Pillar 3 Disclosures 2020

1 Overview

1.1 Purpose

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

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

1.2 Background and regulatory guidance

Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD) (together referred to as CRD V) implementing the Basel III framework came into force on 27 June 2019 (containing revisions to previously implemented CRD IV regulation). It is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA). The objective of CRD V is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy.

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

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

CRD V requires a concise risk statement approved by the Executive Committee describing the institution's overall risk profile associated with business strategy. The Bank has a low risk appetite. This is evidenced in a whole book average LTV c50%, 97% of lending within risk grades 1-5 and very low levels of arrears.

Summary of Key Metrics

	2020 £'000	2019 £'000
Capital		
Common Equity Tier 1 (CET1)	87,476	79,645
Risk weighted assets	524,088	453,226
Common Equity Tier 1 ratio (%)	16.7%	17.6%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (%)	2.5%	2.5%
Countercyclical buffer requirement (%)	0%	1%
Basel III Leverage Ratio		
Total Basel III leverage ratio exposure measure	1,481,176	1,162,383
Basel III leverage ratio (%)	5.9%	6.9%
Liquidity Coverage Ratio[1]		
Total HQLA	760,666	548,149
Total net cash outflow	229,721	161,586
LCR ratio (%)	331%	339%

[1] LCR balances included above are as at 31 December 2020 and do not agree to LCR balances disclosed in section 3.4 which reports average LCR balances.

Total Loss Absorbing Capital (TLAC) and Minimum Requirement for Eligible Liabilities (MREL) regulations became effective from 1 January 2019. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements also known as the Total Capital Requirement (TCR). The Bank's TCR as at 31 December 2020 is 10.18% (2019: 10.55%).

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

Regulatory developments

The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer which creates a cushion for banks to absorb potential losses in the event of a stress. In response to the COVID-19 pandemic, the UK countercyclical capital buffer was reduced from 1% to 0% and subsequent planned increases in December 2020 cancelled. This reduction is reflected in the summary of key metrics table above. The FPC expects to maintain the 0% for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

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

The UK's membership of the EU came to an end on 31 January 2020. The Withdrawal Agreement which enabled the UK to continue applying EU legislation during the transition period ended on 31 December 2020. The PRA published final statutory instruments containing amendments to the EU's legislation, predominantly to ensure the legislation remains operable in the UK.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The rules are subject to a lengthy transitional period from 2022 to 2027. The amendments include changes to the standardised approaches for credit and operational risks. In response to the COVID-19 pandemic, the Basel Committee announced the deferral implementation timelines by one year to 1 January 2023.

1.3 Basis and frequency of disclosures

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

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

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

1.4 Verification

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

1.5 Remuneration and governance arrangements

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

1.6 Scope of disclosures

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

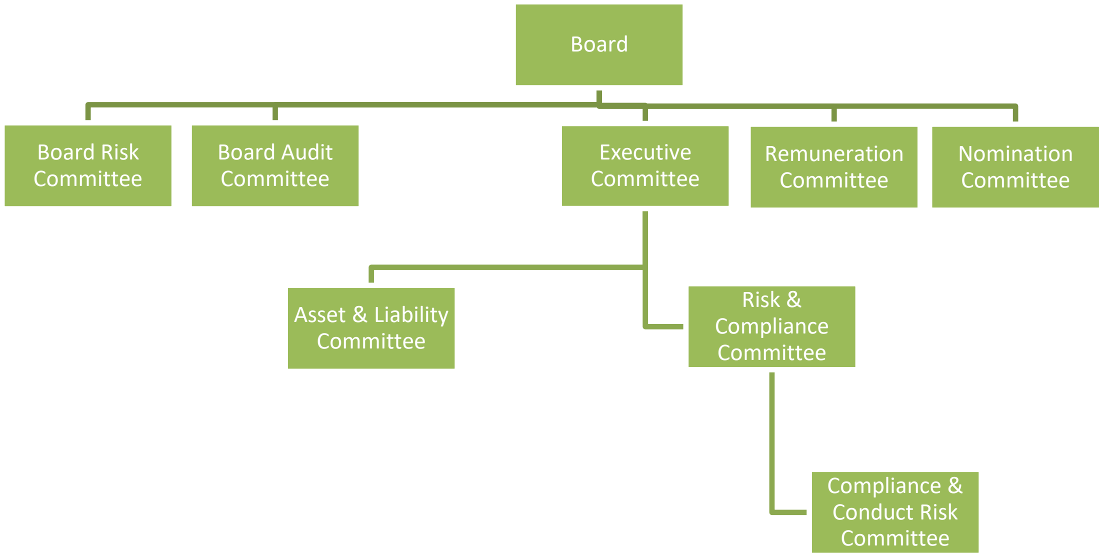
2 Risk management framework, objectives and policies

2.1 Overview

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

Specific Board authority is delegated to Board Committees and the Chief Executive Officer who may, in turn, delegate elements of discretion to appropriate members of Executive and senior managers.

2.2 Committee structures



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

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

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

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

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

The **Asset and Liability Committee (ALCO)** is a management committee and is primarily responsible for managing the market, liquidity and funding risks that affect the Bank. Specific focus includes the economic outlook, interest rate risk, liquidity and funding, capital risk and treasury counterparty credit risk. ALCO met monthly in 2020 and is chaired by the Chief Financial Officer.

The **Risk and Compliance Committee (RAC)** is a management committee which includes the Bank's second line risk and compliance functions, providing requisite assurance to the Executive Committee and

BRC. It is responsible for monitoring all risks, including those overseen by ALCO so that a complete overview can be maintained. It meets monthly and is chaired by the Chief Risk Officer.

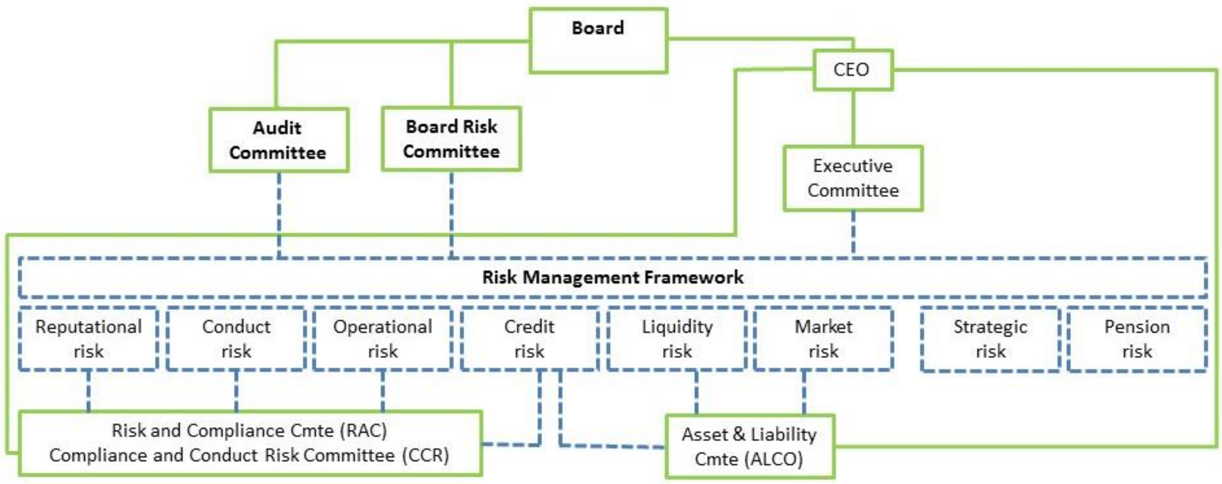
The **Compliance and Conduct Risk Committee (CCR)** is a management committee with responsibility for overseeing conduct, products, marketing and regulatory compliance.

2.3 Significant Risks

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

- Reputational risk
- Conduct risk and Compliance (including Regulatory risk)
- Operational risk (including Cyber risk)
- Credit risk
- Liquidity and Funding risk
- Market risk
- Strategic and business risk
- Pension Risk.

Committee diagram showing responsibilities for risks



2.3.1. Reputational Risk

The Bank considers the protection of its reputation as paramount. The Bank will not conduct its business or engage with stakeholders or customers in a manner that could adversely impact its reputation.

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

Conduct risk and compliance is the risk that the Bank's customers suffer loss or detriment due to failures in product design, sales and marketing processes or operational delivery. Conduct risk includes compliance risk and regulatory risk. The Conduct Risk and Compliance Committee is a management committee and monitors trends in these areas. It meets monthly and reports into RAC, escalated to Board committees as appropriate.

2.3.3. Operational Risk (including Cyber Risk and Pension Risk)

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

The Board considers Cyber Risk to be an increasingly important facet of operational risk and has implemented a Board approved Cyber Security Strategy which is discussed in more detail below.

Operational risk also includes customer management, outsourcing, physical security, change management, supplier and financial reporting risks. Operational risks are identified on an inherent and an emerging basis, as well as at gross and net levels, and are managed and mitigated through ongoing risk management practices and scenario planning.

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

Cyber Risk

Cyber risk is the risk of financial loss, data loss or compromise, disruption or damage to the reputation of an organisation from failure or breach of its information technology systems. Cyber security is the body of technologies, processes and practices designed to protect networks, computers, programs and data from attack, damage or unauthorised access.

The Board approved the Bank's Cyber Security Strategy which highlights four key objectives: Cyber resiliency; Protect the Bank's key asset – data; Meet all regulatory requirements; Ensure that third party suppliers adhere to the Bank's strategy and risk appetite.

The Bank's appetite for Cyber risk via a breach of cyber security is low. The Bank is committed to continuous improvement in this area and regularly reviews the action plan included in the strategy document.

Pension Risk

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

2.3.4. Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (overdrafts, loans and cards, as well as commitments to lend) and other activities (for example, treasury transactions). Credit risk is the current or future 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 Board. The level of credit risk authority delegated depends on seniority and experience, varying according to the quality of the counterparty or any associated security or collateral held.

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

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

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

Description of collateral

The Bank takes security (secondary sources of repayment) to mitigate credit risk. Loans and advances to customers are generally secured on residential or commercial property. Loans secured by commercial property take various forms but may be investment vehicles or owner-occupied premises.

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

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

Debentures and personal guarantees may also be used as security.

Impaired Assets and Forbearance

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

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

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

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

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

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

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

Such concessions typically include:

- restructuring, waiving or reserving rights in the event of covenant breaches, at 31 December 2020, 21 cases;
- postponement of principal payments, at 31 December 2020, 16 cases;
- restructures of principal payments, at 31 December 2020 nil cases;
- extension of loan maturities, at 31 December 2020 1 case; or
- partial or full capitalisation of interest payments, at 31 December 2020 nil cases.

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

Other concessions the Bank may grant include:

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

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

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

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

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

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

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

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

2.3.5. Liquidity and Funding Risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management processes and limits are set out in the Treasury Policy which is reviewed and approved annually by BRC and Board. Liquidity forecasting is monitored daily by the Bank's Treasury function to ensure the level of High-Quality Liquid Assets continue to meet the guidelines set in the Individual Liquidity Adequacy Assessment Process (ILAAP). The Bank holds overnight funds in the Bank of England Reserve Account and invests in high quality debt issued by financial institutions: Covered Bonds, Medium Term Notes and Floating Rate Notes. Stress testing is reported quarterly in accordance with the framework set out in the ILAAP.

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

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

2.3.6. Market Risk

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

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

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

2.3.7. Strategic and Business Risk (including Capital Risk)

Strategic and business risk arises from changes to the Bank's business model and long term goals, specifically the risks of not being able to carry out the Bank's business plan and desired strategy, including the ability to provide suitable products and services to customers. One example of strategic risk is the risk that the Bank suffers losses because income falls or is volatile relative to the fixed cost base.

Linked to strategic risk, capital risk is the risk that the Bank will have insufficient capital to fund its growth strategy. The Bank continuously monitors its capital levels through forecasting and stress/ scenario modelling. Stress testing is performed quarterly and reported to ALCO.

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

2.3.8. Other Risks

In addition to the significant risks covered above, the following principal risks are also reported in the Bank's financial statements:

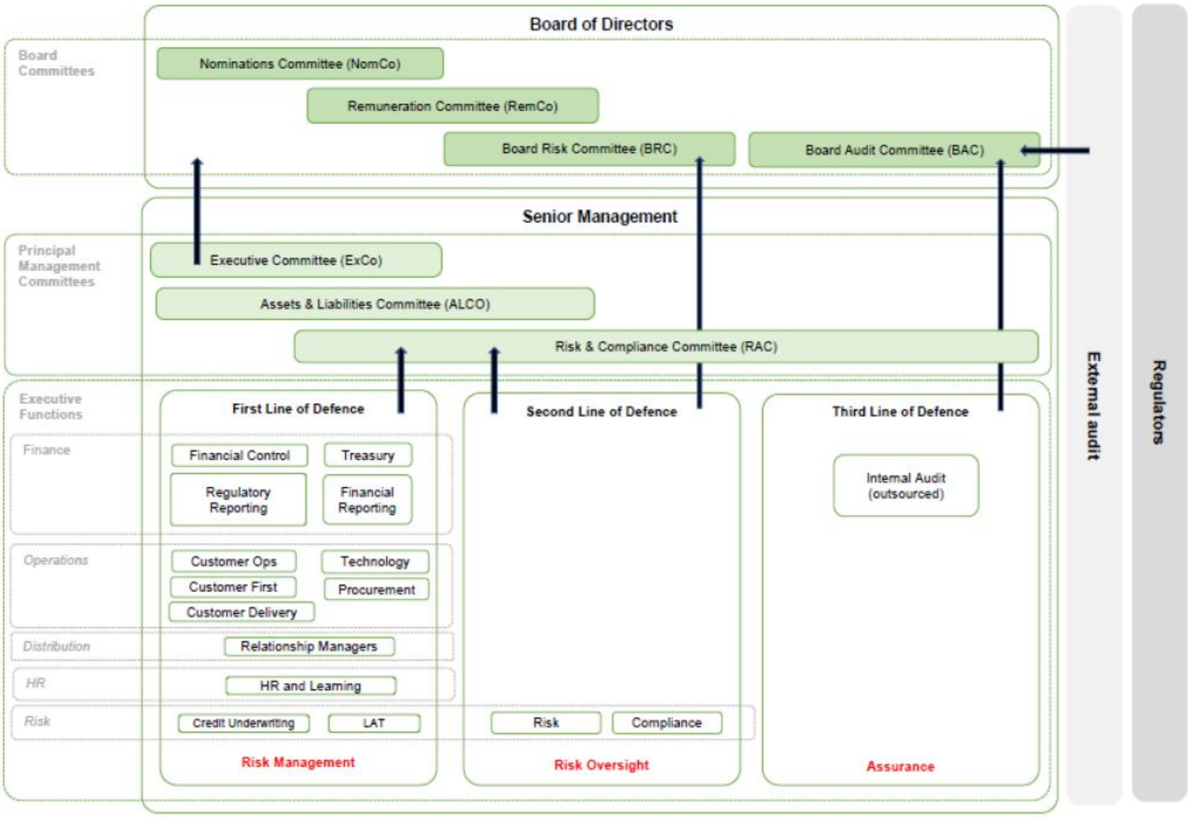
Financial Crime Risk

This is risk that the Bank wittingly or unwittingly helps parties to perpetrate or further illegal activity through the Bank, resulting in breach of regulations, potential fraud, customer detriment and reputational damage. The Bank performs enhanced staff screening and due diligence checks during onboarding of employees and new customers. Second line risk and compliance reviews are conducted to test adherence to policies and procedures.

2.4 Risk management

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

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



First line of defence: functional heads are responsible for the identification, measurement and management of the day to day risks and ensuring appropriate controls are in place and operating effectively;

Second line of defence: this function provides risk management expertise and challenges functional heads in their performance of risk management activities. Reviews are performed as part of a targeted compliance and risk management programme;

Third line of defence: Internal Audit (which is outsourced) is responsible for independently reviewing the effectiveness of the risk management structure and internal controls and for confirming the Bank's activities are in line with the Board risk appetite, regulatory or legal requirements.

The second line and third line review programmes are overseen by BAC and detailed findings are also reported at RAC.

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

ICAAP

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

ILAAP

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

Reverse stress testing

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

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

Recovery Plan and Resolution Pack

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

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

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

3 Capital resources and requirements

3.1 Overview

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

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

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

3.2 Total available capital resources

As at 31 December 2020 and throughout the financial year, the Bank complied with the capital requirements in force as set out by European and national legislation.

The capital resources of the Bank are as follows:

		2020 £’000	2019 £’000
Share capital		22,421	22,421
Share premium		11,808	11,808
Reserves:	Capital redemption reserve	4,511	4,511
	Retained earnings	51,334	46,850
	Available for sale reserve	595	(458)
Common Equity Tier 1 (CET1) capital before adjustments[1]		**90,669**	**85,132**
Adjustments to CET1			
Intangible assets		(110)	(135)
Prudent additional valuation adjustment		(252)	(332)
Defined benefit pension fund asset		(3,646)	(5,562)
IFRS 9 transitional adjustment		815	542
CET1 and Total Tier 1 capital resources		**87,476**	**79,645**
Tier 2 adjustments		-	-
Total Capital Resources		**87,476**	**79,645**

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

3.3 Risk weighted exposure amounts and Pillar 1 capital requirements

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

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

31 December 2020

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

31 December 2019

	Exposure value £'000s	Risk weight %	Risk weighted assets £'000	Pillar 1 capital requirement £'000	Average exposure value £'000
Loans and advances to zero risk weighted counterparties	362,182	0%	-	-	367,477
Debt security investments	81,797	20%	16,359	1,309	108,121
Regulated covered bond investments	189,594	10%	18,959	1,517	192,116
Investments credit risk	**633,573**		**35,318**	**2,826**	**667,714**
Loans and advances to customers	477,554	35/75/150%	379,079	30,326	440,366
Fixed and other assets*	11,080	100%	4,353	348	6,263
Total credit risk	**1,122,207**		**418,750**	**33,500**	**1,114,343**
Operational risk (section 3.6)		x12.5	34,476	2,758	
Total			**453,226**	**36,258**	

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

Credit risk mitigation techniques

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

31 December 2020

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

31 December 2019

Carrying amount	Exposures unsecured £'000s	Exposures secured £'000s	Total exposures financial £'000	Exposures secured by collateral £'000
Total loans and advances to customers	31,521	446,033	**477,554**	446,033
Total debt securities	633,573	-	**633,573**	-
Total exposures	**665,094**	**446,033**	**1,111,127**	**446,033**

Investments Credit risk

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

Treasury policy limits the maximum aggregated exposure to any single non-supranational counterparty to £20m (or £30m if the holdings are 100% regulated covered bonds). Supranationals and sovereigns are limited to £50m. No exposures can be over five years and this maximum tenor tapers to 12 months at the lower end of the acceptable ratings spectrum.

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

Investment Credit Risk:

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

31 December 2019	Moody's rating	Risk weight %	Exposure value £'000	Capital requirement £'000
UK Government and Bank of England				
Credit quality step 1	Aa2	0%	301,858	-
Supranational Financial Institutions				
Credit quality step 1	Aaa-Aa1	0%	60,324	-
Financial Institutions				
Credit quality step 1	Aaa-Aa3	20%	81,795	1,309
Credit quality step 3	Baa1-Baa3	20%	2	-
Regulated Covered bonds				
Credit quality step 1	Aaa	10%	189,594	1,517
Total			**633,573**	**2,826**

Customer loans credit risk and provisions

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

Maturity analysis

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

31 December 2020

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

31 December 2019

	Repayable on demand £'000s	Up to 3 months but not repayable on demand £'000s	3 months – 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Non-cash items £'000	Total £'000
Assets							
Cash and balances at central banks	301,858	-	-	-	-	-	301,858
Loans and advances to banks	2	-	-	-	-	-	2
Loans and advances to customers	-	4,721	14,230	87,164	371,439	-	477,554
Investments	-	77,300	45,090	209,323	-	-	331,713
Other assets	-	-	-	-	-	11,079	11,079
	301,860	**82,021**	**59,320**	**296,487**	**371,439**	**11,079**	**1,122,206**
Liabilities							
Customer deposits	866,645	163,790	-	-	-	-	1,030,435
Other liabilities	-	-	-	-	-	91,771	91,771
	866,645	**163,790**	**-**	**-**	**-**	**91,771**	**1,122,206**

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

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

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

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

31 December 2019	Total unweighted value (average) £'000	Total weighted value (average) £'000
Total HQLA		**581,976**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	404,771	35,360
Stable deposits	186,265	9,313
Less stable deposits	218,506	26,047
Unsecured wholesale funding, of which:	575,491	143,294
Operational deposits (all counterparties)	565,832	139,482
Non-operational deposits (all counterparties)	9,659	3,812
Credit and liquidity facilities	90,662	11,745
Total cash outflows	**1,070,924**	**190,399**
Cash inflows		
Inflows from fully performing exposures	28,055	27,117
Total cash inflows	**28,055**	**27,117**
Liquidity Coverage Ratio (%)		**356%**

3.5 Concentration risk

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

31 December 2020

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

31 December 2019

	UK £'000s	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	477,554	-	-	477,554
Cash and balances with central banks	301,858	-	-	301,858
Investments	153,323	66,330	112,062	331,715
Fixed and other assets	11,080	-	-	11,080
Total	**943,815**	**66,330**	**112,062**	**1,122.207**

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

3.6 Operational risk

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

3.7 Interest rate risk in the banking book (IRRBB)

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

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

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

3.8 Leverage

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

The Bank's ratio calculated in accordance with the FPC's leverage regime is 5.9% at 31 December 2020 (2019: 6.9%). The UK leverage ratio framework sets a minimum ratio of 3.25%. Although not subject to the framework, the Bank follows the requirement as best practice and maintains its leverage ratio in excess of this minimum requirement.

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

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

	2020 £'000	2019 £'000
Total consolidated assets as per published financial statements	1,431,595	1,122,207
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	48,850	48,209
Other adjustments	731	(8,033)
Leverage ratio exposure measure	**1,481,176**	**1,162,383**

Leverage ratio common disclosure template

	2020 £'000	2019 £'000
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs) but including collateral)	1,435,520	1,119,660
(Asset amounts deducted in determining Basel III Tier 1 capital)	(3,194)	(5,486)
Total on-balance sheet exposures (excluding derivatives and SFTs)	1,432,326	1,114,174
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	103,915	102,359
(Adjustments for conversion to credit equivalent amounts)	(55,065)	(54,150)
Total off-balance sheet items	48,850	48,209
Capital and total exposures		
Tier 1 capital	87,475	79,646
Total exposures	1,481,176	1,162,383
Leverage ratio (Basel III)	**5.91%**	**6.85%**

Appendix 1 – Remuneration policy and practices

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

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

The Remuneration Committee has reviewed and approved Unity's remuneration policy and the Remuneration Policy Statement (RPS). To ensure compliance with the Remuneration Code, the PRA's recommended RPS template has been adopted. Unity has one business area, Business Banking, which consisted of 107 (2019: 114) paid individuals (including Directors but excluding contractors) as at 31 December 2020.

The staff costs were as follows:

	2020 £'000	2019 £'000
All Staff		
Total fixed staff employment costs	6,133	6,602
Total variable staff costs	197	446
Total staff costs	**6,330**	**7,048**
Code Staff*		
Code staff fixed employment costs	1,516	1,191
Code staff variable costs	57	58
Total Code staff costs	**1,573**	**1,249**

*Figures shown above are the staff costs relating to the 12 (2019: 12) members of staff identified during the year as Material Risk Takers ("MRT)", including any remuneration in the year received before or after they ceased to be MRT and any received prior to approval by the PRA, and including starters and leavers.

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

In total 12 Material Risk Takers have been identified during the year (10 at year end) and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Material Risk Takers. All Board Directors (Executive and Non-Executive) are included as Material Risk Takers. No Material Risk Taker had either variable or total remuneration in excess of £500,000.

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

The Board had agreed and met the aspirational goal to comprise a minimum of 25% females by 2019. The goal has been extended to 33% females by 2022. The Board is currently 33% female (3 out of 9). In 2017 the Bank signed the Women in Finance Charter, reflecting the commitment to gender diversity and inclusion. Since signing up for the Women in Finance Charter, we have achieved gender diversity across our executive team and board of 38%.

Diversity and Inclusion remain core values of Unity.

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

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

Unity has in place a discretionary Profit-Sharing Plan; awards are linked to whether Unity has met its overall business objectives based on the end of year financial results. For 2020 the Bank estimate an award in the region of 6% of salary will be made (2019: 7%). Awards under the scheme qualify as "variable remuneration" as defined in the Code. Any awards under the scheme that are payable to individuals will be paid as a one-off cash payment. In 2020 we established a Share Incentive Plan and a Company Share Option Plan. Given the impact of Covid-19 and guidance from the regulators during economic uncertainty and the need to conserve capital, the Board decided to delay the implementation of these share awards. The Board will review this in 2021.

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

During the year Unity made inducements to three new joiners (2019: nil) and agreed to make severance payments to five employees (2019: three).

The total severance charge included in expenses in the year is £80k (2019: £57k) of which £nil (2019: £nil) related to Material Risk Takers. The highest amount relating to one single person for the year was £68k (2019: £30k).

Staff members in control functions are remunerated independently of the businesses they oversee. Total staff employment costs (including variable remuneration) in 2020 were £6.3m of which the employment costs of Code staff were £1.6m.