unity trust bank

Annual Report and Accounts

31 December 2021

2021

Bank with us. Bank on us.

Unity Trust Bank's headquarters
in Brindleyplace, Birmingham

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

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Birmingham
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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

President

Dave Prentis

Board of Directors

Alan Hughes (Chairman)
Deborah Hazell (Chief Executive Officer)
Sandy Chen (Independent Non-Executive Director)
Jim Gunner (Independent Non-Executive Director)
Frances O'Grady (Non-Executive Director)
Alex Ryan (Non-Executive Director)
Susan Sternglass Noble (Independent Non-Executive Director)
Dominic Wade (Chief Financial Officer)
Allan Wylie (Non-Executive Director)

Company Secretary

Kate Eldridge

Executive Management

Deborah Hazell, Chief Executive Officer
David Chick, Director of Commercial Banking
Mark Clayton, Chief Operating Officer
Martin Coward, Chief Risk Officer
Julia Tarpey, Director of Human Resources
Dominic Wade, Chief Financial Officer

Auditor

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham
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Contents

Chairman's Statement 4

Highlights 5

Strategic Report 6

- Chief Executive's Review 6
- About Unity Trust Bank 8
- Key Performance Indicators 9
- Principal Risks and Uncertainties 11
- Corporate Responsibility 14

Governance 17

- Directors' Biographies 17
- Directors' Responsibilities Statement 19
- Corporate Governance Report 20
- Report of the Directors 22

Independent Auditor's Report 23

Financial Statements 31

- Income Statement 31
- Statement of Comprehensive Income 32
- Statement of Financial Position 33
- Statement of Changes in Equity 34
- Statement of Cash Flows 35
- Notes to the Financial Statements 37

Glossary 73

Chairman's Statement

Alan Hughes
Chairman,
4 March 2022

Unity

Unity today is a thriving commercial bank serving firms and organisations that share its social and commercial values.

Unity was founded by Trade Unions and the Co-operative Bank in 1984 to serve the common good and make sustainable returns. It became independent from the Co-operative Bank in 2015.

Performance

We should remind ourselves that less than a decade ago Unity was in a difficult situation. Since 2014 we – our shareholders and our employees – under the banner of 'Safe Growth' have built a robust, high-growth bank that is now one of the UK's leading socially-motivated, commercial banks. This transformation is evident in today's results.

2021 was not without its challenges from economic disruption and the pandemic. The historically low Bank Rate served to reduce banks' returns generally. Despite all this, Unity's after-tax earnings reached a record £9.7m (2020: £7.0m). The return on shareholders' equity increased to 9.69% (2020: 8.00%) and Unity ended 2021 with a strong capital base, by the Bank of England's CET1 measure, of over 17%. Money deposited with us increased to £1,507m (2020: £1,336m), again a record.

Customer Service

2021 demonstrated the resilience of Unity's financial performance, but there was disruption to customer service, particularly telephone support. The reasons are not unusual at this time, but we set ourselves higher standards. I want to thank our customers for their patience and loyalty during this time, something we never take for granted.

We have increased staffing and resilience. This additional resource has started to take effect.

Shareholders

Trade Union shareholders continued their support in 2021, investing £8.5m new capital so that Unity may continue to grow apace both its returns and its societal good. I want to thank them for sharing our confidence in the prospects for Unity.

In 2021 we put in place a share-trading platform so shareholders can buy or sell shares in the future.

Dividend

As our performance has strengthened, so has our ability to deliver on our policy consistently to pay a reliable dividend. Based on 2021's results, we will recommend increasing our dividend to 3.85p per share (2020: 3.3p) at our 2022 Annual General Meeting.

ESG

The Environmental, Social and Governance (ESG) standards we apply are core to our activities, we insist on it. Our social good was expanded, and we achieved net-zero carbon accreditation. The social impact metrics for the year can be found in the Highlights section and in our 2021 Impact Report is also published today on our website.

People

2021 saw Margaret Willis retire as CEO. We are very grateful for all her work and contribution to Unity's performance during her six years at the Bank. Unity is now much better able to grow into the more significant and sustainable bank we intend. We wish her well, proud of a job well done.

We warmly welcomed Deborah Hazell as CEO. Debbie has a strong personal interest in working for social good and brings over 35 years of experience in financial services.

We continue to invest in our people across the Bank, expanding and training our people for the opportunities ahead.

In our drive to increase employee ownership, we introduced two new employee share schemes during the year. Our pension scheme remained in healthy surplus.

Outlook

The economic outlook remains uncertain with notable headwinds not least: inflation; international supply disruptions & tensions; the rising cost of living; and higher interest rates. This will be challenging for most of us.

Unity today is better placed than ever to support our customers through the demands ahead. Our purpose and values remain popular, we plan to continue to grow the Bank in a safe way, to further support our communities and society.

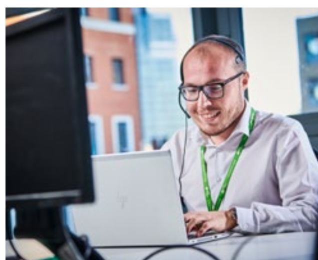
Thank you

I would like to offer my heartfelt thanks to our shareholders, my fellow directors and all of Unity's people for their commitment and hard work during 2021. We are acutely conscious of the close relationship which Unity has with its customers and shareholders and we are incredibly grateful for their loyalty and continued support.

Highlights

46%
increase in profit before tax

Record £11.1m (2020: £7.5m)



20%
growth in loans to customers

£723.5m (2020: £601.8m)

17.7%
CET 1 ratio, **£8.5m** capital raised

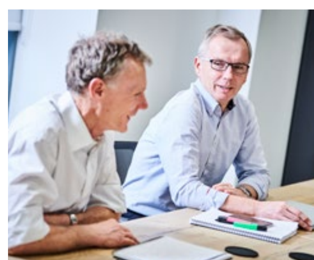
2020: 16.7% CET 1

795 jobs created or protected

2020: 712

Socially Responsible Lender of the Year

NACFB Patron Awards



Top quartile of banks for Shared Purpose[1] and Speaking Up[2]

2021 FSCB survey

Employee ownership share schemes launched

Our drive to increase employee ownership

Achieved carbon net zero accreditation[3]

Earnings Per Share
£0.41

2020: £0.31

Five year financial performance summary

	2017 £000s	2018 £000s	2019 £000s	2020 £000s	2021 £000s
Profit before taxation	3,683	6,755	9,076	7,546	**11,053**
Profit after taxation	3,550	5,967	7,981	7,027	**9,671**
Total loans to customers	279,347	362,446	477,554	601,810	**723,523**
Shareholders' funds	60,096	75,423	85,132	90,669	**108,963**

	2017	2018	2019	2020	2021
Net interest margin	1.20%	1.50%	1.77%	1.47%	**1.42%**
Cost income ratio	72.90%	63.56%	58.85%	57.47%	**54.16%**
Return on equity	6.05%	8.81%	9.94%	8.00%	**9.69%**
Dividend per ordinary share[4]	2.40p	4.25p	3.00p	3.30p	**3.85p**

[1]Defined as 'a core purpose (or purposes) across a firm' by the Financial Services Culture Board (FSCB).
[2]'Speaking Up' refers to a culture where employees feel free to share their ideas, opinions and concerns, without fear of retaliation or penalty.
[3]Offsetting carbon emissions by financially supporting projects that help provide solutions to climate change.
[4]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 2021 financial year is recommended for approval at the 2022 AGM.

APMs are described in the glossary.

Chief Executive's Review

Introduction

It is my great pleasure to present my first Chief Executive's Review since joining Unity Trust Bank in mid-2021.

The pandemic continues to test the resilience of organisations and of communities in general. We have seen how important it is to continue to support our customers enabling them to positively impact society. In pursuit of our goal to create positive impact across the UK, Unity has increased lending to £723.5m (2020: £601.8m) and delivered a profit before tax for the year of £11.1m (2020: £7.5m), despite the ultra-low interest rate environment.

I would like to thank all of those working in Unity for their hard work and our customers and shareholders for their support. Some customers experienced longer than normal processing times and slower responsiveness at the end of 2021, and I thank everyone for their patience and understanding during this time.

Our response to the ongoing pandemic

Keeping our people safe

The health, safety and wellbeing of our employees is paramount in our response to COVID-19. As the pandemic evolved we flexed our approach to working from home to minimise risk of illness. The Executive team maintained regular communication with staff during this time.

Supporting our customers and communities

Offering personalised, quality customer service remained a key focus for Unity.

When some customers experienced delayed processing times at the end of the year, the Bank responded by adding temporary and permanent resources to the team, with considerable time committed to train new staff remotely and in the office.

Relationship Managers maintained individual support to customers through the pandemic including assistance via capital repayment holidays.

Maintaining a stable relationship with other stakeholders

Consistent reporting and engagement with our regulators was maintained. Sound financial stewardship has ensured government support schemes have not been utilised at any stage during the pandemic.

Dividend payments have continued as has the communication of our quarterly reporting to investors.

We retained our policy of paying suppliers within 30 days.

Financial performance

Profit before tax for the year increased by 46% to £11.1m (2020: £7.5m). This represented a record for Unity, delivered against the backdrop of a continued ultra-low interest rate environment and continued economic volatility. A compound annual growth rate of 25% in our lending portfolio was maintained, from the point the Bank became independent in 2015.

The primary drivers of the 2021 performance were:

Income

Net interest income rose to £21.5m (2020: £18.7m), delivered in a low Bank Rate environment. Growth in the lending book, together with a widened margin by lending to a broader range of like-minded customers has driven the increase.

The increase in Bank Rate in December was passed on to our lending and savings customers. Loans and advances to customers at the end of the year were £723.5m (2020: £601.8m), with £192.0m originated in the year, up 10.9% (2020: £173.2m).

Interest on investments reduced to £1.6m (2020: £2.6m) due to the sharp decrease in Bank Rate in 2020 and a shift from Treasury Assets to Customer Lending.

Net fee and commission income for the year increased to £3.6m (2020: £3.3m), mainly due a reduction in transaction clearing fees in the year.

Operating expenses

Investment in operational resilience and in our workforce meant Operating expenses increased by 7.9% to £13.6m (2020: £12.6m).

Higher interest income, together with continued cost management resulted in an improved cost income ratio of 54.2% (2020: 57.5%).

Impairment

The Bank's lending quality continues to remain a high priority. 97% of lending customers are classified within stage 1 risk grades under IFRS 9 (2020: 97%). The IFRS 9 impairment charge for 2021 reduced to £0.5m (2020: £1.8m) due to a fall in the macro economic volatility from the early stages of the COVID-19 pandemic.

The charge in 2021 primarily relates to a single loss on restructuring of a loan, the larger loan book, movement in risk grades, and the Bank's latest view on future economic uncertainty. No credit write offs were recorded in the year.

The balance sheet provision for loan impairment at 31 December 2021 was £3.6m (2020: £3.4m) resulting in a provision coverage ratio of 0.5% (2020: 0.5%).

Capital

Capital strength is essential to Unity's continued safe growth and £8.5m was raised during the year from existing shareholders who share our confidence. Risk Weighted Assets increased by £65.5m due to additional lending and Unity ended the year with a Common Equity Tier 1 (CET1) ratio of 17.7% (2020: 16.7%), a strong surplus to regulatory requirements.

On 13 December 2021 the financial stability report noted that the Financial Policy Committee is increasing the UK Countercyclical Buffer rate from 0% to 1%. This rate will come into effect from 13 December 2022.

As at 31 December 2021, the Bank's Defined Benefit pension scheme surplus was £7.1m (2020: £4.5m). 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, enable the impact we can make. Customer deposit at the year-end were £1,507m (2020: £1,336m). Balances increased as existing customers continued to conserve their cash reserves during the first half of the year, together with the growth from new customer's deposits.

Net lending in the year grew by £122m representing a 20% increase on 2020. The loan to deposit ratio increased to 48% (2020: 45%) with growth on both sides of our balance sheet. Full liquidity metrics are included within the Pillar 3 document, available on Unity's website.

Innovation and Investment

A Merchant Services proposition was launched with our partner Elavon, enabling businesses to accept card payments and improving access to cash to support cashflow management.

The first phase of Confirmation of Payee was delivered during the year, giving customers greater assurance that they are sending payments to the right Unity bank account and providing additional protection in the fight against fraud.

Investment in operational, cyber and financial resilience, has been a priority to ensure continued safe growth.

The Bank's share trading platform was successfully launched in 2021, which is a key step to help shareholders in the future.

People

We continue to invest in our people across the Bank, expanding the workforce and upskilling teams for the opportunities ahead. Unity is committed to maintaining a diverse and inclusive workplace, with events during the year to promote this policy.

In our drive to increase employee ownership, we introduced two new employee share schemes during 2021.

The 2021 Financial Standard Culture Board survey showed improved scores for Accountability, Openness and Respect and our employee engagement continues to be in the top 25% of banks for Shared Purpose and Speaking Up. 86% of employees said they see colleagues go the extra mile to meet the needs of the customer.

Environment, Climate & Society

Unity is deeply committed to creating a better society by delivering positive social impact throughout the UK. During the course of the year Unity:

- Advanced £5.2m fair and affordable finance through Responsible Finance Providers (2020: £16.9m);
- Supported 795 new jobs directly (2020: 712); and
- Created or renovated 789 bed spaces (2020: 722).

Our Impact Report, also published today on our website, details key metrics which are aligned to the United Nations Sustainable Development Goals and provides more information on how we have enabled positive social impact during the year.

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 Bank achieved net-zero carbon status during the year and also invested Treasury assets in green bonds. Unity is a member of the 'Financing a Just Transition Alliance', formed to progress actions from the Paris Agreement on climate change.

Carbon Literacy eLearning was provided to employees during the year, to provide them with the ability and motivation to reduce carbon emissions, on an individual, community and organisational basis.

Further details of how we have delivered impact are set out within the Corporate Responsibility section on page 14.

Priorities for 2022

There are signs that the impact of the pandemic may be easing in 2022, although further risks develop over supply disruptions and inflation. Unity's focus and goals remain consistent through the uncertainty:

- Deliver high standards of service to our customers, via investment in systems, people and the expansion of our product proposition.
- Increase our impact on society by growing our lending to like-minded customers.
- Develop our people by providing bespoke training and increasing resources in critical areas.
- Build the architecture to support our continued safe growth that adds value to society, communities and our shareholders.

Deborah Hazell
Chief Executive Officer
Unity Trust Bank plc
4 March 2022

About Unity Trust Bank

Our proud history

Unity Trust Bank was launched on May 1, 1984. It was born out of a vision by trade unions to create a bank that would embrace the philosophy of serving the common good. Now a thriving commercial bank, Unity continues to embody its founding principles:

- 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 refocused as society became increasingly concerned with fighting social and financial exclusion, tailoring our products and services to meet the needs of socially-minded organisations.
- In 2012, we committed to a 'double-bottom line' strategy; to deliver sustainable financial returns alongside social impact.
- In December 2015, Unity became a fully independent bank.
- In April 2016, we joined the Banking Standards Board, demonstrating our commitment to helping to raise standards across the banking industry.

Unity's Impact Reports and this Annual Report evidences our progress and our support for shareholders, customers and society as a whole.

Our purpose

For more than 37 years we have helped thousands of socially-minded organisations to prosper and make a positive contribution to economic, social and environmental needs in local communities. We are the bank that businesses can be proud to bank with.

Our vision

Our vision is to become the bank of choice for socially minded organisations in the UK.

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 Nation's Sustainable Development Goals (SDGs) to ensure that our funding has demonstrable impact.

We support our customers and enable them to focus on their business by providing specialist sector knowledge and aspire to deliver exceptional levels of personalised customer service.

Our strategy

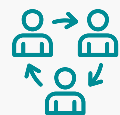
Unity's strategy is to:

- 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, communities, society and other stakeholders.

Enabling



Collaborative

Inclusive

Straightforward

Key Performance Indicators

The following Key Performance Indicators (KPIs) compare the 2021 full year results against full year 2020, 2019, 2018 and 2017 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 2021. The figures for 2017 to 2020 show profit before tax. Profit contributes to capital which provides financial resilience and facilitates investment in the future.	Profit before Tax (PBT) (£k): 2017: 3,683; 2018: 6,755; 2019: 9,076; 2020: 7,546; 2021: 11,053
Return on Equity indicates the ratio of profit after tax divided by average shareholder equity.	Return on Equity (ROE): 2017: 6.05%; 2018: 8.81%; 2019: 9.94%; 2020: 8.00%; 2021: 9.69%

[1] Further information on APMs is available in the glossary on page 73.

Key Performance Indicators (continued)

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.	Cost income ratio: 2017 72.9%; 2018 63.6%; 2019 58.8%; 2020 57.5%; 2021 54.2%
Loans and advances to customers are shown net of any loan loss provisions calculated in accordance with IFRS 9 since 2018. Provisions prior to 2018 were calculated in accordance with IAS 39.	Loans and advances to customers (£m): 2017 282; 2018 363; 2019 478; 2020 602; 2021 724

[1] Further information on APMs is available in the glossary on page 73.

Principal Risks and Uncertainties

Unity maintains an enterprise risk management framework which encourages a structured and consistent approach to existing and emerging risks. Our enterprise risk management framework was revised during 2021; the experience gained during the COVID-19 pandemic has helped to confirm that the approach detailed in that framework is appropriate. Unity's principal risk categories are managed through a small number of specific risk committees which allows close management attention to remaining within our agreed risk appetite. Unity anticipates that volatility and structural reform, accelerated by the post pandemic economy should not require any changes to our approach to risk management. Whilst the level of inherent risk for some of Unity's principal risks and uncertainties will change; Unity's risk controls will 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 enterprise risk management framework. 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 and the business operates within this appetite. The Bank operates a 'three lines' risk management model whereby:

- The first line comprises the business functions, who identify, assess, and manage risk 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.

Risk	Impact	Mitigation
Credit Risk is 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. The coronavirus support schemes introduced in 2020 helped to stabilise customer cashflows throughout 2021. However, the follow on impacts from COVID-19 restrictions; economic uncertainty caused by rising UK inflation and supply chain disruption increases credit risk for many customers.	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'. Damaged reputation. Customer detriment.	The Bank has experienced origination and credit underwriting teams which shape and review all lending requests against the Board approved lending and sector policies. Unity has a lending portfolio that becomes further diversified as it grows; controlled with sector caps and linked to our 'impact' objectives and UN Social Development Goals. Ad hoc portfolio and sector reviews are used to provide early warning of deteriorating exposures. Relationship managers work with all borrowing customers to monitor our individual exposure and assess the impact of our lending on climate change. Unity's relationship management model enables prompt conversations with those customers showing early signs of financial distress. Specialist relationship management resource is provided to those few customers experiencing financial distress. The underwriting team conducts regular reviews by business type. Customers provided with support have been subject to close monitoring, with portfolio reporting provided to Board. Various portfolio scenarios have been conducted, including stress testing for supply chain and labour disruption as well as increasing interest costs. The Treasury team invest within a very limited and low risk appetite mandate.
Market Risk is the risk that changes in market rates or prices negatively impact our earnings or the market value of our assets and liabilities.	Losses due to the inability to pass on interest rate changes. Potential reduction in liquidity/funding. Funding requirement to meet a pension deficit.	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.

Principal Risks and Uncertainties (continued)

Risk	Impact	Mitigation
Liquidity Risk is the risk that the Bank will fail to meet our financial obligations as they fall due or can only do so at excessive cost. Increases in interest rates pose a risk to Bank liquidity if our liability pricing does not retain customer credit funds. Post COVID-19 uncertainty and supply chain disruption will continue to require Unity to provide cash flow support to its customers.	Unsustainable funding. Uncompetitive liability pricing leading to liquidity shortfalls. Regulatory liquidity requirements being breached. Mismatch in the timing of cashflows. Customer detriment.	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.
Capital Risk is the risk that Unity does not meet minimum regulatory capital requirements under normal and stressed conditions.	Growth and investment plans not achieved. Regulatory capital buffers could come under pressure.	Internal Capital Adequacy Assessment Process (ICAAP). Revised stress/scenario/IFRS 9 testing and modelling to reflect ongoing COVID-19 and economic uncertainty impacts. Climate change scenarios included in 2021 ICAAP. 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 following a successful capital raise in 2021.
Conduct Risk is the risk that the Bank's behaviour, culture or processes lead to customer detriment. **Compliance Risk** is the risk of legal or regulatory sanctions, financial penalty, or reputational damage as a result of failure to comply with laws, regulations or codes of practice.	Inappropriate customer outcomes, jeopardising our business plan. Reputational damage from poor customer service and outcomes. Additional regulatory scrutiny and financial penalties.	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.
Financial Crime Risk is 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.	Breach of anti-money laundering (AML) regulations. Breach of anti-bribery and corruption (ABC) regulations. Fraud causing the loss of customer funds or data, leading to regulatory scrutiny and financial penalty. Customer detriment and reputational damage.	Staff screening and enhanced due diligence for those certified under the Senior Managers Regime. Extensive staff mandatory training on both AML and 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.

Risk	Impact	Mitigation
Operational Risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, third party supplier failure, or from external events. Remote working, implemented with the onset of pandemic control measures, is now integrated within our operating model.	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.	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. 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. 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 registers and follow up audit actions. Data centralisation and control to provide one source with a Business Insight team proving one version of data. External professionals and subject matter experts used to validate key projects before and during execution. 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.

Climate change

Unity does not provide banking services to organisations involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources. Physical and transitional risks associated with climate change were integrated into Unity's enterprise risk management framework in 2021, with impact assessment and risk mitigation activities included in the principal risk taxonomies above. Stress tests, using scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have been introduced to inform the capital held for climate change risks.

Emerging risks

Unity's risk register summarises both active and emerging risks. Principal emerging risks include:-

- data integrity, addressing multiple touch points as data moves between legacy systems;
- resource planning, to better anticipate the impact of a growing business;
- regulatory change; embedding new guidance and delivering fair and balanced customer outcomes; and
- effective reporting; adopting statutory reporting and governance that is proportionate to the requirements of all of our stakeholders.

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) New capital, share schemes and share trading

In 2021 the Bank raised £8.5m new capital from existing shareholders. In preparing for the fund-raise, the Directors considered whether and for what purpose the Bank should seek new capital, from whom and at what price. As part of this, the Board discussed:

- **The long-term benefit of growing the Bank** – The Directors agreed to raise capital in order to continue to grow the impact and sustainability of the Bank in the long term.
- **The benefit of employee share schemes to the Bank and employees** – Having deferred the employee share awards due to the pandemic, the first awards under two new schemes were made in 2021.
- **Feedback from shareholders** – When shareholders were asked to subscribe for new shares in the Bank, they asked about options for selling shares. Accordingly, it was agreed that the capital raising exercise should be accompanied by a share trading event.
- **Issuing shares at a discount to Net Asset Value (NAV)** – The Board decided a small discount to NAV would be appropriate for the issue of new shares and in the interests of all shareholders. It was also concluded that the same price would be used for the employee share awards as for the new investment.
- **Fairness between employee and non-employee shareholders** – The Board adopted a Share Dealing Policy and Code in recognition of the asymmetry of information between employees and non-employee shareholders.
- **The interests of employees** - Some employee shareholders had the option to buy shares as part of the capital raising process as existing shareholders and/or to buy shares through the Share Incentive Plan (SIP). Drop-in sessions were held to explain the two initiatives, without giving investment advice.

2) Safely growing our impact

The Bank is committed to its safe growth strategy in order to deliver sustainable returns to our shareholders and to benefit the wider community:

- **The importance of delivering growth and positive impact on the community** – The Board recognised that the new capital raised needed to be effectively deployed in pursuant of the Bank's purpose, to create a better society. Integral to this was the appointment of a new CEO who is deeply committed to Unity's social purpose and has the leadership track record to continue the work of her predecessor.
- **Diversifying income generation for long term sustainable returns** - In order to reduce reliance on interest income earned through lending, the Board approved plans to explore the provision of a wider suite of products to customers, such as Merchant Services.
- **Preparing for long term safe growth** – The Board received updates on which aspects of its operations are scalable and additional employees were recruited where needed to meet projected demand.
- **Long term resilience of the lending book** – The Board regularly discusses credit quality and how this is assessed, the markets in which we operate, and fair customer outcomes in problem debt situations.
- **Maintaining our personal service** – The Board noted the importance of retaining personal service as our key point of differentiation as Unity implemented actions to improve customer call wait and other response times to customer requests.

3) Customers and technology

The Bank is investing in our Technology in order to improve service and experience for customers, employees, shareholders and enhance the long term resilience of the Bank:

- **Providing ease and convenience to customers to remain competitive** – The Board has approved plans to develop a modern user experience that both new and existing customers will come to expect.
- **The importance of listening to customer feedback** – The Board has ensured that any new Technology investment will be led by the voice of the customer and has recruited specialists to the Technology programme to do so.
- **Building positive relationships with suppliers** – Recognising the potential customer impact of supply chain issues, the Board regularly discusses the relationships with a number of material suppliers.

"Our Impact Report, also published today on our website, provides more information on how we have enabled positive social impact in the year."

- **Improving efficiency** – The Board discussed that enabling customers to self-serve allows them to fulfil their needs efficiently and speedily.
- **Financial crime prevention** – The Board noted that the investment in new Technology intends to provide our employees with additional tools to identify potential incidents of fraud.

4) The impact of COVID-19 on our people

The Board received regular updates as our people continued to be affected by the pandemic, including:

- **Morale and wellbeing** - Pandemic control measures, working from home, illness and bereavement.

All shareholders are encouraged to attend the AGM and share their views with Directors and senior management. While 2021 was the second year in which we could not hold the AGM in person, we were pleased to invite all shareholders to join via video conference, where their questions were answered by the Board. 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, with delivering social good being our core purpose.

Strengthening our commitment to environmental, social and governance (ESG) principles, Unity aligns all business activities to the United Nations Sustainable Development Goals (SDGs). Unity focuses on the following key themes of the SDGs:

- **Health and wellbeing** - 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** – Unity provides funding to organisations that provide affordable, safe living accommodation, social care and services, in addition to social housing developments and community groups.
- **Education, skills and employment** - 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** – 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** – See below.

Our Impact Report, also published today on our website, provides more information on how we have enabled positive social impact in the year.

Our response to climate change

We recognise the increasing influence that climate change has on the lives of our customers, our suppliers, our people and the wider economy. Unity is committed to playing our part in ensuring that the financial system is resilient to climate-related financial risks.

Unity does not fund industries that have a negative impact towards climate change, such as coal-fired power stations, mining industries or organisations that burn toxic waste. Whilst our relative size limits the change we can drive, we recognise that climate change will have an impact on all sectors and all geographies and seek to use our impact led approach to understand:

- which of our customers could be at greatest risk of causing, or being exposed to, the negative impacts of climate change and how we can support them to take mitigating actions; and
- which of our customers presents opportunities for us to support the acceleration of positive climate change impacts.

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 11 to 13.

Unity was awarded net-zero carbon status in August 2021 which is a key achievement in our response to climate change. We also completed the purchase of £20m in green treasury bonds and provided Carbon Literacy eLearning to employees during the year.

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.

Having clarity over the challenges that our customers may face from transitional risks, both directly and through their supply chains and distribution networks, informs product development and client support models.

We have a number of customers whose business purpose includes support for and protection of the environment. We are committed to support more businesses operating in renewable or community energy and heating schemes, organisations active in driving low carbon initiatives 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 reviews all lending to ensure that there is no intentional 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 climate change which must be considered in our assessments. Our credit application and approval process requires that we understand how customers are mitigating detrimental environmental impacts as a result of climate change e.g. flood risk, severe weather events and compliance with more stringent government regulation.

Throughout 2022, we will identify opportunities to support the UK's transition to net-zero carbon by 2050.

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 2021, Unity has not identified any customer or supplier relationship that presented a breach of our climate change risk appetite.

By Order of the Board
Deborah Hazell
Chief Executive Officer
Unity Trust Bank plc
4 March 2022

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.

Alan chairs the Board, 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, was responsible for commercial invoice finance throughout HSBC Group and was a director of its commercial asset finance 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.

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 currently on the boards of Global Parametrics, a for-profit social impact company specialising in natural disaster risk mitigation in emerging economies and of the School of Leadership Afghanistan (SOLA) a boarding school for Afghan girls, now located from Rwanda.

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.

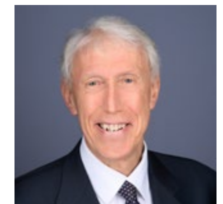
Sandy has over 20 years of experience in the financial services industry, as analyst and executive. He has published a book titled ‘Integrated Bank Analysis and Valuation: A Practical Guide to the ROIC Methodology’ (Palgrave, 2013), has advised the UK government on banking issues and occasionally appears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

Jim Gunner

Independent Non-Executive Director



Appointed to the Board in 2015. Skills brought to the Board: Knowledge and experience of risk management, regulation and reporting in banking, leadership, board experience and chairing skills.

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

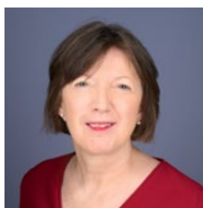
Jim has spent his career in banking, most of it specialising in risk management. He was senior executive for group risk at HSBC Holdings plc representing the group in both national and international banking and regulatory forums, and was a frequent speaker at industry events worldwide. He held senior positions in the credit or risk functions in Midland Bank, HSBC (UK) and Merrill Lynch HSBC. He was also seconded as a consultant to the Financial Services Authority.

More recently, he has served as chair, non-executive director or governor at various NHS primary care and hospital trusts.

He is a fellow of the Chartered Institute of Bankers and holds a BSc (Hons) in Financial Services at the University, Manchester Institute of Science and Technology.

Directors' Biographies (continued)

Frances O'Grady
Non-Executive Director



Appointed to the Board in 2020.

Skills brought to the Board: Knowledge and experience of Unity's key stakeholders, the political and economic context within which we operate, strategic thinking, leadership and board experience, expertise in HR and remuneration matters, and environmental, social and governance issues.

Frances is a member of the Nomination Committee.

Frances O'Grady is the first woman to become General Secretary of the TUC. She leads the TUC's campaigns for fair and equal pay, secure and decent jobs free of discrimination, and dignity for all working people.

Frances is a member of the International Trade Union Confederation executive and the Court of the Bank of England. She has a Joint Honours degree in Politics and Modern History and a Diploma in Industrial Relations

Alex Ryan
Non-Executive Director

Appointed to the Board in 2020.

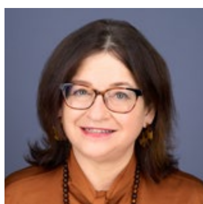
Skills brought to the Board: Knowledge of Trade Unions, corporate governance, investor relations, pensions, and non-executive experience.

Alex is a member of the Board Risk Committee. He is Secretary to 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 and regulation; investment management and stewardship; corporate governance and impact analysis.

Susan is Chair of the Remuneration Committee.

Susan joined the bank with a 30 year career as a global investor in financial services. She served on the Dormant Assets Commission, tasked with unlocking money for the charitable sector, and as a Specialist Adviser to the House of Commons Treasury Select Committee.

Susan serves on the boards of Asia Dragon Trust plc, a listed investment trust, and Link Age Southwark. She is a Senior Adviser to the Investor Forum CIC and an active angel investor.

Susan has a B.A. from Cornell University and an M.S.F.S. from the Georgetown School of Foreign Service.

Dominic Wade
Chief Financial Officer

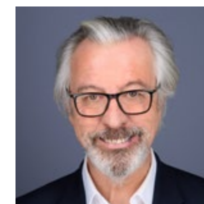
Appointed to the Board in 2020.

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.

Allan Wylie
Non-Executive Director



Appointed to the Board in 2004.

Skills brought to the Board: Knowledge and experience of accountancy, pensions and knowledge of Trade Unions.

Allan is a member of the Remuneration Committee and the Board Audit Committee and chairs the Unity Trust Bank Pension Scheme board of trustees.

Allan has specialised in accountancy throughout his career gaining extensive experience in a range of industries and sectors. Allan was Director of Finance at GMB Trade Union from 1989 – 2021, and played an active role in the general management, financial stewardship, investments, banking and asset management of the union.

Allan has a Masters in Mental Philosophy and a postgraduate Diploma in Accounting. He is a member of the Institute of Chartered Accountants of Scotland.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 management report, which is incorporated into the Directors' 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
4 March 2022

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 its benchmark for good corporate governance and adheres to the Code where relevant and proportionate, for a company of its size.

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:

- Provided detail on Board leadership below and company purpose on page 8.
- The Biographies of the Board are set out on pages 17 to 18.
- Included detail on the division of responsibilities between the role of Chairman and CEO below.
- Provided details of the responsibilities of the Board and Board Committees below.
- Increased our ESG disclosures presented within a new Corporate Responsibility section of the Annual Report on pages 14 to 16. Further detail can be found in our Impact Report, also published today on our website.

Board Leadership and Company Purpose

Business model - The Bank's business model is set out on page 8. 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 8 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 14 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 comprises two executive Directors and seven non-executive Directors. The non-executive Directors include the Chairman, three independent Directors and three 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 11) 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.

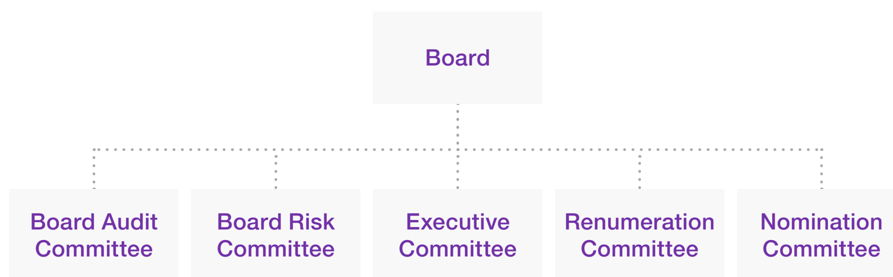
Board Committees

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 – Makes recommendations to the Board in relation to bank-wide remuneration policy, employee share schemes and Director remuneration.

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.



Report of the Directors

for the year ended 31 December 2021

Results and Dividends

The results for the year, before taxation, amounted to a profit of £11.1m (2020: £7.5m). The Directors recommend a final dividend for 2021 of 3.85p per share to be paid in 2022 (2020: 3.3p 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

Jim Gunner, Independent Non-Executive Director

Frances O'Grady, Non-Executive Director

Alex Ryan, Non-Executive Director

Susan Sternglass Noble, Independent Non-Executive Director

Allan Wylie, Non-Executive Director

Executive Directors

Deborah Hazell, Chief Executive Officer (appointed 17 August 2021)

Margaret Willis, Chief Executive Officer (retired 17 August 2021)

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 2021 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 price risk, credit risk, liquidity risk and cash flow risk can be found in the Strategic Report.

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 £632k (2020: £559k) 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	2021	2020
Corporation tax	**1,370**	643
VAT	**845**	824
Employment tax		
■ Employer NIC	**740**	725
Total taxes paid	**2,955**	2,192
Employment taxes collected		
■ Employee PAYE and NIC	**1,928**	1,839
Total tax contributions	**4,883**	4,031

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 COVID-19 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 37.

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 2022 AGM.

By order of the Board
Kate Eldridge
Company Secretary
4 March 2022

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 2021 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. 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 £530,000 which was determined on the basis of 0.5% of net assets.
Scoping	A full scope audit was performed.
Significant changes in our approach	In the prior year, the accuracy of collateral valuations in stage 2 and stage 3 formed part of our key audit matter in relation to impairment of receivables. However this aspect of the company's impairment provisioning methodology no longer forms part of our key audit matter and is now part of our wider assessment, due to no significant issues being identified during our previous audits. We have placed an increased level of focus on the appropriateness of macroeconomic scenarios ("MES") and their weighting in the current year, with this aspect of the company's impairment provisioning methodology now forming part of our key audit matter. This is an area which requires complex modelling and there is a high degree of inherent judgement involved in forecasting changes to economic variables within the current macro-economic environment.

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 reviewing 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 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 ◎

Key audit matter description

The company recognised interest income of £20.0m (2020: £16.9m) and an EIR creditor of £4.7m (2020: £4.0m) in relation to interest receivable on loans and advances to customers.

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 effective interest rate (EIR) method in which management makes various assumptions, including the behavioural life of each loan.

The key assumption in the EIR model is determined to be 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.

There is therefore judgement involved in the determination of interest income under the EIR method.

We identified a key audit matter that revenue may be inappropriately recognised whether due to fraud or error.

Management'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

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

We first obtained an understanding of the company's process and key controls around revenue recognition as well as reviewing management's judgement paper.

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

In conjunction with our internal 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 performed accuracy and completeness testing on the underlying data on a sample basis.

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 reconstruct the script used to perform the interest income and EIR creditor calculations 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 management'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, acceptable 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 £3.6m (2020: £3.4m) against loans and advances to customers of £727.2m (2020: £605.2m). 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 of staging criteria; and ■ the appropriateness of MES and their weighting for the purposes of determining expected credit losses. We identified a key audit matter that the impairment provisions may be inappropriately recognised whether due to fraud or error. Management'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 first obtained an understanding of the company's process and key controls around impairment provisioning as well as reviewing management's judgement paper. 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 internal 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. We reviewed cases where a significant increase in credit risk had been observed, as well as customers that had been placed on a watchlist by management and 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 sampled 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 reviewing 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 internal economics specialists, we independently challenged the assumptions adopted. As part of our wider assessment of impairment, we involved our valuation specialists to independently assess collateral valuations for a sample of stage 2 and stage 3 cases and the appropriateness of the loss given default calculation, with management utilising third party valuation reports and external commercial property price inflation data to determine loss given default. We assessed the competence, capabilities and objectivity of management's experts. 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 reviewing data sourced by management from external third parties. We assessed the completeness of management overlays through our understanding of the company's loan book and the external environment. We involved our data analytics specialists to independently reconstruct the script used to perform the impairment provisioning calculations 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.

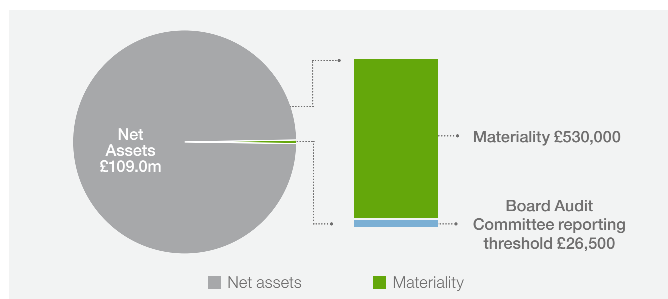
6. Our application of materiality

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	£530,000 (2020: £433,000)
Basis for determining materiality	0.5% of net assets (2020: 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 2021 audit (2020: 65%). In determining performance materiality, we considered that this 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 given it is still operating in a COVID-19 environment.

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 £26,500 (2020: £21,650), 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 performed testing of 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 change 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 page 15.

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.

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 and the Board Audit Committee about their own identification and assessment of the risks of irregularities;
- 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 internal specialists, including tax, valuations, economics, prudential regulation, pensions, financial instruments and IT 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 specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 2021 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 three years, covering the years ending 31 December 2019 to 31 December 2021.

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 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
4 March 2022

Income Statement

for the year ended 31 December 2021

	Notes	2021	2020
Interest income under EIR method	5	**21,693**	19,513
Interest expense and similar charges	6	**(204)**	(854)
Net Interest Income		**21,489**	18,659
Fee and commission income		**4,422**	4,257
Fee and commission expense		**(774)**	(968)
Net fee and commission income		**3,648**	3,289
Total income		**25,137**	21,948
Operating expenses	7	**(13,614)**	(12,614)
Impairment charge on loans and advances	11	**(470)**	(1,788)
Profit before taxation	3	**11,053**	7,546
Taxation charge	9	**(1,382)**	(519)
Profit for the year attributable to shareholders		**9,671**	7,027

The accounting policies and notes on pages 37 to 72 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

Statement of Comprehensive Income

for the year ended 31 December 2021

		2021	2020
Profit for the year - equity shareholders		**9,671**	7,027
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Fair Value through other comprehensive income investments			
Valuation (losses)/gains taken to equity[1]	12	**(1,193)**	1,253
Taxation		**256**	(200)
Items that will not subsequently be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit obligations	20	**2,718**	(2,142)
Taxation		**(953)**	272
Other comprehensive income for the year, net of tax		**828**	(817)
Total comprehensive income for the year - equity shareholders		**10,499**	6,210

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

	2021	2020
Attributable to:		
Equity shareholders	**10,499**	6,210
Dividend paid in the year	**(741)**	(673)
	9,758	5,537

The accounting policies and notes on pages 37 to 72 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

Statement of Financial Position

as at 31 December 2021

	Notes	2021	2020
Assets			
Cash and balances with the Bank of England	10	**680,112**	568,804
Loans and advances to banks		**529**	254
Loans and advances to customers	11	**723,523**	601,810
Investment securities	12	**207,632**	252,413
Intangible assets	13	**60**	110
Property, plant and equipment	14	**760**	687
Right of use assets	15	**1,824**	2,099
Pension scheme net assets	20	**7,095**	4,501
Other assets		**126**	154
Prepayments and accrued income	16	**1,090**	666
Current tax assets	9	**43**	96
Total assets		**1,622,794**	1,431,594
Liabilities			
Customer deposits		**1,507,227**	1,335,725
Other liabilities	17	**3,689**	2,978
Accruals and deferred income		**1,111**	1,083
Provisions for liabilities and charges	18	**175**	209
Current tax liabilities	9	**-**	-
Deferred tax liabilities	19	**1,629**	930
Total liabilities		**1,513,831**	1,340,925
Capital and reserves attributable to the Bank's equity shareholders			
Ordinary share capital	21	**24,678**	22,421
Share premium account	21	**18,113**	11,808
Capital redemption reserve		**4,511**	4,511
Retained earnings		**62,040**	51,334
Financial asset valuation reserve		**(342)**	595
Employee share ownership plan (ESOP) reserve	28	**(37)**	-
Total equity		**108,963**	90,669
Total liabilities and equity		**1,622,794**	1,431,594

The accounting policies and notes on pages 37 to 72 form part of these financial statements.

Approved by the Board on 4 March 2022 and signed on its behalf by:

Deborah Hazell, Chief Executive Officer
Alan Hughes, Chairman

All amounts are stated in £000s unless otherwise indicated

Statement of Changes in Equity

for the year ended 31 December 2021

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**

2020	Share capital	Share premium	Capital redemption reserve	FVTOCI	Retained earnings	ESOP reserve	Total equity
At 1 January 2020	22,421	11,808	4,511	(458)	46,850	-	85,132
Profit for the financial year	-	-	-	-	7,027	-	7,027
Actuarial loss on Defined Benefit pension (note 20)	-	-	-	-	(2,142)	-	(2,142)
Deferred Tax movements (note 9)	-	-	-	(200)	272	-	72
Net movement in Fair value through other comprehensive income (note 12)	-	-	-	1,253	-	-	1,253
Total	-	-	-	1,053	5,157	-	6,210
Dividend paid[1]	-	-	-	-	(673)	-	(673)
At 31 December 2020	22,421	11,808	4,511	595	51,334	-	90,669

[1]Dividend paid in 2021 in respect of the 2020 financial year at 3.3p per share (paid in 2020 respect of the 2019 financial year: 3.0p per share).

The accounting policies and notes on pages 37 to 72 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021	2020
Profit before taxation		**11,053**	7,546
Adjustments for:			
Finance costs		**240**	129
Impairment losses, net of reversals, on financial assets		**470**	1,788
Depreciation of property, plant and equipment		**305**	321
Depreciation of right-of-use assets		**276**	282
Amortisation of intangible assets		**50**	91
Loss on disposal of property, plant and equipment		**12**	47
Increase/(decrease) in provisions		**88**	(17)
Other non-cash movements		**244**	49
		12,738	10,236
Operating cash flows before movements in working capital			
(Increase)/decrease in prepayments and accrued income		**(424)**	121
Decrease in other operating assets		**28**	18
Advances to customers		**(122,183)**	(126,044)
Bank of England mandatory reserve	10	**(1,294)**	(1,207)
Increase/(decrease) in accruals and deferred income		**28**	(498)
Increase in customer deposits		**171,502**	305,290
Increase/(decrease) in other operating liabilities		**655**	(254)
Cash generated by operations		**61,050**	187,662
Income tax paid		**(1,328)**	(929)
Net cash inflow from operating activities		**59,722**	186,733
Investing activities			
Purchase of property, plant and equipment		**(390)**	(132)
Intangible asset additions		**-**	(85)
Purchase of investment securities		**(30,302)**	(42,347)
Proceeds from sale and redemption of investment securities		**73,666**	122,900
Net cash from investing activities		**42,974**	80,336

All amounts are stated in £000s unless otherwise indicated

Statement of Cash Flows (continued)
for the year ended 31 December 2021

	Notes	2021	2020
Financing activities			
Dividends paid		**(741)**	(673)
Repayment of lease liabilities		**(186)**	(405)
Proceeds on issuance of share capital, net of transaction costs		**8,520**	-
Net cash from/(used in) financing activities		**7,593**	(1,078)
Net increase in cash and cash equivalents		**110,289**	265,991
Cash and cash equivalents at beginning of year		**566,949**	300,958
Cash and cash equivalents at end of year		**677,238**	566,949
Cash and balances with the Bank of England	10	**676,709**	566,695
Loans and advances to banks		**529**	254
		677,238	566,949

The accounting policies and notes on pages 37 to 72 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

Notes to the Financial Statements

1 Basis of preparation and significant accounting policies

The Bank's 2021 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. Previous report and accounts which were prepared since the initial adoption of IFRS were prepared in accordance with IFRS as issued by the IASB. There are no changes of accounting policy following the adoption of IFRS as adopted by the UK.

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. The Bank applies the recognition, measurement and disclosure requirements of IFRS as adopted by the UK.

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 COVID-19 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.

Interest Rate Benchmark Reform

The Bank's total LIBOR exposure at 31 December 2021 comprised investment securities of £50m, all of which had fall back provisions in place to allow a transition from LIBOR to an alternative reference rate. At the date of approval of these financial statements, the LIBOR exposure reduced to nil following a combination of maturity and transition to SONIA.

Changes in accounting policies

There are no new and amended IFRS standards that are effective for the current year that are applicable to the Bank.

1.1 New and 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 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 to IAS 1 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 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020

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.

1 Basis of preparation and significant accounting policies (continued)

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 - Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to 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.

IFRIC: Costs of configuring or customising the supplier's application software in a Software as a Service arrangement

This IFRIC details how a customer accounts for costs of configuring or customising the supplier's application software in a Software as a Service arrangement. The IFRIC does not have a material impact on the Bank.

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.

(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.

1 Basis of preparation and significant accounting policies (continued)

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, or the amount expected over its lifetime (see below). 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 below 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 amount expected over the next 12 months based on the lifetime proxy.

'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.

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.

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.

(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. Costs associated with developing or maintaining computer software programmes are recognised in the Income Statement as incurred.

1 Basis of preparation and significant accounting policies (continued)

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

Amortisation is provided on a straight-line basis at the following 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. 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.

1 Basis of preparation and significant accounting policies (continued)

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 4.98% (2020: 4.98%). Incremental borrowing rates applied to individual leases are currently between 1% and 5% (2020: 1% to 5%).

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:

- Impairment – The determination of the expected credit loss provision under IFRS 9, see note 11 for details.
- Pensions – The estimation of the IAS 19 valuation, see note 20 for details.

Critical judgements:

- 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:

	2021	2020
Audit services		
Fees payable for the audit of the annual accounts	137	120
Total	**137**	120

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

4 Directors' emoluments

	2021	2020
Non-executive Directors - emoluments	259	252
Executive Directors - emoluments		
Remuneration as a Director	771	441
Remuneration as an Employee	87	43
Total	**1,117**	736

The highest paid Director during the year was the former Chief Executive Officer (CEO), who received a total remuneration package of £367k (2020: £333k). This includes salary, profit sharing payments and car allowance. The aggregate value of company pension contributions paid, or treated as paid, to directors for the year was £17k (2020: £10k).

To ensure a smooth transition and orderly handover between the retiring and new CEO, both were remunerated by the Bank for a portion of the year at the same time. 2021 also reflects a full year of remuneration for the CFO, who was appointed to the Board on 3 August 2020. The CFO's salary prior to appointment to the Board was included in salaries paid to key management personnel, as disclosed in note 23.

No gains were made by directors on the exercise of share options during the year (2020: £nil). No directors exercised share options during the year (2020: 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 nil (2020: nil). Note 27 sets out the details of share-based payments.

Independent Non-executive Directors received fees of £168k per annum in aggregate for their services (2020: £163k). The Chairman of the Bank received a fee of £91k (2020: £89k) in the year.

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

5 Interest income under EIR method

	2021	2020
On financial assets at amortised cost:		
on loans and advances to customers	20,045	16,885
on loans and advances to banks	713	939
On financial assets at FVTOCI:		
on investment securities	935	1,689
Total	**21,693**	19,513

6 Interest expense and similar charges

	2021	2020
On financial liabilities not at fair value through profit or loss		
on customer deposits	**88**	725
On lease liabilities interest	**116**	129
Total	**204**	854

7 Operating expenses

	Note	2021	2020
Staff costs	8	**8,032**	7,525
Administrative expenses		**4,596**	4,095
Amortisation of intangible fixed assets	13	**50**	91
Depreciation of property, plant and equipment	14	**305**	321
Depreciation of right-of-use assets	15	**276**	282
Operating lease rentals		**46**	65
Research and development expenditure		**309**	332
Movement in provisions for liabilities and charges[1]	18	**-**	(97)
Total		**13,614**	12,614

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

8 Staff costs

	Note	2021	2020
Wages and salaries[1]		**6,282**	6,052
Severance		**81**	80
Social security costs		**741**	725
Pension costs – defined benefit plans	20	**124**	57
Pension costs – defined contribution plans		**436**	414
Profit sharing plan		**352**	197
Share based payments – equity settled	27	**16**	-
Total		**8,032**	7,525

[1] Included within wages and salaries is £98k (2020: £91k) for other benefits provided to employees, such as the Wellbeing Allowance.

Included below is the monthly average number of persons employed by the Bank and was made up as follows:

	2021	2020
Full time	**90**	92
Part time	**14**	16
Total	**104**	108

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.

	2021	2020
Tax charge		
Current tax on profits for the year	1,370	643
Adjustment in respect of prior years	12	(140)
Total current tax	1,382	503

	2021	2020
Deferred tax		
Current year	24	27
Adjustment in respect of previous periods	(5)	-
Effect of changes in tax rates	(18)	(11)
Total deferred tax	1	16
Tax per income statement	1,382	519

	2021	2020
Other comprehensive income		
Income items:		
Deferred tax current year charge	697	(45)
Deferred tax prior year charge	-	(27)
Tax per statement of comprehensive income	697	(72)

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:

	2021	2020
Tax reconciliation		
Profit for the period – Extended Entity (see note 1)	11,053	-
Consolidation adjustment	(41)	-
Profit for the period – Unity Trust Bank plc	11,012	7,546
Tax on profit at standard UK tax rate of 19.00% (2020: 19.00%)	2,092	1,433
Adjustments to tax charge in respect of prior periods	7	(140)
Expenses not deductible for tax purposes	1	2
Tax rate changes	(18)	(11)
Community Investment Tax Relief	(632)	(559)
R&D expenditure	(40)	(206)
Share options	(28)	-
Total tax charge for the year	1,382	519

All amounts are stated in £000s unless otherwise indicated

9 Income tax (continued)

	2021	2020
Cash paid reconciliation		
Opening corporation tax liability	**(96)**	330
Add: current corporation tax liability for the year	**1,370**	643
Prior year adjustment	**11**	(140)
Less: payments in the year	**(1,328)**	(929)
Closing corporation tax liability	**(43)**	(96)

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 12.55% (2020: 6.88%). 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 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. We note that 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 liability of £1,629k has been recognised on the basis that there is sufficient evidence that the liabilities will be realised. The Bank has not recognised deferred tax of £325k in relation to capital losses.

10 Cash and balances with the Bank of England

	2021	2020
Mandatory reserve with the Bank of England	**3,403**	2,109
Cash and balances with the Bank of England	**676,709**	566,695
Total	**680,112**	568,804

Cash and balances with the Bank of England includes cash of £3,403k (2020: £2,109k) 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

IFRS 9 'Financial Instruments'

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.

A key judgement is the determination of the fees directly attributable to the loan; which are deemed to be the arrangement and introducer fees only.

Expected future cash flows are determined using behavioural lives.

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.

During the prior period, the UK experienced significant deterioration in the economic climate as a result of COVID-19. In response, for customers that needed support we offered 3-month capital repayment holidays ('CRH'); temporarily amending their contractual repayments. As at the end of 2020, 92 customers requested their first CRH, second requests decreased to 35, with 16 requesting a third request. In line with regulatory guidance, these payment concessions were not automatically deemed to be forbearance and impacting risk grades. Third CRH requests were subject to a higher granularity of assessment, and where appropriate have been recorded as forbearance. Each customer's individual circumstances have been considered and risk grade amended accordingly. Three customers remain on CRH at 31 December 2021. Further information regarding forbearance is contained within the Pillar 3 report, found on the Bank's website.

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 2021, 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 £0.2m to £3.6m (2020: £3.4m). The significant drivers for the increase in provision are: changes to customers internal risk grades, moving them to different stages; and increases in amounts advanced to customers (loan growth).

11 Loans and advances to customers (continued)

Judgements in applying accounting policies and key estimation uncertainty

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 macroeconomic 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 probability weightings of the four scenarios. 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 shows 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 (RG1-5). 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 %'s 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 compared against all loans originated in that RG, to determine a Lifetime PD% for 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 and forced sale discounts ('FSD').

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 14 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 macroeconomic scenarios ('MES').

The estimation of future economic conditions for the 2021 year end was enhanced to incorporate the future peak or trough of a variable rather than just the long term view, as applied for the 2020 year end. The estimation is now based on 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.

11 Loans and advances to customers (continued)

The Bank uses four scenarios, representative of management's view of forecast economic conditions to 2024. The table below represents management's view of either the movement or absolute rate, based on the median between:

- the variable peak or trough; and
- the long term view (set as the 2024 outturn).

Key scenario assumptions are set for GDP, unemployment, inflation, interest rates and property prices. The information is derived from data published by the Bank of England to ensure the scenarios are free from bias and reflect independent external information. The severe stress scenario is aligned to that used for ICAAP purposes.

Variable		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 2021, the probability weightings for each scenario were reviewed and the probabilities allocated to each were revised. This is to reflect the point at which the scenarios were set, the refresh of the model parameters and assumptions, and recent data on the future economic outlook. The probability weightings applied to the scenarios are shown in the table below:

Scenario	Derivation	2021 Weighting	2020 Weighting
Base	Represents the most likely economic forecast and aligned with the scenario used in the Bank's financial planning process	45%	45%
Stressed	Increase in base PD%, haircut applied to MV of security prior to FSD	35%	35%
Severe stressed	Significant increase in base PD%, greater haircut applied to MV of security prior to FSD. The assumptions align to those used in the Bank's ICAAP stress test	15%	10%
Improved	PD% reduced from base, subject to a floor. No other changes from base	5%	10%

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 2021, the customer loan provision is £3,636k, applying 100% weighting to Base results in a provision of £2,213k; and applying 100% weighting to Stress leads to a £4,262k provision.

	2021	2020
Gross loans and advances[1]	727,159	605,202
Less: allowance for losses on loans and advances to customers[1]	(3,636)	(3,392)
Total	723,523	601,810

[1] 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 £44.8m (1 January 2021: £46.1m) are not recognised on the balance sheet, whilst the total associated provision of £54k (1 January 2021: £16k) 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 £1,596k (2020: £1,712k), with the opposing impact in Customer deposits.

The following table reconciles the opening and closing impairment provision for loans and customers in different stages, from 1 January 2021 to 31 December 2021.

11 Loans and advances to customers (continued)

	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.

	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 2020	562	200	854	1,616
Transfers:				
Transfers to stage 2	(102)	102	-	-
Transfers to stage 3	-	(37)	37	-
Utilisation	-	-	(8)	(8)
Charges/(credit) to profit and loss:				
Changes in provision[1]	(58)	709	1,185	1,836
Unwind of discount of allowance[2]	(71)	(2)	53	(20)
New provisions	142	-	-	142
Provisions that have been derecognised during the period	(151)	(23)	-	(174)
Impairment provision at 31 December 2020	322	949	2,121	3,392

[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.

11 Loans and advances to customers (continued)

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.

	2021	2020
Administrative bodies and non-commercial	**247,464**	247,160
Property (excluding hotels and leisure)	**261,218**	217,620
Hotels & leisure	**4,803**	3,460
Other	**213,674**	136,962
	727,159	605,202

12 Investment securities

	2021	2020
Fair value through other comprehensive income		
Other listed transferable debt securities	**207,632**	252,413
Total	**207,632**	252,413

Movements during the year are analysed below:

At 1 January 2021	**252,413**	331,713
Fair value adjustment	**(1,193)**	1,253
Acquisitions	**30,262**	42,347
Disposals, maturities and amortisation	**(73,850)**	(122,900)
At 31 December 2021	**207,632**	252,413

13 Intangible assets

	2021	2020
Computer Software		
Cost		
At 1 January	**442**	375
Additions	**-**	85
Transfers[1]	**-**	(18)
At 31 December	**442**	442
Accumulated Amortisation		
At 1 January	**332**	240
Charge for the year	**50**	91
Transfers[1]	**-**	1
At 31 December	**382**	332
Net book value at 31 December	**60**	110

[1] Transfers represents a reclassification of assets from intangible assets to tangible assets.

All amounts are stated in £000s unless otherwise indicated

14 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2021	646	809	1,455
Additions	-	390	390
Disposals	-	(18)	(18)
Transfers[1]	-	-	-
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)
Transfers[1]	-	-	-
At 31 December 2021	**301**	**766**	**1,067**
Net book value at 31 December 2021	**345**	**415**	**760**

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2020	683	727	1,410
Additions	-	132	132
Disposals	-	(105)	(105)
Transfers[1]	(37)	55	18
At 31 December 2020	646	809	1,455
Accumulated Depreciation			
At 1 January 2020	149	357	506
Charge for the year	93	228	321
Disposals	-	(58)	(58)
Transfers[1]	(31)	30	(1)
At 31 December 2020	211	557	768
Net book value at 31 December 2020	435	252	687

[1] Transfers represents a reclassification of assets from intangible assets to tangible assets.

All amounts are stated in £000s unless otherwise indicated

15 Leases

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)**

Right-of-use assets	Office Premises	Vehicles	Office Equipment	Total 2020
At 1 January 2020	2,628	15	24	2,667
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2020	2,628	15	24	2,667
Accumulated Depreciation				
At 1 January 2020	(266)	(11)	(9)	(286)
Charge for the year	(269)	(4)	(9)	(282)
Disposals	-	-	-	-
At 31 December 2020	(535)	(15)	(18)	(568)
Net book value as at 31 December 2020	2,093	-	6	2,099
Amounts recognised in the income statement				
Interest on lease liabilities	(129)	-	-	(129)
Depreciation of right of use assets	(269)	(4)	(9)	(282)
Expenses relating to short term leases	-	-	-	-
At 31 December 2020	(398)	(4)	(9)	(411)

All amounts are stated in £000s unless otherwise indicated

16 Prepayments & accrued income

	2021	2020
Prepayments & accrued income	1,090	666
Total	1,090	666

17 Other liabilities

	2021	2020
Amounts payable within one year:		
Trade creditors	88	268
Other liabilities	1,373	412
Lease liability	264	78
Amounts payable after one year:		
Lease liability	1,964	2,220
Total	3,689	2,978

18 Provisions for liabilities and charges

	Redundancy	Customer claims	FSCS levy	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

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.

All amounts are stated in £000s unless otherwise indicated

18 Provisions for liabilities and charges (continued)

	Redundancy	Customer claims	FSCS levy	Dilapidations Provision	Total
At 1 January 2020	118	116	7	175	416
Income statement movements:					
Charged/(released) in the year	80	(97)	-	-	(17)
Utilised during the year	(183)	-	(7)	-	(190)
At 31 December 2020	15	19	-	175	209
Amounts falling due within one year	15	19	-	-	34
Amounts falling due after one year	-	-	-	175	175
	15	19	-	175	209

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 2021	(14)	(3)	855	136	(44)	-	930
Adjustment in respect of prior year	(5)	-	-	-	-	-	(5)
Current year deferred tax charge	46	3	(36)	-	(6)	(1)	6
Charge to OCI	-	-	955	(256)	-	(1)	698
At 31 December 2021	**27**	**-**	**1,774**	**(120)**	**(50)**	**(2)**	**1,629**

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 Bank 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 £6k (2020: £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.

Chairman's Statement
Strategic Report
Governance
Audit Report
Financial Statements

20 Pensions

As at 31 December 2021, the surplus in the Scheme was £7.1m compared with £4.5m as at 31 December 2020, 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 2021 is around 20 years.

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 31 December 2018. This valuation revealed a funding surplus of around £3.8m. The next triennial valuation of the Scheme, as at 30 June 2021, is in progress and expected to be finalised during 2022. 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 2022.

Method and assumptions

The results of the most recent formal actuarial valuation as at 30 June 2021 have been updated to 31 December 2021 by a qualified independent actuary. The assumptions used were as follows:

Significant actuarial assumptions:

	As at 31 December 2021	As at 31 December 2020
Discount rate	**1.8% pa**	1.2% pa
RPI inflation	**3.3% pa**	3.0% pa
CPI inflation	**2.9% pa**	2.5% pa

Other actuarial assumptions:

	As at 31 December 2021	As at 31 December 2020
Salary increases	**4.0% pa**	3.6% pa
Pension increases:		
Post 88 GMP	**2.4% pa**	2.2% pa
RPI max 5% pa	**3.2% pa**	3.0% pa
RPI max 2.5% pa	**2.3% pa**	2.2% pa
Revaluation of deferred pensions in excess of GMP	**RPI: 3.2% pa**	RPI: 3.0% pa
	CPI: 2.9% pa	CPI: 2.5% pa

All amounts are stated in £000s unless otherwise indicated

20 Pensions (continued)

Mortality assumptions:

	As at 31 December 2021	As at 31 December 2020
Mortality (pre- & post-retirement)	100% S3PMA Middle / Light / Very Light	102% S3PMA
	100% S3PFA Middle / Light / Very Light	110% S3PFA
	CMI_2020	CMI_2019
	1.25% (yob)	1.25% (yob)

Life expectancies (in years)

	As at 31 December 2021		As at 31 December 2020	
	Males	Females	Males	Females
For an individual aged 65 in 2021	21.4 / 23.2 / 23.9	23.8 / 24.8 / 25.3	21.8	23.6
At age 65 for an individual aged 45 in 2021	22.7 / 24.5 / 25.1	25.3 / 26.2 / 26.6	23.1	25.0

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	(3,250) / 3,740
Inflation	+ / - 0.5% pa	2,980 / (2,400)
Assumed life expectancy	+ 1 year	1,170

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.

20 Pensions (continued)

Assets

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

Asset class	As at 31 December 2021 Market Value	As at 31 December 2021 % of total assets
Diversified growth fund	5,511	13%
Diversified credit fund	7,444	18%
Contractual income	4,970	12%
Corporate bonds	5,862	14%
Liability driven investment	9,468	23%
Gilts	7,715	19%
Cash	225	1%
Total	**41,195**	**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 2021	As at 31 December 2020
Market value of assets	41,195	41,574
Present value of defined benefit obligation	(34,100)	(37,073)
Funded status	7,095	4,501
Adjustment in respect of minimum funding requirement	-	-
Pension asset recognised in the Statement of Financial Position before allowance for deferred tax	7,095	4,501

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 period

	As at 31 December 2021	As at 31 December 2020
Value of defined benefit obligation at the start of the period	37,073	30,858
Interest cost	438	580
Benefits paid	(1,140)	(676)
Actuarial gains: experience differing from that assumed	(558)	-
Actuarial losses: changes in demographic assumptions	704	11
Actuarial (gains)/losses: changes in financial assumptions	(2,417)	6,300
Value of defined benefit obligation at the end of the period	**34,100**	37,073

All amounts are stated in £000s unless otherwise indicated

20 Pensions (continued)

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

	As at 31 December 2021	As at 31 December 2020
Market value of assets at the start of the period	41,574	37,558
Interest income	491	705
Actual return on assets less interest	447	4,169
Benefits paid	(1,140)	(676)
Administration costs	(177)	(182)
Market value of assets at the end of the period	**41,195**	41,574

Amounts recognised in the income statement

	2021	2020
Expenses	177	182
Net interest	(53)	(125)
Amount charged to income statement	**124**	57

Amounts recognised in other comprehensive income

	2021	2020
Actuarial gains/(losses) on defined benefit obligation	2,271	(6,311)
Actual return on assets less interest	447	4,169
Amounts recognised in other comprehensive income	**2,718**	(2,142)

21 Share capital and share premium

Share capital: Ordinary shares of £1 each, authorised and issued

	2021	2020
At 1 January	22,421	22,421
Issue of share capital - Capital raise	2,205	-
Issue of share capital - Share Incentive Plan	52	-
At 31 December	**24,678**	22,421

Share premium

	2021	2020
At 1 January	11,808	11,808
Issue of share capital - Capital raise	6,277	-
Issue of share capital - Share Incentive Plan	28	-
At 31 December	**18,113**	11,808

Chairman's Statement
Strategic Report
Governance
Audit Report
Financial Statements

All amounts are stated in £000s unless otherwise indicated

21 Share capital and share premium (continued)

Shares were issued as follows during the 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.

	2021 Contract amount	2020 Contract amount
Guarantees and irrevocable letters of credit	**948**	948
	948	948
Other commitments: Undrawn formal standby facilities, credit lines and other commitments to lend: 1 year and over	**98,785**	93,573
	98,785	93,573

The £98.7m (2020: £93.5m) consists of £44.8m (2020: £46.1m) undrawn accepted facilities and £53.9m (2020: £47.4m) 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 lease

	2021 Land and buildings	**Other leases**	2020 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**	-	5
- in five years or more	**-**	**-**	-	-
	-	**77**	-	69

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.

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. Director remuneration is disclosed in note 4.

Key management compensation

	2021	2020
Salaries and other short-term benefits	**603**	880
Post-retirement benefits	**52**	67
	655	947

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 £57,140 was paid by the Bank (2020: £55,530), to be shared by the guarantors. This fee is calculated in reference to the 'buy-out' (s75) value 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 £104.3m (2020: £87.5m), significantly in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis		2021	2020
Tier 1			
Share capital		**24,678**	22,421
Share premium account		**18,113**	11,808
Reserves:	Capital Redemption Reserve	**4,511**	4,511
	Retained earnings	**62,040**	51,334
	Available for sale reserve	**(342)**	595
	ESOP reserve	**(37)**	-
Common Equity Tier 1 (CET1) capital before adjustments		**108,963**	90,669

All amounts are stated in £000s unless otherwise indicated

25 Capital management - unaudited (continued)

	2021	2020
Adjustments to CET1		
Other intangible assets	**(60)**	(110)
Prudent additional valuation adjustment	**(208)**	(252)
Net pension asset	**(5,321)**	(3,646)
IFRS 9 transitional adjustment	**886**	815
CET1 and Total Tier 1 capital resources	**104,260**	87,476
Tier 2 Adjustment for collective provisions	-	-
Total Tier 2 Adjustments	**-**	-
Total regulatory capital	**104,260**	87,476
Common Equity Tier 1 ratio	**17.7%**	16.7%

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 2021 and 31 December 2020, 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.

26 Financial risk management (continued)

	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2021					
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	

	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2020					
Assets					
Financial instruments measured at fair value					
Investment securities	-	252,413	252,413	252,413	Level 1
Financial instruments not measured at fair value					
Cash and balances with the Bank of England	568,804	-	568,804	568,804	Level 1
Loans and advances to banks	254	-	254	254	Level 3
Loans and advances to customers (gross)	605,202	-	605,202	576,431	Level 3
	1,174,260	252,413	1,426,673	1,397,902	
Liabilities					
Deposits from customers	1,335,725	-	1,335,725	1,335,725	Level 3
	1,335,725	-	1,335,725	1,335,725	

- 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.

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

Credit Risk

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

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

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

The Bank's Risk appetite 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

Maximum exposure to credit risk

	Gross balance	Credit commitments		2021 Credit risk exposure	Gross balance	Credit commitments		2020 Credit risk exposure
		Pipeline[1]	Other			Pipeline[1]	Other	
Cash balances at central banks	680,112	-	-	680,112	568,804	-	-	568,804
Loans and advances to banks	529	-	-	529	254	-	-	254
Loans and advances to customers	727,159	44,842	53,943	825,944	605,202	46,104	47,469	698,775
Investment securities	207,632	-	-	207,632	252,413	-	-	252,413
	1,615,432	44,842	53,943	1,714,217	1,426,673	46,104	47,469	1,520,246
Impairment allowance for:								
Loans and advances				(3,636)				(3,392)
Treasury investments				(20)				(25)
Total				1,710,561				1,516,829

[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. The provision is recognised within stage 1 ECL.

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

26 Financial risk management (continued)

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 £000	Stage 2 Lifetime ECL – SICR £000 >30 DPD	Stage 3 Lifetime ECL – credit impaired £000 >90 DPD	Total £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)

31 December 2020	Stage 1 12 month ECL £000	Stage 2 Lifetime ECL – SICR £000 <30 DPD	Stage 3 Lifetime ECL – credit impaired £000 <90 DPD	Total £000
Impairment provision at 1 January 2020	587	200	854	1,641
Gross carrying amount as at 1 January 2020	853,511	12,423	2,172	868,106
Individual financial assets transferred from stage 1	(13,190)	11,054	2,136	-
Individual financial assets transferred from stage 2	1,440	(1,937)	497	-
Individual financial assets transferred from stage 3	-	-	-	-
New financial assets originated or purchased	226,482	-	-	226,482
Financial assets that have been derecognised	(188,376)	(66)	(864)	(189,306)
Other changes[1]	608	(1,127)	(121)	(640)
Gross carrying amount as at 31 December 2020	880,475	20,347	3,820	904,642
Impairment provision at 31 December 2020	347	949	2,121	3,417

[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.

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 2021 £15.0m (2020: £11.4m) 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 2021 £608.6m (2020: £391.9m) 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 £7.6m (2020: £4.5m).

26 Financial risk management (continued)

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 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

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 2020
United Kingdom	4,400	24,145	48,285	-	76,830
	4,400	24,145	48,285	-	76,830
Rest of Europe					
Norway	-	7,000	-	-	7,000
Sweden	-	-	20,000	-	20,000
	-	7,000	20,000	-	27,000
Rest of the World					
Australia	-	-	9,925	-	9,925
Canada	-	33,050	28,885	-	61,935
Supranational	-	5,000	70,000	-	75,000
	-	38,050	108,810	-	146,860

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

Interest rate risk

Interest rate risk is primarily managed through assessing the sensitivity of the Bank's non-trading book to standard and non-standard interest rate scenarios. The Board has established a risk appetite 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 at least quarterly reports on the management of balance sheet risk and the Asset and Liability Committee reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

The 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 2021	+25 bps 2020	**-25 bps 2021**	-25 bps 2020
Impact	**2,921.4**	2,496.0	**(3,424.8)**	(2,542.0)

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.

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	-	

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

31 December 2020	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	568,804	-	-	-	-	-	568,804
Loans and advances to banks	254	-	-	-	-	-	254
Loans and advances to customers	587,049	-	-	14,122	4,031	(3,392)	601,810
Investment securities	212,113	-	-	40,300	-	-	252,413
Other assets	-	-	-	-	-	8,313	8,313
Total assets	1,368,220	-	-	54,422	4,031	4,921	1,431,594
Liabilities							
Customer deposits	1,335,725	-	-	-	-	-	1,335,725
Other liabilities	-	-	-	-	-	5,200	5,200
Total equity	-	-	-	-	-	90,669	90,669
Total liabilities and equity	1,335,725	-	-	-	-	95,869	1,431,594
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	32,495	-	-	54,422	4,031	(90,948)	
Cumulative gap	32,495	32,495	32,495	86,917	90,948	-	

All amounts are stated in £000s unless otherwise indicated

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 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	1,370,727	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)	-

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

31 December 2020	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	568,804	-	-	-	-	-	568,804
Loans and advances to banks	254	-	-	-	-	-	254
Loans and advances to customers	-	7,441	12,694	98,611	483,064	-	601,810
Investment securities	-	212,113	-	40,330	-	-	252,413
Other assets	-	-	-	-	-	8,313	8,313
Total assets	569,058	219,554	12,694	138,911	483,064	8,313	1,431,594
Liabilities							
Customer deposits	1,212,880	122,845	-	-	-	-	1,335,725
Other liabilities	-	-	-	-	-	5,200	5,200
Total equity	-	-	-	-	-	90,669	90,669
Total liabilities and equity	1,212,880	122,845	-	-	-	95,869	1,431,594
Net liquidity gap on contractual basis	(643,822)	96,709	12,694	138,911	483,064	(87,556)	-

Gross expected cashflow maturity analysis – contractual

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**	**-**	**-**	**-**

31 December 2020	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	1,335,725	1,335,739	1,292,231	43,508	-	-	-
Other liabilities	5,200	5,200	5,200	-	-	-	-
Total recognised liabilities	1,340,925	1,340,939	1,297,431	43,508	-	-	-
Unrecognised loan commitments	93,573	93,573	93,573	-	-	-	-
Total	1,434,498	1,434,512	1,391,004	43,508	-	-	-

All amounts are stated in £000s unless otherwise indicated

27 Share-based payments

During the year, the Bank launched two share-based payment arrangements to incentivise and reward employees as well as increase employee ownership, as set out below. The charge for the year in relation to share based payments recognised as an operating expense within staff costs was £16k (2020: £nil), see note 8.

Share incentive plan (SIP)

The SIP is a tax advantaged equity-settled plan open to all employees, under which they are entitled to Free shares up to 2% of salary, 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 will be matched by the Bank at a ratio of 2:1. 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 the 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 of £3.85. The fair value of the award was based on the price achieved by the Bank in the September 2021 capital raise (see note 21 for further details). 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.

Equity-settled share option plans

The Company Share Option Plan (CSOP) is intended for selected employees 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. If the options remain unexercised after a period of ten years from the date of grant, then the options expire. Awards will lapse on cessation of employment, other than in 'good leaver' circumstances. The value of the scheme to the holder reflects the difference between the option price (set at grant) and the price at exercise, not the full value of the shares on exercise. As a tax-advantaged scheme, employees are not individually allowed to hold shares with a market value exceeding £30,000 in the scheme at any time.

Details of the share options outstanding during the year are as follows:

Options outstanding:	2021 Number	2021 Weighted average exercise price £	2020 Number	2020 Weighted average exercise price £
Outstanding at the beginning of the year	-	-	-	-
Granted in the year	85,714	3.85	-	-
Exercised or surrendered in the year	-	-	-	-
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	**85,714**	**3.85**	-	-
Exercisable at the end of the year	**-**	**-**	-	-

The weighted average remaining contractual life of options outstanding at 31 December 2021 was 56 months (2020: no options outstanding). In 2021, options were granted on 1 September 2021.

The aggregate of the estimated fair values of the options granted is £84k (2020: none granted).

The inputs into the Black Scholes model are as follows:

	2021	2020
Weighted average share price	**£3.85**	-
Weighted average exercise price	**£3.85**	-
Expected volatility	**30%**	-
Expected life	**5 years**	-
Risk free rate	**1%**	-
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 non-transferability, exercise restrictions, and behavioural considerations.

28 ESOP reserve

	2021	2020
At 1 January	-	-
Shares purchased	37	-
Options exercised	-	-
	37	

The Employee Share Ownership Plan ('ESOP') reserve relates to shares that 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 2021, the trust held 41,145 ordinary shares (2020: none) with a nominal value of £41,145 (2020: £nil). Share-based awards were outstanding against 39,026 of these shares at 31 December 2021 (2020: none).

29 Dividends

A dividend of 3.85p is proposed in respect of the 2021 financial year at the forthcoming AGM. A dividend of 3.3p per share was recognised in 2021 in respect of the 2020 financial year following approval at the 2021 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
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
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 National Association of Commercial Finance Brokers (NACFB) is the UK's largest independent trade body for commercial finance brokers.

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.

An internationally recognised standard for demonstrating low carbon credentials: Unified and independent method to manage carbon and energy, recognises all stages of carbon management - from assessment, to carbon reductions and carbon neutrality. Applicable to organisations, businesses, products, projects, services and events. Aligned with international best practice / standards.

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.

Introduced in 2011, the **Time to Change Employer Pledge** was a commitment to changing the way we all think and act about mental health in the workplace.

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.

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*Our call centre will be open Monday to Friday 8.30am-5pm with the exception of Thursday which will be open 9.30am-5pm. Calls are charged at local rate. Unity Trust Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Unity Trust Bank is entered in the Financial Services Register under number 204570. Registered Office: Unity Trust Bank, Four Brindleyplace, Birmingham, B1 2JB. Registered in England and Wales no. 1713124. Calls may be monitored and recorded for training, quality and security purposes.

U421 (03/22)