Annual Report and Accounts

2020

Bank with us. Bank on us.

Unity Trust Bank plc

Registered Head Office and Customer Services Centre

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Birmingham
B1 2JB

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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)
Margaret Willis (Chief Executive Officer)
Dominic Wade (Chief Financial Officer)
Sandy Chen (Independent Non-Executive Director)
Jim Gunner (Independent Non-Executive Director)
Susan Sternglass Noble (Independent Non-Executive Director)
Allan Wylie (Non-Executive Director)
Frances O'Grady (Non-Executive Director)
Alex Ryan (Non-Executive Director)

Company Secretary

Kate Eldridge

Executive Management

Margaret Willis, Chief Executive Officer
Martin Coward, Chief Risk Officer
Dominic Wade, Chief Financial Officer
Mark Clayton, Chief Operating Officer
Julia Tarpey, Director, Human Resources

Auditor

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

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The Chairman's Statement

Unity Today

Unity is an independent commercial bank, founded in 1984 by trade unions to serve customers and the common good. Today, Unity has over 200 shareholders and its purpose is unchanged. Unity pursues sustainable returns, regular dividends, personal customer service and social value in all it does.

This is proving popular. Upon establishing our independence from the Cooperative Bank, our shares traded at £2.00p. The 2015 book value was £2.94p and by the end of 2020 our book value had risen to £4.04p per share. Unity's Social Impact Report and this Annual Report describe our progress and our support for shareholders, customers and our wider society.

We are growing a bank that shareholders and customers can be proud of: an enduring institution defined by its purpose, values and the culture that sets it apart.

2020 Performance & Customers

2020 was a tragic year for many people and a difficult one for most. Unity's priority was to offer support and unbroken service to customers and to protect our staff.

Unity's values and planned resilience have enabled us to succeed in this and to continue to grow our bank and the value we contribute to society, despite unprecedented conditions. Our pursuit of safe growth and sustainability is reflected in our capital strength and the performance of our lending:

- net lending rose £124m (up 26%) a record high;
- deposits rose £305m (up 29%) also a record high;
- our customers pursue social value and returns.

The ultra-low Bank Rate was passed on to customers. Inevitably it reduced our interest income and interest expense materially. The net effect of this high growth and the low rates was:

- pre-tax profit was £7.5m (2019 £9.1m);
- return on shareholders' equity[1] was 8.0% (2019 9.9%);
- net assets of Unity were £4.04 per share[1] (2019 £3.80)

We are very pleased with your Bank's resilience, but sad to have had it proven by such conditions. The performance trend over the last four years is in the Strategic Report on page 12.

Dividends - 2019 & 2020

Our policy is to pay reliable dividends. In April 2020, we deferred payment of our proposed dividend for 2019 to allow us to better understand the effects of the economic impact of the pandemic. A 2019 dividend of 3p was paid in December 2020, better late than never.

Based on the 2020 performance we will recommend a dividend increase to 3.3p for 2020. This is consistent with our policy and sustainability.

Also, at our May 2021 AGM we will propose establishment of a platform for the trading of Unity shares periodically and we will discuss our further growth aspirations.

People & Governance

In March 2020, we faced the terrible news of the sudden loss of Ed Sabisky, who served as a director of Unity since 2014. Ed is sorely missed. He made an outstanding contribution to Unity for which we are deeply grateful.

We continue to strengthen the Bank for the opportunities ahead and we were delighted to welcome Dominic Wade (Chief Financial Officer); Frances O'Grady (General Secretary, TUC) and Alex Ryan (Head of Pensions, Unite the Union) to our Board.

2020 Banking Standards Board ('BSB') survey showed improved scores for Reliability and our employee engagement is in the top 25% of banks for Shared Purpose. 98% of employees said they were proud of how the Bank had helped its customers and clients throughout the COVID-19 pandemic. Unity is a 'real living wage' employer.

Annual profit share is paid to all eligible staff as a flat percentage of salary. 6% is proposed for 2020 (2019: 7%).

Environment, Climate & Society

Loans advanced in 2020 supported over 712 new jobs directly; created or renovated over 722 bed spaces and supported affordable housing. Our Social Impact Report, also published today on our website, details key metrics which are aligned to the United Nations Sustainable Development Goals.

Unity is represented on the committee of 'Banking a Just Transition', based on the Paris Agreement on climate change and Unity will play our part in the move to a zero-carbon economy.

Outlook

We believe that Unity is now a leading socially motivated commercial bank. Our purpose and values are more timely now than they have ever been. We plan to grow that for our communities and our shareholders.

The Board would like to thank all Unity's people for the hard work, commitment and resilience that contributed to 2020 results. We particularly thank our customers and shareholders for their unwavering support during this extraordinary year.

It is a pleasure to be able to report these results to you. Shareholders and employees can be justly proud of Unity, as a force for good.

Alan Hughes
Chairman,
5 March 2021

[1] APMs are described in the glossary

Strategic Report

Our response to COVID-19

Unity's response to the pandemic has been guided by our values and principles.

Our people

The health, safety and wellbeing of our employees has been paramount.

- All of our staff were able to swiftly, effectively and safely work from home; none of our staff furloughed.
- Maintaining access to the office for those who want it has been important for morale. We have flexed our approach as the pandemic has evolved, limiting capacity and providing more parking facilities to create travel flexibility.
- Regular contact was made by the Executive team, to provide regular updates and stressing the importance of taking breaks, physical activity and mental wellbeing. Staff were provided remote support via our Employee Assistance Programme and access to wellbeing programs via our Reward platform.
- All employees met via video conferencing; online social events and online training and personal development.

Our customers and communities

Offering excellent customer service remained a key focus for staff as well as supporting local communities.

- Staff have used volunteering hours over the year to help locally or online (e.g. befriending, skills sessions)
- As we were unable to hold celebratory events during this year, our employees voted to donate those funds to charity
- There was no significant disruption to our customer services channels.
- Our Relationship Managers contacted borrowing customers to offer support including short term cash flow needs and capital repayment holidays, where appropriate.

Our stakeholders

Operational resilience and financial strength are paramount to our investors, to enable sustainable returns.

- Given our financial strength and strong liquidity, Government support schemes were not utilised.
- We deferred our 2019 dividend, paying 3p per share in December 2020.
- Regular reporting to the PRA keeping them updated on people, performance and operational resilience.
- We continued to pay our suppliers in advance of 30 days.

Strategy

Unity has a dual purpose of sustainable financial returns and positive social impact in all it does. We provide banking services to business customers and meet the borrowing needs of creditworthy organisations who deliver social value.

We consistently have strong customer satisfaction scores reflecting our personal service and specialist sector knowledge. We aim to be the bank of choice for businesses and organisations who seek to benefit society.

Unity's strategy is to:

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

Financial performance

This year's results are strong against a difficult economic backdrop. We maintained a compound annual growth rate of 26% in our lending portfolio, which we have had since the Bank became independent in 2015.

The primary drivers of the 2020 performance are:

Income

Net interest income for 2020 was £18.7m (2019: £19.3m). The positive effect of lending growth was off-set by the ultra low Bank Rate. When Bank Rate was reduced to an all-time low of 0.10% this was passed on to our customers. Total loans and advances to customers at the end of the year were £601.8m (2019: £477.6m). Loans and advances originated during the year totalled £173.2m, up 2.3% (2019: £169.4m).

Interest on investments reduced to £2.6m (2019: £6.3m) due to the decrease in rates and a shift from Treasury Assets to Customer Lending.

Net fee and commission income for the year remained stable at £3.3m (2019: £3.3m).

Operating expenses

Rapid action was taken at the start of the pandemic to manage costs, including re-prioritisation of investment spend and new working practices, such as reduced travel, entertainment and office costs. Total operating expenses reduced by 5% to £12.6m (2019: £13.3m).

Our cost income ratio was negatively affected by the lower Bank Rate but cost control has resulted in an overall improvement to a cost income ratio of 57.5% (2019: 58.8%).

Impairment

The Bank's lending quality continues to remain a high priority. There were few credit write offs during the year and 97% of lending customers are classified within stage 1 risk grades under IFRS 9 (2019: 97%). The Profit and Loss charge for Expected Credit Losses modelled under IFRS 9 increased to £1.8m (2019: £0.2m) due to a larger loan book, changes to customers internal risk grades, falling asset security values and changing worsened economic outlook.

The balance sheet provision for loan impairment at 31 December 2020 was £3.4m (2019: £1.6m) resulting in a provision coverage ratio of 0.5% (2019: 0.3%).

Capital

Unity ended the year with a Common Equity Tier 1 (CET1) ratio of 16.7% (2019: 17.6%), ahead of regulatory minima.

During the period the IFRS 9 expected credit loss provision transitional rules were revised to reflect the impact of the COVID-19 pandemic. Stage 1 and Stage 2 provisions can be added back to Common Equity Tier 1 capital at 100% in 2020 and in 2021. A total of £815k from the £1.8m provision increase is added back to capital resources.

Capital Requirements were also amended by the PRA. The Countercyclical Buffer (CCYB) was reduced from 1% to 0%, improving Unity's available capital by £5.2m. Additionally, a Capital Requirement Regulation "Quick Fix" brought forward changes including the application of the Small & Medium-sized Enterprises factor which also improved Unity's regulatory capital position.

As at 31 December 2020, the Bank's Defined Benefit pension scheme surplus was £4.5m (2019: £6.7m). This surplus, net of deferred tax, is excluded from risk weighted assets and from capital resources when calculating regulatory capital.

Liquidity

Unity's lending activities continue to be 100% funded by customer deposits and our own resources. Customer deposit balances at the year-end were £1,336m (2019: £1,030m). Liquidity has increased significantly in the year, as customers conserve their cash reserves in light of COVID-19. Net lending in the year grew by £124m representing a 26% increase on 2019. The loan to deposit ratio decreased to 45% (2019: 46%) as a result of the growth on both sides of our balance sheet. Full liquidity metrics are included within the Pillar 3 document, available on Unity's website.

Priorities for 2021

As the country exits lockdown on a phased basis, and adapts to life outside the EU, the economic outlook for the UK in 2021 remains uncertain. The priorities for Unity, however, are clear:

- Supporting jobs, wellbeing and our communities will be more vital than ever. Unity will grow its impact by providing lending to creditworthy customers who drive societal benefits through their activities.
- Developing our people with additional training, launching our staff share schemes and making strategic hires to enhance our capabilities in specialist areas.
- Investing in technology to support new digital services, broaden our product offering and provide a platform for our continued growth.

Directors duties

The directors have a duty to promote the success of the company for the benefit of its members 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.

In March 2020, the COVID-19 Stay at Home measures were put in place and a record low Bank Rate was announced. In responding to these unprecedented events, your Board met more frequently and received weekly updates to understand the emerging risks and monitor developments, both internal and external, closely.

1) Dividend, remuneration and share dealing service discussions

Having achieved record results in 2019, the Directors had intended to recommend an increased level of dividend payment to shareholders at the AGM and introduce a share dealing service. This was reviewed in light of the increasing economic uncertainty. In discussing the payment of a dividend the Board considered:

- **The long term financial position of the Bank in uncertain times** – This included the direct cost of any dividend payment to the Bank, the consequent reduction in available capital over the long term, and the long term returns the Bank was likely to earn in a low interest rate environment.
- **The benefit of good relationships with shareholders, who provide Unity's capital** - A small sample of shareholders were consulted, indicating that they would welcome a dividend. Many shareholders were also customers or employees of Unity.
- **Our Regulator**– In March 2020, the PRA guided the large UK banks to suspend dividends and exercise caution over variable remuneration to preserve capital.
- **Distributions to employees** - The Directors were aware that a profit sharing payment to employees had already been made. Awards had not yet been made under the new employee share schemes.
- **Reputation** – The importance of maintaining confidence in the Bank was recognised and the reputational impact any message the payment or non-payment of a dividend would give.

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The Board deferred the dividend decision until December 2020, when more information regarding the impact of the pandemic and associated control measures on Unity, its customers and the wider economy was available.

The awards under the employee share schemes were also deferred in line with the dividend payment, and then postponed until 2021.

2) Technology Investment

Prior to the pandemic, the Board planned an investment programme to support new digital services and a broadened product offering, whilst maintaining a personal service through our call centre and relationship managers supported by our digital channels.

Given the economic uncertainty, when reviewing the budget for 2020, it was anticipated that income would fall due to the reduction in interest rates and that impairments may increase as some customers experienced financial difficulties. Accordingly, the original budget was reduced in line with affordability. In doing so the Board considered:

- **Long term impact of expenditure on the financial position of the Bank** – Ensuring that sufficient income was generated to cover the costs in the year; the risks that should be mitigated by building our operational resilience. The balance between the level of profitability and the Bank's long-term ability to compete was discussed. Projects for operational resilience were prioritised.
- **Fostering relationships with customers** – Customer needs must continue to be met and enhancements delivered.
- **The interests of employees** – Delaying the expenditure meant a reprioritisation of resources within the organisation and a change to the requirement for certain skills within the organisation.

3) Safe growth

The Board remains committed to its safe growth strategy. It has discussed this frequently, including:

- **Long term sustainability of the existing lending book** - As the pandemic control measures have impacted on our customers, the Board, supported by the Board Risk Committee has monitored the lending portfolio closely and regularly. The Board has been informed of those sectors facing particular challenges, from the logistical issues facing Care Homes, to the level of rental payments being received from Commercial Investment Property customers and an analysis of their tenants to identify where potential issues may arise.
- **Impact of new lending on communities and society** - The Bank has continued to lend to carefully selected customers who provide a societal benefit. There have been no changes to our lending quality standards.
- **Long term sustainability and improve social impact through diversification** – The Board recognises that Unity has been successful in a number of sectors and that future sustainability relies on gradually moving into adjacencies. Pharmacies have played a pivotal role during the pandemic and Unity has recently increased its lending to this sector. You can read more about this in our Social Impact Report.

All shareholders are encouraged to attend the AGM and share their views with directors and senior management. While we could not meet in person, we were pleased to invite all shareholders to a video conference AGM this year where their questions were answered by the Board.

As referenced in the Chairman's statement we monitor employee engagement through the BSB survey. Unity has a variety of employee engagement mechanisms, many of which are described in our response to COVID-19 section above.

Financial risks of 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. We developed our approach to climate risk and will publish our Climate Risk policy in the first half of 2021.

Unity does not fund carbon-emitting industries, and so has no exposure to high risk sectors and businesses such as coal-fired power stations, mining industry or organisations that burn toxic waste. But as we know climate change will have impact on all sectors and all geographies, Unity's approach is to understand which of our customers could be at greatest risk of causing, or being exposed to, the impacts of climate change and how we can support them to develop mitigating actions. We are also identifying the potential opportunities that will come through climate risk adaptation and how Unity contributes to the UK's transition to a low 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 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 actively driving low carbon initiatives or the principles of the circular economy, as well as those organisations who supply components or services to their supply chains.

Unity reviews all lending to ensure that there is no intentional negative impact to society and the environment, in line with our Credit Exclusions Policy. Each of our Sector Appetite Policies incorporate detail on the potential risks and opportunities from climate change which must be accounted for in our assessments. In addition, our Credit Application process requires that we understand how customers are mitigating detrimental environmental impacts as a result of climate change (e.g. flood risk and severe weather events).

Throughout 2020, we strengthened our commitment to environmental, social and governance (ESG) principles and continue to align all our business activities to the United Nations Sustainable Development Goals (SDG's). We have developed our ESG Committee to drive actions including the review and data capture of Scope 1, 2 and 3 greenhouse gas (GHG) emissions in accordance with the methodologies consistent with Greenhouse Gas Protocol. Recognising 2020 as an exceptional year, Unity will calculate a carbon footprint baselined on 2019. Throughout 2021, we will define and agree both short term targets and long-term commitments which support the UK's transition to Zero Carbon by 2050.

We have augmented the social and environmental criteria within our Supplier and Procurement Procedures covering both selection of new suppliers and ongoing management of existing partners. This is a focus area for supplier reviews throughout 2021 and will identify and reduce climate risk to our operations, eliminating disruption of service delivery to our customers.

Throughout 2020, Unity has not had to downgrade any customer relationship as a result of their associated risk of climate change. Our preparatory work to comply with the Prudential Regulatory Authority & Bank of England stress testing is on track for delivery in summer 2021 and incorporates a specific climate risk related scenario.

Principal risks and uncertainties

Unity maintains a risk management framework which allows an established, structured and consistent approach to existing and emerging risks. During the COVID-19 pandemic, Unity has continually reviewed its risk management and internal control systems, seeking to identify and address any areas that required further attention or action. Whilst the level of inherent risk for some of Unity's principal risks and uncertainties has increased, Unity's controls have continued to mitigate this increase in risk.

The principal risks, many of which are inherent in all banking businesses, are mitigated and managed through the risk control 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 risk appetite statements and the business operates within these statements. The Bank operates a 'three lines of defence' risk management model whereby:

- The first line of defence sits within the business and seeks to manage the policies, processes and controls.
- The second line Risk team undertakes oversight and testing of first line risk control.
- The third line is the independent internal audit function which is outsourced. The annual internal audit plan covers the major risks impacting the business on a rolling basis.

Risk	Impact	Mitigation
Credit Risk is the risk that counterparties will be unable or unwilling to meet their contractual commitments with the Bank, or that the Bank does not meet its climate change obligations. The rapid onset of COVID-19 pandemic controls in 2020 increased credit risk by disrupting cashflow for many customers, especially commercial investment property and charity borrowers.	Losses if a customer fails to make repayments. Losses if an investment fails to perform. Increased impact of IFRS9 reporting. Increased management time/costs. Reduced "impact" reporting. Damaged reputation.	The Bank has an experienced credit underwriting team which reviews all lending requests against the Board approved lending and sector policies. In accordance with set mandates, loans are approved and sampled within limits approved by individuals who work within a framework of delegated authorities. Unity has a diversified lending portfolio controlled with sector caps and linked to our "impact" objectives. Ad hoc portfolio and sector reviews are used to provide early warning of deteriorating exposures. Relationship managers work with all borrowing customers and monitor our individual exposure. Treasury team invest within a very limited risk appetite mandate. Unity's relationship management model enabled early conversations with those customers immediately impacted. Individual solutions provided based on customer need and circumstance. Underwriting have conducted regular reviews by business type. Customers provided with support have been subject to close monitoring and reporting to Board. Various portfolio scenarios have been conducted. Specialist relationship management resource has been provided to those few customers experiencing financial distress.
Market Risk is the risk that changes in interest rates negatively impact the earnings or market value of the Bank's assets and liabilities.	Losses due to the inability to pass on interest rate reductions. Potential reduction in liquidity/funding.	Standalone management through Treasury function within defined appetite limits. Interest rate risk is monitored regularly and reported on a monthly basis as part of Asset and Liability Committee (ALCO) responsibilities. Stress testing for interest rate risk is performed and reviewed regularly.

Risk	Impact	Mitigation
Liquidity Risk is the risk that the Bank will have insufficient financial resources to meet commitments as they fall due. COVID-19 posed an additional risk to Bank liquidity if customers withdrew credit funds to support cash flows.	Unsustainable funding. 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. Intra-day liquidity monitoring. Throughout the pandemic, liquidity was subject to weekly scrutiny, with detailed reporting of material flows to ALCO and ExCo. Alternative funding options were kept under constant review.
Capital Risk is the risk that Unity will have insufficient capital to fund its growth strategy.	Growth and investment plans not achieved. Regulatory capital buffers could come under pressure.	Internal Capital Adequacy Assessment Process (ICAAP). Revised stress/scenario/IFRS9 testing and modelling to reflect COVID-19 impacts. UK only business model to mitigate Brexit impacts. Close control of lending portfolio mix to avoid capital distortion. Business plan focussing on growing non-interest income contribution. Regular shareholder communications.
Conduct and Compliance Risk is the risk that the Bank breaches its duty to customers and other counterparties; inappropriate market conduct and breaching other regulatory requirements.	Inappropriate customer outcomes, jeopardising our business plan. Reputational damage from poor customer service and outcomes. Additional regulatory scrutiny and financial penalty.	Measured through specific customer centric metrics; focussing on risk control design and effectiveness. Compliance risks and controls measured using the judgement of a specialist compliance function. Appropriate and established policies and procedures; employee training and oversight to ensure policy observance. Product development and supporting processes designed to deliver fair outcomes for customers. Reputational risk management is the responsibility of every member of staff. Regular written and verbal updates provided to the PRA throughout the pandemic.
Financial Crime Risk is the risk that the Bank wittingly or unwittingly helps parties to perpetrate or further illegal activity through Unity Trust Bank.	Breach of anti-money laundering regulations. Breach of anti-bribery and corruption 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 SMR. Extensive staff mandatory training on both AML and ABC. Tiered authorities and segregation of duties within departments releasing payments and funds. 2nd line Risk and Compliance checks and testing on adherence to policies and procedures. Established KYC processes for onboarding new customers. Enhanced due diligence and regular reviews of customers identified as high risk.

Risk	Impact	Mitigation
Operational Risk is the risk of failures as a result of inadequate or failed internal processes, people and systems, or from external events. Unity moved to remote working with the onset of pandemic control measures, increasing operational risks.	Financial loss or loss of customer data. Inability to maintain our important business services. Continuity of service disruption from the introduction of inappropriate system changes. Inappropriate 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. 3rd party providers' resilience assessed at contract initiation and as a minimum annually depending on materiality. Contract reviews in accordance with EBA outsourcing guidelines. Regular risk control self-assessments, with Risk & Compliance and Compliance & Conduct Committee's oversight and challenge. Improved governance of the change process validated by internal audit. Automation used to track and report risk events; business unit risk registers and follow up actions. Specific operational resilience and cyber focus within 2nd line Risk function. Data centralisation and control to provide one source. External "project" validation through professionals and SME's. COVID-19 controls included reducing payment authorities, conducting detailed risk control self-assessments (RCSAs) and increased monitoring of high-risk processes. RCSAs identified that whilst the location from which the business was run had changed, Unity's risk profile did not increase. Throughout the pandemic, greater focus provided to internal communications to maintain colleague engagement. Anticipating an increased cyber risk through the pandemic, regular phishing awareness updates provided to colleagues. 3rd party supplier dashboard developed to monitor operational resilience throughout the pandemic.

Key Performance Indicators (KPIs)

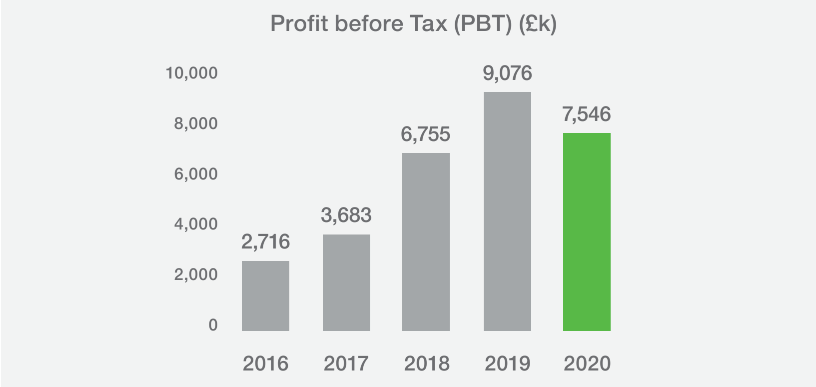
The following KPIs compare the 2020 full year results against full year 2019, 2018, 2017 and 2016 audited results. This report includes a number of Additional Performance Measures ('APM's')[1] which provide useful additional information about Unity.

Key performance indicator	Performance

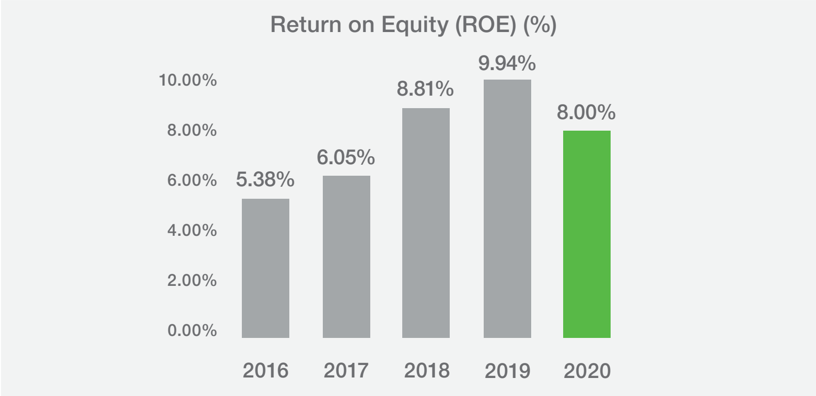
Profit before tax, as reported in the Income Statement for 2020.

The figures for 2016 to 2019 show profit before tax.

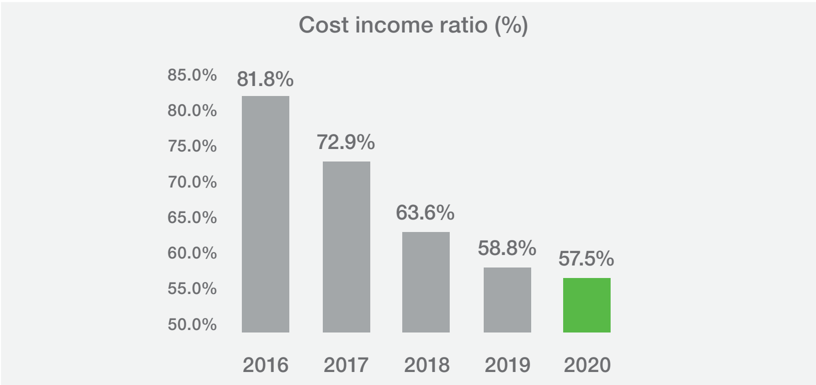
Profit contributes to capital which provides financial resilience and facilitates investment in the future.



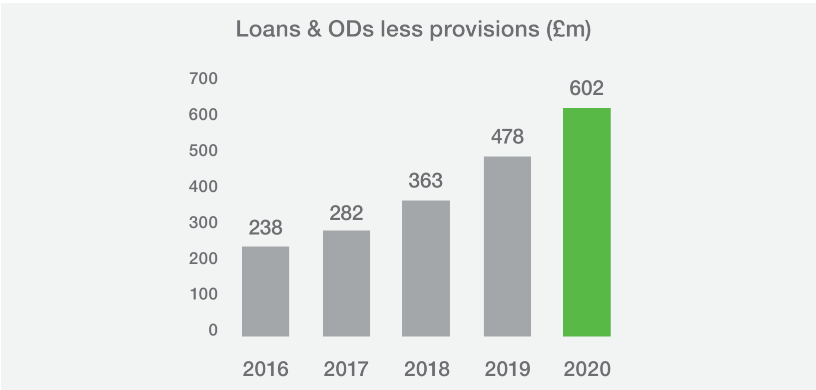
Return on Equity indicates the ratio of profit after tax divided by average shareholder equity.



Cost income ratio shows the operational expenses (including exceptional items) as a proportion of 'Total income' as shown on the Income Statement



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.



[1] Further information on APMs is available in the glossary on page 63.

By Order of the Board
Margaret Willis
Chief Executive Officer
Unity Trust Bank plc
5 March 2021

Report of the Directors

for the year ended 31 December 2020

Results and Dividends

The results for the year, before taxation, amounted to a profit of £7.5m (2019: £9.1m). The Directors recommend a final dividend for 2020 of 3.3p per share to be paid in 2021 (2019: interim dividend 3p per share paid in December 2020).

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 (appointed 11 September 2020)

Alex Ryan, Non-Executive Director (appointed 20 November 2020)

Ed Sabisky, Non-Executive Director (passed away 1 March 2020)

Susan Sternglass Noble, Independent Non-Executive Director

Allan Wylie, Non-Executive Director

Executive Directors

Margaret Willis, Chief Executive Officer

Dominic Wade, Chief Financial Officer (appointed 3 August 2020)

Employee Share Ownership Plan

Unity EBT Limited is a wholly owned subsidiary of the Bank and trustee of the Bank's Employee Share Ownership Plan (ESOP) and the new Share Incentive Plan. During 2020, 100 Ordinary £1 shares were purchased by Unity EBT Limited from employees who had left the Bank for a total of £336 and 755 shares were purchased from other shareholders at a cost of £2,537. It is intended that these shares will be used in the operation of employee share schemes.

During 2020, 400 Ordinary £1 shares were gifted to employees in recognition of service anniversaries at nil consideration.

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 2020 and as at the date of approval of this report.

Future Developments

An indication of future developments is 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 £559k (2019: £390k) were made regarding the CITR scheme.

Expenditure on research and development 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	2020	2019
Corporation tax	**643**	1,285
VAT	**824**	852
Employment tax		
■ Employer NIC	**725**	640
Total taxes paid	**2,192**	2,777
Employment taxes collected		
■ Employee PAYE and NIC	**1,839**	1,610
Total tax contributions	**4,031**	4,387

Corporate Governance

The Board considers the Corporate Governance Code as its benchmark for good corporate governance and adheres to the Code where relevant and proportionate, for a company of its size.

Statement of Directors' responsibilities in respect of the strategic report, Directors' report and the financial statements

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 group 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 issued by the International Accounting Standard Board (IASB).

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 company'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 issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company 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 company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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. 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. As a UK Bank, with no overseas customers, Britain's exit from the EU (Brexit), had had minimal impact. The impact on our supply chain as well as the lending portfolio have been reviewed and no significant concerns have materialised.

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 28.

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 2021 AGM.

By order of the Board

Kate Eldridge
Company Secretary
5 March 2021

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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); 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 26.

The financial reporting framework that has been applied in their preparation is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

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 the non-audit services prohibited by the FRC's Ethical Standard were not provided 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 £433,000 which was determined on the basis of 0.5% of net assets.
Scoping	A full scope audit was performed for the company to statutory materiality.
Significant changes in our approach	We have amended our materiality benchmark during the FY20 audit process. In the prior year we adopted 5% of profit before tax as the basis for determining materiality, however following the increased volatility to the statutory profit before tax figure as a result of COVID-19, we have moved to use 0.5% of net assets as our materiality benchmark. Net assets has been used due to it being a more stable basis on which to determine materiality going forwards and furthermore it is a relevant benchmark to users of the financial statements and the company's regulators.

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 £16.9m (2019: £15.0m) and a balance sheet liability of £4.0m (2019: £3.4m) 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. Due to COVID-19 and the increase in payment holiday arrangements, there is increased judgement with behavioural lives needing to reflect the impact of those customers where repayments will be made later than initially planned upon loan origination.

There is therefore judgement involved in the determination of interest income under the EIR method. We identified a key audit matter that the interest income 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 balance sheet liability. 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. This included assessing the impact of payment holidays on behavioural lives as a result of COVID-19, whereby we reviewed redemptions data and assessed whether this incorporated early experience of payment holidays. 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 SQL script used to perform the interest income and balance sheet liability calculations in order to evaluate the accuracy of management's model. We also reviewed 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 balance sheet liability 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 £3.4m (2019: £1.6m) against loans and advances to customers of £605.2m (2019: £479.2m). 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 impact of COVID-19 and payment holidays on staging; and ■ the accuracy of collateral valuations of cases in stage 2 and stage 3. We identified a key audit matter that the impairment provisions may be inappropriately recognised whether due to fraud or error. There is an increased level of risk since the prior year in light of COVID-19 and its impact on multiple components of management's impairment provisioning methodology. 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 collateral valuation 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 who had taken payment holidays and customers that had been placed on a watchlist by management and challenged the determination of staging criteria with reference to 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 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 house price inflation data to determine loss given default. We assessed the competence, capabilities and objectivity of management's experts. As part of our wider assessment of impairment we challenged management's consideration of the future economic environment within the macroeconomic scenarios. In addition we assessed the completeness of management overlays through our understanding of the company's loan book and the external environment. We also challenged the appropriateness of other assumptions used within the determination of impairment provision 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 involved our data analytics specialists to independently reconstruct the SQL 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 and data inputs to the model to be appropriate. Based on the evidence obtained there was a degree of perceived optimism across certain assumptions, however overall we concluded that management's view in regards to impairment provisions was appropriate with the provision sitting within an acceptable range based on peer benchmarking of coverage ratios.

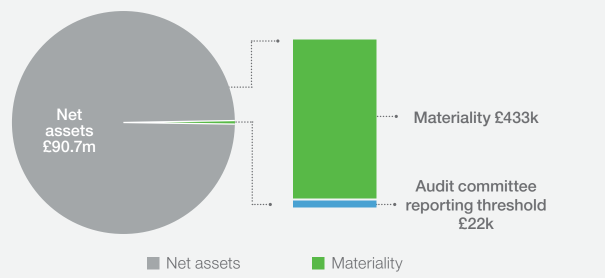
6. Our application of materiality

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	£433,000 (2019: £453,000)
Basis for determining materiality	0.5% of net assets (2019: 5% of profit before tax)
Rationale for the benchmark applied	Net assets has been used due to the volatility in profit before tax following the impacts of COVID-19, including net margin compression and increases in impairment provisions. It is also a relevant benchmark to users of the financial statements and the company's regulators and furthermore it will be a more stable basis on which to determine materiality in the current economic climate.



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 2020 audit (2019: 70%). In determining performance materiality we considered our risk assessment, including our assessment of the company's overall control environment and the increased control risks inherent within the business given it is operating in a COVID-19 environment.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £21,650 (2019: £22,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit 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 risk 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 cycles when performing our substantive audit procedures.

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 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 have 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, pensions 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 include 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 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.

Report on other legal and regulatory requirements

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

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

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

In the 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 2020 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 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 two years, covering the years ending 31 December 2019 to 31 December 2020.

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

Our audit opinion is consistent with the additional report to the 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

5 March 2021

Income Statement

for the year ended 31 December 2020

	Notes	2020	2019
Interest income under EIR method	5	**19,513**	21,336
Interest expense and similar charges	6	**(854)**	(2,002)
Net Interest Income		**18,659**	19,334
Fee and commission income		**4,257**	4,483
Fee and commission expense		**(968)**	(1,175)
Net fee and commission income		**3,289**	3,308
Total income		**21,948**	22,642
Operating expenses	7	**(12,614)**	(13,315)
Impairment charge on loans and advances	11	**(1,788)**	(251)
Profit before taxation	3	**7,546**	9,076
Taxation charge	9	**(519)**	(1,095)
Profit for the year attributable to shareholders		**7,027**	7,981

The accounting policies and notes on pages 28 to 62 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 2020

	Note	2020	2019
Profit for the year - equity shareholders		**7,027**	7,981
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Fair Value through other comprehensive income investments			
Valuation gains taken to equity[1]	12	**1,253**	532
Taxation		**(200)**	(118)
Items that will not subsequently be reclassified to profit or loss			
Actuarial (losses)/gains on defined benefit obligations	20	**(2,142)**	2,731
Taxation		**272**	(464)
Other comprehensive income for the year, net of tax		**(817)**	2,681
Total comprehensive income for the year - equity shareholders		**6,210**	**10,662**

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

Attributable to:		
Equity shareholders	**6,210**	10,662
Dividend paid in the year	**(673)**	(953)
	5,537	9,709

The accounting policies and notes on pages 28 to 62 form part of these financial statements.

All amounts are stated in £000s unless otherwise indicated

Statement of Financial Position

as at 31 December 2020

	Notes	2020	2019
Assets			
Cash and balances with the Bank of England	10	**568,804**	301,858
Loans and advances to banks		**254**	2
Loans and advances to customers	11	**601,810**	477,554
Investment securities	12	**252,413**	331,713
Intangible assets	13	**110**	135
Property, plant and equipment	14	**687**	904
Right of use assets	15	**2,099**	2,381
Pension scheme net assets	20	**4,501**	6,700
Other assets		**154**	172
Prepayments and accrued income	16	**666**	787
Current Tax assets	9	**96**	-
Total assets		**1,431,594**	1,122,206
Liabilities			
Customer deposits		**1,335,725**	1,030,435
Other liabilities	17	**2,978**	3,326
Accruals and deferred income		**1,083**	1,581
Provisions for liabilities and charges	18	**209**	416
Current tax liabilities	9	**-**	330
Deferred tax liabilities	19	**930**	986
Total liabilities		**1,340,925**	1,037,074
Capital and reserves attributable to the Bank's equity shareholders			
Ordinary share capital	21	**22,421**	22,421
Share premium account	21	**11,808**	11,808
Capital redemption reserve		**4,511**	4,511
Retained earnings		**51,334**	46,850
Financial asset valuation reserve		**595**	(458)
Total equity		**90,669**	85,132
Total liabilities and equity		**1,431,594**	1,122,206

The accounting policies and notes on pages 28 to 62 form part of these financial statements.

Approved by the Board on 5 March 2021 and signed on its behalf by:

Margaret Willis, 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 2020

2020	Share capital	Share premium	Capital redemption reserve	FVTOCI	Retained earnings	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 losses on Defined Benefit pension	-	-	-	-	(2,142)	(2,142)
Deferred Tax movements	-	-	-	(200)	272	72
Net movement in Fair value through other comprehensive income	-	-	-	1,253	-	1,253
Total income	-	-	-	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 on 23 December 2020 at 3p per share (2019: 5p per share).

2019	Share capital	Share premium	Capital redemption reserve	FVTOCI	Retained earnings	Total equity
At 1 January 2019	22,421	11,808	4,511	(872)	37,555	75,423
Profit for the financial year	-	-	-	-	7,981	7,981
Actuarial gain on Defined Benefit pension	-	-	-	-	2,731	2,731
Deferred Tax movements	-	-	-	(118)	(464)	(582)
Net movement in Fair value through other comprehensive income	-	-	-	532	-	532
Total income	-	-	-	414	10,248	10,662
Dividend paid	-	-	-	-	(953)	(953)
At 31 December 2019	22,421	11,808	4,511	(458)	46,850	85,132

The accounting policies and notes on pages 28 to 62 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 2020

	Notes	2020	2019
Profit before taxation		**7,546**	9,076
Adjustments for:			
Finance costs	6	**129**	123
Impairment losses, net of reversals, on financial assets		**1,788**	251
Depreciation of property, plant and equipment		**321**	310
Depreciation of right-of-use assets		**282**	286
Amortisation of intangible assets		**91**	85
Loss on disposal of property, plant and equipment		**47**	105
(Decrease)/increase in provisions		**(17)**	142
Other non-cash movements		**49**	-
		10,236	10,378
Operating cash flows before movements in working capital			
Decrease in prepayments and accrued income		**121**	177
Decrease in other operating assets		**18**	126
Advances to customers		**(126,044)**	(115,356)
Bank of England mandatory reserve	10	**(1,207)**	(192)
(Decrease)/increase in accruals and deferred income		**(498)**	54
Increase in customer deposits		**305,290**	32,305
Increase in other operating liabilities		**(254)**	(106)
Cash generated by/(used in) operations		**187,662**	(72,614)
Income tax paid		**(929)**	(1,422)
Net cash inflow/(outflow) from operating activities		**186,733**	(74,036)
Investing activities			
Purchase of property, plant and equipment		**(132)**	(124)
Intangible asset additions		**(85)**	-
Purchase of investment securities		**(42,347)**	(60,317)
Proceeds from sale and redemption of investment securities		**122,900**	155,503
Net cash from investing activities		**80,336**	95,062

All amounts are stated in £000s unless otherwise indicated

Statement of Cash Flows (continued)
for the year ended 31 December 2020

	Notes	2020	2019
Financing activities			
Dividends paid		**(673)**	(953)
Repayment of lease liabilities		**(405)**	(38)
Net cash used in financing activities		**(1,078)**	(991)
Net increase in cash and cash equivalents		**265,991**	20,035
Cash and cash equivalents at beginning of year		**300,958**	280,923
Cash and cash equivalents at end of year		**566,949**	300,958
Cash and balances with the Bank of England	10	**566,695**	300,956
Loans and advances to banks		**254**	2
		566,949	300,958

The accounting policies and notes on pages 28 to 62 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 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 issued by the IASB.

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 issued by the IASB.

The Bank formed and commenced operating a subsidiary company (Unity EBT Ltd) on 02 January 2013 but as at 31 December 2020 and 31 December 2019, the activity of this subsidiary was immaterial and so these accounts reflect both the Bank and Group as a single entity.

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. 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. As a UK Bank, with no overseas customers, Britain's exit from the EU (Brexit), had had minimal impact.

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

Changes in accounting policies

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

At the date of authorisation of these financial statements, Unity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IFRS 16 Leases

The directors do not expect that the adoption of the Standards listed above 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 clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. 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. Consequently, an entity recognises such sales proceeds and related costs in profit or loss in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. This is specified as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

All amounts are stated in £000s unless otherwise indicated

1.1 New and revised IFRS Standards in issue but not yet effective (continued)

The amendments are applied retrospectively, but only to items that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. 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 (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

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 these two Standards.

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.

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 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 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.

1.2 Significant accounting policies (continued)

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

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

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

(d) Impairment of financial assets and loan commitments

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

(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.

All amounts are stated in £000s unless otherwise indicated

1.2 Significant accounting policies (continued)

(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.

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

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.

1.2 Significant accounting policies (continued)

(p) Leases

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

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

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

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

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

Right of use assets

These comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. IAS 36 is applied to determine whether an asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Lease liabilities

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

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;
- payments of penalties for terminating the lease, if the lease term reflects the amount to terminate the lease.

If a lease has a 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 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 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%. Incremental borrowing rates applied to individual leases are currently between 1% and 5%.

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.

Key judgements and estimation uncertainty are made in the following areas and discussed within those notes:

- Impairment – note 11
- Pensions – note 20

3 Profit before taxation

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

	2020	2019
Audit services		
Fees payable for the audit of the annual accounts	120	112
Total	**120**	**112**

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

4 Directors' emoluments

	2020	2019
Non-executive Directors - emoluments	252	244
Executive Directors - emoluments		
Remuneration as a Director	441	285
Remuneration as an Employee	43	-
Total	**736**	**529**

The highest paid Director during the year was the Chief Executive Officer (CEO), who received a total remuneration package of £333k (2019: £285k). This includes salary, profit sharing payments and car allowance. The Chief Financial Officer (CFO) remuneration includes salary, pension and car allowance. The CFO received pension contributions in the year of £10k (2019: nil).

Independent Non-executive Directors received fees of £163k per annum in aggregate for their services (2019: £158k).
The Chairman of the Bank receives a fee of £89k per annum (2019: £86k) in the year.

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

5 Interest income under EIR method

	2020	2019
On financial assets at amortised cost:		
on loans and advances to customers	16,885	15,018
on loans and advances to banks	939	2,527
On financial assets at FVTOCI:		
on investment securities	1,689	3,791
Total	**19,513**	**21,336**

All amounts are stated in £000s unless otherwise indicated

6 Interest expense and similar charges

	2020	2019
On financial liabilities not at fair value through profit or loss		
on customer deposits	725	1,879
On Lease liabilities interest	129	123
Total	854	2,002

7 Operating expenses

	Notes	2020	2019
Staff costs	8	7,525	7,048
Administrative expenses		4,095	5,206
Amortisation of intangible fixed assets	13	91	85
Depreciation of property, plant and equipment	14	321	310
Depreciation of right-of-use assets	15	282	286
Operating lease rentals		65	180
Finance lease rentals		-	38
Research and development expenditure		332	195
Movement in provisions for liabilities and charges[1]	18	(97)	(33)
Total		12,614	13,315

[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

	Notes	2020	2019
Wages and salaries[1]		6,052	5,420
Severance		80	144
Social security costs		725	641
Pension costs - defined benefit plans	20	57	51
Pension costs - defined contribution plans		414	346
Profit sharing plan		197	446
Total		7,525	7,048

[1] Included within wages and salaries is £91k (2019: £77k) 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:

	2020	2019
Full time	92	96
Part time	16	13
Total	108	109

All amounts are stated in £000s unless otherwise indicated

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 www.unity.co.uk/financial-profile.

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.

	2020	2019
Tax charge		
Current tax on profits for the year	643	1,285
Adjustment in respect of prior years	(140)	(241)
Total current tax	503	1,044

	2020	2019
Deferred tax		
Current year	27	10
Adjustment in respect of previous periods	-	42
Effect of changes in tax rates	(11)	(1)
Total deferred tax	16	51
Tax per income statement	519	1,095

	2020	2019
Other comprehensive income		
Income items:		
Deferred tax current year charge	(45)	582
Deferred tax prior year charge	(27)	-
Tax per statement of comprehensive income	(72)	582

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:

	2020	2019
Tax reconciliation		
Profit for the period - continuing activities	7,546	9,076
Tax on profit at standard UK tax rate of 19.00% (2019: 19.00%)	1,433	1,724
Adjustments to tax charge in respect of prior periods	(140)	(198)
Expenses not deductible for tax purposes	2	8
Tax rate changes	(11)	(1)
Community Investment Tax Relief	(559)	(390)
R&D expenditure	(206)	(48)
Total tax charge for the year	519	1,095

All amounts are stated in £000s unless otherwise indicated

9 Income tax (continued)

	2020	2019
Cash paid reconciliation		
Opening corporation tax liability	**330**	707
Add: current corporation tax liability for the year	**643**	1,285
Prior year adjustment	**(140)**	(240)
Less: payments in the year	**(929)**	(1,422)
Closing corporation tax liability	**(96)**	330

The standard rate of Corporation Tax in the UK charged is 19%. The company's profits for the accounting period are taxed at an effective rate of 6.88%.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the headline corporation tax rate will increase to 25%. This has not yet been substantively enacted and so we have continued to provide for deferred tax at the currently enacted rate of 19%.

The amount of corporation tax payable is lower than would be implied by the current headline tax rate as the Bank has benefitted from Community Investment Tax Relief (CITR). The CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs). The Bank has made such investments. The tax relief is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

The Bank 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.

The Bank makes a research and development tax relief claim, as a small and medium sized enterprise. The regime is a government incentive designed to encourage businesses to invest in research and development activities. The Bank performs qualifying R&D activities in accordance with the R&D regime and the BEIS guidelines, generating an additional 130% tax deduction on qualifying R&D spend, and reducing the Bank's effective tax rate. The prior year adjustment relates largely to the difference between the estimated R&D claim included in the accounts and the final R&D claim in the tax return.

A deferred tax liability of £930k has been recognised on the basis that there is sufficient evidence that the liabilities will be realised. The Bank has unrecognised deferred tax of £247k in relation to capital losses.

All amounts are stated in £000s unless otherwise indicated

10 Cash and balances with the Bank of England

	2020	2019
Mandatory reserve with the Bank of England	2,109	902
Cash and balances with the Bank of England	566,695	300,956
Total	568,804	301,858

Cash and balances with the Bank of England includes cash of £2,109k (2019: £902k) 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.

An assumption used in the calculation is the expected life over which to measure future cash flows. Previously loans were spread over their contractual lives, as the expected behavioural lives were not significantly different. A change in the assumption has been to spread the fees over the shorter expected lives. This has resulted in a one-off initial impact of £330k increased interest income in the Income Statement. As this is a change in accounting estimate, and the impact is not significant, this has been treated as a current year change with no requirements to restate prior periods.

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 period, the UK has experienced significant deterioration in the economic climate as a result of COVID-19. We recognise the impact the pandemic is having on our customers and we continue to offer them support in these challenging times. This includes, offering 3-month capital repayment holidays ('CRH'); temporarily amending their contractual repayments. As at the end of the year, 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 are not automatically deemed to be forbearance and impacting risk grades. Third CRH requests have been 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. 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 2020, management have refreshed all model assumptions, with reference to internal and external data, and strengthened underpinning methodology, taking into consideration the current economic climate. The ECL provision increased by £1.8m to £3.4m (2019: £1.6m). The significant drivers for the increase in provision are: general reductions in property prices for the year, resulting in a greater potential exposure to the Bank; changes to customers internal risk grades, moving them to different stages; and increases in amounts advanced to customers (loan growth).

All amounts are stated in £000s unless otherwise indicated

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 have exhibited SICR are deemed to be in 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.

This approach has been strengthened in the year, having used external market data and enhanced internal analytics on internal data. PD is calculated for each risk grade. This has resulted in a decrease in the PD% applied to stage 1 and 2, leading to a decrease in the provision of £2.3m, for those loans in stages 1 and 2.

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'). The FSD estimate applied has increased in the year, to be consistent to that used in internal credit assessments and across the industry representing the discount applied for distressed sales, and not just based on historical sales experience as was used previously. This has resulted in an increase in the provision of £2.1m, more so for those loans in stage 3.

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 13 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. The data underpinning the calculation for stages 1 and 2 have been refreshed in the current year, ensuring the estimated % is up to date and considers recent as well as historic experience.

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 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.

During the year the methodology to derive the correlation between defaults and changes to the economic conditions was strengthened, via enhanced analytical capability. The underlying impacts to PD under each scenario were amplified, thus leading to an increase in the provision. The changes to the MES are entwined with underlying changes to PD, LGD and EAD (as detailed above), due to the interrelationship between the model parameters. As such, it is not possible to accurately measure the impact of changes to the MES methodology in isolation. This is estimated to be £0.6m.

The Bank uses four scenarios, representative of management's view of forecast economic conditions from Q42020 to Q42023. The table below represents management's view of either the movement or absolute rate estimated as at the end of Q42020 for the base scenario, Q42022 for the stress and severe stress scenarios and Q42023 for the improved scenario. 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.

11 Loans and advances to customers (continued)

Variable		Base	Stress	Severe Stress	Improved
UK GDP	4-quarter growth real GDP	(5.4%)	(9.7%)	(14.0%)	1.5%
Unemployment	LFS absolute rate	7.5%	8.0%	9.0%	4.0%
UK CPI inflation	4-quarter absolute rate	0.3%	0.15%	0.0%	1.9%
Interest rates	UK Bank Rate	0.0%	(0.05%)	(0.1%)	0.1%
Property prices	Additional haircut	-	20%	33-40%	-

As at 31 December 2020, 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	2020 Weighting	2019 Weighting
Base	Represents the most likely economic forecast and aligned with the scenario used in the Bank's financial planning process	**45%**	60%
Stressed	Increase in base PD%, haircut applied to MV of security prior to FSD	**35%**	30%
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	**10%**	5%
Improved	PD% reduced from base, subject to a floor. No other changes from base	**10%**	5%

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

As at 31 December 2020, the customer loan provision is £3,392k, applying 100% weighting to Base results in a provision of £2,365k; and applying 100% weighting to Stress leads to a £3,936k provision.

	2020	2019
Gross loans and advances[1]	**605,202**	479,170
Less: allowance for losses on loans and advances to customers[1]	**(3,392)**	(1,616)
Total	**601,810**	477,554

[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 £46.1m (1 January 2020: £56.8m) are not recognised on the balance sheet, whilst the total associated provision of £16k (1 January 2020: £70k) is included within the allowance for losses on loans and advances to customers within stage 1.

All amounts are stated in £000s unless otherwise indicated

11 Loans and advances to customers (continued)

The following table reconciles the opening and closing impairment provision for loans and customers in different stages, from 1 January 2020 to 31 December 2020.

	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	(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.

	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 2019	364	80	1,110	1,554
Transfers:				
Transfers to stage 2	(6)	6	-	-
Transfers to stage 3	-	(4)	4	-
Utilisation	-	-	(189)	(189)
Charges/(credit) to profit and loss:				
Changes in provision	(44)	35	1	(8)
Unwind of discount of allowance	85	35	(23)	97
New provisions	232	48	-	280
Provisions that have been derecognised during the period	(69)	-	(49)	(118)
Impairment provision at 31 December 2019	562	200	854	1,616

All amounts are stated in £000s unless otherwise indicated

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.

	2020	2019
Administrative bodies and non-commercial	247,160	224,480
Property (excluding hotels and leisure)	217,620	166,378
Hotels & leisure	3,460	3,382
Other	136,962	84,930
	605,202	479,170

12 Investment securities

	2020	2019
Fair value through other comprehensive income		
Other listed transferable debt securities	252,413	331,713
Total	252,413	331,713

Movements during the year are analysed below:

At 1 January 2020	331,713	426,368
Fair value adjustment	1,253	531
Acquisitions	42,347	60,317
Disposals and maturities	(122,900)	(155,503)
At 31 December 2020	252,413	331,713

13 Intangible assets

	2020	2019
Computer Software		
Cost		
At 1 January	375	375
Additions	85	-
Transfers[1]	(18)	-
At 31 December	442	375

Accumulated Amortisation		
At 1 January	240	155
Charge for the year	91	85
Transfers[1]	1	-
At 31 December	332	240

Net book value at 31 December	110	135

[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 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**
Net book value at 31 December 2019	534	370	904

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

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2019	683	708	1,391
Additions	-	93	93
Disposals	-	(105)	(105)
Work in progress	-	31	31
At 31 December 2019	683	727	1,410
Accumulated Depreciation			
At 1 January 2019	40	156	196
Charge for the year	109	201	310
Disposals	-	-	-
At 31 December 2019	149	357	506

All amounts are stated in £000s unless otherwise indicated

15 Leases

Right-of-use assets	Office Premises	Vehicles	Office Equipment	Total 2019
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 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)

Right-of-use assets	Office Premises	Vehicles	Office Equipment	Total 2019
At 1 January 2019	2,628	15	24	2,667
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	2,628	15	24	2,667
Accumulated Depreciation				
At 1 January 2019	-	-	-	-
Charge for the year	(266)	(11)	(9)	(286)
Disposals	-	-	-	-
Net book value as at 31 December 2019	2,362	4	15	2,381
Amounts recognised in the income statement				
Interest on Lease Liabilities	(123)	-	-	(123)
Depreciation of Right of Use Assets	(266)	(11)	(9)	(286)
Expenses relating to short term leases	-	(2)	-	(2)
At 31 December 2019	(389)	(13)	(9)	(411)

All amounts are stated in £000s unless otherwise indicated

16 Prepayments & accrued income

	2020	2019
Amounts payable within one year:		
Other	666	787
Total	666	787

17 Other liabilities

	2020	2019
Amounts payable within one year:		
Trade creditors	268	219
Other liabilities	412	532
Lease Liability	78	258
Amounts payable after one year:		
Lease Liability	2,220	2,317
Total	2,978	3,326

18 Provisions for liabilities and charges

	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

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 2019	110	145	19	-	274
Income statement movements:					
Provided/(released) in the year	145	(29)	(4)	175	287
Utilised during the year	(137)	-	(8)	-	(145)
At 31 December 2019	118	116	7	175	416
Amounts falling due within one year	118	116	7	-	241
Amounts falling due after one year	-	-	-	175	175
	118	116	7	175	416

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	Total
At 1 January 2020	(15)	(20)	1,138	(72)	(45)	986
Adjustment in respect of prior year	-	-	-	(27)	-	(27)
Current year deferred tax charge	1	17	(11)	8	1	16
Charge to OCI	-	-	(272)	227	-	(45)
At 31 December 2020	(14)	(3)	855	136	(44)	930

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 No.2 2015 reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective From 1 April 2020), however this decision was reversed as part of the Spring budget - 2020, and as such the tax rate is due to remain at 19% for the foreseeable future. These changes to the main tax rate had been enacted at the balance sheet date and are reflected in the measurement of deferred tax balances.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of £247k 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 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 7 years remaining.

All amounts are stated in £000s unless otherwise indicated

20 Pensions

As at 31 December 2020, the surplus in the Scheme was £4.5m compared with £6.7m as at 31 December 2019, 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 2020 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. 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 2021.

Method and assumptions

The results of the most recent formal actuarial valuation as at 31 December 2018 have been updated to 31 December 2020 by a qualified independent actuary. The assumptions used were as follows:

Significant actuarial assumptions:

	As at 31 December 2020	As at 31 December 2019
Discount rate	**1.2% pa**	1.9% pa
RPI inflation	**3.0% pa**	2.8% pa
CPI inflation	**2.5% pa**	2.0% pa

Other actuarial assumptions:

	As at 31 December 2020	As at 31 December 2019
Salary increases	**3.6% pa**	3.3% pa
Pension increases:		
Post 88 GMP	**2.2% pa**	1.9% pa
RPI max 5% pa	**3.0% pa**	2.8% pa
RPI max 2.5% pa	**2.2% pa**	2.1% pa
Revaluation of deferred pensions in excess of GMP	**RPI: 3.0% pa**	RPI: 2.8% pa
	CPI: 2.5% pa	CPI: 2.0% pa

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20 Pensions (continued)

Mortality assumptions:

	As at 31 December 2020	As at 31 December 2019
Mortality (pre- & post-retirement)	102% S3PMA	102% S3PMA
	110% S3PFA	110% S3PFA
	CMI_2019	CMI_2018
	1.25% (yob)	1.25% (yob)

Life expectancies (in years)

	As at 31 December 2020		As at 31 December 2019	
	Males	Females	Males	Females
For an individual aged 65 in 2020	21.8	23.6	21.7	23.4
At age 65 for an individual aged 45 in 2020	23.1	25.0	23.0	24.9

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	(3,549) / 4,081
Inflation	+ / - 0.5% pa	2,461 / (2,408)
Assumed life expectancy	+ 1 year	1,348

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.

All amounts are stated in £000s unless otherwise indicated

20 Pensions (continued)

Assets

The scheme's assets as at 31 December 2020 were held as follows:

	As at 31 December 2020	
Asset class	Market Value	% of total assets
Diversified growth fund	5,495	13%
Diversified credit fund	8,890	21%
Corporate bonds	6,103	15%
Liability driven investment	10,976	27%
Gilts	7,543	18%
Cash	2,567	6%
Total	**41,574**	**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 2020	As at 31 December 2019
Market value of assets	41,574	37,558
Present value of defined benefit obligation	(37,073)	(30,858)
Funded status	4,501	6,700
Adjustment in respect of minimum funding requirement	-	-
Pension asset recognised in the Statement of Financial Position before allowance for deferred tax	4,501	6,700

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 2020	As at 31 December 2019
Value of defined benefit obligation at the start of the period	30,858	31,830
Interest cost	580	823
Benefits paid	(676)	(2,678)
Actuarial gains: experience differing from that assumed	-	(849)
Actuarial losses/(gains): changes in demographic assumptions	11	(1,179)
Actuarial losses: changes in financial assumptions	6,300	2,911
Value of defined benefit obligation at the end of the period	**37,073**	**30,858**

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 2020	As at 31 December 2019
Market value of assets at the start of the period	**37,558**	35,850
Interest income	**705**	930
Actual return on assets less interest	**4,169**	3,614
Benefits paid	**(676)**	(2,678)
Administration costs	**(182)**	(158)
Market value of assets at the end of the period	**41,574**	37,558

Amounts recognised in the income statement

	2020	2019
Expenses	**182**	158
Net interest	**(125)**	(107)
Amount charged to income statement	**57**	51

Amounts recognised in other comprehensive income

	2020	2019
Actuarial losses on defined benefit obligation	**(6,311)**	(883)
Actual return on assets less interest	**4,169**	3,614
Amounts recognised in other comprehensive income	**(2,142)**	2,731

21 Share capital

	2020	2019
Authorised and issued:		
Ordinary shares of £1 each	**22,421**	22,421
Share premium account	**11,808**	11,808
	34,229	34,229

All amounts are stated in £000s unless otherwise indicated

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.

	2020 Contract amount	2019 Contract amount
Guarantees and irrevocable letters of credit	**948**	16
	948	16
Other commitments:		
Undrawn formal standby facilities, credit lines		
and other commitments to lend:		
1 year and over	**93,573**	88,574
	93,573	88,574

The £93.5m consists of £46.1m undrawn accepted facilities and £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 leases

	2020 Land and buildings	Other leases	2019 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	-	47
- between one and five years	-	5	-	-
- in five years or more	-	-	-	-
	-	69	-	47

Operating lease rental payments are disclosed in note 7.

The 'Other leases' commitments refer to the Bank's offices in Manchester and London. The 12-month Manchester lease expires in February 2022 and the London lease expires in December 2021.

All amounts are stated in £000s unless otherwise indicated

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

	2020	2019
Salaries and other short-term benefits	**880**	721
Post-retirement benefits	**67**	54
	947	775

Unite the Union Trustee Company Limited and Unite the Union Second Trustee Company Limited provide a PPF 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 £55,530 was paid by the Bank (2019: £55,200), 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 £87.5m (2019: £79.5m), significantly in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis		2020	2019
Tier 1			
Share capital		**22,421**	22,421
Share premium account		**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		**90,669**	85,132

All amounts are stated in £000s unless otherwise indicated

25 Capital management - unaudited (continued)

	2020	2019
Adjustments to CET1		
Other intangible assets	(110)	(135)
Prudent additional valuation adjustment	(252)	(332)
Net pension asset	(3,646)	(5,562)
IFRS 9 transitional adjustment	815	542
CET1 and Total Tier 1 capital resources	**87,476**	79,645
Tier 2 Adjustment for collective provisions	-	-
Total Tier 2 Adjustments	**-**	-
Total regulatory capital	**87,476**	79,645
Common Equity Tier 1 ratio	**16.7%**	17.6%

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 willing 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 2020 and 31 December 2019, 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.

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

	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	

	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
31 December 2019					
Assets					
Financial instruments measured at fair value					
Investment securities	-	331,713	331,713	331,713	Level 1
Financial instruments not measured at fair value					
Cash and balances with the Bank of England	301,858	-	301,858	301,858	Level 1
Loans and advances to banks	2	-	2	2	Level 3
Loans and advances to customers (gross)	479,170	-	479,170	459,709	Level 3
	781,030	331,713	1,112,743	1,093,282	
Liabilities					
Deposits from customers	1,030,435	-	1,030,435	1,030,435	Level 3
	1,030,435	-	1,030,435	1,030,435	

- 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		2020 Credit risk exposure	Gross balance	Credit commitments		2019 Credit risk exposure
		Pipeline[1]	Other			Pipeline[1]	Other	
Cash balances at central banks	**568,804**	**-**	**-**	**568,804**	301,858	-	-	301,858
Loans and advances to banks	**254**	**-**	**-**	**254**	2	-	-	2
Loans and advances to customers	**605,202**	**46,104**	**47,469**	**698,775**	479,170	56,826	31,748	567,744
Investment securities	**252,413**	**-**	**-**	**252,413**	331,738	-	-	331,738
	1,426,673	**46,104**	**47,469**	**1,520,246**	1,112,768	56,826	31,748	1,201,342
Impairment allowance for:								
Loans and advances				**(3,392)**				(1,616)
Treasury investments				**(25)**				(25)
Total				**1,516,829**				1,199,701

[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.

All amounts are stated in £000s unless otherwise indicated

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 gradings 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

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.

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

31 December 2019	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 2019	389	80	1,110	1,579
Gross carrying amount as at 1 January 2019	834,757	6,896	1,947	843,600
Individual financial assets transferred from stage 1	(7,504)	7,504	-	-
Individual financial assets transferred from stage 2	486	(1,303)	817	-
Individual financial assets transferred from stage 3	-	-	-	-
New financial assets originated or purchased	254,734	503	-	255,237
Financial assets that have been derecognised	(237,076)	(857)	(242)	(238,175)
Other changes	8,114	(320)	(350)	7,444
Gross carrying amount as at 31 December 2019	853,511	12,423	2,172	868,106
Impairment provision at 31 December 2019	587	200	854	1,641

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 2020 £11.4 million (2019: £8.0 million) 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 2020 £391.9m (2019: £276.3m) 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 £4.5m.

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

Geographical concentration

At 31 December 2020, the majority of the Bank's treasury investment exposures were to the UK. 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 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

The Bank had exposures to financial institutions in the following European countries at 31 December 2019. The Bank also had £82 million of exposures to non-European countries as follows; Canada £72 million, Australia £10 million.

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 2019
Norway	-	9,180	7,000	-	16,180
Sweden	-	-	20,000	-	20,000
Supranational	-	15,000	45,000	-	60,000
	-	24,180	72,000	-	96,180

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 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.

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)

31 December 2019	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	301,858	-	-	-	-	-	301,858
Loans and advances to banks	2	-	-	-	-	-	2
Loans and advances to customers	464,680	-	-	7,255	7,269	(1,650)	477,554
Investment securities	301,603	-	-	30,110	-	-	331,713
Other assets	-	-	-	-	-	11,079	11,079
Total assets	1,068,143	-	-	37,365	7,269	9,429	1,122,206
Liabilities							
Customer deposits	1,030,435	-	-	-	-	-	1,030,435
Other liabilities	-	-	-	-	-	6,639	6,639
Total equity	-	-	-	-	-	85,132	85,132
Total liabilities and equity	1,030,435	-	-	-	-	91,771	1,122,206
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	37,708	-	-	37,365	7,269	(82,342)	
Cumulative gap	37,708	37,708	37,708	75,073	82,342	-	

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 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	-	40,300	-	-	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)**	**-**

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

31 December 2019	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	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
Investment securities	-	301,603	-	30,110	-	-	331,713
Other assets	-	-	-	-	-	11,079	11,079
Total assets	301,860	306,324	14,230	117,274	371,439	11,079	1,122,206
Liabilities							
Customer deposits	866,645	163,790	-	-	-	-	1,030,435
Other liabilities	-	-	-	-	-	6,639	6,639
Total equity	-	-	-	-	-	85,132	85,132
Total liabilities and equity	866,645	163,790	-	-	-	91,771	1,122,206
Net liquidity gap on contractual basis	(564,785)	142,534	14,230	117,274	371,439	(80,692)	-

All amounts are stated in £000s unless otherwise indicated

26 Financial risk management (continued)

Gross expected cashflow maturity analysis – contractual

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	-	-	-

31 December 2019	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	1,030,435	1,030,478	992,278	38,200	-	-	-
Other liabilities	6,369	6,369	6,369	-	-	-	-
Total recognised liabilities	1,036,804	1,036,847	998,647	38,200	-	-	-
					-	-	
Unrecognised loan commitments	90,232	90,232	90,232	-	-	-	-
Total	1,127,036	1,127,079	1,088,879	38,200	-	-	-

All amounts are stated in £000s unless otherwise indicated

Glossary

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

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)
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

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