Pillar 3 disclosures 2015

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1. Overview

1.1 Purpose

This document provides background information on the approach used by Unity Trust Bank plc (the Bank) to manage risk and maintain its capital resources. It sets out the Bank's:

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

1.2 Background and regulatory guidance

The European Union Capital Requirements Directive II (CRD II) came into effect on 1 January 2007. Commonly referred to as Basel II, the legislative framework built on Basel I which introduced capital adequacy standards governing how much capital all banks and building societies must hold to protect their members, depositors and shareholders.

Basel II was replaced by Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) (together referred to as CRD IV). CRD IV implements Basel III and came into force on 1 January 2014. It is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA). The objective of CRD IV is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy.

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

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

CRD IV requires a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. The Bank has a risk philosophy to be 'a low risk institution'. This is evidenced in its Common Equity Tier 1 capital ratio of 26.5% as at 31 December 2015 and low level of arrears on core lending. Additional information on the Bank's management of risk and its risk profile is included in the remaining sections of this document, and the Annual Report & Accounts.

1.3 Basis and frequency of disclosures

This document sets out the Pillar 3 disclosures for the Bank and is its first set of disclosures as an independent Bank, as previously the Bank was consolidated into the disclosures given by The Co-operative Bank. On 15 December 2015, the Bank repurchased 20% of the 26.7% shareholding held by The Co-operative Bank plc. As a result of this transaction and subsequent changes to articles of association, the Bank is no longer considered a subsidiary undertaking of The Co-operative Bank plc. These disclosures have been prepared solely to give information on the basis of calculating Basel III requirements and on the management of risks faced by the Bank in accordance with the rules laid out in CRR Part Eight. The disclosures may differ from similar information in the Annual Report & Accounts prepared in accordance with International Financial Reporting Standards (IFRS); therefore the information in these disclosures may not be directly comparable with that information.

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

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

1.4 Verification

These disclosures have been reviewed by the Bank's Audit and Risk Committee on behalf of the Board, and by the Bank's auditors for compliance with Part Eight of the CRR. These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of the Bank's financial statements.

1.5 Remuneration and governance arrangements

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

1.6 Scope of disclosures

The Bank is regulated and authorised by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). The Bank has no trading subsidiaries. The information disclosed therefore relates to Unity Trust Bank plc only. No Pillar 3 information has been omitted as either being proprietary or confidential. 2015 is the first year the Bank has published a Pillar 3 document as previously it was included as part of The Co-operative Bank plc disclosures.

2 Risk management framework, objectives and policies

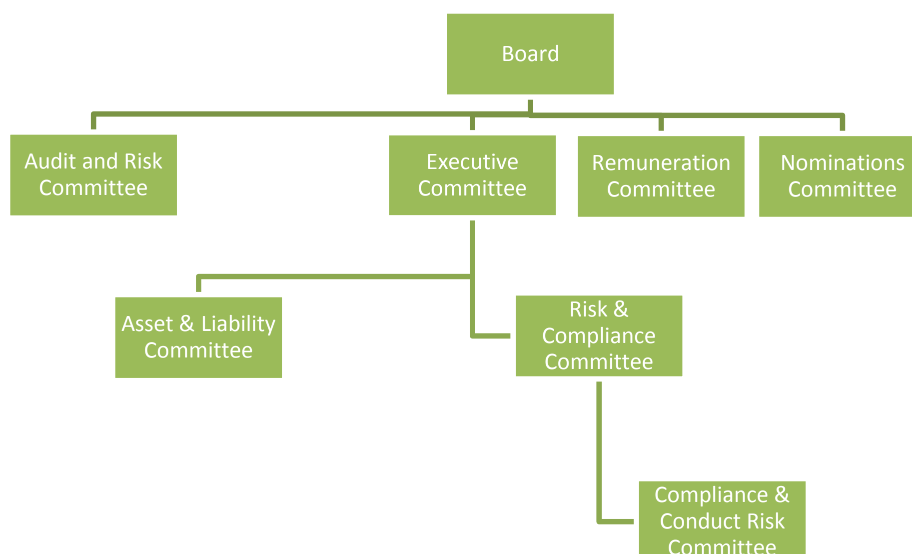
2.1 Overview

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

In December 2015, the Bank achieved independence from The Co-operative Bank plc and established the necessary internal structures and capability to support the Bank in its independence. An Individual Capital Adequacy Assessment Process (ICAAP) as an independent bank will be submitted to the appropriate regulatory authority in 2016 in conjunction with an updated Risk Appetite Statement. The revised governance and risk management structure enhances the oversight and challenge over the risk management process, identifies the key risks facing the business and assesses the effectiveness of planned management actions.

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.

2.2 Committees structure



The **Audit & Risk Committee (ARC)** is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation and management of all significant risks across the Bank and determining that all risks are being managed appropriately, in line with its Risk Appetite Statements, and that adequate capital adequacy is maintained. It also supports the Bank's Board in carrying out its responsibilities for internal control and risk assessment, supported by the Bank's Internal Audit function (which is outsourced to PwC).

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

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

The **Executive Committee** is a management committee and manages the strategic risks of the business in line with the Board's Risk Appetite Statement. It also maintains oversight of risk management processes and management information. It receives business updates including financial performance on a monthly basis.

The **Asset and Liability Committee (ALCO)** is a management committee and is primarily responsible for managing the market, liquidity and funding risks that affect the Bank, including the interest rate risk inherent in the Bank's assets and liabilities, liquidity and funding risks and treasury credit risk. ALCO meets monthly and is chaired by the Chief Financial Officer.

The **Risk and Compliance Committee (RAC)** is a management committee and provides support to the Bank's compliance oversight function in providing requisite assurance to the Executive Committee and ARC. It is responsible for monitoring all risks except liquidity and funding risks, monitored by ALCO. It meets monthly and is chaired by the Chief Risk Officer.

The **Compliance and Conduct Risk Committee (CCR)** is a management committee with responsibility for overseeing products, marketing and regulatory compliance.

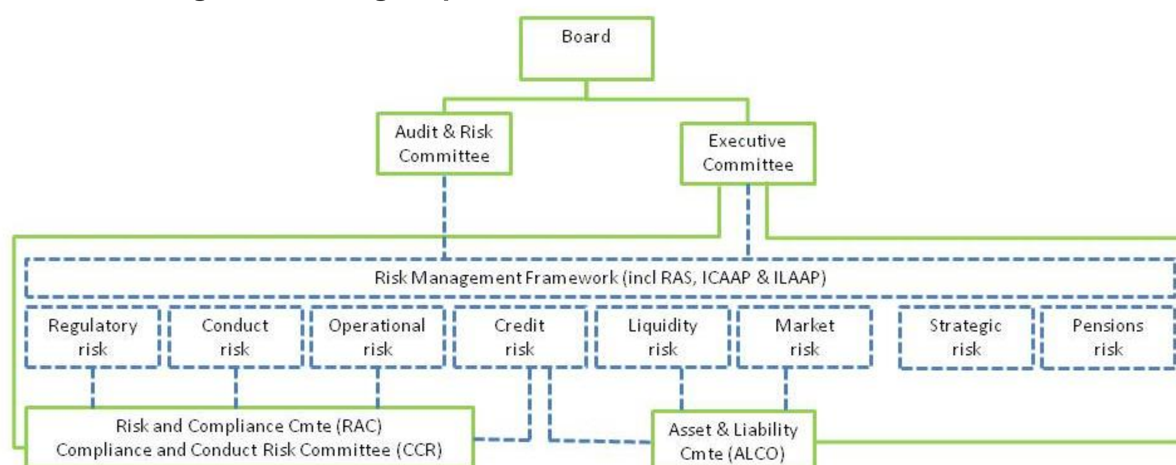
2.3 Significant Risks

The Bank's significant risks arise in six broad categories:

- Credit risk
- Market risk
- Liquidity and Funding risk
- Operational risk
- Strategic risk
- Conduct risk

Two further areas of risk considered by the Bank, and in the section below, are Pensions Risk and Regulatory Risk.

Committee diagram showing responsibilities for risks



2.3.1. Credit Risk

Credit risk is an integral part of many of the Bank's business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities, such as letters of credit) and in treasury activities (derivative contracts, repurchase agreements and treasury lending transactions).

All authority to take credit risk derives from the Bank's Board through Audit and Risk Committee. This is delegated through the Chief Executive Officer to the Chief Risk Officer and the credit underwriting team. The level of credit risk authority delegated depends on seniority and experience of the member of staff, varying according to the quality of the counterparty or any associated security or collateral held.

The Bank's Credit Risk Management (non-treasury) Policy is approved by the Board annually and determines the criteria for the management of non-treasury lending exposures. It specifies credit management standards, along with delegated authorities. Facilities greater than 10% of the Bank's capital (approximately £5 million) are defined as large exposures and must be sanctioned by Audit and Risk Committee which also reviews all facilities sanctioned within delegated discretions elsewhere.

The Bank's Policy is to maintain a broad sectoral spread of exposures within the Bank's areas of expertise. Credit exposures to customers are assessed individually. The quality of the overall portfolio is monitored, using a credit scorecard system calibrated to anticipated probability of default and eventual loss. All aspects of credit management are controlled centrally. Audit and Risk Committee receives regular reports on new facilities and changes in facilities, sector exposures, bad debt provisions and the realisation of problem loans.

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

Description of collateral

The Bank uses collateral to mitigate credit risk. Within loans and advances to customers, collateral for corporate lending is largely in the form of residential or commercial property. The latter is recognised in numerous ways such as security for property development or investment customers (i.e. "property" lending) or owner occupied premises to secure mainstream loan and overdraft facilities.

Where exposures are agreed on a secured basis, security cover is recognised only where:

- the security is legally enforceable and is of a tangible nature and type;
- a margin is applied to the valuation, for the type of security involved.

Impaired Assets and Forbearance

Loans and securities are considered impaired where it is determined that the Bank will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements. The loan portfolios are reviewed on an on-going basis to assess impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

Risk grades A to D are considered performing with sub-categories as follows:
A – Strong credit risk
B – Good credit risk
C – Fully acceptable credit risk
D – Broadly acceptable credit risk but some warning signs
E – Customers on watchlist but still performing and expected to continue to operate
F – Default and risk of loss to the bank is low
G – Default and in recovery

Customers are placed into the watchlist category if they show signs of unsatisfactory performance and require close control, but are still expected to continue paying. Events which may trigger watchlist status include a deteriorating balance sheet, material losses, trading difficulties (e.g. loss of material contracts or suppliers), breach of financial covenants, poor account conduct, arrears and material reduction in value of security. In such circumstances, the Bank works with the customer to resolve business problems and agree a clear strategy, sometimes with the support of external, independent professional advisors.

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

- restructuring, waiving or reserving rights in the event of covenant breaches, at 31 December 2015, 35 cases;
- postponement of principal payments, at 31 December 2015, 1 case (although two others were postponed during the year and resolved by year end);
- restructures of principal payments, no cases at 31 December 2015;
- extension of loan maturities, no cases at 31 December 2015; or
- partial or full capitalisation of interest payments, no cases at 31 December 2015.

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the Bank retains the forbearance status for as long as the concession remains in place and does not remove them from the watchlist until at least six months later. In the event of one off concessions (such as capitalisation of interest payments), the Bank removes the forbearance status 12 months after their occurrence, and retains the customers on the watchlist for at least the same period of time.

Other forbearance concessions the Bank may grant are considered to be objective evidence of impairment and include:

- a partial write off of debt, following which the account continues to be classified as impaired for at least six months; or
- a material postponement or forgiveness of interest and/or 'soft' rates or waiver and/or reduction of normal fees and charges; the accounts must remain impaired while such favourable terms are being applied.

Additional objective evidence of impairment include:

- an instalment on a loan account being overdue, or having been in excess of its limit (or being overdrawn without an agreed limit), for 90 days or more;
- an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, liquidator or administrator; or
- if the Bank considers that at some point (normally taken within the next 12 months) actions such as an issue of formal demand will be required in order to achieve full repayment.

Specific impairment provisions for bad and doubtful debt against individual lending are raised at the point when business performance is assessed to have deteriorated to the extent that there is a real risk of loss of principal, interest or fees. Provisions will be required on either a part or the entire shortfall between the security held and the loan balance outstanding and represent a realistic assessment of the likely net loss after realisation of any security.

For provision purposes, an up to date property valuation or selling agent's recommendation will be discounted to take into account selling and legal costs and also to build in a contingency to cover potential reductions in the selling price based upon the type of security, entity and the existence or otherwise of a contracted sale. In some cases, calculation of the provision level will be based on an up to date assessment (often following an independent business review by a firm of accountants) of likely receivables from the business or a formal estimated outcome statement from an insolvency practitioner where the business has failed.

The Bank also reviews monthly all exposures of higher risk grade loans and considers the potential provision which might be required were the business to fail (notwithstanding that continued trading remains the expectation). A collective impairment provision may then be raised against this portfolio based on the propensity for the business failure in this pool, to cover where an incident of default has occurred but this has yet to be identified.

In addition to its on-going loan portfolios, the Bank also has a small number of legacy loans in the Hotel and Leisure sector which have specific impairment provisions against them.

2.3.2. Market risk

Market risk arises from the effect of changes in market prices of financial instruments and on income/expenses derived from the structure of the balance sheet. The majority of the risk arises from changes in interest rates as the Bank does not have any foreign exchange exposure.

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

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

2.3.3. Liquidity and Funding risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management processes and limits are included in the Treasury Policy which is reviewed and approved annually by Audit and Risk Committee. Liquidity forecasting is monitored on a daily basis by the Bank's Treasury function to ensure the liquid asset buffer remains within the guidelines set in the Individual Liquidity Adequacy Assessment (ILAA). The Bank holds overnight funds in the Bank of England Reserve Account and invests in high quality debt issued by financial institutions, Certificates of Deposit and UK Treasury Gilts. Stress testing is undertaken quarterly in accordance with the framework set out in the ILAA.

During the year, the Board approved the Bank’s ILAA and the Bank is making good progress in adopting the new regulatory regime. The Bank’s Liquidity Coverage Ratio (LCR) is significantly higher than the 80% minimum effective 1 October 2015. The Bank also reviews its compliance with the liquidity systems and controls requirements as detailed in the PRA Rulebook.

The Bank has a policy of being 100% customer funded and does not require inter-bank funding. The Bank’s Risk Appetite Statement includes limits on the loan to deposit ratio and the liquid asset ratio. During 2015, the Financial Services Compensation Scheme (FSCS) rules were changed such that a larger proportion of the Bank’s customer base became covered by the FSCS and the limit per customer reduced from £85,000 to £75,000.

2.3.4. Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events arising from day to day activities. This includes fraud risk and the effectiveness of risk management techniques and controls to minimise operational losses.

Operational risks are identified, managed and mitigated through ongoing risk management practices including:

- risk assessments;
- formal internal control procedures;
- training;
- segregation of duties;
- delegated authorities; and
- contingency planning.

Operational risks are formally reviewed on a regular basis by the Risk and Compliance Committee, who have regular reports from the business and Internal Audit based on their own programme of internal audits and from second line’s monitoring programme.

2.3.5. Strategic risk

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

2.3.6. Conduct risk

Risk that the Bank’s customers suffer loss or detriment due to failures in product design, sales and marketing processes or operational delivery. The Compliance and Conduct Risk Committee is a management committee and monitors trends in these areas. It meets monthly and reports into Risk and Compliance Committee.

2.3.7. Other risks

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

- **Pensions risk**: The risk to the Bank's capital and company funds from the Bank's exposure to the Pace defined benefit pension scheme, run by The Co-operative Group, and risks inherent in the valuation of scheme liabilities and assets. The pension scheme is structured on a 'last man standing' basis therefore, as a participating employer in the scheme, the Bank would be liable for a greater proportion of the scheme's liabilities were one or more other participating employers to become insolvent. The Bank has closed its defined benefit pension scheme to future accrual as at October 2015. The Board is in dialogue with its external advisors as to how to manage and reduce this risk.
- **Regulatory risk:** The risk that the Bank does not comply with changes in the regulatory environment. The Bank's Risk and Compliance team monitors regulatory change and compliance and reports to the Executive and Board as appropriate.

2.4 Risk management

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

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

First line of defence: functional heads are responsible for the identification, measurement and management of the day to day risks and ensuring appropriate controls are in place and operating effectively;
Second line of defence: this function provides risk management expertise and challenges functional heads in their performance of risk management activities. Reviews are performed as part of a targetted compliance and risk management programme;
Third line of defence: Internal Audit (which is outsourced to PwC) is responsible for independently reviewing the effectiveness of the risk management structure and internal controls and for confirming the Bank's activities are in line with the Board risk appetite, regulatory or legal requirements.

The second and third line review programmes are overseen by Audit and Risk Committee and detailed findings are also reported at RAC and the Executive Committee.

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

ICAAP

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

ILAA

The Individual Liquidity Adequacy Assessment (ILAA) is the Bank's documentation of its evaluation of its liquidity risks, the current liquidity position and its requirements, assessed against regulatory requirements and risk tolerance. An integral component of the approach to liquidity risk management is stress testing, some of which is prescriptive, using the latest guidance issued within prudential regulations and the Delegated Act for the LCR. The ILAA is reviewed and updated annually.

Reverse stress testing

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

The analysis is formally undertaken annually and reviewed and approved by the Board, although the scenarios are considered more frequently.

Recovery and Resolution Plans

The recovery plan represents a 'menu of options' for the Bank to deal with firm-specific or market-wide stress which can be rolled out quickly as part of a credible and executable plan. The recovery plan is enacted if certain key triggers are breached, or events happen in the market which are likely to affect the Bank detrimentally (eg failure of a counterparty). Orderly wind-up of the Bank is considered to be a viable recovery plan option for a small institution.

The resolution plan provides the data required, if it was necessary, to close down the Bank. In preparing and planning for such extreme events, the Board ensures that it has taken these severe risks, however remote, into account in its planning and considered the mitigating actions available.

3 Capital resources and requirements

3.1 Overview

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

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

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

3.2 Total available capital resources

As at 31 December 2015 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and national legislation.

The capital resources of the Bank are as follows:

		2015	2014
		£'000	£'000
Share Capital		17,000	16,429
Share Premium		3,733	250
Reserves:	Capital redemption reserve	3,250	-
	Retained earnings	24,773	30,787
	Available for sale reserve	360	(59)
Common Equity Tier 1 (CET1) capital before adjustments		**49,116**	**47,407**
Intangible assets		(227)	(327)
CET1 and Total Tier 1 capital resources		**48,889**	**47,080**
Tier 2 adjustments (Collective provisions)		485	782
Total Capital Resources		**49,374**	**47,862**

3.3 Risk weighted exposure amounts and Pillar 1 capital requirements

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

Exposure description:

	2015			2014		
	Exposure value £'000s	**Risk weight %**	**Risk weighted assets £'000**	**Exposure value £'000**	**Risk weight %**	**Risk weighted assets £'000**
Loans and advances to zero risk weighted counterparties	541,882	0%	**-**	414,239	0%	**-**
Debt security investments	34,593	20%	**2,916**	166,241	20%	**35,146**
Regulated covered bond investments	114,378	10%	**11,438**	74,536	10%	**7,454**
Treasury credit risk	**690,853**		**14,354**	**655,016**		**42,600**
Loans and advances to customers	217,942	35/75/100%	**153,566**	221,826	35/75/100%	**143,175**
Fixed and other assets	1,045	100%	**1,045**	1,779	20/100%	**1,669**
Total credit risk	**909,840**		**168,965**	**878,622**		**187,444**
Operational risk (section 3.5)	9,305	x12.5	**17,450**	10,091	x12.5	**18,925**
Total Pillar 1 risk weighted assets			**186,415**			**206,369**

Treasury Credit risk

Credit risk is controlled by setting limits that consider a variety of factors including the credit rating of the counterparty. These ratings correspond to a credit quality assessment step which then, in conjunction with the term of the investment, feeds a risk weighting assessment. The Treasury policy limits the maximum aggregated exposure to any single counterparty to £20 million with a maximum term of five years.

The table below shows the breakdown of the counterparty exposures, credit assessments and risk weights. The Moody's rating is quoted in brackets.

31 December 2015

Treasury exposure description and residual maturity:

	Exposure value £'000	Risk weight %	Credit quality step	RWAs £'000
Not more than 3 months				
Cash and balances with BoE (Aa1)	376,002	0%	1	-
Loans and advances to banks (A2)	4,557	20%	2	-
Loans and advances to banks[1] (Aa1) (gilt repos)	35,015	0%	1	-
Loans and advances to Governments (Aaa)	15,008	0%	1	-
Greater than 3 months and up to 1 year				
Debt security investments (Aaa/Aa1)	15,017	10%	1	1,502
Debt security investments (Aa2)	30,045	20%	2	2,916
Greater than 1 year and up to 5 years				
Loans and advances to supranational banks and member state governments (Aaa/Aa1)	115,848	0%	1	-
Debt security investments (Aaa)	10,007	20%	1	1,001
Regulated covered bond investments (Aaa)	89,354	10%	1	8,935
Total treasury credit risk	**690,853**			**14,354**

1: 3 month lending to banks secured by UK Treasury gilts

31 December 2014

Treasury exposure description and residual maturity:

	Exposure value £'000	Risk weight %	Credit quality step	RWAs £'000
Not more than 3 months				
Loans and advances to banks[2] (A2) (gilt repos)	281,101	0%	2	-
Loans and advances to banks (Aaa/Aa1)	200,442	20%	1	31,144
Regulated covered bond investments (AAA)	52,264	10%	1	5,227
Greater than 3 months and up to 1 year				
Debt security investments (Aaa/Aa1)	68,538	20%	1	4,002
Greater than 1 year and up to 5 years				
Loans and advances to supranational banks and member state governments (Aaa/Aa1)	30,399	0%	1	-
Regulated covered bond investments (Aaa)	22,272	10%	1	2,227
Total treasury credit risk	**655,016**			**42,600**

2: overnight lending to The Co-operative Bank plc secured by UK Treasury gilts

Customer lending credit risk and provisions

The credit risk profile of the lending portfolio of the Bank is analysed and discussed in notes 13 and 29 to the Annual Report and Accounts.

Summary information with respect to the provisions existing and the movement in the year are as follows:

	2015 £'000	2014 £'000
Gross loans and advances	189,829	176,874
Less: allowance for losses on loans and advances to customers	(2,589)	(2,924)
Total	**187,240**	**173,950**

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	2015			2014		
	Individual £'000	**Collective £'000**	**Total £'000**	**Individual £'000**	**Collective £'000**	**Total £'000**
At 1 January	(2,306)	(618)	(2,924)	(5,740)	(782)	(6,522)
Credit against profits	205	133	338	193	164	357
Amounts written off	-	-	-	3,165	-	3,165
Recoveries	-	-	-	(48)	-	(48)
Unwind of discount of allowance	(3)	-	(3)	124	-	124
At 31 December	**(2,104)**	**(485)**	**(2,589)**	**(2,306)**	**(618)**	**(2,924)**

All provisions are held against loans and advances to customers.

Non-performing debt:	**2015 £'000**	**2014 £'000**
Bank advances	6,089	7,685
Provisions for bad and doubtful debts	(2,104)	(2,306)
	3,985	**5,379**

Concentration of exposure:	**2015 £'000**	**2014 £'000**
Administrative bodies and non-commercial	158,441	135,305
Property (excluding hotels and leisure)	9,854	14,337
Hotels & Leisure	8,851	12,059
Manufacturing	10	11
Other	12,673	15,162
	189,829	**176,874**

Credit risk analysis

	2015 Loans and advances to customers £'000	**2014 Loans and advances to customers £'000**
Individually impaired		
90 days past due or evidence of impairment	3,026	3,331
Collectively impaired		
Less than 90 days past due	14,768	7,231
Past due but not impaired		
0-30	594	807
Neither past due or impaired		
Grade A-D (performing)	171,441	150,070
Grade E (Watchlist - performing)[1]	-	15,435
Grade F-H (Default non-performing)[1]	-	-
Total carrying amount before impairment allowance	**189,829**	**176,874**
Allowance for impairment losses on loans and advances	(2,589)	(2,924)
Total carrying amount	**187,240**	**173,950**

1 All loans classified as Grade E and F-H are included within the impaired or past due but not impaired buckets

Maturity analysis

31 December 2015

	Repayable on demand £'000	3 months or less but not repayable on demand £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non cash items £'000	Total £'000
Assets							
Cash and balances at central banks	377,983	-	-	-	-	-	**377,983**
Loans and advances to banks	4,166	35,188	-	-	-	-	**39,354**
Loans and advances to customers	1,031	1,042	11,855	77,116	96,196	-	**187,240**
Investment securities- available for sale	-	15,005	45,112	217,132	-	-	**277,249**
Other assets	-	-	-	-	-	1,244	**1,244**
	383,180	**51,235**	**56,967**	**294,248**	**96,196**	**1,244**	**883,070**
Liabilities							
Customer accounts	677,228	154,452	-	-	-	-	**831,680**
Other liabilities	-	-	-	-	-	51,390	**51,390**
	677,228	**154,452**	**-**	**-**	**-**	**51,390**	**883,070**
Net liquidity gap on contractual basis	**(294,048)**	**(103,217)**	**56,967**	**294,248**	**96,196**	**(50,146)**	**-**

31 December 2014

	Repayable on demand £'000	3 months or less but not repayable on demand £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non cash items £'000	Total £'000
Assets							
Cash and balances at central banks	-	-	-	-	-	-	**-**
Loans and advances to banks	1,263	314,983	-	-	-	-	**316,246**
Loans and advances to customers	3,347	3,373	11,336	83,258	72,636	-	**173,950**
Investment securities- available for sale	-	217,477	68,694	53,044	-	-	**339,215**
Other assets	-	-	-	-	-	2,318	**2,318**
	4,610	**535,833**	**80,030**	**136,302**	**72,636**	**2,318**	**831,729**
Liabilities							
Customer accounts	639,335	143,426	-	-	-	-	**782,761**
Other liabilities	-	-	-	-	-	48,968	**48,968**
	639,335	**143,426**	**-**	**-**	**-**	**48,968**	**831,729**
Net liquidity gap on contractual basis	**(634,725)**	**392,407**	**80,030**	**136,302**	**72,636**	**(46,650)**	**-**

3.4 Concentration risk

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

31 December 2015

	UK £'000	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	217,942	-	-	**217,942**
Cash and balances with governments or development banks	511,477	15,008	15,388	**541,873**
Loans and advances to banks & debt securities	103,733	-	45,234	**148,967**
Fixed and other assets	1,045	-	-	**1,045**
Total	**834,197**	**15,008**	**60,622**	**909,827**

31 December 2014

	UK £'000	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	221,826	-	-	**221,826**
Cash and balances with governments or development banks	426,546	78,937	40,014	**545,497**
Loans and advances to banks & debt securities	54,514	-	55,004	**109,518**
Fixed and other assets	1,779	-	-	**1,779**
Total	**704,665**	**78,937**	**95,018**	**878,620**

3.5 Operational risk

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

3.6 Interest rate risk in the Banking Book (IRRBB)

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

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

3.7 Leverage

CRD IV introduced a non-risk based leverage ratio that is supplementary to the risk based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and exposures to on and off balance sheet items. The leverage ratio does not distinguish between high and low risk weighted lending or recognise the ratio of loan to value of secured lending. The Financial Policy Committee (FPC) indicated that the minimum level of this ratio in the UK will be 3%. The Bank comfortably meets this minimum requirement with a ratio of 5.9% at 31 December 2015.

Appendix 1 – Remuneration policy and practices

Unity Trust Bank plc qualifies as a Tier 3 firm under the PRA Remuneration Code. It is required to disclose certain qualitative items and quantitative remuneration items. This statement sets out the disclosures required under the Code as they apply to Unity.

Unity's Remuneration Committee is responsible for the governance and implementation of the Code and the annual review of adherence to it. The Remuneration Committee comprises four Non-Executive Directors of whom at least one Director must be determined by the Board to be independent on appointment. The membership of the Committee is reviewed by the Nominations Committee on an annual basis. The Board shall appoint the Committee Chair who shall be a Director determined by the Board to be independent on appointment. The committee members must together possess the necessary skills to exercise the appropriate judgement.

The Remuneration Committee has reviewed and approved Unity's remuneration policies and the Remuneration Policy Statement (RPS). To ensure compliance with the Code, the recommended RPS template of the PRA has been adopted. Unity has one business area, Business Banking, which employed 98 paid members of staff as at 31 December 2015.

The staff costs were as follows:

All Staff:	**2015** **£'000**	**2014** **£'000**
Total fixed staff employment costs	5,122	4,115
Total variable staff costs	-	-
Total staff costs	**5,122**	**4,115**

Code Staff*:	**2015** **£'000**	**2014** **£'000**
Code staff fixed employment costs	907	641
Code staff variable costs	-	-
Total Code staff costs	**907**	**641**

**Figures shown above are the full costs relating to the 12 members of staff identified during the year as Code Staff, including any remuneration received after they ceased to be Code Staff and any received prior to approval as a Board member by the PRA.*

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

In total 12 Code Staff have been identified as being employed during the year (7 at year end) and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Code Staff. All Board Directors (Executive and Non-Executive) have been identified as Code staff. No Code staff had either variable or total remuneration in excess of £500,000. The Senior Managers Regime, effective from March 2016, which gives further guidance as to potential principal risk takers, has been implemented in 2016, but has not been taken into account in the disclosures at 31 December 2015.

The Board takes the issue of diversity seriously. It actively promotes policies and practices of equality of opportunity, regardless of age, disability, ethnicity, gender, religion or belief or sexual orientation. The Board recognises that having members from different backgrounds and with different skills is key to being a challenging and effective Board. The Board aims to improve diversity by ensuring it is considered as part of the selection process when making all Independent Non-Executive Director appointments. In 2013, the Board comprised 12.5% female members and an aspirational aim was

agreed that the Board would comprise a minimum 33% female members by 2016. Board composition at 31 January 2016 is 22% female. The Board approved an updated Board diversity policy in February 2016.

Unity has in place a discretionary profit sharing scheme; awards are linked to whether Unity has met its overall business objectives based on the end of year financial results. In 2015 the Bank did not meet its trigger threshold for paying a profit share award. Therefore the cost of profit sharing awards payable in respect of 2015 was £nil. Awards under the scheme qualify as “variable remuneration” as defined in the Code. Any awards that are payable to individuals will be paid as a one-off cash payment or can be taken in shares if (a) the employee prefers, or (b) the payment is over 10% of the employee’s salary. Employees are also entitled to 100 shares on completion of their first year of service with the Bank and again after 10 years service.

At the beginning of each performance year, objectives are agreed for each individual based on overall company objectives and individual role specific objectives. Performance towards the achievement of these objectives is reviewed periodically throughout the year as part of the Bank’s performance management process. At the end of the year an assessment is made of each individual’s overall performance against the objectives agreed.

During the year Unity paid inducements to join to two people and severance payments to five.

Staff members in control functions are remunerated independently of the businesses they oversee. Total staff employment costs (including variable remuneration) in 2015 were £5.1m of which the employment costs of Code staff were £0.9m.