right-of-use assets	15	**269**	276
Operating lease rentals		**30**	46
Research and development expenditure		**356**	309
Movement in provisions for liabilities and charges[1]	18	**179**	-
Total		**17,354**	**13,614**

[1]As per note 18, this balance represents the movement in provided / released amounts in relation to customer claims, other legal and dilapidation provisions. The movement for the redundancy provision is included within staff costs.

8 Staff costs

	Note	2022	2021
Wages and salaries[1]		**7,952**	6,282
Severance		**141**	81
Social security costs		**959**	741
Pension costs – defined benefit plans	20	**137**	124
Pension costs – defined contribution plans		**719**	436
Profit sharing plan		**552**	352
Share based payments – equity settled	27	**70**	16
Total		**10,530**	**8,032**

[1] Included within wages and salaries is £118k (2021: £98k) for other benefits provided to employees, such as the Wellbeing Allowance.

There is only one category of employees of the Bank. Included below is the monthly average number of persons employed by the Bank and was made up as follows:

	2022	2021
Full time	**118**	90
Part time	**16**	14
Total[1]	134	104

[1]The monthly average Full Time Equivalent (FTE) for 2022 was 129 (2021: 111).

9 Income tax

Tax Policy

The company adopted a tax policy on 27 February 2014, updated in December 2019.

A copy is available on our website at http://www.unity.co.uk/taxation. The disclosures made in these financial statements comply with commitments made in that tax policy. The Bank is a member of the Fair Tax Mark.

Tax charge	2022	2021
Current tax on profits for the year	**4,535**	1,370
Adjustment in respect of prior years	**-**	12
Total current tax	4,535	1,382
Deferred Tax		
Current year	**(20)**	24
Adjustment in respect of previous periods	**-**	(5)
Effect of changes in tax rates	**(6)**	(18)
Total deferred tax	(26)	1

Tax per income statement	4,509	1,382

Other comprehensive income	2022	2021
Income items:		
Deferred tax current year charge	**2,395**	(697)
Deferred tax prior year charge	**-**	-
Tax per statement of comprehensive income	2,395	(697)

Further information about deferred income tax is presented in note 19. The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

Tax reconciliation	2022	2021
Profit for the period – Extended Entity (see note 1)	**27,352**	11,053
Consolidation adjustment	**-**	(41)
Profit for the period – Unity Trust Bank plc	**27,352**	11,012
Tax on profit at standard UK tax rate of 19.00% (2021: 19.00%)	**5,197**	2,092
Adjustments to tax charge in respect of prior periods	**(2)**	7
Expenses not deductible for tax purposes	**9**	1
Tax rate changes	**(6)**	(18)
Community Investment Tax Relief	**(752)**	(632)
R&D expenditure	**(68)**	(40)
Share options	**(28)**	(28)
Banking surcharge	**159**	-
Total tax charge for the year	4,509	1,382

Cash paid reconciliation	2022	2021
Opening corporation tax liability	**(43)**	(96)
Add: current corporation tax liability for the year	**4,535**	1,370
Prior year adjustment	**-**	11
Less: payments in the year	**(3,179)**	(1,328)
Closing corporation tax liability	1,313	(43)

The standard rate of Corporation Tax in the UK changed is 19%. The company's profits for the accounting period are taxed at an effective rate of 16.48%. Changes to the UK corporation tax rate to increase to 25% from 1 April 2023 were substantively enacted as part of Finance Bill 2021 on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The bank corporation tax surcharge is an additional tax on banking profits calculated on the same basis as corporation tax. It was introduced in 2016 at a rate of 8% on profits over £25 million. The Government has confirmed in the Autumn Statement that, from 1 April 2023, the banking surcharge rate will be reduced from 8% to 3% and the allowance will be increased to £100m.

The amount of corporation tax payable is lower than would be implied by the current headline tax rate as the Bank has benefitted from Community Investment Tax Relief (CITR).

The CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs). The Bank has made such investments. The tax relief is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made. The Bank has now utilised the CITR in full. The Bank invests in CDFIs because it believes in the benefits they provide to the communities in which they operate. The tax relief it obtains is provided strictly in accordance with UK tax law and has been made available to encourage this activity.

A deferred tax asset of £792,055 has been recognised on the basis that there is sufficient evidence that the asset will be realised in future periods. The Bank has unrecognised deferred tax of £325,169 in relation to capital losses.

10 Cash and balances with the Bank of England

	2022	2021
Mandatory reserve with the Bank of England	**3,758**	3,403
Cash and balances with the Bank of England	**563,943**	676,709
Total	**567,701**	680,112

Cash and balances with the Bank of England includes cash of £3,758k (2021: £3,403k) held in a mandatory reserve with the Bank of England. This is excluded from cash and cash equivalents within the statement of cash flows, as this is restricted cash.

11 Loans and advances to customers

Classification and measurement

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

- The contractual terms of the Bank's financial assets have been assessed for non-standard clauses and off-market rate conditions and in the Bank's assessment the assets meet the 'solely payments of principal and interest' (SPPI) criteria. This means that interest is related to: return for the time value of money, credit risk or liquidity risk, amounts to cover expenses and a profit margin.
- The intention under the Bank's business model is that treasury assets are sold for liquidity and periodic asset realisation as required and not for trading purposes. These assets are recorded at fair value with gains being recognised through OCI.

Effective interest rate (EIR)

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

Expected future cash flows are determined using behavioural lives.

Directly attributable fees and costs are recognised on an EIR basis, and these are deemed to be arrangement and introducer fees only.

Impairment

IFRS 9 expected credit loss (ECLs) are recognised for loans and advances to banks and customers, investment securities and certain loan commitments, held at amortised cost or FVTOCI.

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

- Stage 1 – Loans and commitments with a risk grade of 1 to 5 on the internal scorecard are assumed not to have seen a SICR since initial recognition. Loans which meet certain criteria are subject to a quarterly management review as a backstop to assess the appropriateness of this assumption. The loss allowance applied to these assets is equal to 12 months ECL. Investment securities are also allocated to this stage due to their credit quality.
- Stage 2 – These are loans with a risk grade of 6 or 7, demonstrating that certain early warning indicators have been evidenced. It is considered that these assets have experienced a SICR. The loss allowance applied to these assets is equal to the loan's lifetime ECL.
- Stage 3 – These are loans with a risk grade of 8 or 9 and are in default or realisation and considered to be credit impaired (i.e. events which cause a negative impact on estimated future cashflows have arisen). The loss allowance for these assets is equal to the loan's lifetime ECL.

Overall credit quality and performance has remained broadly stable over the period, with arrears and defaults remaining at a low level.

Over the course of 2022, management have reviewed and refreshed (as appropriate) all model inputs, with reference to internal and external data, taking into consideration the current economic climate. The ECL provision increased by £2.5m to £6.1m (2021: £3.6m). The significant drivers for the increase in provision are: changes to customers internal risk grades; deterioration in macro-economic environment and increases in amounts advanced to customers (loan growth).

The measurement of the ECL provision is complex and involves management judgment, including estimation of probability of default, loss given default, exposure given default, the macro-economic scenarios applied and their respective scenario weightings. The main judgement relates to the application of the internal risk grades and the key estimation uncertainty relates to the determination of the four macro-economic scenarios and relative probability weightings. These are detailed below.

Aligning internal risk grades to stages

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

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

- Risk grades 1-5 are considered performing with no significant deterioration in credit risk; therefore, these loans are allocated to stage 1.
- Loans which have dropped 3 risk grades from the point of origination (and not considered cured after a 12-month period); or are risk grades 6 and 7 are deemed to exhibit a significant increase in credit risk and are allocated to stage 2. Risk grades 6 and 7 are on watchlist or considered to show signs of financial stress with turnaround in the short term. Quantitative measures such as probabilities of default are derived from reasonable and supportable historical analysis and forecasts of future economic conditions, as well as from other qualitative factors are used, and therefore requires significant management judgement. The stage 2 assessment is also supported by an objective 'back stop' measure of arrears, being 30 days past due.
- Risk grades 8 and 9 are accounts in default or realisation and are credit impaired or are not considered to have cured having been in stage 3. These accounts are allocated to stage 3. This is also supported by an objective 'back stop' measure of arrears, being 90 days past due.

Probability of Default

12-month PD% estimates defaults arising over the next 12 months. These PDs are applied to Stage 1, Risk Grade (RG) 1-5. This has been calculated by considering, for all historic defaults, the risk grade of the loan 12 months prior to the date of default, as a proportion of total loans in that risk grade. In addition, external 12-month PD data has been obtained for a proportion of customers across each risk grade. The final PD percentages are informed by a combination of both internal and external data and expert judgement.

Lifetime PD% estimates defaults over the life of the loan. For all historic defaults, the RG at initial recognition has been identified. This is transformed into a lifetime PD% through a survival rate analysis across all grades and applied for the ECL calculation to accounts in RG 6 and 7 (Stage 2). PDs for Stage 3 remain at 100% as these loans are considered to be in default.

PD is calculated for each risk grade and is based on a combination of internal and external data.

Loss given default

LGD is determined by considering the value of the trading business and security for all drawn and committed loan balances. This is adjusted for indexation, forced sale discounts ('FSD') and time value of money.

Exposure at default

EAD% reflects the attrition profile of the book at the average probability from which a loan will default after reporting date. This is based on default experience over the past 15 years. EAD is calculated for stages 1 and 2, as for accounts in stage 3 the actual exposure can be determined as the account is in default.

Forward looking information

IFRS 9 requires ECL to be measured in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes and incorporating relevant forward-looking information. Management exercises judgement in estimating the interaction between changes in key economic variables and customer defaults. Having determined underlying correlations, judgement is applied in estimating the future economic conditions which are incorporated in the modelling of multiple macro-economic scenarios ('MES').

The estimation of future economic conditions for the 2022 year end was enhanced to incorporate quarterly variables over the long run. For 2021 this was calculated using the median between the variable peak or trough, and the long term view of the variable.

The provision recognised is the probability-weighted sum of the provisions calculated under a range of four different scenarios. The MES are derived using external data and span an appropriately wide range of plausible economic conditions, with the provision increasing in unfavourable conditions. Management judgement is applied to determine the associated probability weightings of the scenarios, informed by external data.

The Bank uses four scenarios, representative of management's view of forecast economic conditions to 2025. The macro-economic scenarios used were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

Macro-conomics	Weights %	Dec 23	Dec 24	Dec 25	5-year average
Unemployment					
Base	45	4.30	4.77	4.85	4.60
Down 1	35	5.63	5.48	5.23	5.15
Down 2	15	6.96	6.19	5.60	5.71
Upside	5	2.97	4.06	4.47	4.04
GDP					
Base	45	(1.07)	0.39	0.67	0.22
Down 1	35	(5.34)	(1.89)	(0.55)	(1.56)
Down 2	15	(9.61)	(4.17)	(1.76)	(3.34)
Upside	5	3.20	2.67	1.88	2.00
Base rate					
Base	45	5.20	4.70	4.71	4.82
Down 1	35	6.53	5.41	5.09	5.37
Down 2	15	7.86	6.12	5.47	5.93
Upside	5	3.87	3.99	4.33	4.26
Inflation					
Base	45	5.99	2.66	2.22	3.13
Down 1	35	7.35	3.38	2.61	3.70
Down 2	15	8.71	4.11	2.99	4.27
Upside	5	4.63	1.94	1.83	2.57

[1] 5-year average covers period between 2023 and 2027

The scenarios applied at the end of 31 December 2021 were as follows:

Variable	Measure	Base	Stress	Severe Stress	Improved
UK GDP	GDP £ billions	**590**	575	550	610
Unemployment	LFS absolute rate	**4.0%**	5.0%	6.0%	3.3%
UK CPI inflation	4-quarter absolute rate	**3.0%**	5.0%	6.2%	3.8%
Interest rates	UK Bank Rate	**1.0%**	0.0%	(0.25%)	0.75%
Property prices	Additional haircut	**-**	20%	33%	-

As at 31 December 2022, the probability weightings for each scenario remain unchanged from 2021. While the direct impacts of the Covid pandemic have begun to recede, new uncertainties have emerged including the cost-of-living pressure and the conflict in Ukraine. The level of uncertainty remains high, as such, management retained probability weightings. The probability weightings applied to the scenarios are shown in the table below:

Scenario	Derivation	2022 Weighting	2021 Weighting
Base	Represents the most likely economic forecast and aligned with the scenario used in the Bank's financial planning process.	**45%**	45%
Downside 1	Increase in base PD%, haircut applied to market value (MV) of security prior to FSD.	**35%**	35%
Downside 2	Significant increase in base PD%, greater haircut applied to MV of security prior to FSD.	**15%**	15%
Upside	PD% reduced, greater haircut applied to MV from base.	**5%**	5%

The ECL provision has the greatest sensitivity to the economic scenario weightings. Movements to individual parameters in isolation are improbable as they are interrelated. Sustained movement in parameters would be reflected within economic conditions, as discussed above.

As at 31 December 2022, the customer loan provision is £6,092k, applying 100% weighting to Base results in a provision of £4,597k; and applying 100% weighting to Downside 1 scenario leads to a £6,523k provision.

	2022	2021
Gross loans and advances[1,2]	**842,668**	727,159
Less: allowance for losses on loans and advances to customers[2]	**(6,092)**	(3,636)
Total	**836,576**	723,523

[1]Gross loans and advances are shown net of EIR above.

[2]Both gross loans and advances and the loss allowance differ to those shown in the credit risk tables in note 26 due to commitments. Irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements. These commitments represent authorised overdraft balances and separately identifiable commitments for loan pipeline, where the facilities remain undrawn. The commitments of £36.4m (2021: £44.8m) are not recognised on the balance sheet, whilst the total associated provision of £193.6k (2021: £54k) is included within the allowance for losses on loans and advances to customers within stage 1.

Contractual netting arrangements are in place for certain customers. As a result, loans and advances are reduced by netting by £1,304k (2021: £1,596k), with the opposing impact in Customer deposits.

11 Loans and advances to customers (continued)

Post Model Adjustments (PMAs)

The Bank has evaluated the appropriateness, adequacy and completeness of PMAs held at year end. A £287k PMA is in place in respect of the economic uncertainty our customers face, arising from the cost-of-living crisis (2021: £nil). The adjustment involves applying Stage 2 (lifetime ECL) coverage rates to certain loans which would otherwise attract a 12 month ECL in Stage 1.

The following table reconciles the opening and closing impairment provision for loans and customers in different stages, from 1 January 2022 to 31 December 2022.

	Non-credit impaired		Credit impaired	
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£000	£000	£000	£000
Impairment provision at 1 January 2022	**536**	**966**	**2,134**	**3,636**
Transfers:				
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**(61)**	**61**	**-**	**-**
Transfers to stage 3	**-**	**(433)**	**433**	**-**
Utilisation	**-**	**-**	**(195)**	**(195)**
Charges/(credit) to profit and loss:			**-**	
Changes in provision[1]	**1,581**	**1,249**	**(786)**	**2,044**
Unwind of discount of allowance[2]	**(291)**	**(122)**	**306**	**(107)**
New provisions	**1,141**	**29**	**-**	**1,170**
Provisions that have been derecognised during the period	**(100)**	**(355)**	**0**	**(455)**
Impairment provision at 31 December 2022	**2,806**	**1,394**	**1,891**	**6,092**

[1] Includes changes to the ECL provision arising from stage transfers and other changes to risk parameters.
[2] Representing the build-up of the discounted provision to the expected loss.

	Non-credit impaired		Credit impaired	
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£000	£000	£000	£000
Impairment provision at 1 January 2021	322	949	2,121	3,392
Transfers:				
Transfers to stage 1	233	-	(233)	-
Transfers to stage 2	57	(57)	-	-
Transfers to stage 3	-	(44)	44	-
Utilisation	-	-	(233)	(233)
Charges/(credit) to profit and loss:				
Changes in provision[1]	(18)	492	355	829
Unwind of discount of allowance[2]	(19)	10	83	74
New provisions	275	30	-	305
Provisions that have been derecognised during the period	(314)	(414)	(3)	(731)
Impairment provision at 31 December 2021	536	966	2,134	3,636

[1] Includes changes to the ECL provision arising from stage transfers and other changes to risk parameters.
[2] Representing the build-up of the discounted provision to the expected loss.

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.

	2022	2021
Administrative bodies and non-commercial	**239,160**	247,464
Property (excluding hotels and leisure)	**325,850**	261,218
Healthcare and social services[1]	**264,123**	-
Hotels & leisure	**3,767**	4,803
Other	**9,769**	213,674
	842,669	727,159

[1]Healthcare and social services disclosure category was introduced in 2022. The exposure within this category as at 31 December 2021 of £202,676k was included in the "Other" category.

12 Investment securities

	2022	2021
Fair value through other comprehensive income:		
Other listed transferable debt securities	**256,638**	207,632
Total	**256,638**	207,632
Movements during the year are analysed below:		
At 1 January	**207,632**	252,413
Fair value adjustment	**(6,385)**	(1,193)
Acquisitions	**261,016**	30,262
Disposals, maturities, amortisation and other movements	**(205,625)**	(73,850)
At 31 December	**256,638**	207,632

13 Intangible assets

Computer Software	2022	2021
Cost		
At 1 January	**442**	442
Additions	**-**	-
At 31 December	**442**	442
Accumulated Amortisation		
At 1 January	**382**	332
Charge for the year	**38**	50
At 31 December	**420**	382
Net book value at 31 December	**22**	60

14 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2022	**646**	**1,181**	**1,827**
Additions	**-**	**163**	**163**
Disposals	**-**	**-**	**-**
At 31 December 2022	**646**	**1,344**	**1,990**
Accumulated Depreciation			
At 1 January 2022	**301**	**766**	**1,067**
Charge for the year	**50**	**220**	**270**
Disposals	**-**	**-**	**-**
At 31 December 2022	**351**	**986**	**1,337**
Net book value at 31 December 2022	**295**	**358**	**653**

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2021	646	809	1,455
Additions	-	390	390
At 31 December 2021	646	1,181	1,827
Accumulated Depreciation			
At 1 January 2021	211	557	768
Charge for the year	90	215	305
Disposals	-	(6)	(6)
At 31 December 2021	301	766	1,067
Net book value at 31 December 2021	345	415	760

15 Leases

Right-of-use assets

	Office Premises	Vehicles	Office Equipment	Total 2022
At 1 January 2022	**2,628**	**15**	**24**	**2,667**
Additions	**26**	**-**	**-**	**26**
Disposals	**-**	**(15)**	**(24)**	**(39)**
At 31 December 2022	2,654	-	-	2,654
Accumulated depreciation				
At 1 January 2022	**804**	**15**	**24**	**843**
Charge for the year	**269**	**-**	**-**	**269**
Disposals	**-**	**(15)**	**(24)**	**(39)**
At 31 December 2022	1,073	-	-	1,073
Net book value at 31 December 2022	1,581	-	-	1,581

Amounts recognised in the income statement

Interest on lease liabilities	**112**	**-**	**-**	**112**
Depreciation of right of use assets	**269**	**-**	**-**	**269**
Expenses relating to short term leases	**-**	**-**	**-**	**-**
At 31 December 2022	381	-	-	381

Right-of-use assets

	Office Premises	Vehicles	Office Equipment	Total 2021
At 1 January 2021	2,628	15	24	2,667
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2021	2,628	15	24	2,667
Accumulated depreciation				
At 1 January 2021	535	15	18	568
Charge for the year	269	-	6	275
Disposals	-	-	-	-
At 31 December 2021	804	15	24	843
Net book value at 31 December 2021	1,824	-	-	1,824

Amounts recognised in the income statement

Interest on lease liabilities	116	-	-	116
Depreciation of right of use assets	269	-	6	275
Expenses relating to short term leases	-	-	-	-
At 31 December 2021	385	-	6	391

16 Prepayments & accrued income

	2022	2021
Prepayments & accrued income	**1,149**	1,090
Total	**1,149**	1,090

17 Other liabilities

	2022	2021
Amounts payable within one year:		
Trade creditors	**46**	88
Other liabilities	**1,442**	1,373
Lease liability	**285**	264
Amounts payable after one year:		
Lease liability	**1,675**	1,964
Total	3,448	3,689

18 Provisions for liabilities and charges

	Redundancy	Customer claims	Legal and other	Dilapidations provision	Total
At 1 January 2022	-	-	-	175	175
Income statement movements:					
Charged in the year	141	3	150	26	320
Utilised during the year	(124)	(3)	-	-	(127)
At 31 December 2022	17	-	150	201	368
Amounts falling due within one year	17	-	150	-	167
Amounts falling due after one year	-	-	-	201	201
	17	-	150	201	368

Redundancy provision relates to employee redundancy costs. Customer claims relates to estimated costs in ongoing investigations. Dilapidations provision is an estimate of the remedial cost of repairs and redecorations for the time when we vacate our Head Office, with the corresponding charge recognised as the lease right of use asset in line with IFRS 16. All provisions are based on best estimates and information available to management.

	Redundancy	Customer claims	Legal and other	Dilapidations provision	Total
At 1 January 2021	15	19	-	175	209
Income statement movements:					
Charged in the year	-	88	-	-	88
Utilised during the year	(15)	(107)	-	-	(122)
At 31 December 2021	-	-	-	175	175
Amounts falling due within one year	-	-	-	-	-
Amounts falling due after one year	-	-	-	175	175
	-	-	-	175	175

19 Deferred tax

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

The movement on the deferred tax accounts are as follows:

	Fixed assets	Short term timing differences	Pension	Investment	IFRS 9 transitional	Share options	Total
At 1 January 2022 - Liability	27	-	1,774	(120)	(50)	(2)	1,629
Adjustment in respect of prior year	-	-	-	-	-	-	-
Current year deferred tax charge	3	-	(34)	-	8	(3)	(26)
Charge to OCI	-	-	(793)	(1,596)	-	(7)	(2,396)
At 31 December 2022 - Asset	30	-	947	(1,716)	(42)	(12)	(793)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date. The Finance Act 2021 increased the tax rate to 25% (effective from 1 April 2023). This change to the main tax rate had been enacted at the balance sheet date and are reflected in the measurement of deferred tax balances.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of £325k in respect of capital losses amounting to £1,301k that can be carried forward against future taxable chargeable gains.

All of the deferred tax balances relate entirely to temporary timing differences. Short-term timing differences and £8k (2021: £6k) of the IFRS 9 transitional adjustment are expected to be recoverable within 12 months. The residual balances are recoverable after 12 months. The deferred tax for the above items arises as follows:

- Fixed assets - on the book difference between depreciation and capital allowances.
- Pension - is the future benefit or cost relating to the difference between that accounted for (surplus) and that paid (contributions).
- Investments - relate to the fair value movement of investment securities and will reside until the underlying asset is sold and a gain or loss is realised in the income statement, or the asset matures, and the fair value is nil.
- IFRS 9 transitional adjustment - this will be released over the 10-year spreading period of the transitional adjustment in line with IFRS. There are 6 years remaining.
- Share options - relates to the estimated future tax deduction at the year end.

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20 Pensions

As at 31 December 2022, the IAS 19 surplus in the Scheme was £3,788k compared with £7,095k as at 31 December 2021, with the movement going through profit and loss and other comprehensive income, as shown in the tables below.

Scheme

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

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

There are three categories of pension scheme members:

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

The defined benefit obligation is valued by projecting the best estimate of future benefit outflow (allowing for future salary increases for in-service deferred members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The valuation method used is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2022 is around 16 years.

Method and assumptions

The IAS 19 valuation was completed as at 31 December 202 by a qualified independent actuary. The assumptions used were as follows:

Significant actuarial assumptions:	As at 31 December 2022	As at 31 December 2021
Discount rate	**4.7% pa**	1.8% pa
RPI inflation	**3.1% pa**	3.3% pa
CPI inflation	**2.7% pa**	2.9% pa

Other actuarial assumptions:	As at 31 December 2022	As at 31 December 2021
Salary increases	**3.8% pa**	4.0% pa
Pension increases:		
Post 88 GMP	**2.3% pa**	2.4% pa
RPI max 5% pa	**3.1% pa**	3.2% pa
RPI max 2.5% pa	**2.2% pa**	2.3% pa
Revaluation of deferred pensions	**RPI: 3.1% pa**	RPI: 3.2% pa
in excess of GMP	**CPI: 2.7% pa**	CPI: 2.9% pa

Mortality assumptions:	As at 31 December 2022	As at 31 December 2021
Mortality (pre- & post-retirement)	**100% S3PMA**	100% S3PMA
	Middle / Light / Very Light	Middle / Light / Very Light
	100% S3PFA	100% S3PFA
	Middle / Light / Very Light	Middle / Light / Very Light
	CMI_2021	CMI_2020
	1.25% (yob)	1.25% (yob)

Life expectancies (in years)

	As at 31 December 2022		As at 31 December 2021	
	Males	Females	Males	Females
For an individual aged 65 in 2021	**21.4 / 23.2 / 23.9**	**23.8 / 24.8 / 25.3**	21.4 / 23.2 / 23.9	23.8 / 24.8 / 25.3
At age 65 for an individual aged 45 in 2021	**22.7 / 24.5 / 25.1**	**25.3 / 26.2 / 26.6**	22.7 / 24.5 / 25.1	25.3 / 26.2 / 26.6

Risks

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

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, but the Scheme also invests in growth funds. These assets are expected to outperform corporate bonds in the long term but provide volatility and risk in the short term.
- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's bond holdings.
- Inflation risk: a significant proportion of the Scheme's defined benefit obligation is linked to inflation; therefore, higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place).
- Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Unity manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- LDI approach: holding assets that display similar interest rate and inflation sensitivity to the Scheme's liabilities.

Sensitivity analysis

The sensitivity analysis has been calculated by changing the noted assumption as per the table below and keeping all remaining assumptions the same as those disclosed above, except for inflation where other assumptions that are based on inflation are amended accordingly. The changes in assumptions have been selected as reasonably possible, are in line with peer analysis and are to illustrate the sensitivity of the defined benefit key assumptions.

Assumption	Change in assumption	Change in defined benefit obligation £'000
Discount rate	+ / - 0.5% pa	(1,576) / 1,771
Inflation	+ / - 0.5% pa	1,273 / (1,434)
Assumed life expectancy	+ 1 year	482

20 Pensions (continued)

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions.

Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Assets

The scheme's assets as at 31 December 2021 were held as follows:

	As at 31 December 2022	
Asset class	**Market Value**	**% of total assets**
Diversified growth fund	**2,539**	**10%**
Diversified credit fund	**1,606**	**6%**
Contractual income	**4,535**	**18%**
Corporate bonds	**4,402**	**18%**
Liability driven investment	**7,698**	**31%**
Gilts	**2,793**	**11%**
Cash	**1,425**	**6%**
Total	**24,998**	**100%**

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

Reconciliation to the Statement of Financial Position

	As at 31 December 2022	As at 31 December 2021
Market value of assets	**24,998**	41,495
Present value of defined benefit obligation	**(21,210)**	(34,100)
Funded status	**3,788**	7,095
Adjustment in respect of minimum funding requirement	**-**	-
Pension asset recognised in the Statement of Financial Position before allowance for deferred tax	**3,788**	7,095

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

Analysis of changes in the value of the defined benefit obligation over the year

	As at 31 December 2022	As at 31 December 2021
Value of defined benefit obligation at the start of the year	**34,100**	37,073
Interest cost	**608**	438
Benefits paid	**(611)**	(1,140)
Actuarial losses/(gains): experience differing from that assumed	**2,107**	(558)
Actuarial (gains)/losses: changes in demographic assumptions	**(21)**	704
Actuarial gains: changes in financial assumptions	**(14,973)**	(2,417)
Value of defined benefit obligation at the end of the year	**21,210**	34,100

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

	As at 31 December 2022	As at 31 December 2021
Market value of assets at the start of the year	**41,195**	41,574
Interest income	**734**	491
Actual return on assets less interest	**(16,057)**	447
Benefits paid	**(611)**	(1,140)
Administration costs	**(263)**	(177)
Market value of assets at the end of the year	**24,998**	41,195

Amounts recognised in the income statement

	2022	2021
Expenses	**263**	177
Net interest	**(126)**	(53)
Amount charged to income statement	**137**	124

Amounts recognised in other comprehensive income

	2022	2021
Actuarial gains/(losses) on defined benefit obligation	**12,887**	2,271
Actual return on assets less interest	**(16,057)**	447
Amounts recognised in other comprehensive income	**(3,170)**	2,718

Future funding obligation

The Trustee is required to carry out an actuarial valuation every three years.

The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustee as at 30 June 2021.

This valuation revealed a funding surplus of £4,887k (31 December 2018: £3,829k). As there is no funding shortfall, and as the Scheme meets its own expenses, Unity does not expect to pay any contributions to the Scheme during the financial year beginning 1 January 2023.

21 Share capital and share premium

	2022	2021
Share capital: Ordinary shares of £1 each, authorised and issued		
At 1 January	**24,678**	22,421
Issue of share capital - Capital raise	**-**	2,205
Issue of share capital - Share Incentive Plan	**52**	52
At 31 December	**24,730**	24,678

	2022	2021
Share premium		
At 1 January	**18,113**	11,808
Issue of share capital - Capital raise	**-**	6,277
Issue of share capital - Share Incentive Plan	**37**	28
At 31 December	**18,150**	18,113

Shares were issued as follows during the current year:

- 41,366 shares were issued in respect of the SIP at £1 per share for a consideration of £41k, and 10,971 shares were issued at £4.42 per share for a consideration of £48k.

Shares were issued as follows during the prior year:

- 2,205 ordinary shares were issued relating to the Capital Raise at £3.85 per share for a consideration of £8,482k.
- In relation to the Share Incentive Plan, 41,145 shares were issued at £1 per share for a consideration of £41k, and 9,814 shares were issued at £3.85 per share for a consideration of £39k.

22 Commitments

The tables below show the nominal principal amounts and credit equivalent amounts of commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk.

The commitments 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.

	2022 Contract amount	2021 Contract amount
Guarantees and irrevocable letters of credit	**360**	948
	360	948
Other commitments:		
Undrawn formal standby facilities, credit lines		
and other commitments to lend:		
1 year and over	**90,853**	98,785
	90,853	98,785

The £90.9m (2021: £98.7m) consists of £36.4m (2020: £44.8m) undrawn accepted facilities and £54.4m (2021: £53.9m) undrawn committed facilities. Undrawn accepted facilities are where the customer has accepted the offer letter and sent it back to us. This is referred to as commitments for loan pipeline, as per note 11.

Undrawn committed facilities include part-drawn facilities where the Bank has agreed to make loans available to the borrower under a revolving credit facility or delayed draw term.

Commitments under operating leases

	2022		2021	
	Land and buildings	Other leases	Land and buildings	Other leases
At the year end, total commitments under non-cancellable operating leases were payable as follows:				
Expiring:				
-within one year	**-**	**64**	-	64
-between one and five years	**-**	**13**	-	13
-in five years or more	**-**	**-**	-	-
	-	**77**	-	77

Operating lease rental payments are disclosed in note 7.
The 'Other leases' commitments refer to the Bank's offices in Manchester and London which expire in February 2023.

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23 Related party transactions

The Bank has a related party relationship with its Directors, executive management and the defined benefit pension scheme. The remuneration of non-Director key management personnel of the company is set out below in aggregate for each of the relevant categories specified in IAS 24 Related Party Disclosures.

	2022	2021
Salaries and other short-term benefits	**704**	603
Post-retirement benefits	**29**	52
Total key management compensation	733	655

Unite the Union Trustee Company Limited and Unite the Union Second Trustee Company Limited provide a Pensions Protection Fund guarantee over the punctual performance of all present and future obligations and liabilities of the Bank, to make payments under the Scheme. During the year a fee of £27k was payable by the Bank (2021: £57k), to be shared by the guarantors. This fee is calculated in reference to the 'buy-out' (s75) value as set out in the latest actuarial funding valuation and is paid annually.

24 Country by country reporting

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

25 Capital management - unaudited

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

Regulatory capital

Regulatory capital stood at £122.9m (2021: £104.3m), significantly in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis		2022	2021
Tier 1			
Share capital		**24,730**	24,678
Share premium account		**18,150**	18,113
Reserves:	Capital Redemption Reserve	**4,511**	4,511
	Retained earnings	**81,615**	62,040
	Financial Asset revaluation reserve	**(5,131)**	(342)
	ESOP reserve	**(60)**	(37)
Common Equity Tier 1 (CET1) capital before adjustments		123,815	108,963

Regulatory capital analysis (continued)	2022	2021
Adjustments to CET1		
Other intangible assets	**(22)**	(60)
Prudent additional valuation adjustment	**(257)**	(208)
Net pension asset	**(2,840)**	(5,321)
IFRS 9 transitional adjustment	**2,235**	886
CET1 and Total Tier 1 capital resources	122,931	104,260
Tier 2 Adjustment for collective provisions	**-**	-
Total Tier 2 Adjustments	-	-
Total regulatory capital	122,931	104,260
Common Equity Tier 1 ratio	18.3%	17.7%

26 Financial risk management

The fair value represents the amount at which the instrument would be exchanged in an arm's length transaction between two wiling parties. In most cases, quoted market prices are readily available and are used, otherwise prices are obtained by using well established valuation techniques, which use present cash flows. The fair value will approximate to the carrying value when instruments are carried on the balance sheet at market value or where the instruments are short term or contain frequent repricing provisions. At 31 December 2022 and 31 December 2021, the book value of the Bank's financial instruments that have an active and liquid market were equivalent to the fair value of those instruments.

Valuation of Financial Instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

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

Primary Financial Instruments used by the Bank

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

Customer loans and deposits

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

Debt securities, wholesale market loans and deposits

Debt securities are non-traded investment securities. The Bank holds High-Quality Liquid Asset and together with debt securities underpin the Bank's liquidity requirements and generate incremental interest income.

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26 Financial risk management (continued)

31 December 2022	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
Assets					
Financial instruments measured at fair value					
Investment securities	-	256,638	256,638	256,638	Level 1
Financial instruments not measured at fair value					
Cash and balances with the Bank of England	567,701	-	567,701	567,701	Level 1
Loans and advances to banks	-	-	-	-	Level 3
Loans and advances to customers (gross)	836,576	-	836,576	783,748	Level 3
	1,404,277	256,638	1,660,915	1,608,087	
Liabilities					
Deposits from customers	1,538,657	-	1,538,657	1,538,657	Level 3
Amounts owed to banks	85		85	85	Level 3
	1,538,742	-	1,538,742	1,538,742	

31 December 2021	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
Assets					
Financial instruments measured at fair value					
Investment securities	-	207,632	207,632	207,632	Level 1
Financial instruments not measured at fair value					
Cash and balances with the Bank of England	680,112	-	680,112	680,112	Level 1
Loans and advances to banks	529	-	529	529	Level 3
Loans and advances to customers (gross)	727,199	-	727,199	695,281	Level 3
	1,407,840	207,632	1,615,472	1,583,554	
Liabilities					
Deposits from customers	1,507,227	-	1,507,227	1,507,227	Level 3
	1,507,227	-	1,507,227	1,507,227	

- Loans and advances to banks

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

- Loans and advances to customers

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

- Investment securities

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

- Customer deposits

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

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

Credit Risk

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

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

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

The Bank's Risk appetite aim 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. The Board Risk Committee receives regular reports on new facilities and changes in facilities, sector exposures, impairment provisions and the realisation of problem loans.

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

26 Financial risk management (continued)

Maximum exposure to credit risk

	Gross balance	Credit commitments		2022 Credit risk exposure	Gross balance	Credit commitments		2021 Credit risk exposure
		Pipeline[1]	Other			Pipeline[1]	Other	
Cash balances at central banks	**567,701**	**-**	**-**	**567,701**	680,112	-	-	680,112
Loans and advances to banks	**-**	**-**	**-**	**-**	529	-	-	529
Loans and advances to customers[2]	**847,913**	**36,446**	**54,407**	**938,766**	727,159	44,842	53,943	825,944
Investment securities	**256,679**	**-**	**-**	**256,679**	207,632	-	-	207,632
Total	**1,672,293**	**36,446**	**54,407**	**1,763,146**	1,615,432	44,842	53,943	1,714,217
Impairment allowance for:								
Loans and advances				**(6,092)**				(3,636)
Treasury investments				**(41)**				(20)
EIR adjustment[2]				**(5,244)**				-
				1,751,768				1,710,561

[1]As detailed in note 11, irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements. These commitments represent authorised overdraft balances and separately identifiable commitments for loan pipeline, where the facilities remain undrawn. The commitments are not recognised on the balance sheet. Other credit commitments relate to the undrawn portion of facilities where a borrower has made a partial drawdown. The provision is recognised within stage 1 ECL.

[2]Gross loans and advances to customer was shown net of £4,615k EIR in the comparative information in the table above.

The Bank's concentration exposure for loans and advances is outlined in note 11 and for treasury investments further below within this note.

Credit risk analysis

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

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

The definitions of these risk grading are as follows:

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

	Stage 1 12 month ECL	Stage 2 Lifetime ECL - SICR	Stage 3 Lifetime ECL - credit impaired	Total
31 December 2022	**£000**	**£000 <30 DPD**	**£000 <90 DPD**	**£000**
Impairment provision at 1 January 2022	**556**	**966**	**2,134**	**3,656**
Gross carrying amount as at 1 January 2022	**958,279**	**17,591**	**5,374**	**981,244**
Individual financial assets transferred to stage 1	**1,115**	**(1,115)**	**-**	**-**
Individual financial assets transferred to stage 2	**(26,590)**	**26,590**	**-**	**-**
Individual financial assets transferred to stage 3	**(164)**	**(2,106)**	**2,270**	**-**
New financial assets originated or purchased	**481,756**	**2**	**-**	**481,758**
Financial assets that have been derecognised	**(299,302)**	**(3,398)**	**-**	**(302,700)**
Other changes[1]	**(21,443)**	**1,940**	**(1,330)**	**(20,833)**
Gross carrying amount as at 31 December 2022	**1,093,651**	**39,504**	**6,314**	**1,139,469**
Impairment provision at 31 December 2022	**2,848**	**1,394**	**1,891**	**6,133**

[1] Other changes include contractual repayments in year for loan balances impacting stages 1-3 and also current year fair value movement for treasury investments, impacting stage 1.

	Stage 1 12 month ECL	Stage 2 Lifetime ECL - SICR	Stage 3 Lifetime ECL - credit impaired	Total
31 December 2021	**£000**	**£000 >30 DPD**	**£000 >90 DPD**	**£000**
Impairment provision at 1 January 2021	347	949	2,121	3,417
Gross carrying amount as at 1 January 2021	880,475	20,347	3,820	904,642
Individual financial assets transferred from stage 1	(1,697)	1,697	-	-
Individual financial assets transferred from stage 2	2,578	(4,732)	2,154	-
Individual financial assets transferred from stage 3	376	11	(387)	-
New financial assets originated or purchased	209,845	1,508	-	211,353
Financial assets that have been derecognised	(131,612)	(461)	(128)	(132,201)
Other changes[1]	(1,686)	(779)	(85)	(2,550)
Gross carrying amount as at 31 December 2021	958,279	17,591	5,374	981,244
Impairment provision at 31 December 2021	556	966	2,134	3,656

[1] Other changes include contractual repayments in year for loan balances impacting stages 1-3 and also current year fair value movement for treasury investments, impacting stage 1.

26 Financial risk management (continued)

Credit risk analysis (continued)

Collateral

Collateral is only held for loans and advances to customers. Any shortfall of security for an exposure is generally regarded as unsecured and assessment includes this element of residual risk. As at 31 December 2022 £21.4m (2021: £15.0m) within loans and advances was unsecured. Where the security, post any market value haircuts (as discussed in note 11), is greater than the loan exposure, no impairment allowance is recognised. As at 31 December 2022 £406.4m (2021: £608.6m) within loans and advances and pipeline required no provision.

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

At the reporting date, the fair value of collateral held as security against credit impaired (stage 3) assets was £8.7m (2021: £7.6m).

Geographical concentration

The nominal geographical split is detailed in the table below.

Country	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure
United Kingdom	**-**	**75,000**	**30,000**	**-**	**105,000**
	-	75,000	30,000	-	105,000
Rest of Europe	**-**	**-**	**-**	**-**	**-**
Germany	**-**	**-**	**10,000**	**-**	**10,000**
Sweden	**-**	**-**	**-**	**-**	**-**
	-	-	10,000	-	10,000
Rest of the World					
Australia	**-**	**-**	**-**	**-**	**-**
Canada	**-**	**-**	**5,000**	**-**	**5,000**
Supranational	**-**	**36,000**	**112,500**	**-**	**148,500**
	-	36,000	117,500	-	153,500

Country	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure 31 December 2021
United Kingdom	-	33,285	25,000	-	58,285
	-	33,285	25,000	-	58,285
Rest of Europe	**-**	**-**	**-**	**-**	**-**
Germany	-	-	10,000	-	10,000
Sweden	20,000	-	-	-	20,000
	20,000	-	10,000	-	30,000
Rest of the World					
Australia	-	-	9,925	-	9,925
Canada	-	20,000	8,885	-	28,885
Supranational	10,000	30,000	40,000	-	80,000
	10,000	50,000	58,810	-	118,810

Interest rate risk

Interest rate risk is primarily managed through assessing the sensitivity of the Bank's non-trading book to standard and non-standard interest rate scenarios. The Board has established a risk appetite to manage earnings and economic value to rises and falls in yield curves, assuming the external rate on all retail products changes to maintain constant margins.

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

The Bank monitors the impact of a range of possible interest rate changes on its assets and liabilities closely and sensitivities are reported to ALCO monthly.

The following table details the sensitivity of the Bank's annual earnings to a 25 basis point change in interest rates at the year end (with all other variables held constant). A positive number indicates an increase in profit.

	+25 bps 2022	+25 bps 2021	**-25 bps 2022**	-25 bps 2021
Impact	**2,545.2**	2,921.4	**(4,628.18)**	(3,424.8)

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as SONIA and Bank of England base rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate loans) are also monitored closely and regularly reported to ALCO.

The following tables summarise the repricing periods for the assets and liabilities in the Bank's non-trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Interest free current account balances are included in the 'within 3 months' maturity band.

26 Financial risk management (continued)

Interest rate risk (continued)

31 December 2022	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of England	567,701	-	-	-	-	-	567,701
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	820,631	85	3,912	9,361	8,679	(6,092)	836,576
Investment securities	108,294	36,274	112,070	-	-	-	256,638
Other assets	-	-	-	-	-	8,264	8,264
Total assets	1,496,626	36,359	115,982	9,361	8,679	2,172	1,669,179
Liabilities							
Amounts owed to banks	85	-	-	-	-	-	85
Customer deposits	1,538,657	-	-	-	-	-	1,538,657
Other liabilities	-	-	-	-	-	6,622	6,622
Total equity	-	-	-	-	-	123,815	123,815
Total liabilities and equity	1,538,742	-	-	-	-	130,437	1,669,179
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	(42,116)	36,359	115,982	9,361	8,679	(128,265)	
Cumulative gap	(42,116)	(5,757)	110,225	119,586	128,265	-	

31 December 2021	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of England	680,112	-	-	-	-	-	680,112
Loans and advances to banks	529	-	-	-	-	-	529
Loans and advances to customers	709,005	-	-	14,122	4,031	(3,635)	723,523
Investment securities	147,166	-	60,466	-	-	-	207,632
Other assets	-	-	-	-	-	10,998	10,998
Total assets	1,536,812	-	60,466	14,122	4,031	7,363	1,622,794
Liabilities							
Customer deposits	1,507,227	-	-	-	-	-	1,507,227
Other liabilities	-	-	-	-	-	6,604	6,604
Total equity	-	-	-	-	-	108,963	108,963
Total liabilities and equity	1,507,227	-	-	-	-	115,567	1,622,794
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	29,585	-	60,466	14,122	4,031	(108,204)	
Cumulative gap	29,585	29,585	90,051	104,173	108,204	-	

26 Financial risk management (continued)

Liquidity Gap

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

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

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

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

31 December 2022	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Cash and balances at central banks	567,701	-	-	-	-	-	567,701
Loans and advances to banks		-	-	-	-	-	-
Loans and advances to customers	-	9,476	12,989	254,293	559,818	-	836,576
Investment securities	-	108,294	148,344	-	-	-	256,638
Other assets	-	-	-	-	-	8,264	8,264
Total assets	567,701	117,770	161,333	254,293	559,818	8,264	1,669,179
Liabilities							
Amounts owed to banks	85						85
Customer deposits	1,370,007	168,650	-	-	-	-	1,538,657
Other liabilities	-	-	-	-	-	6,622	6,622
Total equity	-	-	-	-	-	123,815	123,815
Total liabilities and equity	1,370,092	168,650	-	-	-	130,437	1,669,179
Net liquidity gap on contractual basis	(802,391)	(50,880)	161,333	254,293	559,818	(122,173)	-

31 December 2021	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Cash and balances at central banks	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
Investment securities	-	147,166	60,466	-	-	-	207,632
Other assets	-	-	-	-	-	10,998	10,998
Total assets	680,641	150,683	71,494	248,139	554,650	10,998	1,622,795
Liabilities							
Customer deposits	1,370,272	136,500	-	-	-	-	1,507,227
Other liabilities	-	-	-	-	-	6,604	6,604
Total equity	-	-	-	-	-	108,964	108,964
Total liabilities and equity	1,370,727	136,500	-	-	-	115,568	1,622,795
Net liquidity gap on contractual basis	(690,086)	(82,983)	74,850	248,139	554,650	(104,570)	-

Gross expected cashflow maturity analysis – contractual

31 December 2022	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	1,538,657	1,538,657	1,494,657	44,000	-	-	-
Other liabilities	6,622	6,622	6,622	-	-	-	-
Total recognised liabilities	1,545,279	1,545,279	1,501,279	44,000	-	-	-
Unrecognised loan commitments	90,853	90,853	90,853	-	-	-	-
Total	1,636,132	1,636,132	1,592,132	44,000	-	-	-

26 Financial risk management (continued)

Liquidity Gap (continued)

31 December 2021	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non Derivative liabilities							
Deposits from customers	1,507,227	1,507,227	1,416,527	90,700	-	-	-
Other liabilities	6,604	6,604	6,604	-	-	-	-
Total recognised liabilities	1,513,831	1,513,831	1,423,131	90,700	-	-	-
Unrecognised loan commitments	98,785	98,785	98,785	-	-	-	-
Total	1,612,616	1,612,616	1,521,916	90,700	-	-	-

27 Share-based payments

The Bank operates three equity settled share-based payment arrangements to incentivise and reward employees as well as increase employee ownership. The Company Share Option Plan (CSOP) and the Share Incentive Plan (SIP) with awards first made in 2021, with further awards made under both plans in 2022. Awards under a third share-based payment arrangement, the Key Person Share Option Plan (KSOP), were made in 2022.

Details of each share-based payment arrangement are set out in the Remuneration Report on page 34. The charge for the year in relation to share based payments recognised as an operating expense within staff costs was £70k (2021: £16k), see note 8. Valuation and accounting matters are set out below.

Share incentive plan (SIP)

The Free and Matching shares vest over a 3 year period contingent on continuing employment with the Bank and are held as own shares within the ESOP reserve until they vest. The Bank funded the purchase of Free and Matching shares via a cash gift to Unity EBT Limited which is recognised as a loss on disposal over the vesting period, together with the cost of the award at the fair value on grant. The fair value of the 2022 award was based on the 2021 net asset value per share. The fair value of the 2021 was based on the price achieved by the Bank in the September 2021 Capital Raise. Partnership shares are acquired by the employee and held on trust by Unity EBT Limited. There is no obligation for the Bank to repurchase the Partnership shares should an employee leave or wish to sell the shares.

Company Share Option Plan

CSOP options outstanding:	2022 Number	2022 Weighted average exercise price £	2021 Number	2021 Weighted average exercise price £
Outstanding at the beginning of the year	**85,714**	**3.85**	-	-
Granted in the year	**47,512**	**4.42**	85,714	3.85
Exercised or surrendered in the year	**-**	**-**	-	-
Lapsed during the year	**(19,481)**	**3.85**	-	-
Outstanding at the end of the year	**113,745**	**4.09**	85,714	3.85
Exercisable at the end of the year	-	-	-	-

The weighted average remaining contractual life of CSOP options outstanding at 31 December 2022 was 49 months (2021: 56). CSOP options were granted in September 2022 (2021: September 2021).

The aggregate of the estimated fair value of the CSOP options granted in the year is £35k (2021: £84k).

The inputs into the Black Scholes model for the CSOP are as follows:

	2022	2021
Weighted average share price	**£4.42**	£3.85
Weighted average exercise price	**£4.42**	£3.85
Expected volatility	**35%**	30%
Expected life	**5 years**	5 years
Risk free rate	**3%**	1%
Expected dividend yields %	**0.8%**	0.8%

Expected volatility was determined by considering the historical volatility of a group of comparable listed companies over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Key Person Share Option Plan

KSOP options outstanding:	2022 Number	2022 Weighted average exercise price £	2021 Number	2021 Weighted average exercise price £
Outstanding at the beginning of the year	**-**	**-**	-	-
Granted in the year	**95,021**	**1.00**	-	-
Exercised or surrendered in the year	**-**	**-**	-	-
Lapsed during the year	**-**	**-**	-	-
Outstanding at the end of the year	**95,021**	**1.00**	-	-
Exercisable at the end of the year	-	-	-	-

The weighted average remaining contractual life of KSOP options outstanding at 31 December 2022 was 59 months (2021: None awarded). 95,021 KSOP options were granted in November 2022 (2021: None granted). The aggregate of the estimated fair value of the KSOP options granted in the year is £242k (2021: none granted). This valuation reflects the Black Scholes valuation of £323k, discounted by 25% to reflect the number of options which are expected to be eligible for vesting. The number of options which are eligible for versing are based on the achievement of the performance criteria, the vesting cap and Board discretion set out in the Remuneration Report on page 34. Each of the performance criteria are considered to be non-market based and accordingly will be reassessed each year.

27 Share-based payments (continued)

Key Person Share Option Plan (continued)

The inputs into the Black Scholes model for the KSOP are as follows:

	2022 award
Weighted average share price	£4.42
Weighted average exercise price	£1.00
Expected volatility	35%
Expected life	5 years
Risk free rate	3%
Expected dividend yields %	0.8%

Expected volatility was determined by considering the historical volatility of a group of comparable listed companies over the previous 5 years.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions, and behavioural considerations.

28 ESOP reserve

	2022	2021
At 1 January	37	-
Shares purchased	41	37
Options exercised	(18)	-
	60	37

The Employee Share Ownership Plan ('ESOP') reserve relates to shares are held in trust for the benefit of employees exercising their options under the Bank's share option schemes and awards under the Share Incentive Plan. At 31 December 2022, the trust held 79,963 ordinary shares (2021: 41,145) with a nominal value of £80k (2021: £41k). Share-based awards were outstanding against 79,963 of these shares at 31 December 2022 (2021: 41,145). Shares purchased in 2021 is shown net of the SIP unwind over the vesting period of £5k.

29 Dividends

A dividend of 5.5p is proposed in respect of the 2022 financial year at the forthcoming AGM. A dividend of 3.85p per share was recognised in 2022 in respect of the 2021 financial year following approval at the 2022 AGM.

Glossary

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

Term	Definition
Unity or The Bank	Unity Trust Bank plc
ALCO	Asset and Liability Committee
APM	Alternative Performance Measure: a performance measure used by Unity that provide a more meaningful measure than other performance measures.
BoE	Bank of England
Book value	This is the same as NAV. See below for description.
CAGR	Compound Annual Growth Rate: an APM that is the annualised average rate of growth in Loans and advances to customers over the period (as a percentage).
CET1	Ratio determined by CET1 capital resources as a proportion of total risk weighted assets.
CDFI	Community Development Finance Institutions
CIR	Cost Income Ratio: an APM that is calculated as the total operating expenses as a proportion of Total Income.
CITR	Community Investment Tax Relief
CRD IV	Capital Requirements Directive (Directive 2013/36 EU)
CRD V	Capital Requirements Directive (Directive 2019/878 EU)
EAD	Exposure at default
ECL	Expected credit loss(es)
EPS	Earnings Per Share calculated as profit after tax divided by the weighted average number of shares in issue. The EPS presented is Basic Earnings Per Share i.e. this excludes the dilution impact of share options in issue.
EIRM	Effective interest rate method
FCA	Financial Conduct Authority
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LDR	Loan Deposit Ratio: an APM that is calculated as the customer loans as a proportion of the customer deposits.
LGD	Loss given default
MES	Multiple economic scenarios
NAV	Net Asset Value: an APM that indicates the Bank's value per share, calculated as the net assets as a proportion of the issued shares
PD	Probability of default
PPF	Pension Protection Fund
PRA	Prudential Regulation Authority
RoE	Return on Equity: an APM that is calculated as PAT as a proportion of the average shareholder equity
RFP	Responsible Finance Provider
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest

Accreditations

Throughout our history, Unity Trust Bank is proud to have been awarded with a number of accreditations in recognition of the continuous work we do to positively impact our people and society.

From being the first bank to be accredited as a Living Wage Employer and the first to achieve the Fair Tax Mark, to our Bronze Standard in Carbon Literacy and Gold Standard in Investors in People, striving towards these achievements is not just for the 'badge', it's part of our values and what we do to provide a better future for everyone.

Investors in People is a standard for people management, offering accreditation to organisations that adhere to the Investors in People Standard.

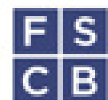
Disability Confident is creating a movement of change, encouraging employers to think differently about disability and take action to improve how they recruit, retain and develop disabled people.

The Fair Tax Foundation was launched in 2014 and operates as a not-for-profit social enterprise. Our Fair Tax Mark accreditation scheme seeks to encourage and recognise businesses that pay the right amount of corporation tax at the right time and in the right place. We believe companies paying tax responsibly and transparently should be celebrated, and any race to the bottom resisted.

In order to become an accredited Living Wage Employer, you need to pay all of your directly employed staff a Living Wage, and have a plan in place to extend that to regular sub-contracted staff as well. The current Living Wage rates are £9.90 per hour and £11.05 in London.

A Carbon Literate Organisation (CLO) is an organisation that has been accredited by The Carbon Literacy Project as having a substantial commitment to Carbon Literacy. CLO accreditation supports the development (and recruitment and retention) of a Carbon Literate workforce and requires an organisation to engage positively with its audience or community in developing and delivering low carbon behaviour.

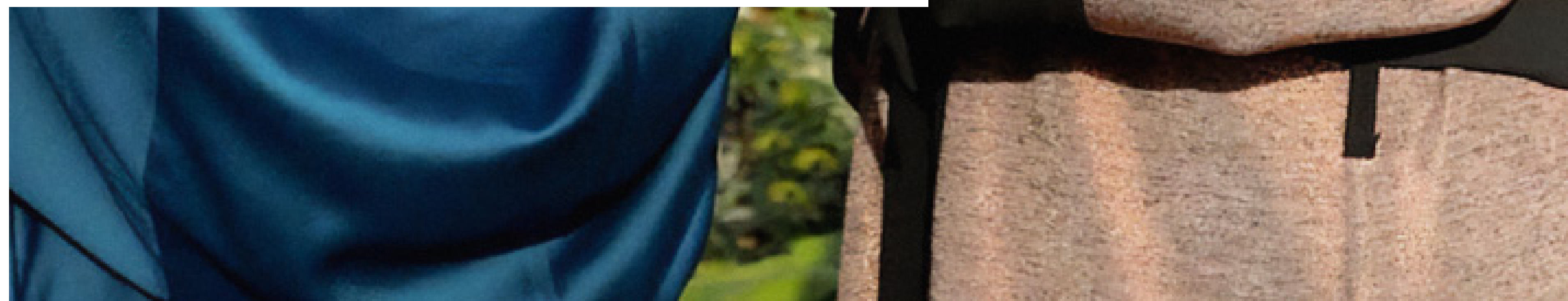
The GABV is a community of financial institutions which share a mission driven approach to banking that puts finance at the service of people and planet. Social and environmental impact are at the heart of a values-based bank's business model.



Becoming an FSCB member is entirely voluntary and to join is to make a statement that your firm recognises the importance of good organisational culture – to your employees, customers, clients, members and the financial services sector as a whole.

Working with members to continually improve responsible business practices. Leveraging their collective impact for the benefit of communities.

The Women in Finance Charter is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms.



unity trust bank

For Businesses. For Communities. **For Good.**

Unity Trust Bank plc ('the Bank') is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Bank is entered in the Financial Services Register number 204570. Our call centre is open Monday to Friday 9:00am to 4:00pm.
Registered office: Four Brindleyplace, Birmingham, B1 2JB. Registered in England and Wales no. 1713124.

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