unity trust bank

2023 Annual Report & Accounts

31 December 2023

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

Unity Trust Bank plc

**Registered Head Office
and Customer Services Centre**

Four Brindleyplace
Birmingham
B1 2JB

Tel: 0345 140 1000

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

Financial Services Register No. 204570

Board of Directors

Alan Hughes (Chairman)

Colin Fyfe (Chief Executive Officer)

Sandy Chen (Independent Non-Executive Director)

Christine Coe (Independent Non-Executive Director)

Martin Coward (Chief Risk Officer)

Alexander Ryan (Non-Executive Director)

Susan Sternglass Noble
(Independent Non-Executive Director)

Company Secretary

Katherine Eldridge

Executive Management

Colin Fyfe, Chief Executive Officer

Martin Coward, Chief Risk Officer

Anna De Rosier, Interim Chief Operating Officer

Penny Hogan, Chief Financial Officer

Alexandra Rice, Chief Commercial Officer

Julia Tarpey, Director of Human Resources

Auditor

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

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Chairman's Statement

Unity Trust Bank plc

In 1984, Unity was founded by trade unions and the Co-operative Bank on a philosophy of serving the common good; a Bank that helps to create a better society as well as deliver sustainable returns for shareholders. Its initial shareholder equity was £4m.

By 2023 Unity's shareholder equity has grown over 40-fold to £172.6m. This was achieved through offering integrity, personal customer service and sound banking practice. Unity's returns, resilience, efficiency, and contribution to the common good have increased in sync.

Performance - *Safe Growth*

Lending exceeded £1bn in 2023 for the first time, to £1,013.6m (2022: £836.6m). Customer deposits increased to £1,559.3m (2022: £1,538.6m). This growth and the suddenly higher Bank Rate increased annual after-tax earnings to an exceptional £48.9m (2022: £22.8m). The 2023 Return on shareholders' equity was 33.0% (2022: 19.6%). This level of earnings will normalise as interest rates moderate.

Shareholder Value and 2023 Dividend

We aim to deliver consistent, reliable returns to shareholders. In 2015 Unity bought out the Co-operative Bank for £1.80 per share. Eight years later at the end of 2023, Unity's net asset value per share had more than trebled to £6.96.

For 2023, the Board recommends an increase in the annual dividend of 27% to 7.00p per share (2022: 5.50p). This level allows for further investment in Unity's growth and future returns.

Customers - *and the Common Good*

Our savings rates were increased immediately following each Bank Rate rise, ensuring our products remained competitive. In line with our double bottom line strategy, we're proud of the social good Unity generates. Unity's social metrics are given in our 2023 Impact Report, published today on our website.

Directors

As notified in my letter to shareholders of 21 December 2023, Colin Fyfe joined Unity as a Director and Chief Executive Officer (CEO) in January 2024. We heartily welcome him. In 2023, Christine Coe was appointed on 3 March as an Independent Non-Executive Director. She chairs Unity's Board Risk Committee, an important role in current economic conditions. We're very pleased indeed to welcome Chris.

Reflecting the more uncertain economic environment, we appointed our Chief Risk Officer, Martin Coward, to Unity's Board.

We continue to invest in our people at all levels, expanding and training our people for the opportunities ahead.

Outlook

Unity is well placed to manage the uncertain outlook. We have high ambitions for Unity, for our safe growth, commercial strength and social good.

Thank you

The Board and I would like to thank our people for their commitment and hard work. These strong results would not have been possible without them. We would also like to thank our customers for their support during the year.

Shareholders and employees can be justly proud of Unity's progress as it enters its 40th year.

Alan Hughes
Chairman
6 March 2024

Chairman's Statement
Highlights
Strategic Report
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Audit Report
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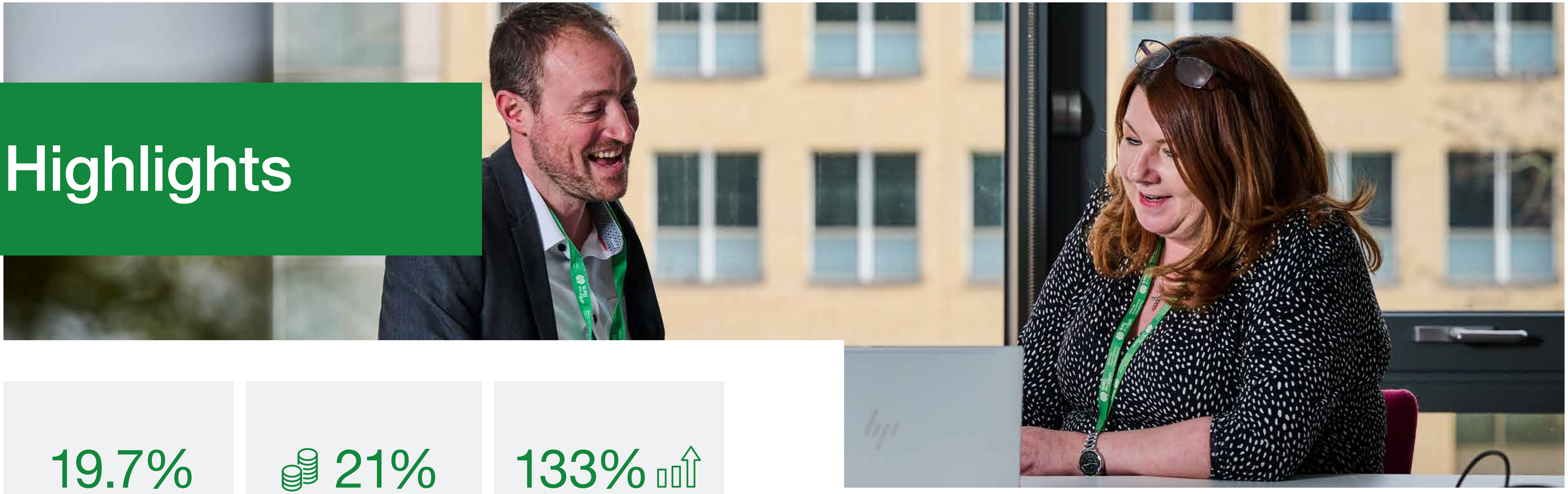


Highlights

19.7%
CET 1 ratio
2022: 18.3%

21%
growth in loans to customers
£1,013.6m (2022: £836.6m)

133%
increase in profit before tax
Record £63.9m (2022: £27.4m)

Earnings Per Share
£1.97
2022: £0.92

92%
Customer satisfaction score[1]
2022: 80%

Named Greater Birmingham Business of the Year 2023[2]

Maintained Gold Status Inverstors in People accreditation
2022: Gold

Over 1,300 organisations accessing social lending from Unity
2022: Over 1,000

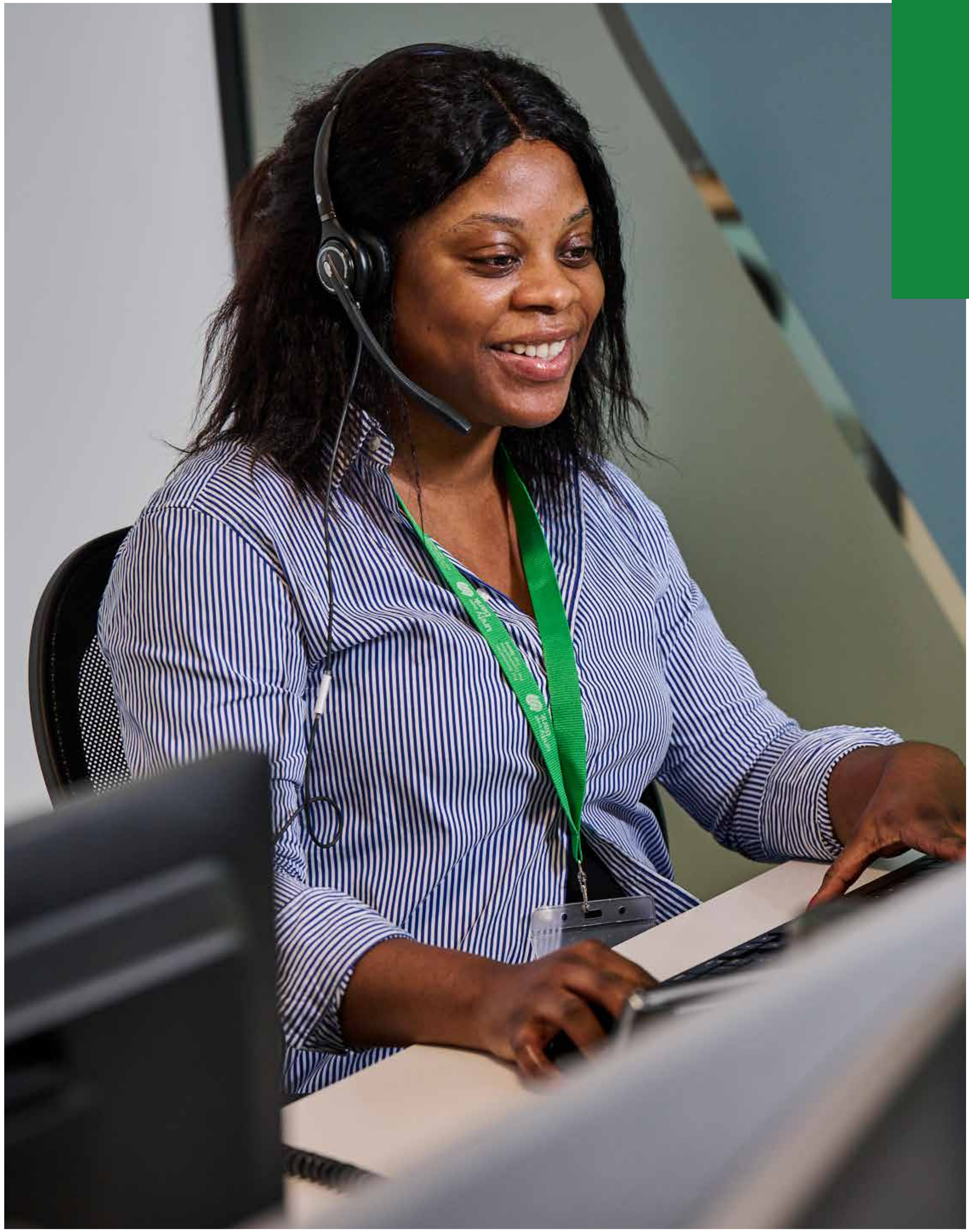
Five year financial performance summary

	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000
Profit before taxation	9,076	7,546	11,053	27,352	**63,862**
Profit after taxation	7,981	7,027	9,671	22,843	**48,858**
Total loans to customers	477,554	601,810	723,523	836,576	**1,013,646**
Shareholders' funds	85,132	90,669	108,963	123,815	**172,617**

	2019	2020	2021	2022	2023
Net interest margin	1.77%	1.47%	1.42%	2.68%	**5.25%**
Cost income ratio	58.9%	57.5%	54.2%	36.8%	**27.1%**
Return on equity	9.9%	8.0%	9.7%	19.6%	**33.0%**
Dividend per ordinary share[3]	3.00p	3.30p	3.85p	5.50p	**7.00p**

[1]Calculated as the unweighted mean average of 1,209 customers' responses to the question 'Having reflected in detail on the service from Unity Trust, overall, how satisfied are you with your experience of Unity Trust Bank's service to you?'
[2]Unity was named Birmingham business of the year at the 2023 Greater Birmingham Chambers of Commerce Awards.
[3]Dividend per ordinary share is quoted with respect to the financial year to which it relates, not the year of payment. The dividend in respect of the 2023 financial year is recommended for approval at the 2024 AGM.

Alternative Performance Measures (APM's) are described in the glossary.



Business Review

Introduction – *Safe Growth*

Unity continues to thrive as our people deliver on our purpose. Lending exceeded £1bn in 2023 for the first time; growing our lending increases the social good we enable.

Bank Rate rose from 3.5% to 5.25% during the year. The higher rate environment, alongside balance sheet growth has increased financial returns for Unity, delivered against the backdrop of turbulent economic conditions.

Recognising the challenging trading conditions faced by our customers, we encouraged them to come to us with any concerns over their current or future financial position.

Profits continue to be invested in safe growth, allowing Unity to advance its purpose.

The Bank's Impact Report, published on its website, provides information on how Unity has delivered on its purpose of being a bank with a social conscience.

Customers

Our financial performance and continued investment in people and systems is establishing a more resilient platform to support customers through this period of economic uncertainty.

Three new savings products were launched during the year, offering more choice and higher returns for our customers. Changes in rates were applied to our savings accounts promptly following each Bank Rate change, ensuring our products remain competitive.

During the year, all customers were migrated to the new online banking service which is a significant milestone for Unity. We continue to listen to the voice of the customer, and ongoing development will include a range of new and improved features enabling businesses to manage their finances in a more efficient and resilient way.

Unity is committed to Consumer Duty, focusing on positive outcomes by strengthening support for vulnerable customers, enhancing accessibility, and implementing strong governance for decision-making processes.

Financial performance

Profit before tax for the year increased to £63.9m (2022: £27.4m). The compound annual growth rate of our lending portfolio since independence in 2015 was 23.5%. The Net Asset Value per share rose to £6.96 at the end of the year (2022: £5.01).

The primary drivers of the 2023 performance were:

Income

Net interest income increased by 104% to £89.2m (2022: £43.8m) reflecting loan book growth and the higher Bank Rate environment. Unity's Net Interest Margin increased from 2.68% to 5.25%. Loans and advances to customers at the end of the year were £1,013.6m (2022: £836.6m), with £255.1m drawn down in the year, up 13.5% (2022: £224.7m).

Unity's treasury assets comprised investment securities and deposits placed with the Bank of England. The increase in Bank Rates improved income returned on the assets whilst remaining within risk appetite. Interest on treasury assets increased to £33.6m (2022: £12.8m).

Net fee and commission income for the year decreased to £3.2m (2022: £3.4m), mainly due to an increase in transaction costs in the year. Transaction costs are deducted from fee income to get the net amount.

Operating expenses

Investment in operational resilience, digital banking, infrastructure and our workforce increased operating expenses by 44% to £25.0m (2022: £17.4m). Investment spend included within operating expenses increased from £1.4m in 2022 to £2.2m in 2023. The cost income ratio improved to 27.1% (2022: 36.8%) reflecting higher net interest income.

Impairment

Lending quality and credit risk management practices continued to remain a high priority. An impairment charge of £3.5m was raised in the year (2022: £2.5m). The increased provision reflects the prevailing economic environment and the growth and diversification of the loan book. Three write offs for £102k were recorded in the year (2022: one write off for £1k).

The balance sheet provision for loan impairment at 31 December 2023 was £9.7m (2022: £6.1m) resulting in a provision coverage ratio of 0.91% (2022: 0.69%). 93% of lending customers are classified within stage 1 for IFRS 9 (2022: 96%).

Social Impact and Sustainability

Unity committed over £260m (2022: £224m) of new lending in 2023. Over £115m was committed into deprived areas across the UK, as measured by the Indexes of Multiple Deprivation (2022: £97m). We continue to assess all new loan opportunities against their alignment to the United Nations Sustainable Development Goals (UN SDGs) and have integrated new sector leading measures such as the Impact Management Platform's 'ABCs of Impact Classification'.

Unity continued to strengthen our employee led forum, 'Unity & Me'. In 2023, a 'Donations Panel' was introduced to support staff to identify and support key community, charitable and social enterprise initiatives that deliver positive impact in their communities. This enabled Unity to increase our donations threefold in 2023 as well as continuing to deliver our key Unity & Me pillars to support employee wellbeing, identifying volunteer opportunities, promoting diversity and inclusion in Unity and delivering green initiatives.

In this year's report, we share our first submission of financed scope 3 emissions representing a portion of treasury assets held by Unity.

Quantitative carbon emission and energy usage information has been presented within this report, see page 21-22, with historical performance presented in the Impact Report available on the website.

Investment and People

Unity is committed to strengthening operational resilience and continues to invest in people and IT infrastructure. In 2023, investment spend increased by 57.1% (2022: 55.6%), focusing on building a more resilient and efficient bank.

Alongside investment in systems and controls, significant investment has been made in people, increasing capabilities and upskilling teams for the opportunities ahead. Headcount was expanded by 48% from 140 to 207 (year-end full time equivalent).

In 2023 Unity maintained a Gold status for the Investors In People accreditation.

Suppliers

We retained our policy of paying suppliers within 30 days. Unity published its first statements on supplier payments under the Reporting on Payment Practices and Performance Regulations Act of 2017.

Capital

To support Unity's continued safe growth strategy and commitment to capital strength, the Bank accreted £50.0m of capital during the year. Risk Weighted Assets increased by £205.6m due to additional lending and Unity ended the year with a Common Equity Tier 1 (CET1) ratio of 19.7% (2022: 18.3%), a substantial surplus to regulatory requirements.

On 5 July 2023 the Financial Policy Committee increased the UK Countercyclical Buffer (CcyB) rate from 1% to 2%. The Prudential Regulation Authority (PRA) completed a Capital Supervisory Review and Evaluation Process at the Bank, with the outcome resulting in an improvement in the Overall Capital Requirement (OCR).

As at 31 December 2023, the Bank's Defined Benefit pension scheme was in surplus by £2.3m (2022: £3.8m). This surplus, net of deferred tax, is excluded from risk weighted assets and from capital resources when calculating regulatory capital.

On 5 December 2023 the PRA released new rules intended to establish a materially simpler prudential regime for small banks, starting with simplifications for liquidity and disclosure requirements. Unity qualifies for the application of these rules, however, has chosen to remain on the existing capital regime until the full requirements have been released later in 2024.

Liquidity

Unity is 100% funded by our customers' deposits which, along with our own resources, enables Unity to create and facilitate positive social and environmental impact. Customer deposits at the year-end increased marginally to £1,559.3m (2022: £1,538.6m), maintaining Unity's regulatory liquidity metrics significantly in excess of the regulatory minima.

£115m
Committed into deprived areas

£25m
Investment spend

£63.9m
Profit before tax

104%
increase in net interest income

£6.96
Net asset value per share

The Liquidity Coverage Ratio, which measures a bank's ability to meet short term obligations, remained strong at the end of the year at 210% (2022: 220%).

Customer numbers also grew throughout 2023 from 9,129 to 9,812, representing a 7.5% increase in new customer relationships.

Net lending in the year grew by £177.1m representing a 21% increase on 2022. The loan to deposit ratio increased to 65% (2022: 54%) as Unity utilised some of its excess liquidity to increase returns and drive impact. Full liquidity metrics are included within the Pillar 3 document, available on Unity's website.

Strategic Plan priorities

Geopolitical tensions and the conflicts in the Ukraine and Middle East alongside domestic considerations each contribute to a continued period of economic uncertainty.

The Bank's 5 year Strategic Plan approved in 2022 set out the following priorities for the future:

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

Colin Fyfe
Chief Executive Officer
Unity Trust Bank plc
6 March 2024

About Unity Trust Bank

Our proud history

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

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

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

Why we are unique

Unity believes in delivering impact, not simply maximising profits.

We provide banking services to business customers and only lend to creditworthy organisations that deliver social value. Every lending proposal that comes to us is aligned with one or more of the United Nations' Sustainable Development Goals (SDGs) to ensure that our funding has quantifiable impact.

Our purpose

The purpose of Unity:

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

Our strategy

Unity's strategy is to:

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

Our values

Our values ensure we act in a way that helps to create a better society. They enable us to be at our best for our customers, stakeholders and society as a whole.

Enabling

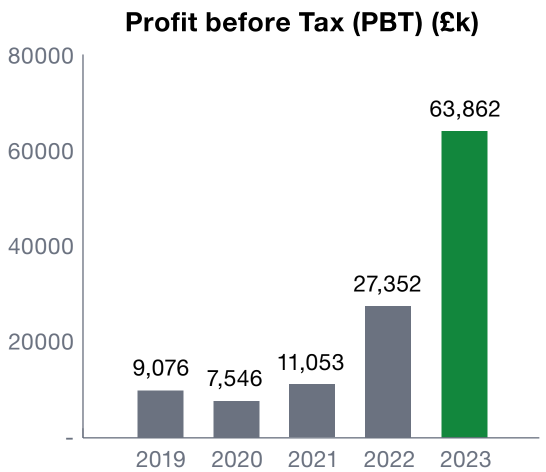
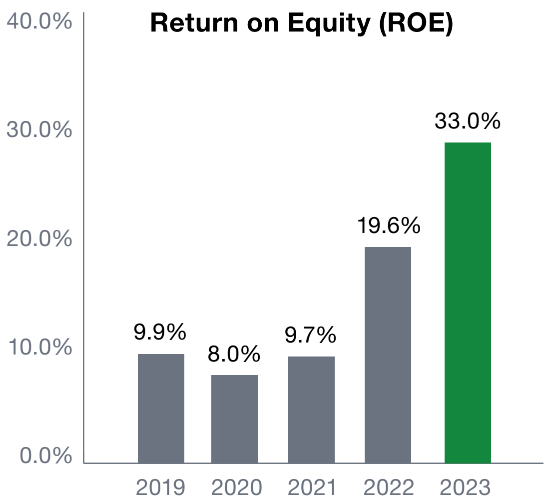
Collaborative

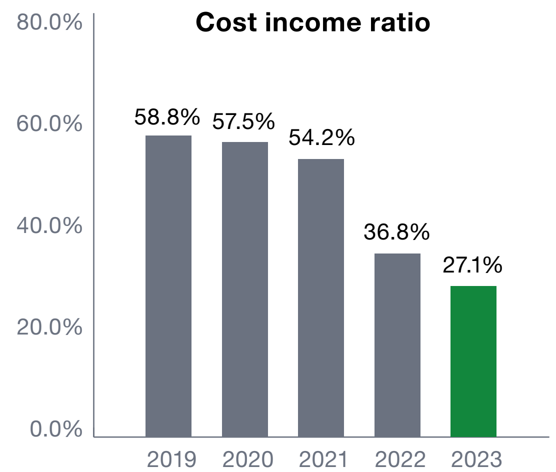
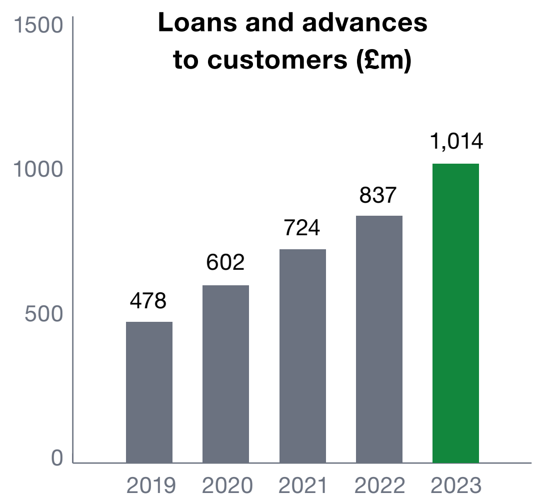
Inclusive

Straightforward

Key Performance Indicators

The following Key Performance Indicators (KPIs) compare the 2023 full year results against full year 2022, 2021, 2020 and 2019 audited results. This report includes a number of APMs[1] which provide useful additional information about Unity.

Key Performance Indicator	Performance
Profit before tax, as reported in the Income Statement for 2023. 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. Return on Equity demonstrates how efficiently equity is utilised to generate profits for our shareholders.	

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

[1]Further information on APMs is available in the glossary on page 120-121.

Corporate Responsibility

Directors' regard to stakeholder interests - Section 172 statement

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

The Board engages with stakeholders to ensure that it has a thorough understanding of the impact of the Bank's operations and to hear their interests and views. This engagement takes place directly and indirectly through the reporting from business areas presented to the Board for consideration, which ensures that the Board is well-versed on key issues to enable the Directors to comply with their legal duty.

The information below is our Section 172 disclosure that describes how Directors have considered these requirements when performing their duties.

Strategy and Resilience

In 2023, the Board regularly discussed the five year strategy, which is focused on safe and balanced growth, whilst reviewing the Bank's performance against risks emerging from an uncertain economic environment. As part of this they focused on the following:

The long-term sustainability of the Bank

There was consideration of the Directors' duties to the Bank's shareholders, whilst balancing its responsibilities in supporting its customers, colleagues, and wider communities. This was evidenced through discussions pertaining to; the delivery of the strategy, increasing headcount to support future resilience and growth, reviews of operational costs and the impact of external factors and new product launches to support a wider group of customers.

The strategy of safe and balanced growth

The Bank remained committed to a safe growth strategy from both an investment and operational perspective. This was further reflected in the selection of Colin Fyfe as Chief Executive Officer and Penny Hogan as Chief Financial Officer who both share our purpose, values, and have the skills to deliver our safe growth strategy.

Cyber Security and Resilience

As cyber based crime continued to increase in scale and complexity, affecting essential services and businesses, the Bank remained focused on Cyber Security. Directors considered the current landscape, the protection the Bank had already implemented and its long-term roadmap in line with recognised frameworks.

Customers

During the year, the Board has remained acutely aware of the ongoing inflationary pressures that were impacting our customers and discussed:

A Digital Banking Platform

The Bank's digital strategy aimed to ensure that the experience for our customers, and ways of working for our colleagues, made it easier to do business, was user friendly and efficient. The Board has had ongoing oversight of the progress of our digital programme, which delivered a new internet banking platform for our customers this year.

Relationship banking

Our Relationship Managers communicated regularly with borrowing customers. This personal service allowed us to understand how our customers' businesses operate and create a positive impact in their communities, receive feedback on our operations and to identify customers who may have needed additional help and support during the year.

Liability strategy

The Board believes that the Bank should continue to pay competitive interest rates on customer deposits. It has refined the Bank's liability strategy to fund lending growth whilst also managing the risks of interest rate fluctuations and market volatility.

Shareholders

The Bank welcomes any questions that may arise throughout the year from its shareholders.

Annual General Meeting

All shareholders are encouraged to attend the AGM, which the Bank hosted as a hybrid event in 2023, to provide the best opportunity for our shareholders to share their views with Directors and senior management.

Engagement

We also provide quarterly updates to keep shareholders informed.

Employees

The Bank acknowledged the valued contribution of its employees.

Culture and values

The Board knows that to promote the Bank's long-term success and deliver its purpose of creating a better society, its mission, vision, and values must be understood and applied across the organisation. This was discussed regularly at meetings of the Board and a key section of the reporting provided by the Chief Executive Officer to the Directors.

Profit distribution

An employee profit sharing award was given to eligible employees based on previous performance. As part of this decision, the Directors considered the level of dividend to be recommended to shareholders, alongside profit retention for capital and future growth.

Regulators

The Board recognises the importance of building positive relationships and having continuous engagement with its regulators. Members of the Board and Executive Team met with representatives from both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) throughout the year. The Board also worked to ensure that the regulators were kept informed of planned succession for the Board.

How we deliver positive impact through our Lending

In 2023, Unity continued to deliver on our commitment to a double bottom line as a commercial bank with a social conscience. In a year achieving key milestones, Unity continues to deliver positive impact to our customers and communities.

As detailed in our Impact Report 2023, we have developed our approach to measuring the impact of all new loans in 2023 and have integrated industry best practice impact management practices (such as the Impact Management Platform's 'ABCs of Impact' hosted by Impact Frontiers).[1] These build on our existing strong commitments to the United Nations Sustainable Development Goals (SDGs) and integrates the following key standards:

- All loan assessments include classification against the 'ABC of Impact Classification' to understand the type of impact supported across sectors. In 2023, 23% of our committed deals achieved our highest 'Contribute to Solutions' classification and all committed loans meet our requirements to deliver positive impact to their communities.
- As detailed in our Impact Report 2023, Unity has become a signatory of the Partnership for Carbon Accounting Financials (PCAF) and has started integrating carbon emissions and environmental management measurement in loan assessments.

Unity's alignment to the SDGs enables Unity to identify the positive outcomes delivered by our customers. Through our impact management approach, detailed in our Impact Report, we measured the following achievements in 2023:

- As Unity's loan book achieved over £1bn supporting social organisations across every region in the UK, 44% is committed to areas where it is needed most. In 2023, 45.3% (2022: 43%) of our lending went to areas of high deprivation[2] as measured by the Index of Multiple Deprivation.
- Contributing to UN SDG 3 – Good Health & Wellbeing, Unity has supported the creation or maintenance of over 1,400 (2022: 890) bed spaces in care homes supporting the elderly and people with learning disabilities or physical disabilities and has supported pharmacies dispensing over 2.4m prescriptions across the UK.
- Unity developed the 'Housing Association Decarbonisation Initiative' (HADI), £25m aimed to support housing associations to decarbonise existing housing stock. Over 400 homes were supported through HADI in 2023 and up to 1,200 will benefit from current loans committed through the HADI.
- Unity also continued to support organisations providing quality and affordable homes with over 1,200 homes (2022: 493) supported through our lending and contributing to UN SDG 11 – Sustainable Cities and Communities.
- 92% of our lending customers stated they were satisfied or extremely satisfied with the service they received (2022: 80%).

Unity has continued to deliver lending to our key outcome areas: Health & Wellbeing, Community Spaces and Services, Education, Skills and Employment & Financial Inclusion. 87% of our new loans in 2023 supported these outcome areas directly, with the remaining 13% of loans supporting organisations acting as enablers or funders of positive social, environmental or economic outcomes.

Our Impact Report, also published today on our website, provides more information on how we have enabled positive social impact in 2023.

Delivering on our values

Alongside growing our loan book to over £1bn to deliver more impact to communities across the UK, Unity Trust Bank continued to deliver social value through our donations and volunteering work with organisations who share our values.

In 2023, Unity Trust Bank staff donated over £4,800 (2022: over £2,200) from a voluntary salary sacrifice scheme to organisations delivering impact. This supported organisations such as the InkRedible Foundation who provide free tattoos supporting people recovering from surgery or other life events. Unity increased new donations fivefold to £6,312 to support a range of organisations and initiatives across the UK. Unity continued our relationship with The Prince's Trust with 50 Unity volunteers providing over 110 hours of volunteering with 123 young people, alongside a donation of a further £33,000 to support their work. Additionally, Unity provided 230 days (2022: 198) of volunteering to support organisations delivering impact across the UK.

Our response to climate change

We have reported on all of the emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – commonly referred to as Streamlined Energy and Carbon Reporting (SECR). Unity has strengthened our approach to understanding the 'climate-related risks' for Unity and our customers. In 2023, Unity set out two key workstreams to support our adaptation and mitigation of climate-related risks.

Unity has become a signatory of the Partnership for Carbon Accounting Financials (PCAF) and has joined the UK 'Unlisted Equities and Private Debt' working Group. Our membership of PCAF commits Unity to identifying a pathway to Net Zero by 2050 (defined in the UK Climate Change Act 2008 as 100% reduction of emissions by 2050 compared with 1990 levels) and to report financed emissions by 2026. This complements our existing membership to the LSE-convened 'Financing a Just Transition Alliance'. Additionally, Unity engaged B-Corp South Pole to assess the physical risks faced by lending and deposit customers identified within our 'customer climate-related risk policy'. Physical and transitional risks associated with climate change were integrated into Unity's enterprise risk management framework in 2021, as set out in the Principal Risk and Uncertainties on pages 42 to 64. Both workstreams above have enabled Unity to better understand how we can support our customers, and our teams, to reduce our contribution to and from climate-related risk.

The Bank's energy and Greenhouse Gas (GHG) emissions data is compliant with SECR requirements and has been calculated in accordance with the GHG Protocol and SECR guidelines. Unity's Category 15 Financed Emissions are reported in line with PCAF Data Quality Score 5 methodology 3b for listed bonds.[3] Energy and GHG emissions are reported from buildings and transport where operational control is held – this includes electricity, natural gas and business travel in grey fleet (private cars used for Bank business). All Scope 1 and 2 emissions are reported from measured consumption data. Scope 3 emissions include conservative (i.e. high emissions calculations) where direct measurement data is not complete. Within SECR reported emissions, grey fleet and cash-opt out is based on mileage reported calculated against vehicle type. Additional to emissions in scope for SECR reporting (Scope, 1, Scope 2 and Scope 3 cash opt-out / grey fleet, rail travel, flights and taxis) Unity reports hotel stays and homeworking, using GHG Protocol recommended methodologies. Specifically on homeworking, all homeworking is assumed to be single-occupancy and it is assumed office-based employees worked from home 60% of the time to reflect flexible working practices.

[1] The-ABC-of-Impact-Modifications-and-Clarifications-2023.pdf (impactfrontiers.org)
[2] 'High Deprivation' defined as being in the top 4 deciles of deprivation according to the IMD (Index of Multiple Deprivation).
[3] The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com)

The table below shows the performance summary of regulated SECR energy and GHG emission sources. Our GHG emissions have been independently calculated by Carbon Footprint Ltd for the year ended 31 December 2023:

	2023	2023	2022
SECR-related Energy (kWh)	**388,182**		345,330
Emissions (MTCO2e):	**Location Based**	**Market Based**	Location Based[4]
Scope 1: Natural gas	**48.83**	**48.83**	36.37
Scope 2: Electricity	**22.53**	**3.02**	21.93
Scope 3: Grey fleet and cash opt-out	**7.00**	**7.00**	7.34
Total SECR emissions	**78.36**	**58.85**	65.64
Additional Scope 3			
Well to tank	**13.06**	**8.44**	14.66
Electricity transmission & distribution	**2.38**	**0.18**	2.01
Home-working	**33.61**	**33.61**	38.32
Hotel stays	**12.50**	**12.50**	3.67
Rail travel	**15**	**15**	1.98
Flights	**5.82**	**5.82**	0.67
Total own operations plus business travel	**161.4**		126.96
Purchased offsets (see details below)	**(162)**		(127)
Emission intensity ratio pre-offset			
FTE	**173**		129
Emissions intensity (tCO2 e / FTE)	**0.94**		0.98
PCAF Scope 3 Category 15 *Financed Emissions (Method 3b Data Score 5)*	**952.0**		
Net carbon outturn	**952.0**		-

Category	Description
Scope 1	Direct GHG emissions that originate from assets that Unity owns or controls. This includes heating boilers in two sites where Unity is a lessee. Unity's contributions are calculated based on office space percentage of total building usage for one site. The second site (main site) is calculated as an equivalent change in gas usage due to data limitations. The calculation uses UK government conversion factors.[5]
Scope 2	Indirect GHG emissions from the generation of purchased electricity. Under the GHG Protocol, the Bank is required to report scope 2 emissions of both market and location-based approaches. Market based approach – reflects emissions from electricity that the Bank or our office site managers have purposefully chosen, e.g. renewable energy. Location based approach – reflects the average emissions intensity on the grids upon which energy consumption occurs. Unity's emissions for two sites are calculated based on percentage of total building KwH usage. Our third (and main site) is based on meter readings and use the UK government's conversion factors.
Scope 3	All other indirect emissions that occur across the Bank's value chain. For 2023, the Bank's scope 3 emissions include business travel required under SECR guidelines, hotel stays, homeworking and financed emissions from a portion of treasury assets; namely regulatory required bond holdings. All business travel is calculated based on Carbon Footprint Ltd's calculation factoring cost of travel using DEFRA emissions calculations. Home working is estimated based on single occupancy and a 60% homeworking rate. Our Scope 3 Category 15 corporate bond holdings are calculated using PCAF methodology 3b data quality score 5. The use of asset-based sector emission factors represents a small portion of our financed emissions and driven by regulatory treasury management practices. However, this is Unity's continued development of improving full reporting of our carbon emissions.

[4]2022 location-based emissions used as comparator for more accurate comparison of intensity
[5]Greenhouse gas reporting: conversion factors 2023 - GOV.UK (www.gov.uk)

Chairman's Statement
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In 2023, Unity has continued to purchase offsets for all own emissions plus business travel through the HACT and Arctica Partners award winning 'Retrofit Credits' programme.[6] Retrofit Credits are Verra registry verified (ID 2649). Unity was the first financial institution to support the HACT Arctica 'Retrofit Credits' programme, directly improving the energy efficiency and quality of UK social housing to contribute to a just transition. The Retrofit Credits programme won the prestigious Ashden Award 2023 for its contribution to tackling the climate crisis.

Unity has been certified carbon neutral status for five years up to 2022 by Carbon Footprint Ltd. In 2023, Unity is Carbon Neutral on Scope 1, Scope 2 and Scope 3 business travel and homeworking. In 2023 we have not maintained full carbon neutral certification as we have expanded our measurement of carbon emissions through the integration of category 15 financed emissions reporting. In 2024, we will continue to expand measurement and reporting of carbon emissions to include supply chain (Scope 3) and a wider pool of Scope 3 Category 15 Financed Emissions.

Unity does not fund industries that have a significant measured negative impact towards climate change, such as coal-fired power stations, mining industries or organisations that burn toxic waste. Unity reviewed and updated our exclusions policy for lending in 2023 and assesses all lending to ensure that there is no intentional or high risk of unintentional negative impact to society and the environment. Each of our Sector Credit Policies incorporate detail on the potential risks and opportunities from social, environmental and climate change factors. Stress tests, using scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have been included within our ICAAP to inform the capital held for climate change risks.

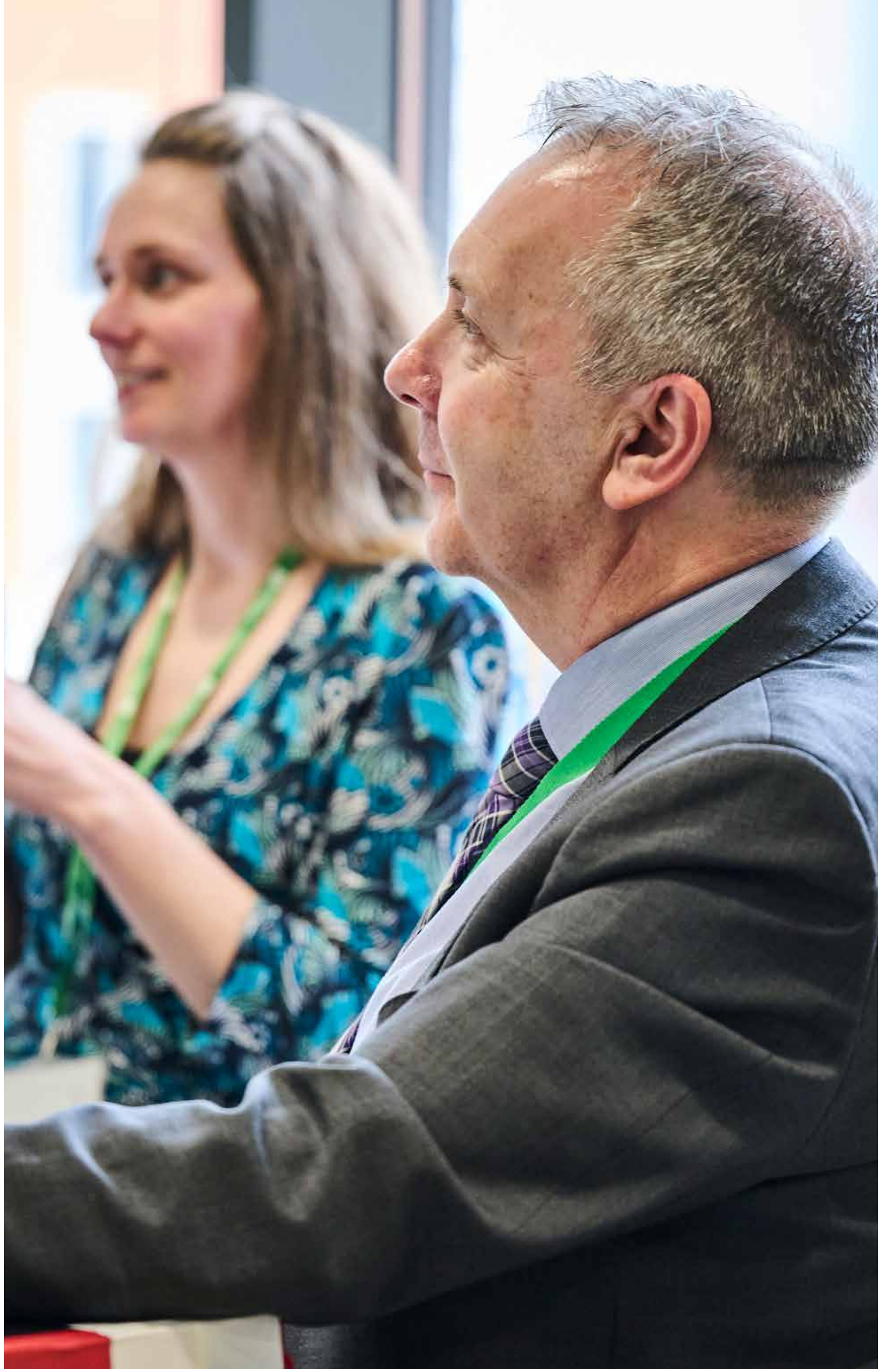
Our Supplier and Procurement Procedures include social and environmental criteria covering both selection of new suppliers and ongoing management of existing partners. This is a focus area for supplier reviews throughout 2024 which will identify and reduce climate risk to our operations and stakeholders.

Throughout 2024, we will identify opportunities to support the UK's transition to net-zero carbon by 2050 and continue to develop our double bottom line and deliver positive outcomes for communities or customers across the UK.

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

Colin Fyfe
Chief Executive Officer
Unity Trust Bank plc
6 March 2024

[6] Retrofit Credits - HACT



Directors' Biographies

Alan Hughes

Independent Non-Executive Chair

Appointed to the Board in 2015.

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

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

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

Alan has taught banking and was a visiting lecturer at Warwick University (voted MBA teacher of the year four times) and at Oxford University Saïd Business School. He has served as Deputy Chair of Council and Pro-Chancellor at Loughborough University, member of HM Government Cabinet Office Delivery Council and a Director of the UK Passport Agency as well as at other banking and financial companies.

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

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

Colin Fyfe

Chief Executive Officer

Appointed to the Board in 2024.

Skills brought to the Board: Strategic leadership and delivery in financial services, change management, sales and marketing, governance, stakeholder engagement and risk management.

Colin has led financial services firms for 10 years through his roles as Chief Executive Officer at Hinckley & Rugby Building Society and Darlington Building Society. This followed a 29 year banking career with the National Australia Bank Group, with the majority of this time spent at Clydesdale and Yorkshire Bank. His experience covered corporate, commercial, private, and retail banking and leadership positions spanning marketing, people, sales, and risk teams across these sectors.

Colin holds a Non-Executive Director position with Ahead Partnership, a purpose-driven business which supports young people to improve their careers outcomes.

Colin is a Fellow of the Institute of Bankers in Scotland.

Sandy Chen

Independent Non-Executive Director

Appointed to the Board in 2015.

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

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

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

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

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

Christine Coe

Independent Non-Executive Director

Appointed to the Board in 2023.

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

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

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

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

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

Martin Coward

Chief Risk Officer

Appointed to the Board in 2023.

Skills brought to the Board: Cross sector business leadership; credit, operational and financial risk management; commercial relationship management and stakeholder engagement.

Martin has over 30 years' experience in practical banking, many of which were spent at HSBC. His last role in HSBC within the UK Risk Leadership Team involved responsibility for the UK Business Banking Credit, delivered through specialist teams in India and UK. Prior to this, Martin led HSBC's UK Corporate Recovery Unit, overseeing debt/equity transfers and business turnaround teams through the consequences of the financial crisis from 2010 onwards. During his HSBC career, Martin held a number of senior commercial and corporate leadership roles and kept close to banking relationships with customers.

Martin has a BSc in Agriculture and, from his career before banking, maintains an active interest in the agricultural industry.

Alexander Ryan

Non-Executive Director

Appointed to the Board in 2020.

Skills brought to the Board: Knowledge of Trade Unions, corporate governance, investor relations, pensions, and non-executive experience. He is also the Chair of Unity Trust Bank pension scheme.

Alex is a member of the Board Risk Committee, the Nomination Committee and the Remuneration Committee.

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

Susan Sternglass Noble

Independent Non-Executive Director

Appointed to the Board in 2017.

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

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

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

Susan serves on the board of Asia Dragon Trust plc, a FTSE 250 listed investment trust. She is a Commissioner of the US-UK Fulbright Commission. Susan is also an active angel investor, particularly in women-founded tech companies.

Susan has a B.A. from Cornell University and an MSFS from the Georgetown School of Foreign Service. She is a Fellow of The Royal Society for the Arts, Manufactures and Commerce, a member of Chapter Zero and a member of the Director's Circle of Women on Boards UK.

Corporate Governance Report

Corporate Governance statement

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

Board leadership and company purpose

Business Model – The Bank's business model is set out on pages 14 to 15. This describes how the Bank maintains sustainable financial returns and positive social impact in all it does.

Culture – The Board recognises the importance of ensuring a healthy and supportive culture within the Bank. We monitor this through direct employee engagement activities and discussions with the Executive Directors, the Director of Human Resources, and other members of management. The Board has also designated a Non-Executive Director responsible for ensuring the interests of Unity's workforce are represented in the boardroom. Our values set out on page 15 ensure we act in a way that helps to create a better society. They enable us to be at our best for our customers, communities, society, and other stakeholders.

Engagement with Stakeholders – Significant time and effort is invested in providing detailed and transparent information to shareholders and in maintaining regular and effective dialogue with them.

The Chair, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) engage directly with investors on a regular basis throughout the year. Page 18 explains how the Directors have had regard to shareholder and wider stakeholder needs, including employees when performing their duty under s.172 of the Companies Act 2006.

Division of responsibilities

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

The Board

The Board is collectively responsible for the long-term success of Unity Trust Bank. It provides strategic direction and guidance to the Executive and management, and monitors performance against financial and non-financial measures and risk appetite.

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

Board Committees

The Board Audit Committee – Oversight of matters relating to financial reporting and financial controls which includes reviewing and monitoring the integrity of the financial statements, formal announcements and disclosures relating to financial performance; the independence and effectiveness of the internal and external audit functions and the effectiveness of the internal financial controls.

The Board Risk Committee – Oversight of enterprise risk governance and management as well as supporting a culture that emphasises and demonstrates the benefits of a proportionate approach to risk management and internal controls.

The Nomination Committee – Oversight of the composition of the Board and its Committees, leading the process for nominations and responsibility for ensuring plans are in place for the orderly succession of Board members.

The Remuneration Committee – See page 32 for details.

Remuneration Report

Introduction – Fair and proportionate pay

Unity Trust Bank is committed to adhering to regulatory requirements on remuneration and aims to provide reward packages that attract, motivate, and retain appropriately experienced and capable individuals. Fair and proportionate pay is a priority at all levels within the Bank. Unity has proudly held Living Wage accreditation for 10 years and maintains certification as an Investor in People (Gold standard), a strong reflection of our collaborative culture and responsible employer practices.

One pay review was conducted during the year (2022: two), ensuring that colleague pay continues to be a fair reflection of market rates. The components of remuneration are set out below. This includes Employee Profit Share and Share Incentive Plan awards, both of which are also awarded to all eligible employees and Executive Directors at the same percentage of basic pay up to any relevant tax limits (as set out below).

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

Unity's gender pay gap for 2023 was 5% (2022: 8%), and the ethnicity pay gap was 40% (2022: 39%). Gender pay gap shows the difference in average earnings between women and men, and the ethnicity pay gap shows the difference in average earning of ethnic minorities[1] to non-ethnic minorities.

Due to Unity's small workforce, these measures can significantly fluctuate year on year. The Bank's employee policies are designed to promote gender and ethnic equality. Unity has committed to support the progression of women into senior roles by targeting to have at least 40% female Directors by 2025. At the date of signing the 2023 accounts 29% of the Directors are female (2022: 37%).

Remuneration Committee

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

Remuneration policy

The Bank's remuneration policy is:

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

Components of remuneration: Employees (including Executive Directors)

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

Fixed remuneration

Basic salary – The Bank seeks to pay basic salaries which attract and retain talent. Paid to all employees including Executive Directors.

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

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

Variable remuneration

The Bank does not pay individual cash bonuses.

Profit share – Subject to the Bank's overall performance, an annual profit share award may be paid to eligible employees at the discretion of the Remuneration Committee and the Board. The profit share is set as a percentage of basic salary, with the same percentage applied to all employees including Executive Directors. The profit share for 2023 was 9% (2022: 9%).

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

Share based schemes operated by Unity (Audited)

The Bank has established several share based schemes designed to encourage employee ownership and increase retention whilst also aligning employee interests with those of shareholders, customers and stakeholders. Shares and Share Options may be awarded at the sole discretion of the Board, as recommended by the Remuneration Committee. The total employee shareholding at the end of the year was 0.7% (2022: 0.5%). Key highlights of the schemes are set out below with further detail provided in Note 26.

[1]Ethnic minority employees comprise all those not identifying as a member of a 'White' group in payroll records.

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

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

Share Incentive Plan

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

Company Share Option Plan

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

Key Person Share Option Plan

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

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

Directors' emoluments (Audited):	2023 £'000	2022 £'000
Non-Executive Directors - emoluments	312	234
Executive Directors - emoluments		
Remuneration as a Director	892	637
Remuneration as an employee	222	-
Executive Directors – loss of office	109	-
Total	**1,535**	871

Emoluments of three Executive Directors are reported for 2023 in the table above, with two Executive Directors in office in 2022. Executive director emoluments as a Director include £168k (2022: nil) related to payments in lieu of notice.

The highest paid Director during the year was the former CEO, who received emoluments of £679k during the year (2022: CEO: £368k). This includes salary, profit sharing payments, car allowance and loss of office. There were no share based payments made to the former CEO during the year (2022: 50,904 share options under the KSOP, and 1,628 shares under the SIP). All share based payment awards made to the former CEO lapsed at the end of 2023. The value of share based schemes is reflected within emoluments in the year of vesting. No share based payments vested in the year (2022: nil).

The aggregate value of company pension contributions paid, or treated as paid, to Directors for the year was nil (2022: £10k). The number of Directors who accrued retirement benefits during the year was nil (2022: one). No gains were made by Directors on the exercise of share options during the year (2022: £nil). No Directors exercised share options during the year (2022: none), and the number of Directors in respect of whose qualifying services shares for the year were received or receivable under long-term incentive schemes was two (2022: two).

No KSOP awards were made during the year, and all historic awards under the scheme also lapsed during the year.

The Bank is mindful of the 'fair approach to remuneration' of the High Pay Centre and we aim for the highest paid person to be paid no more than 20 times the median pay of the lowest quartile of the workforce. The CEO pay ratio for 2023 was 13:1 (2022: 13:1).

Independent Non-Executive Directors received fees of £215k per annum in aggregate for their services (2022: £142k). The Chairman of the Bank received a fee of £97k (2022: £92k) in the year. Shareholder Non-Executive Directors were not paid a fee by the Bank. The number of Independent Non-Executive Directors paid for the full year has increased from 2 to 3 in the year.

Report of the Directors

For the year ended 31 December 2023

Results and Dividends

The results for the year, before taxation, amounted to a profit of £63.9m (2022: £27.4m). The Directors recommend a final dividend for 2023 of 7.00p per share to be paid in 2024 (2022: 5.50p per share).

Post Balance Sheet Events

There are no significant post balance sheet events to report.

Directors

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

Non-Executive Directors

Alan Hughes, Chairman

Sandy Chen, Independent Non-Executive Director

Christine Coe, Independent Non-Executive Director (appointed 03/03/23)

Graham Dow, Non-Executive Director (retired 31/12/23)

Alexander Ryan, Non-Executive Director

Susan Sternglass Noble, Independent Non-Executive Director

Executive Directors

Colin Fyfe, Chief Executive Officer (appointed 29/01/2024)

Martin Coward, Chief Risk Officer (appointed 23/11/2023)

Deborah Hazell, Chief Executive Officer (resigned 31/12/2023)

Dominic Wade, Chief Financial Officer (resigned 31/12/2023)

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 2023 and as at the date of approval of this report.

Future developments

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

Risk

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

Environmental

Disclosures relating to climate change and the Bank's social impacts can be found on pages 18 to 25 of the Strategic Report.

Engagement with suppliers, customers and others

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

Taxation

The Bank participates in the Community Investment Tax Relief (CITR) scheme which encourages investment in disadvantaged communities by giving tax relief to companies who invest in Community Development Finance Institutions (CDFIs). Deductions from Corporation Tax totalling £921k (2022: £752k) were made regarding the CITR scheme.

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

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

	2023 £'000	2022 £'000
Corporation tax	**8,698**	3,180
VAT	**1,459**	1,034
Employment tax		
• Employer NIC	**1,319**	949
Total taxes paid	**11,476**	5,173
Employment taxes collected		
• Employee PAYE and NIC	**3,304**	2,361
Total tax contributions	**14,780**	7,534

Going Concern

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

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

In addition, the Risk Management section includes 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 84.

Compliance with the Code

Disclosures on the Bank's voluntary compliance with certain parts of the Code can be found on page pages 30 to 31.

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 2024 AGM.

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

Katherine Eldridge
Company Secretary
6 March 2024

Directors' Responsibilities Statement

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

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

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

In preparing the financial statements, the Directors are required to:

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

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

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

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

We confirm that to the best of our knowledge:

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

By order of the Board

Katherine Eldridge
Company Secretary
6 March 2024

Approach to Risk Management

Unity maintains an Enterprise Risk Management Framework (ERMF) which encourages a structured and consistent approach to existing and emerging risks. Unity's principal risk categories are overseen through a small number of specific risk committees. This allows close management attention to individual risks and provides clear focus for Unity to remain within our agreed risk appetite and quickly identify changes in risk profile.

The current economy, including volatility, geo-political tensions, cost-of-living crisis and changes in regulations has not resulted in a change in our approach to risk management. Whilst the level of inherent risk for some of Unity's principal risks and uncertainties has changed, Unity's risk controls continue to provide mitigation in accordance with our risk appetite.

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

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

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

Four risk committees are in place to provide governance and oversight to the principal risks and uncertainties for Unity. Each risk committee monitors current and emerging risk exposures versus risk appetite, and the effectiveness of Unity's control environment, in the context of the principal or sub-risks assigned to it.

The committees comprise members who are first line management, with second line in attendance. The committees undertake a number of responsibilities as part of their risk governance role, including monitoring performance against key risk indicators, monitoring risk incidents and remedial action plans, and ensuring the management information it receives is sufficient to enable it to exercise oversight over risk exposures and related controls.

Principal risks and uncertainties

The principal risks below remain consistent from the previous financial year. Disclosures in this section marked as 'audited' form part of the required financial statements disclosures and are within the scope of the independent auditor's report.

Market risk

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

Mitigation	Impact	Year on year change
Standalone management through a Treasury function that works within defined appetite limits. Interest rate risk is monitored regularly and reported monthly as part of Asset and Liability Committee (ALCO) responsibilities. Stress testing for interest rate risk is performed and reviewed regularly. Propriety trading is not undertaken and there is no foreign exchange or equities / commodities exposure. The defined benefit pension scheme aims to hold assets that display broadly similar interest rate and inflation sensitivity to the scheme's liabilities, and the scheme's funding position is monitored on a regular basis.	Losses due to the inability to pass on interest rate changes. Potential reduction in liquidity/ funding. Losses due to temporary changes in the fair value of treasury assets. If there is a deficit on the defined benefit pension scheme's statutory funding basis, then a recovery plan must be put in place. The last triennial actuarial valuation as at 30 June 2021 revealed a funding surplus of £4.9m. Accordingly no contributions are currently required from Unity.	The economy continues to show volatility due to ongoing economic and geopolitical challenges. Volatility in market expectations of interest rates continues to impact the fair value of fixed rate treasury instruments. These fair value impacts are temporary accounting adjustments which will reverse if held to maturity. Current term swap rates are lower than they have been in the recent past, indicating a potential peak in the Bank Rate. A reduction in the rate would have negative impacts on income. The IAS 19 surplus has decreased recently. This is partly because the investment strategy of the scheme does not explicitly hedge against market movements on an IAS 19 basis. The estimated buy-out shortfall has deteriorated (increased) mainly due to an increase in buy-out pricing from insurers generally, and higher than expected inflation over the year.

Credit risk (including climate risk sub-risk)

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

As detailed by the US Environmental Protection Agency and Taskforce on Climate-Related Financial Disclosures (TCFD), physical risks arise from acute and chronic changes in the natural environment (e.g. weather, flooding) which can directly or indirectly affect organisations. Transitional risks entail policy, legal, technological, market and social changes arising as organisations transition to net zero and adapt to climate-risks.

Mitigation	Impact	Year on year change
Experienced Credit Risk team which shapes and reviews all lending requests against the Credit & ESG (C&ESG) Committee approved lending and sector policies. Credit Risk team conduct ad hoc portfolio and sector reviews to provide early warning of deteriorating exposures. Specialist internal resource dedicated to those few customers experiencing financial distress, providing support and close monitoring. Relationship Management model enables prompt conversations with those customers showing early signs of financial distress. Relationship Managers and Credit team integrate impact and ESG requirements to loan reviews to ensure borrowers meet our sector policies. Relationship Managers work with all borrowing customers to monitor our individual exposure and assess the impact of our lending on climate change. Stress testing and reverse stress testing is completed quarterly considering the probability of default (PD), loss given default and risk grade changes. The ICAAP document completes scenario analysis on market wide, idiosyncratic and combined scenarios for severe yet plausible assumptions. Stress testing on climate related financial risks has also been completed in the ICAAP, assessing supply chain, labour disruption as well as increasing costs and valuation reductions.	Losses if a customer fails to make repayments. Losses if an investment fails to perform. Increased provisions for credit losses whilst heightened economic uncertainty remains. Increased management time/ costs. Reduced ability to report and manage impact and ESG considerations of portfolio. Damaged reputation. Customer detriment. Risk of impacts of climate change affecting ability of customers to repay based on transition risks or physical risks.	The UK continues to face difficult economic conditions which we have seen impact some of our customers over the last year. High interest rates and inflation, energy prices and staff wages as well as supply chain disruption as a response to the current economic uncertainty continues to put pressure on our customers' businesses and increases credit risk. Risk grades are assessed and updated accordingly. Continued development of our climate-related risk management capabilities has been a key priority of 2023. Unity commissioned a B-Corp third party in 2023, who specialises in physical risk analysis, to conduct an assessment of all borrower security assets against key climate forecast scenarios across 11 hazards. This will continue to be integrated into Unity's ICAAP stress testing and will form part of our support to customers as an ethical bank.

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Credit risk (including climate risk sub-risk) (continued)

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

As detailed by the US Environmental Protection Agency and Taskforce on Climate-Related Financial Disclosures (TCFD), physical risks arise from acute and chronic changes in the natural environment (e.g. weather, flooding) which can directly or indirectly affect organisations. Transitional risks entail policy, legal, technological, market and social changes arising as organisations transition to net zero and adapt to climate-risks.

Mitigation	Impact	Year on year change
Stress testing, using scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has been conducted to inform the capital held for climate change risks. Unity does not provide banking services to organisations involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources. This includes a strict exclusions policy ratified by the Bank's C&ESG Committee. The Treasury team invest within a very low risk appetite mandate.		

Liquidity and Funding risk

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

Mitigation	Impact	Year on year change
Internal Liquidity Adequacy Assessment Process (ILAAP). Liquidity is managed through an independent Treasury function. Stress testing conducted in line with Bank of England guidance. Intra-day liquidity monitoring. Principles of liquidity pricing set and monitored through ALCO. Alternative funding options are kept under constant review.	Unsustainable funding. Uncompetitive liability pricing leading to liquidity shortfalls. Regulatory liquidity requirements being breached. Mismatch in the timing of cashflows. Customer detriment.	Unity continues to exceed all regulatory liquidity and funding requirements. Unity has introduced new longer-term products to provide contractual term to its funding base. Rate increases were applied promptly and consistently to our savings accounts following each Bank Rate change, ensuring we deliver a fair and competitive return to our customers. With continued economic uncertainty, customers may require increased cash flow support. Quantitative tightening, unwind of Term Funding for SMEs and the higher interest rate environment has resulted in greater competition for customer deposits and higher average market savings rates.

Capital risk

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

Mitigation	Impact	Year on year change
The ICAAP process. Stress/scenario/IFRS 9 testing and modelling to reflect ongoing economic uncertainty, disruption events and climate change. Regular dialogue between senior management and prudential regulatory bodies. Modelling impacts of regulatory change. Close control of lending portfolio mix to avoid capital or business type distortion. Business plan focussing on growing non-interest income contribution. Regular shareholder communications.	Growth and investment plans not achieved. Regulatory capital buffers could require utilisation. Damaged reputation. Customer detriment. Additional regulatory scrutiny and financial penalties.	Capital requirements increased through safe growth in the lending book and the increase of the Countercyclical Capital Buffer to 2% in 2023. Capital resources have significantly increased due to the financial performance of the Bank over the last year. IFRS 9 transition relief reduced from 25% to 0%.

Conduct risk

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

Compliance risk

The risk of legal or regulatory sanctions, financial penalty, or reputational damage as a result of failure to comply with laws, regulations or codes of practice.

Mitigation	Impact	Year on year change
Dashboard monitoring to ensure we are delivering good customer outcomes. Compliance risks and controls assessed using the judgement of a specialist Compliance function. Appropriate and established policies and procedures; employee training and oversight from first and second line. Product development and supporting processes designed to deliver fair outcomes for customers. Customer understanding of products and services measured independently against good outcomes. Products and services developed to meet the needs of all customers. Values are clearly defined, regularly communicated and measured in business processes. Regulatory Conduct Rules embedded in our business practices and procedures.	Poor customer outcomes, jeopardising our business plan. Reputational damage from poor customer service and outcomes. Additional regulatory scrutiny and financial penalties. Business culture could be negatively affected by changes in headcount.	With the implementation of Consumer Duty, Unity focuses to deliver good outcomes through enhancing the vulnerable customers framework, accessibility and support, fair value pricing and assessments and governance for decision making. Unity continues to ensure compliance and embedding of the Consumer Duty in day-to-day processes. Increased resource within the Compliance team means assurance activity and the control framework is better equipped to focus on priorities arising from the evolving regulatory landscape. Employee charter launched by HR in 2023 to support the embedding of values and regulatory Conduct Rules within the culture.

Operational risk

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

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

Mitigation	Impact	Year on year change
Training and development plans for all employees based on roles; succession and development plans for key roles. Shortening recruitment lead time to increase resourcing resilience. Legal and Compliance expertise maintained in-house. Cyber resilience programme implemented to improve National Institute of Standards and Technology (NIST) score. Increased automation used to manage both the change process and data loss prevention. Automation used to track and report risk events, business unit risk and control assessments and follow up audit actions. Data centralisation and control, to provide one source, with a Business Insight team providing one version of data. External professionals and subject matter experts used to validate key projects before and during execution. 3rd party providers' resilience assessed at contract initiation and as a minimum annually depending on materiality. Contract reviews completed in accordance with PRA outsourcing guidelines. 3rd party supplier dashboard developed to monitor changes in supplier operational resilience. Due diligence undertaken toward all 3rd party suppliers regarding their cyber defences, their supplier due diligence and their approach towards climate change. Review, approval and monitoring at Operational Risk Committee.	Unacceptable operational losses. Financial loss or loss of customer data. Inability to maintain our important business services within acceptable tolerances, causing harm to our customers or our business. Continuity of service disruption from the introduction of inappropriate system changes. Incomplete or inaccurate regulatory reporting due to poor data quality. Customer detriment. Regulatory censure. Negative publicity leading to reputational damage for Unity.	Operational risk increases due to supply chain disruption, economic pressures and geopolitical tensions. Cyber risk has greater prevalence due to the increased sophistication of cyber attacks, including threats and risks posed by artificial intelligence. Ongoing investment in IT architecture and infrastructure to enable the Bank to scale its operations, improve functionality, extend channel choice, enhance cyber and further improve operational resilience.

Financial Crime risk

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

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

Emerging risks

Unity's risk register summarises both active and emerging risks. Emerging risks arise from external and internal factors and are reported through the four risk committees to inherently assess material risk impact to our customers, strategy or bank wide objectives. They are monitored through governance to ensure remedial action is taken to strengthen or enhance controls where decisions have been made to class the risk as active and proceed with mitigation. Principal emerging risks which are managed as part of the ERMF include: -

- data integrity, addressing multiple touch points as data moves between legacy systems;
- resource planning, employee capacity and capability, to better anticipate the impact of a growing business;
- regulatory change, continued embedding and maintenance of new guidance in delivering fair and balanced customer outcomes;
- financial crime risks impacted by exposing the bank to different customer types;
- geopolitical volatility, impacted by domestic and international pressures; and
- cyber risk, sophistication of 'bad actors' and advancement of artificial intelligence.

Credit risk (Audited)

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

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

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

The Bank's Risk appetite aim is to maintain a broad sectoral spread of exposures which reflect the Bank's areas of expertise. Credit exposures to corporate and business banking customers are assessed individually. The quality of the overall portfolio is monitored, using a credit grading system calibrated to expected loss. The Board Risk Committee receives regular reports on new facilities and changes in facilities, sector exposures, impairment provisions and the realisation of problem loans.

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

Maximum exposure to credit risk (Audited)

	Gross balance	**Credit commitments**		**2023 Credit risk exposure**	Gross balance	Credit commitments		2022 Credit risk exposure
		Pipeline[1]	**Other**			Pipeline[1]	Other	
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Cash balances at central banks	**476,613**	**-**	**-**	**476,613**	567,701	-	-	567,701
Loans and advances to banks	**-**	**-**	**-**	**-**	-	-	-	-
Loans and advances to customers	**1,023,310**	**39,864**	**40,363**	**1,103,537**	847,913	36,446	54,407	938,766
Investment securities	**247,416**	**-**	**-**	**247,416**	256,679	-	-	256,679
Total	**1,747,339**	**39,864**	**40,363**	**1,827,566**	1,672,293	36,446	54,407	1,763,146
Impairment allowance for:								
Loans and advances				**(9,664)**				(6,092)
Treasury investments				**(27)**				(41)
EIR adjustment				**(5,433)**				(5,244)
				1,812,442				1,751,768

[1]As detailed in note 11, irrevocable undrawn commitments to lend are within the scope of IFRS 9 provision requirements.
These commitments represent authorised overdraft balances and separately identifiable commitments for loan pipeline, where the facilities remain undrawn. The commitments are not recognised on the balance sheet. Other credit commitments relate to the undrawn portion of facilities where a borrower has made a partial drawdown. A provision against these commitments is recognised within stage 1 of the ECL (Expected Credit Losses).
The Bank's concentration exposure for loans and advances as well as treasury investments is outlined in note 11 and the Risk Management section.

Credit risk analysis (Audited)

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 grades are as follows:

RG	Short Description	Detail
1	Very strong credit risk	Greater than 3-year history with Unity, excellent RM relationship, experienced management, robust debt service capacity, high liquidity, diverse client base, consistently 'Good' or higher ratings from third-party monitors for more than 3 years.
2	Strong credit risk	Greater than 3-year history at Unity maintains excellent RM relationship. Strong management, debt service, liquidity, and diverse client base, consistently rated 'Good' or higher by third-party monitors for more than 3 years.
3	Good credit risk	Greater than 3-year history at Unity, satisfactory RM relationship, capable management with clear strategy and succession plan, satisfactory debt service capacity and liquidity, diverse client base, consistently 'Good' or higher ratings from third-party monitors for more than 3 years.
4	Acceptable credit risk	Satisfactory RM relationship, experienced management with clear business plan but lacking succession plan, acceptable debt service capacity and liquidity, less diverse client base, consistently 'Good' or higher ratings from third-party monitors for more than 2 years.
5	Weak credit risk	Limited RM relationship, weak management lacking succession plan, weak debt service capacity, poor liquidity and financial ratios, less diverse or poor client base, inconsistent or less than 'Good' ratings from third-party monitors.
6	Poor credit – Watchlist	Exhibits signs of unsatisfactory performance but expected to continue trading. Triggers for Watchlist status may include deteriorating balance sheet or profitability, creditor pressure, trading difficulties, covenant breaches, loan repayment issues, cost or time overruns for development loans, reduction in security value, or any other reason requiring closer control by the Bank.
7	Sub standard	Further deterioration beyond Watchlist triggers, but full repayment is expected. Triggers include loan repayment overdue by 60 days, ongoing deterioration in performance, and cessation of trading with voluntary asset realization. Management responsibility shifts to the Credit Risk team when downgraded to Risk Grade 7, indicating sufficient security to prevent anticipated losses
8	Default	Risk of business failure and potential risk of loss to the Bank, meets definition of default detailed in note 1 to the financial statements.
9	Realisation	Realisation status is applied where a formal insolvency process has commenced (Bankruptcy, Liquidation, Administration or Appointment of an LPA Receiver). Realisation cases will be managed by the Credit Underwriting team, although occasionally ongoing RM involvement may be retained if considered beneficial.

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

The following table analyses the ECL stage, illustrating 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.

Gross balance movements in the year (Audited)

31 December 2023	Stage 1 12 month ECL	Stage 2 Lifetime ECL - SICR[2,3]	Stage 3 Lifetime ECL – credit impaired[3]	Total
	£'000	£'000	£'000	£'000
Impairment provision at 1 January 2023	2,848	1,394	1,891	6,133
Gross carrying amount as at 1 January 2023	1,093,651	39,504	6,314	1,139,469
Individual financial assets transferred to stage 1	86	(86)	-	-
Individual financial assets transferred to stage 2	(21,937)	21,937	-	-
Individual financial assets transferred to stage 3	(14,097)	(7,599)	21,696	-
New financial assets originated or purchased	334,172	-	-	334,172
Financial assets that have been derecognised	(189,883)	(1,182)	(285)	(191,350)
Other changes[1]	42,127	(9,494)	(2,822)	29,811
Gross carrying amount as at 31 December 2023	1,244,119	43,080	24,903	1,312,102
Impairment provision at 31 December 2023	4,145	2,313	3,233	9,691

[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.

[2]'SICR' is an abbreviation of Significant Increase in Credit Risk

[3]Included in Stage 2 and Stage 3 columns above are accounts that are greater than 30 days past due and 90 days past due respectively.

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

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

[2]Included in Stage 2 and Stage 3 columns above are accounts that are greater than 30 days past due and 90 days past due respectively.

Collateral (Audited)

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 2023 £37.6m (2022: £21.4m) within loans and advances was unsecured. Where the security, post any market value haircuts (as discussed in note 11), is greater than the loan exposure, no impairment allowance is recognised. As at 31 December 2023 £283.9m (2022: £406.4m) 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 £46.8m (2022: £8.7m).

Geographical concentration (Audited)

The nominal geographical split of Investment Securities 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 2023
	£'000	£'000	£'000	£'000	£'000
United Kingdom	-	10,000	79,600	-	89,600
	-	10,000	79,600	-	89,600
Rest of Europe					
Germany	-	-	10,000	-	10,000
	-	-	10,000	-	10,000
Rest of the World					
Australia	-	-	8,000	-	8,000
Canada	-	-	31,000	-	31,000
Supranational	-	45,000	70,700	-	115,700
	-	45,000	109,700	-	154,700

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 2022
	£'000	£'000	£'000	£'000	£'000
United Kingdom	-	75,000	30,000	-	105,000
	-	75,000	30,000	-	105,000
Rest of Europe					
Germany	-	-	10,000	-	10,000
	-	-	10,000	-	10,000
Rest of the World					
Canada	-	-	5,000	-	5,000
Supranational	-	36,000	112,500	-	148,500
	-	36,000	117,500	-	153,500

Interest rate risk (Audited)

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

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

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

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

	+25 bps 2023 £'000	+25 bps 2022 £'000	**-25 bps 2023 £'000**	-25 bps 2022 £'000
Impact	**2,754**	2,545	**(2,489)**	(4,628)

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

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

Maturity analysis (Audited)

31 December 2023	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
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with the Bank of England	476,613	-	-	-	-	-	476,613
Loans and advances to banks	1,799	-	-	-	-	-	1,799
Loans and advances to customers	959,132	-	-	27,589	36,589	(9,664)	1,013,646
Investment securities	159,318	11,908	76,190	-	-	-	247,416
Other assets	-	-	-	-	-	6,334	6,334
Total assets	1,596,862	11,908	76,190	27,589	36,589	(3,330)	1,745,808
Liabilities							
Customer deposits	1,365,482	143,090	42,070	8,667	-	-	1,559,309
Other liabilities	-	-	-	-	-	13,882	13,882
Total equity	-	-	-	-	-	172,617	172,617
Total liabilities and equity	1,365,482	143,090	42,070	8,667	-	186,499	1,745,808
Derivatives							
Interest rate sensitivity gap	231,380	(131,182)	34,121	18,922	36,589	(189,829)	
Cumulative gap	231,380	100,198	134,319	153,241	189,829	-	

31 December 2022	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with the Bank of England	567,701	-	-	-	-	-	567,701
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	820,631	85	3,912	9,361	8,679	(6,092)	836,576
Investment securities	108,294	36,274	112,070	-	-	-	256,638
Other assets	-	-	-	-	-	8,264	8,264
Total assets	1,496,626	36,359	115,982	9,361	8,679	2,172	1,669,179
Liabilities							
Amounts owed to banks	85	-	-	-	-	-	85
Customer deposits	1,538,657	-	-	-	-	-	1,538,657
Other liabilities	-	-	-	-	-	6,622	6,622
Total equity	-	-	-	-	-	123,815	123,815
Total liabilities and equity	1,538,742	-	-	-	-	130,437	1,669,179
Derivatives	-	-	-	-	-	-	
Interest rate sensitivity gap	(42,116)	36,359	115,982	9,361	8,679	(128,265)	
Cumulative gap	(42,116)	(5,757)	110,225	119,586	128,265	-	

Liquidity (Audited)

The Liquidity Coverage Ratio, which measures a bank's ability to meet short term obligations, remained strong at the end of the year at 210% (2022: 220%).

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 2023	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
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances at central banks	476,613	-	-	-	-	-	476,613
Loans and advances to banks	1,799	-	-	-	-	-	1,799
Loans and advances to customers	-	12,032	11,743	355,542	634,329	-	1,013,646
Investment securities	-	159,317	88,099	-	-	-	247,416
Other assets	-	-	-	-	-	6,334	6,334
Total assets	478,412	171,349	99,842	355,542	634,329	6,334	1,745,808
Liabilities							
Customer deposits	1,463,804	44,143	42,695	8,667	-	-	1,559,309
Other liabilities	-	-	-	-	-	13,882	13,882
Total equity	-	-	-	-	-	172,617	172,617
Total liabilities and equity	1,463,804	44,143	42,695	8,667	-	186,499	1,745,808
Net liquidity gap on contractual basis	(985,392)	127,206	57,147	346,875	634,329	(180,165)	-

Gross expected cashflow maturity analysis – contractual (Audited)

31 December 2023	Carrying value	Gross nominal outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non Derivative liabilities							
Deposits from customers	1,559,309	1,559,309	1,463,804	44,143	42,695	8,667	-
Other liabilities	13,882	13,882	13,882	-	-	-	-
Total recognised liabilities	1,573,191	1,573,191	1,477,686	44,143	42,695	8,667	-
Unrecognised loan commitments	80,227	80,227	80,227	-	-	-	-
Total	1,653,418	1,653,418	1,557,913	44,143	42,695	8,667	-

31 December 2022	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances at central banks	567,701	-	-	-	-	-	567,701
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	-	9,476	12,989	254,293	559,818	-	836,576
Investment securities	-	108,294	148,344	-	-	-	256,638
Other assets	-	-	-	-	-	8,264	8,264
Total assets	567,701	117,770	161,333	254,293	559,818	8,264	1,669,179
Liabilities							
Amounts owed to banks	85	-	-	-	-	-	85
Customer deposits	1,370,007	168,650	-	-	-	-	1,538,657
Other liabilities	-	-	-	-	-	6,622	6,622
Total equity	-	-	-	-	-	123,815	123,815
Total liabilities and equity	1,370,092	168,650	-	-	-	130,437	1,669,179
Net liquidity gap on contractual basis	(802,391)	(50,880)	161,333	254,293	559,818	(122,173)	-

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

Capital risk

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 £172.9m (2022: £122.9m), significantly in excess of the minimum required by the Prudential Regulation Authority.

Regulatory capital analysis		**2023**	2022
		£’000	**£’000**
Tier 1			
Share capital		**24,792**	24,730
Share premium account		**18,205**	18,150
Reserves:	Capital redemption reserve	**4,511**	4,511
	Retained earnings	**128,221**	81,615
	Financial asset revaluation reserve	**(3,041)**	(5,131)
	ESOP reserve	**(79)**	(60)
Common Equity Tier 1 (CET1) capital before adjustments		**172,609**	123,815

	2023	2022
Adjustments to CET1		
Other intangible assets	**(6)**	(22)
Prudent additional valuation adjustment	**(247)**	(257)
Net pension asset	**(1,756)**	(2,840)
IFRS 9 transitional adjustment	**2,297**	2,235
CET1 and Total Tier 1 capital resources	**172,897**	122,931
Tier 2 Adjustment for collective provisions	**-**	-
Total Tier 2 Adjustments	**-**	-
Total regulatory capital	**172,897**	122,931
Common Equity Tier 1 ratio	**19.7%**	18.3%

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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows;
- the related notes 1 to 28; and
- the information identified as “audited” within the risk management report.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – effective interest rate accounting (“EIR”); and • Allowance for losses on loans and advances to customers. 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 £1,729,000 which was determined on the basis of 1% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have increased our basis for materiality from 0.5% to 1% of net assets for FY23. There are supporting qualitative factors for this increase including no significant changes to the internal control environment and the growth of the company. This higher percentage is more closely aligned with the range observed at peers. We have decreased performance materiality to 60% of materiality (2022: 65%) for FY23. This decrease is in response to the heightened risk arising from several role changes occurring in a short period of time at executive and management level, given such personnel changes increase the risk of material misstatement.

4. Conclusions relating to going concern

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

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

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

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 £69.3m (2022: £34.4m) and an EIR creditor of £6.2m (2022: £5.5m) in relation to interest receivable on loans and advances to customers. We identified a key audit matter that revenue may be inappropriately recognised whether due to fraud or error. The company holds loans and advances to customers which meet the criteria of financial assets under IFRS 9. The recognition of interest income on loans under IFRS 9 requires the use of an EIR method in which management makes various assumptions, including the behavioural life of each loan. There is therefore judgement involved in the determination of interest income under the EIR method. The key assumption in the EIR model is the derivation of the cash flow run-off profiles which determine the behavioural life of the loans and timing of the expected future cash flows. The company's accounting policies are detailed in note 1.2 to the financial statements, with note 5 quantifying interest income under the EIR method recognised during the year.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the company has in place to manage the risk of inappropriate behavioural life assumptions being applied in the EIR model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration system and evaluated the manner in which data is extracted from these systems to determine interest income and the EIR creditor. We challenged the appropriateness of the behavioural lives adopted by management by reference to historical customer redemptions, over which we tested the accuracy and completeness of a sample of the underlying data. Additionally, we challenged any amendments made to the behavioural lives by management during the course of the year, based on the impact of product changes and recent customer redemption activity in light of the rising interest rate environment and economic uncertainty. 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 assist us in independently recalculating the EIR creditor in order to evaluate the accuracy of management's model. We also assessed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the company's EIR model. We tested the inputs which are used to determine interest income by agreeing a sample of customer loans back to underlying source data.
Key observations	We concluded that the behavioural lives used within the company's revenue recognition process were reasonable and the EIR model to be working as intended. We determined the accounting for interest income and the EIR creditor to be appropriate and materially in line with the requirements of IFRS 9.

5.2. Allowance for losses on loans and advances to customers.

Key audit matter description	The company held an impairment provision of £9.7m (2022: £6.1m) against loans and advances to customers of £1,023.3m (2022: £842.7m). We identified a key audit matter that the impairment provisions may be inappropriately recognised whether due to fraud or error. For financial assets held at amortised cost, IFRS 9 requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimates relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macro-economic scenario modelling. These assumptions are informed using historical behaviour and management's experience and judgement. They are also affected by management's consideration of the future economic environment. The most significant assumptions and judgements applied in the impairment model are: • the determination and application of staging criteria; and • the appropriateness of macro-economic scenarios ("MES") and their weighting for the purposes of determining impairment provisions. The company's accounting policies are detailed in note 1.2 to the financial statements while the significant judgements involved in the impairment provisioning process are outlined in note 2, with note 11 quantifying the impairment provisions at year-end.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the company has in place to manage the risk of inappropriate staging or MES assumptions being used within the impairment provisioning model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the impairment provision balance. Where a significant increase in credit risk had been observed, and for customers that had been placed on a watchlist by management, we challenged the determination of staging criteria with reference to both quantitative and qualitative criteria including our knowledge of the industry, historical data and through comparing to peers. We also independently reviewed a sample of cases across all three IFRS 9 stages to assess whether we agreed with the staging conclusions reached by management. Additionally, we evaluated the remainder of the portfolio to identify whether there are any customers who may be experiencing signs of financial distress. We challenged the appropriateness of the MES methodology and assumptions, which included evaluating the sources used as the basis for deriving economic inputs, challenging management judgements applied in assessing how economic variables correlate to the company's default history, involving our credit risk specialists to evaluate management's methodology, and involving our internal economics specialists to independently challenge the assumptions adopted. As part of our wider assessment of impairment and the appropriateness of the loss given default calculation, we involved our valuation specialists to independently assess collateral valuations for a sample of stage 2 and stage 3 cases.

5.2. Allowance for losses on loans and advances to customers. (continued)

How the scope of our audit responded to the key audit matter	We also challenged the appropriateness of other assumptions used within the determination of impairment provisions such as probability of default, forced sale discount, time horizon to sale and commercial property price inflation. Procedures performed included comparing to peers, performing independent recalculations and evaluating data sourced by management from external third parties. We assessed the rationale for any management overlays through our understanding of the company's loan book, the external environment and the current macro-economic uncertainty. In conjunction with our data analytics specialists, we independently recalculated the impairment provisions 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 concluded that management's view with regards to the impairment provision and in particular the staging judgements and MES assumptions adopted was appropriate, with the overall provision level being acceptable. Overall, we found the impairment provisioning model to be working as intended and consider the impairment provision to be recorded in line with the requirements of IFRS 9.

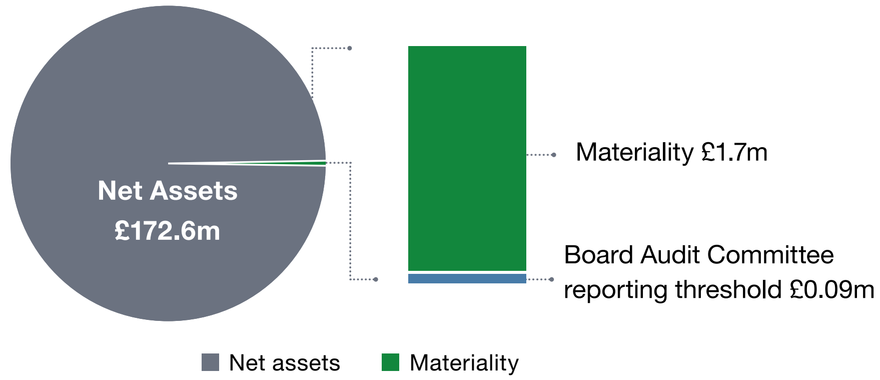
6. Our application of materiality

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	£1,729,000 (2022: £630,000)
Basis for determining materiality	1% of net assets (2022: 0.5% of net assets) We have increased our basis for materiality from 0.5% to 1% of net assets for FY23. There are supporting qualitative factors for this increase including no significant changes to the internal control environment and growth of the company. This higher percentage is more closely aligned with the range observed at peers.
Rationale for the benchmark applied	Net assets is considered to be an appropriate basis for materiality for the company due to the importance of regulatory capital to its supervision as an authorised deposit-taker, the company's strategy being centred around maintaining a stable capital base, and net assets being considered a stable base.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2023 audit (2022: 65%). This decrease was in response to the heightened risk arising from several role changes occurring in a short period of time towards the year-end at executive and management level, given such personnel changes increase the risk of material misstatement. Please see pages 4 to 5 for details of these role changes.

6.3. Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of £86,450 (2022: £31,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

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

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

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its financial statements. The company continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on pages 18-25.

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

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

In conjunction with our ESG specialists, we evaluated the sustainability disclosures included in the strategic report and considered whether the information is materially consistent with the financial statements and/or knowledge obtained during the audit.

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

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

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

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

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition (EIR) accounting and allowance for losses on loans and advances to customers as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Board Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and Prudential Regulation Authority as appropriate;
- in response to the heightened risk arising from several role changes occurring in a short period of time at executive and management level, involving a fraud specialist to identify relevant fraud risk factors, ensuring these were considered throughout the execution of our audit procedures; 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 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 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 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Board Audit Committee, we were appointed by the Board of Directors on 20 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2019 to 31 December 2023.

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

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

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Reed FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

6 March 2024

Income Statement

for the year ended 31 December 2023

	Notes	2023	2022
Interest income under EIR method	5	**102,947**	47,121
Interest expense and similar charges	6	**(13,762)**	(3,327)
Net Interest Income		**89,185**	43,794
Fee and commission income		**4,405**	4,548
Fee and commission expense		**(1,169)**	(1,159)
Net fee and commission income		**3,236**	3,389
Total income		**92,421**	47,183
Operating expenses	7	**(25,011)**	(17,354)
Impairment charge	11	**(3,548)**	(2,477)
Profit before taxation	3	**63,862**	27,352
Taxation charge	9	**(15,004)**	(4,509)
Profit for the year attributable to shareholders		**48,858**	22,843

The accounting policies and notes on pages 84 to 119 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2023

	Notes	2023	2022
Profit for the year - equity shareholders		**48,858**	22,843
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation gains/(losses) taken to equity[1]	12	**2,672**	(6,385)
Taxation		**(582)**	1,596
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	20	**(1,311)**	(3,170)
Taxation		**335**	799
Other comprehensive income/(charges) for the year, net of tax		**1,114**	(7,160)
Total comprehensive income for the year - equity shareholders		**49,972**	15,683
Attributable to:			
Equity shareholders		**49,972**	15,683
Dividend paid in the year		**(1,361)**	(949)
		48,612	14,734

The accounting policies and notes on pages 84 to 119 form part of these financial statemen

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

76 Registration No 01713124 All amounts are stated in £'000 unless otherwise indicated
All amounts are stated in £'000 unless otherwise indicated Unity Trust Bank plc Report & Accounts 2023 77

Statement of Financial Position

for the year ended 31 December 2023

	Notes	2023	2022
Assets			
Cash and balances with the Bank of England	10	**476,613**	567,701
Investment securities	12	**247,416**	256,638
Loans and advances to banks		**1,799**	-
Loans and advances to customers	11	**1,013,646**	836,576
Right of use assets	15	**1,307**	1,581
Pension scheme net assets	20	**2,341**	3,788
Other assets		**109**	278
Prepayments and accrued income	16	**1,535**	1,149
Deferred tax assets	19	**451**	793
Property, plant and equipment	14	**585**	653
Intangible assets	13	**6**	22
Total assets		**1,745,808**	1,669,179
Liabilities			
Amounts owed to banks		-	85
Customer deposits		1,559,309	1,538,657
Other liabilities	17	3,858	3,448
Accruals and deferred income		1,830	1,493
Provisions for liabilities and charges	18	670	368
Current tax liabilities	9	7,524	1,313
Deferred tax liabilities	19	-	-
Total liabilities		1,573,191	1,545,364

	Notes	2023	2022
Capital and reserves attributable to the Bank's equity shareholders			
Ordinary share capital	21	24,792	24,730
Share premium account	21	18,205	18,150
Capital redemption reserve		4,511	4,511
Retained earnings		128,229	81,615
Financial asset valuation reserve		(3,041)	(5,131)
Employee share ownership plan (ESOP) reserve	27	(79)	(60)
Total equity		172,617	123,815
Total liabilities and equity		1,745,808	1,669,179

The accounting policies and notes on pages 84 to 119 form part of these financial statements.

Approved by the Board on 6 March 2024
and signed on its behalf by:

Colin Fyfe,
Chief Executive Officer

Alan Hughes,
Chairman

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Statement of Changes in Equity

for the year ended 31 December 2023

2023	Share capital	Share premium	Capital redemption reserve	FVTOCI[2]	Retained earnings	ESOP reserve	Total equity
At 1 January 2023	**24,730**	**18,150**	**4,511**	**(5,131)**	**81,615**	**(60)**	**123,815**
Profit for the financial year	**-**	**-**	**-**	**-**	**48,858**	**-**	**48,858**
Issue of share capital – Share Incentive Plan (note 21)	**62**	**55**	**-**	**-**	**-**	**(49)**	**68**
Adjustment for equity-settled share-based payments (note 26)	**-**	**-**	**-**	**-**	**93**	**30**	**123**
Actuarial loss on Defined Benefit pension (note 20)	**-**	**-**	**-**	**-**	**(1,311)**	**-**	**(1,311)**
Deferred Tax movements (note 9)	**-**	**-**	**-**	**(582)**	**335**	**-**	**(247)**
Net movement in Fair value through other comprehensive income (note 12)	**-**	**-**	**-**	**2,672**	**-**	**-**	**2,672**
Total	**62**	**55**	**-**	**2,090**	**47,975**	**(19)**	**50,163**
Dividend paid[1]	**-**	**-**	**-**	**-**	**(1,361)**	**-**	**(1,361)**
At 31 December 2023	**24,792**	**18,205**	**4,511**	**(3,041)**	**128,229**	**(79)**	**172,167**

2022	Share capital	Share premium	Capital redemption reserve	FVTOCI[2]	Retained earnings	ESOP reserve	Total equity
At 1 January 2022	24,678	18,113	4,511	(342)	62,040	(37)	108,963
Profit for the financial year	-	-	-	-	22,843	-	22,843
Issue of share capital – Share Incentive Plan (note 21)	52	37	-	-	-	-	89
Adjustment for equity-settled share-based payments (note 26)	-	-	-	-	52	(23)	29
Actuarial gain on Defined Benefit pension (note 20)	-	-	-	-	(3,170)	-	(3,170)
Deferred Tax movements (note 9)	-	-	-	1,596	799	-	2,395
Net movement in Fair value through other comprehensive income (note 12)	-	-	-	(6,385)	-	-	(6,385)
Total	52	37	-	(4,789)	20,524	(23)	15,801
Dividend paid[1]	-	-	-	-	(949)	-	(949)
At 31 December 2022	24,730	18,150	4,511	(5,131)	81,615	(60)	123,815

[1]Dividend paid in 2023 in respect of the 2022 financial year at 5.50p per share (paid in 2022 respect of the 2021 financial year at 3.85p per share).

[2]'FVTOCI' is Fair Value through Other Comprehensive Income

The accounting policies and notes on pages 84 to 119 form part of these financial statements.

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All amounts are stated in £'000 unless otherwise indicated Unity Trust Bank plc Report & Accounts 2023 81

Statement of Cash Flows

for the year ended 31 December 2023

	Notes	2023	2022
Profit before taxation		**63,862**	27,352
Adjustments for:			
Finance costs		**85**	249
Impairment losses, net of reversals, on financial assets		**3,548**	2,477
Non-cash movements in relation to investment securities		**(8,428)**	(3,871)
Depreciation of property, plant and equipment		**283**	270
Depreciation of right-of-use assets		**250**	269
Amortisation of intangible assets		**16**	38
Loss on disposal of property, plant and equipment		**3**	-
Increase in provisions		**567**	320
		60,186	27,103
Operating cash flows before movements in working capital			
Increase in prepayments and accrued income		**(386)**	(59)
Decrease/(Increase) in other operating assets		**155**	(151)
Increase in advances to customers		**(180,618)**	(115,530)
Decrease/(Increase) in Bank of England mandatory reserve	10	**310**	(355)
Increase in accruals and deferred income		**337**	382
Increase in customer deposits		**20,652**	31,430
Increase/(Decrease) in other operating liabilities		**527**	(101)
Cash used in operations		**(98,837)**	(57,280)
Income tax paid		**(8,698)**	(3,180)
Net cash outflow from operating activities		**(107,535)**	(60,460)

	Notes	2023	2022
Investing activities			
Purchase of property, plant and equipment		**(218)**	(163)
Intangible asset additions		**-**	-
Purchase of investment securities		**(96,260)**	(261,001)
Proceeds from sale and redemption of investment securities		**116,948**	209,523
Net cash from/(used in) investing activities		**20,470**	(51,641)
Financing activities			
Dividends paid		**(1,361)**	(949)
Repayment of lease liabilities		**(468)**	(380)
Proceeds on issuance of share capital, net of transaction costs		**-**	50
Net cash (used in) financing activities		**(1,829)**	(1,279)
Net (decrease) in cash and cash equivalents		**(88,894)**	(113,380)
Cash and cash equivalents at beginning of year		**563,858**	677,238
Cash and cash equivalents at end of year		**474,964**	563,858
Cash and balances with the Bank of England	10	**473,165**	563,943
Loans and advances to banks/(amounts owed to banks)		**1,799**	(85)
		474,964	563,858

The accounting policies and notes on pages 84 to 119 form part of these financial statements.

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All amounts are stated in £'000 unless otherwise indicated Unity Trust Bank plc Report & Accounts 2023 83

Notes to the Financial Statements

1 Basis of preparation and significant accounting policies

The Bank's 2023 report and accounts have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as adopted by the UK. All amounts are stated in £'000 unless otherwise indicated.

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

Unity Trust Bank plc does not have an ultimate parent company. The Bank formed and commenced operating a subsidiary company, Unity EBT Limited on 2 January 2013. The Bank holds 100% of the issued share capital of Unity EBT Limited comprising one, £1 ordinary share. Unity EBT Limited is the trustee of the Employee Share Ownership Plan (closed plan) and the Share Incentive Plan (SIP, for which own shares held are reflected in the Statement of Financial Position within the 'ESOP' reserve). Unity EBT Limited is registered in England and Wales, and has the same registered address as the Bank. See note 26 for further details of share-based payments. The results and position of this subsidiary and those of Unity Trust Bank plc have not been presented on an IFRS 10 consolidated basis, on the grounds of materiality under Companies Act 2006, s405 (2). An election has been made to present the combined results and position on an extended entity basis. Under the extended entity basis, the results and position of the Unity Trust Bank plc and Unity EBT Limited are combined in an equivalent way to a consolidation with any intercompany balances eliminated. References to 'the Bank' reflect combined results and position on an extended entity basis, unless otherwise stated.

Going Concern

The report and accounts have been prepared on the going concern basis. Accounting standards require the Directors to assess the Bank's ability to continue to adopt the going concern basis of accounting.

In performing this assessment, the Directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on the Going Concern Basis Accounting and Reporting on Solvency and Liquidity Risks' published by the Financial Reporting Council in April 2016.

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

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

Changes in accounting policies

1.1 New IFRS Standards that are effective for the current year

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

1.2 Revised IFRS Standards in issue but not yet effective

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

Amendments to IAS 1 – Classification of liabilities as current or non-current

The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. These amends affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted.

Amendments to IAS 1 – Non-current liabilities with covenants

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

Annual improvements to IFRS standards

The Annual Improvements relevant to Unity include amendments to IFRS 7, IFRS 9 and IFRS 16. The Bank will apply the above standards and interpretations on the date they become effective.

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 the contractual or behavioural life of the financial instrument.

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

(b) Fees and commissions

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

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

(c) Classification and measurement of financial assets and liabilities

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

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

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

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

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

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

(d) Impairment of financial assets and loan commitments

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

ECLs 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.

When an asset is originated, the ECL is measured as the present value of credit losses from default events over its lifetime. The provision recognised is either the amount expected over the next 12 months (the lifetime cash shortfalls that would be expected to occur if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring), or the amount expected over its lifetime. The standard requires the Bank to identify assets that have been subject to a SICR since initial recognition. 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. 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. PDs are calculated with reference to internal and external data. 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. The stage 2 assessment is also supported by an objective 'back stop' measure of arrears, being 30 days past due.
- 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. This is also supported by an objective 'back stop' measure of arrears, being 90 days past due.

'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.

Default

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

Probability of default

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

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

Loss given default (LGD)

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

Exposure at default (EAD)

EAD reflects the attrition profile over the remaining behavioural life of the loan. This is based on expected exposure profile accounting for interest and payments. This is adjusted for undrawn loan commitments and the time value of money. Exposure for accounts in stage 3 is the carrying amount on reporting date.

Curing

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

Write off

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

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

(e) Derivative financial instruments and hedge accounting

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

(f) Property, plant and equipment

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

Equipment and fittings 10% per annum

Computer equipment 33% per annum

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

(g) Intangible assets

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

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

Computer software	33% per annum

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

(h) Cash and cash equivalents

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

(i) Taxation

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

(j) Pension costs

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

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

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

a. during the life of the pension scheme; or
b. assuming the gradual settlement of scheme liabilities over time until all members have left the scheme; or
c. assuming the full settlement of the scheme liabilities in a single event.

(k) Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(l) Provisions

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

(m) Deferred income

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

(n) Share premium

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

(o) Capital redemption reserve

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

(p) Leases

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

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

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

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

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

Right of use assets

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

Lease liabilities

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

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

The incremental borrowing rate applied to each lease is determined by taking into account the risk-free rate, adjusted for factors linked to the life of the underlying lease agreement. The weighted average incremental borrowing rate applied by Unity was 5.00% (2022: 5.00%).

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

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

(q) Share based payments

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

2 Judgements in applying accounting policies and critical accounting estimates

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

(a) Significant accounting estimates and assumptions

IFRS 9 Impairment - The determination of macroeconomic scenarios and their weightings:

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

The estimation of future economic conditions for the 2023 year end was enhanced to incorporate analysis from reputable third party sources, reflecting the lack of internal expertise in macro-economics. The provision recognised is the probability-weighted sum of the provisions calculated under a range of four different scenarios. The MES are derived using external data and span an appropriately wide range of plausible economic conditions, with the provision increasing in unfavourable conditions. Management judgement is applied to determine the associated probability weightings of the scenarios, informed by external data.

The Bank uses four scenarios, representative of management's view of forecast economic conditions to 2026. The macro-economic scenarios used were internally developed, having regard to externally published scenarios. The scenarios and weightings applied are summarised below:

2023	Weights	Unemployment				GDP				Bank Rate				Inflation			
		Dec-24	Dec-25	Dec-26	5-Yr Ave	Dec-24	Dec-25	Dec-26	5-Yr Ave	Dec-24	Dec-25	Dec-26	5-Yr Ave	Dec-24	Dec-25	Dec-26	5-Yr Ave
Base	**50**	4.50	4.37	4.06	4.14	0.47	1.47	1.85	1.34	4.85	3.85	2.84	3.11	3.20	1.61	1.65	2.01
Down 1	**10**	5.42	6.47	7.08	6.52	(3.14)	0.16	1.44	0.28	3.88	2.63	1.63	2.23	2.01	0.24	1.22	1.38
Down 2	**10**	5.59	6.81	7.45	6.83	(5.05)	(0.70)	1.10	(0.35)	3.38	1.88	0.88	1.53	1.42	(0.42)	1.06	1.10
Upside	**30**	4.23	3.93	3.79	3.88	2.97	2.92	2.62	2.31	5.75	5.13	4.13	4.13	3.96	2.72	2.01	2.45

[1] 5-year average covers period between 2024 and 2028.

2022	Weights	Unemployment				GDP				Bank Rate				Inflation			
		Dec-23	Dec-24	Dec-25	5-Yr Ave	Dec-23	Dec-24	Dec-25	5-Yr Ave	Dec-23	Dec-24	Dec-25	5-Yr Ave	Dec-23	Dec-24	Dec-25	5-Yr Ave
Base	45	4.30	4.77	4.85	4.60	(1.07)	0.39	0.67	0.22	5.20	4.70	4.71	4.82	5.99	2.66	2.22	3.13
Down 1	35	5.63	5.48	5.23	5.15	(5.34)	(1.89)	(0.55)	(1.56)	6.53	5.41	5.09	5.37	7.35	3.38	2.61	3.70
Down 2	15	6.96	6.19	5.60	5.71	(9.61)	(4.17)	(1.76)	(3.34)	7.86	6.12	5.47	5.93	8.71	4.11	2.99	4.27
Upside	5	2.97	4.06	4.47	4.04	3.20	2.67	1.88	2.00	3.87	3.99	4.33	4.26	4.63	1.94	1.83	2.57

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

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During the period, the weightings for each scenario were reviewed and updated from those applied at 2022 year end, most notably a higher weighting assigned to the upside scenario reflecting the increased likelihood of economic recovery and a lower weighting assigned to the downside scenario as expectations of a recessionary and higher Bank Rate environment have become less likely. This changes also reflects the introduction of reputable third party sources to the modelling process, and aligns with their recommendations.

Scenario	Derivation	2023 Weighting	2022 Weighting
Base	Represents the most likely economic forecast and aligned with the scenario used in the Bank's financial planning process. GDP grows by 0.5% in 2024 and 1.5% in 2025 as we continue to see significant headwinds from heightened inflation and interest rates. Wage growth and inflation prove sticky, and MPC maintain their policy in 2024, but the dynamics change over time as inflation moves closer to their target.	**50%**	45%
Downside 1	Output falls sharply in 2024, turning the current period of weak growth into a full blown recession. GDP falls by 3.1% in 2024 as both consumer and business spending is sharply scaled back, and with external demand much weaker than in the baseline. Amid severely dampened consumer confidence and unemployment remaining high. As a result, GDP only returns to its 2023 Q4 level by late-2027. To counter the downturn in the economy, the MPC swiftly abandons its tightening cycle and starts lowering Bank Rate again.	**10%**	35%
Downside 2	The severe downside scenario sees a sharp and immediate drop in UK output and GDP does not recover over the following 12 months as financial stress remains elevated. Unemployment surges to 6.8% by end-2024 and peaks at 7.5% in 2026. The MPC abandons its tight monetary policy stance in short order, and begins to aggressively cut Bank Rate again, to 0.88 by end-2026, as the impairment to the supply side and labour market remains considerable.	**10%**	15%
Upside	The UK economy accelerates, recording growth of 3% in 2024 and 2.9% in 2025. The labour market recovers gradually, and the unemployment rate falls to 3.8% by end-2026. Supported by the turnaround in confidence, incomes and employment, property prices only see a mild fall in 2024-25 and recover thereafter.	**30%**	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 2023, the customer loan provision is £9,664k, applying 100% weighting to Base results in a provision of £8,048k; applying 100% weighting to Downside 1 scenario leads to a £16,672k provision; applying 100% weighting to Downside 2 scenario leads to a £21,221k provision; and applying 100% weighting to Upside scenario leads to a £6,170k provision.

As set out in the strategic report on pages 8 to 25, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Bank has considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, the Bank does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short to medium term.

Pensions – The estimation of the IAS 19 valuation

The approach to estimating the IAS 19 valuation is set out in note 20, together with related sensitivities.

(b) Critical judgements

IFRS 9 Impairment – The transition criteria from stage 1 to stage 2

The judgements applied in relation to stage 1 to 2 transition criteria are set out in note 1d.

Share based payments – Classification of the share based payments

Each of the Bank's share based schemes are treated as equity settled, see note 26 for details.

3 Profit before taxation

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

	2023	2022
Audit services		
Fees payable for the audit of the annual accounts	**229**	199
Non-Audit services		
Fees payable for all other services – Review of the interim results	**88**	41
Total	**317**	240

4 Directors' emoluments

Directors' emoluments for the year are set out with the Remuneration Report on pages 32-35.

5 Interest income under EIR method

	2023	2022
On financial assets at amortised cost:		
on loans and advances to customers	**69,344**	34,405
on loans and advances to banks	**24,822**	8,785
	94,166	43,190
On financial assets at FVTOCI:		
on investment securities	**8,781**	3,931
Total	**102,947**	47,121

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6 Interest expense and similar charges

	2023	2022
On financial liabilities measured at amortised cost:		
on customer deposits	13,677	3,215
On lease liabilities interest	85	112
Total	13,762	3,327

7 Operating expenses

	Note	2023	2022
Staff costs	8	15,315	10,530
Administrative expenses		8,543	5,682
Amortisation of intangible fixed assets	13	16	38
Depreciation of property, plant and equipment	14	283	270
Depreciation of right-of-use assets	15	250	269
Operating lease rentals		79	30
Research and development expenditure		45	356
Movement in provisions for liabilities and charges[1]	18	480	179
Total		25,011	17,354

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

8 Staff costs

	Note	2023	2022
Wages and salaries[1]		11,633	7,952
Severance		196	141
Social security costs		1,400	959
Pension costs – defined benefit plans	20	136	137
Pension costs – defined contribution plans		913	719
Profit sharing plan		915	552
Share based payments – equity settled	26	122	70
Total		15,315	10,530

[1]Included within wages and salaries is £196k (2022: £118k) for other benefits provided to employees, such as the Wellbeing Allowance.

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

	2023	2022
Full time	162	118
Part time	15	16
Total[1]	177	134

[1]The monthly average Full Time Equivalent (FTE) for 2023 was 173 (2022: 129).

9 Income tax

Tax Policy

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

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

	2023	2022
Tax charge		
Current tax on profits for the year	14,891	4,535
Adjustment in respect of prior years	18	-
Total current tax	14,909	4,535
Deferred tax		
Current year	(24)	(20)
Adjustment in respect of previous periods	120	-
Effect of changes in tax rates	(1)	(6)
Total deferred tax	95	(26)
Tax per income statement	15,004	4,509
Other comprehensive income		
Income items:		
Deferred tax current year charge	(247)	2,395
Deferred tax prior year charge	-	-
Tax per statement of comprehensive income	(247)	2,395

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

Tax reconciliation

	2023	2022
Profit for the period – Extended Entity (see note 1)	**63,862**	27,352
Consolidation adjustment	**-**	-
Profit for the period – Unity Trust Bank plc	**63,862**	27,352
Tax on profit at standard UK tax rate of 23.52% (2022: 19.00%)	**15,021**	5,197
Adjustments to tax charge in respect of prior periods	**139**	(2)
Expenses not deductible for tax purposes	**40**	9
Tax rate changes	**(1)**	(6)
Community Investment Tax Relief	**(921)**	(752)
R&D expenditure	**(10)**	(68)
Share options	**(17)**	(28)
Banking surcharge	**753**	159
Total tax charge for the year	**15,004**	4,509

Cash paid reconciliation

	2023	2022
Opening corporation tax liability	**1,313**	(43)
Add: current corporation tax liability for the year	**14,891**	4,535
Prior year adjustment	**18**	-
Less: payments in the year	**(8,698)**	(3,179)
Closing corporation tax liability/(asset)	**7,524**	1,313

The standard rate of Corporation Tax in the UK is 25%. The company's profits for the accounting period are taxed at an effective rate of 23.31%. Changes to the UK corporation tax rate to increase to 25% from 1 April 2023 were substantively enacted as part of Finance Bill 2021 on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements.

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

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

The Bank invests in CDFIs because it believes in the benefits they provide to the communities in which they operate. The tax relief it obtains is provided strictly in accordance with UK tax law and has been made available to encourage this activity.

A deferred tax asset of £450,699 has been recognised on the basis that there is sufficient evidence that the asset will be realised in future periods. We note that the company has unrecognised deferred tax of £325,169 in relation to capital losses.

10 Cash and balances with the Bank of England

	2023	2022
Mandatory reserve with the Bank of England	**3,448**	3,758
Cash and balances with the Bank of England	**473,165**	563,943
Total	**476,613**	567,701

Cash and balances with the Bank of England includes cash of £3,448k (2022: £3,758k) held in a mandatory reserve with the Bank of England. This amount is deposited with the Bank of England under the Cash Ratio Deposit (CRD) scheme, which is a statutory requirement included in the Bank of England Act of 1998. 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

Over the course of 2023, management have reviewed and refreshed (as appropriate) all model inputs, with reference to internal and external data, taking into consideration the current economic climate. The ECL provision increased by £3.6m to £9.7m (2022: £6.1m). The significant drivers for the increase in provision are: changes to customers internal risk grades; deterioration in macro-economic environment and increases in amounts advanced to customers (loan growth).

	2023	2022
Gross loans and advances[1,2]	**1,023,310**	842,668
Less: allowance for losses on loans and advances to customers[2]	**(9,664)**	(6,092)
Total	**1,013,646**	836,576

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

[2]Both gross loans and advances and the loss allowance differ to those shown in the credit risk tables in the Risk Management section 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 £39.9m (2022: £36.4m) are not recognised on the balance sheet, whilst the total associated provision of £131.7k (2022: £193.6k) is included within the allowance for losses on loans and advances to customers within stage 1.

Contractual netting arrangements are in place for certain customers. As a result, loans and advances are reduced by netting by £1,386k (2022: £1,304k), with the opposing impact in Customer deposits.

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Post Model Adjustments (PMAs)

The Bank has evaluated the appropriateness, adequacy and completeness of PMAs held at year end. A £763k PMA is in place in respect of the economic uncertainty our customers face, arising from the cost-of-living crisis (2022: £287k). The adjustment involves applying Stage 2 (lifetime ECL) coverage rates to certain loans which would otherwise attract a 12 month ECL in Stage 1.

The following table reconciles the opening and closing impairment provision for loans and customers in different stages, from 1 January 2023 to 31 December 2023.

	Non-credit impaired		Credit impaired	
	Stage 1 12 month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Impairment provision at 1 January 2023	**2,806**	**1,394**	**1,891**	**6,092**
Transfers:				
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**(54)**	**54**	**-**	**-**
Transfers to stage 3	**-**	**-**	**-**	**-**
Utilisation	**-**	**-**	**(102)**	**(102)**
Charges/(credit) to profit and loss:				
Changes in provision[1]	**819**	**1,044**	**1,569**	**3,432**
Unwind of discount of allowance[2]	**(208)**	**(124)**	**(8)**	**(340)**
New provisions	**1,074**	**-**	**-**	**1,074**
Provisions that have been released during the period	**(319)**	**(55)**	**(118)**	**(492)**
Impairment provision at 31 December 2023	**4,118**	**2,313**	**3,233**	**9,664**

[1]Includes changes to the ECL provision arising from stage transfers and other changes to risk parameters.

[2]Representing the build-up of the discounted provision to the expected loss.

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

[1]Includes changes to the ECL provision arising from stage transfers and other changes to risk parameters.

[2]Representing the build-up of the discounted provision to the expected loss.

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.

	2023	2022
Administrative bodies and non-commercial	**263,410**	239,160
Property (excluding hotels and leisure)	**388,351**	325,850
Healthcare and social services	**358,124**	264,123
Hotels & leisure	**2,735**	3,767
Other	**10,690**	9,769
	1,023,310	842,669

12 Investment securities

	2023	2022
Fair value through other comprehensive income:		
Other listed transferable debt securities	**247,416**	256,638
Total	**247,416**	256,638
Movements during the year are analysed below:		
At 1 January	**256,638**	207,632
Fair value adjustment	**2,672**	(6,385)
Acquisitions	**96,260**	261,016
Disposals, maturities, amortisation and other movements	**(108,154)**	(205,625)
At 31 December	**247,416**	256,638

There were no disposals in the year (2022: nil).

13 Intangible assets

	2023	2022
Computer Software		
Cost		
At 1 January	**442**	442
Additions	**-**	-
At 31 December	**442**	442
Accumulated Amortisation		
At 1 January	**420**	382
Charge for the year	**16**	38
At 31 December	**436**	420
Net book value at 31 December	**6**	22

14 Property, plant and equipment

	Equipment & Fittings	Computer Equipment	Total
Cost			
At 1 January 2023	**646**	**1,344**	**1,990**
Additions	**-**	**218**	**218**
Disposals	**-**	**(8)**	**(8)**
At 31 December 2023	**646**	**1,554**	**2,200**
Accumulated Depreciation			
At 1 January 2023	**351**	**986**	**1,337**
Charge for the year	**49**	**234**	**283**
Disposals	**-**	**(5)**	**(5)**
At 31 December 2023	**400**	**1,215**	**1,615**
Net book value at 31 December 2023	**246**	**339**	**585**

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14 Property, plant and equipment (continued)

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

15 Leases

Right-of-use assets	Office Premises	Vehicles	Office Equipment	Total
Cost				
At 1 January 2023	**2,654**	**-**	**-**	**2,654**
Additions	**-**	**-**	**-**	**-**
Disposals	**(24)**	**-**	**-**	**(24)**
At 31 December 2023	**2,630**	**-**	**-**	**2,630**
Accumulated Depreciation				
At 1 January 2023	**1,073**	**-**	**-**	**1,073**
Charge for the year	**250**	**-**	**-**	**250**
Disposals	**-**	**-**	**-**	**-**
At 31 December 2023	**1,323**	**-**	**-**	**1,323**
Net book value at 31 December 2023	**1,307**	**-**	**-**	**1,307**
Amounts recognised in the income statement				
Interest on lease liabilities	**85**	**-**	**-**	**85**
Depreciation of right of use assets	**250**	**-**	**-**	**250**
Expenses relating to short term leases	**-**	**-**	**-**	**-**
At 31 December 2023	**335**	**-**	**-**	**335**

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15 Leases (continued)

Right-of-use assets	Office Premises	Vehicles	Office Equipment	Total
Cost				
At 1 January 2022	2,628	15	24	2,667
Additions	26	-	-	26
Disposals	-	(15)	(24)	(39)
At 31 December 2022	2,654	-	-	2,654
Accumulated Depreciation				
At 1 January 2022	804	15	24	843
Charge for the year	269	-	-	269
Disposals	-	(15)	(24)	(39)
At 31 December 2022	1,073	-	-	1,073
Net book value at 31 December 2022	1,581	-	-	1,581
Amounts recognised in the income statement				
Interest on lease liabilities	112	-	-	112
Depreciation of right of use assets	269	-	-	269
Expenses relating to short term leases	-	-	-	-
At 31 December 2022	381	-	-	381

16 Prepayments & accrued income

	2023	2022
Prepayments & accrued income	1,535	1,149
Total	**1,535**	1,149

17 Other liabilities

	2023	2022
Amounts payable within one year:		
Trade creditors	**156**	46
Other liabilities	**2,125**	1,442
Lease liability	**306**	285
Amounts payable after one year:		
Lease liability	**1,271**	1,675
Total	**3,858**	3,448

18 Provisions for liabilities and charges

	Multipay	Redundancy	Customer claims	Legal	Dilapidations provision	Total
At 1 January 2023	-	17	-	150	201	368
Income statement movements:						
Charged in the year	395	88	74	35	(24)	567
Utilised during the year	-	(89)	-	(118)	-	(207)
Released during the year		(16)		(43)		(58)
At 31 December 2023	395	-	74	24	177	670
Amounts falling due within one year	395	-	74	24	-	493
Amounts falling due after one year	-	-	-	-	177	177
	395	-	74	24	177	670

Multipay is a provision for exposures arising from financial guarantees offered by Unity under a corporate card scheme underwritten by a third party. Redundancy provision relates to termination benefits payable to employees for loss of roles. 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.

While the Bank has policies and procedures to capture areas of non-compliance with laws and regulations that affect the way it does business, there can be no guarantee that all such issues have been identified.

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18 Provisions for liabilities and charges (continued)

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

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	Pension	Investment	IFRS 9 transitional	Share options	Total
At 1 January 2023 - Asset	**30**	**947**	**(1,716)**	**(42)**	**(12)**	**(793)**
Adjustment in respect of prior year	**-**	**-**	**120**	**-**	**-**	**120**
Current year deferred tax charge	**6**	**(34)**	**-**	**9**	**(5)**	**(24)**
Charge to OCI	**-**	**(328)**	**582**	**-**	**(8)**	**246**
At 31 December 2023 - Asset	**36**	**585**	**(1,014)**	**(33)**	**(25)**	**(451)**

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

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

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of £325,169 in respect of capital losses amounting to £1,300,676 that can be carried forward against future taxable chargeable gains.

All of the deferred tax balances relate entirely to temporary timing differences. Short-term timing differences and £8k (2022: £8k) 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 5 years remaining.
- Share options - relates to the estimated future tax deduction at the year end.

20 Pensions

As at 31 December 2023, the IAS 19 surplus in the Scheme was £2,341k compared with £3,788k as at 31 December 2022, with the movement recognised within 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 2023 is around 15 years (2022: 16 years).

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Method and assumptions

The IAS 19 valuation was completed as at 31 December 2023 by a qualified independent actuary. The assumptions used were as follows:

Significant actuarial assumptions:	As at 31 December 2023		As at 31 December 2022	
Discount rate	**4.5% pa**		4.7% pa	
RPI inflation	**3.0% pa**		3.1% pa	
CPI inflation	**2.7% pa**		2.7% pa	
Other actuarial assumptions:	**As at 31 December 2023**		**As at 31 December 2022**	
Salary increases	**3.8% pa**		3.8% pa	
Pension increases:				
Post 88 GMP	**2.3% pa**		2.3% pa	
RPI max 5% pa	**2.9% pa**		3.1% pa	
RPI max 2.5% pa	**2.1% pa**		2.2% pa	
Revaluation of deferred pensions	**RPI pre 06: 3.0% pa**		RPI: 3.1% pa	
in excess of GMP	**RPI post 06: 2.9%pa**		CPI: 2.7% pa	
	CPI: 2.7% pa			
Mortality assumptions:	**As at 31 December 2023**		**As at 31 December 2022**	
Mortality (pre- & post-retirement)	**100% S3PMA Middle / Light / Very Light 100% S3PFA Middle / Light / Very Light CMI_2022 1.25% (yob)**		100% S3PMA Middle / Light / Very Light 100% S3PFA Middle / Light / Very Light CMI_2021 1.25% (yob)	
Life expectancies (in years)	**As at 31 December 2023**		**As at 31 December 2022**	
	Males	**Females**	Males	Females
For an individual aged 65 in 2023	**20.9 / 22.7 / 23.4**	**23.4 / 24.4 / 24.9**	21.4 / 23.2 / 23.9	23.8 / 24.8 / 25.3
At age 65 for an individual aged 45 in 2023	**22.2 / 24.0 / 24.6**	**24.8 / 25.8 / 26.2**	22.7 / 24.5 / 25.1	25.3 / 26.2 / 26.6

Risks

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

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, but the Scheme 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, to the extent that corporate bond yields are correlated with gilt yields.
- 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 broadly 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
Discount rate	+ / - 0.5% pa	(1,524) / 1,706
Inflation	+ / - 0.5% pa	1,191 / (1,204)
Assumed life expectancy	+ 1 year	507

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.

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Assets

The scheme's assets as at 31 December 2023 were held as follows:

	As at 31 December 2023	
Asset class	**Market Value**	**% of total assets**
Diversified credit fund	**3,150**	**13%**
Contractual income	**4,002**	**17%**
Corporate bonds	**4,763**	**20%**
Liability driven investment	**8,811**	**37%**
Gilts	**2,689**	**11%**
Cash	**390**	**2%**
Total	**23,805**	**100%**

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

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

Reconciliation to the Statement of Financial Position

	As at 31 December 2023	As at 31 December 2022
Market value of assets	**23,805**	24,998
Present value of defined benefit obligation	**(21,464)**	(21,210)
Funded status	**2,341**	3,788
Adjustment in respect of minimum funding requirement	**-**	-
Pension asset recognised in the Statement of Financial Position before allowance for deferred tax	**2,341**	3,788

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

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

	As at 31 December 2023	As at 31 December 2022
Value of defined benefit obligation at the start of the year	**21,210**	34,100
Interest cost	**982**	608
Benefits paid	**(636)**	(611)
Actuarial losses: experience differing from that assumed	**312**	2,107
Actuarial (gains): changes in demographic assumptions	**(575)**	(21)
Actuarial losses/ (gains): changes in financial assumptions	**171**	(14,973)
Value of defined benefit obligation at the end of the year	**21,464**	21,210

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

	As at 31 December 2023	As at 31 December 2022
Market value of assets at the start of the year	**24,998**	41,195
Interest income	**1,153**	734
Actual return on assets less interest	**(1,403)**	(16,057)
Benefits paid	**(636)**	(611)
Administration costs	**(307)**	(263)
Market value of assets at the end of the year	**23,805**	24,998

Amounts recognised in the income statement

	2023	2022
Expenses	**307**	263
Net interest	**(171)**	(126)
Amount charged to income statement	**136**	137

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Amounts recognised in other comprehensive income

	2023	2022
Actuarial gains on defined benefit obligation	**92**	12,887
Actual return on assets less interest	**(1,403)**	(16,057)
Amounts recognised in other comprehensive income	**(1,311)**	(3,170)

Future funding obligation

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

The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustee as at 30 June 2021. This valuation revealed a funding surplus of £4,887k (31 December 2018: £3,829k).

As there is no funding shortfall, and as the Scheme meets its own expenses, Unity does not expect to pay any contributions to the Scheme during the financial year beginning 1 January 2024.

21 Share capital and share premium

	2023	2022
Share capital: Ordinary shares of £1 each, authorised and issued		
At 1 January	**24,730**	24,678
Issue of share capital - Share Incentive Plan	**62**	52
At 31 December	**24,792**	24,730
Share premium		
At 1 January	**18,150**	18,113
Issue of share capital - Share Incentive Plan	**55**	37
At 31 December	**18,205**	18,150

Shares were issued as follows during the current year:

- 48,909 shares were issued in respect of the SIP at £1 per share for a consideration of £49k, and 13,507 shares were issued at £5.01 per share for a consideration of £68k.

Shares were issued as follows during the prior year:

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

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.

	2023 Contract Amount	2022 Contract Amount
Guarantees and irrevocable letters of credit	**242**	360
	242	360
Other commitments:		
Undrawn formal standby facilities, credit lines		
and other commitments to lend:		
1 year and over	**80,227**	90,853
	80,227	90,853

The £80.2m (2022: £90.9m) consists of £39.9m (2022: £36.4m) undrawn accepted facilities and £40.3m (2022: £54.4m) 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

	2023		2022	
	Land and buildings	Other leases	Land and buildings	Other leases
At the year end, total commitments under non-cancellable operating leases were payable as follows:				
Expiring:				
- within one year	-	11	-	64
- between one and five years	-	-	-	13
- in five years or more	-	-	-	-
	-	11	-	77

Operating lease rental payments are disclosed in note 7.

The 'Other leases' commitments refer to the Bank's offices in Manchester and London which expired in February 2024.

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23 Related party transactions

The Bank has a related party relationship with its Directors, executive management and the defined benefit pension scheme.

The remuneration of non-Director key management personnel of the company is set out below in aggregate for each of the relevant categories specified in IAS 24 Related Party Disclosures.

	2023	2022
Salaries and other short-term benefits	**608**	704
Post-retirement benefits	**41**	29
Total key management compensation	**649**	733

Unite the Union Trustee Company Limited and Unite the Union Second Trustee Company Limited provide a Pensions Protection Fund guarantee over the punctual performance of all present and future obligations and liabilities of the Bank, to make payments under the Scheme. During the year a fee of £27k was payable by the Bank (2022: £27k), to be shared by the guarantors. This fee is calculated in reference to the 'buy-out' (s75) value as set out in the latest actuarial funding valuation and is paid annually.

24 Country by country reporting

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

25 Fair Value of financial instruments

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

At 31 December 2023 and 31 December 2022, 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).

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 Assets and together with debt securities underpin the Bank's liquidity requirements and generate incremental interest income.

31 December 2023	Amortised Cost	FVTOCI	Total carrying value	Fair value	Fair value hierarchy tier
Assets					
Financial instruments measured at fair value					
Investment securities	**-**	**247,416**	**247,416**	**247,416**	**Level 1**
Financial instruments not measured at fair value					
Cash and balances with the Bank of England	**476,613**	**-**	**476,613**	**476,613**	**Level 1**
Loans and advances to banks	**1,799**	**-**	**1,799**	**1,799**	**Level 3**
Loans and advances to customers (gross)	**1,013,646**	**-**	**1,013,646**	**992,832**	**Level 3**
	1,492,058	**247,416**	**1,739,474**	**1,718,660**	
Liabilities					
Deposits from customers	**1,559,309**	**-**	**1,559,309**	**1,558,030**	**Level 3**
Amounts owed to banks	**-**	**-**	**-**	**-**	**Level 3**
	1,559,309	**-**	**1,559,309**	**1,558,030**	

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

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.

26 Share-based payments

The Bank operates three equity settled share-based payment arrangements to incentivise and reward employees as well as increase employee ownership. The Company Share Option Plan (CSOP) and the Share Incentive Plan (SIP) had awards first made in 2021, with further awards made under both plans in 2022 and 2023. Awards under a third share-based payment arrangement, the Key Person Share Option Plan (KSOP), were made in 2022.

Details of each share-based payment arrangement are set out in the Remuneration Report on pages 32 to 35. The charge for the year in relation to share based payments recognised as an operating expense within staff costs was £122k (2022: £70k), see note 8. Valuation and accounting matters are set out below.

Company Share Option Plan

CSOP options outstanding:	2023 Number	2023 Weighted average exercise price £	2022 Number	2022 Weighted average exercise price £
Outstanding at the beginning of the year	**113,745**	**4.09**	85,714	3.85
Granted in the year	**47,904**	**5.01**	47,512	4.42
Exercised or surrendered in the year	**-**	**-**	-	-
Lapsed during the year	**(20,779)**	**3.85**	(19,481)	3.85
Outstanding at the end of the year	**140,870**	**4.44**	113,745	4.09
Exercisable at the end of the year	**-**	**-**	-	-

The weighted average remaining contractual life of CSOP options outstanding at 31 December 2023 was 44 months (2022: 49). CSOP options were granted in September 2023 (2022: September 2022). The aggregate of the estimated fair value of the CSOP options granted in the year is £40k (2022: £35k).

Share incentive plan (SIP)

The Free and Matching shares vest over a 3 year period contingent on continuing employment with the Bank and are held as own shares within the ESOP reserve until they vest. The Bank funded the purchase of Free and Matching shares via a cash gift to Unity EBT Limited which is recognised as a loss on disposal over the vesting period, together with the cost of the award at the fair value on grant. The fair value of the 2023 award was based on the 2022 net asset value per share. Partnership shares are acquired by the employee and held on trust by Unity EBT Limited. There is no obligation for the Bank to repurchase the Partnership shares should an employee leave or wish to sell the shares.

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

	2023 award	2022 award
Weighted average share price	**£5.01**	£4.42
Weighted average exercise price	**£5.01**	£4.42
Expected volatility	**35%**	35%
Expected life	**5 years**	5 years
Risk free rate	**4%**	3%
Expected dividend yields %	**1.1%**	0.8%

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

Key Person Share Option Plan

KSOP options outstanding:	2023 Number	2023 Weighted average exercise price	2022 Number	2022 Weighted average exercise price
Outstanding at the beginning of the year	**95,021**	**1**	-	-
Granted in the year	**-**	**-**	95,021	1.00
Exercised or surrendered in the year	**-**	**-**	-	-
Lapsed during the year	**(95,021)**	**1**	-	-
Outstanding at the end of the year	**-**	**-**	95,021	1.00
Exercisable at the end of the year	**-**	**-**	-	-

The weighted average remaining contractual life of KSOP options outstanding at 31 December 2023 was 0 months (2022: 59 months). No KSOP options were granted during the year (2022: 95,021). The aggregate of the estimated fair value of the KSOP options granted in the year is nil (2022: £242k). All outstanding options lapsed during the year, due to participants in the scheme failing to meet their vesting conditions. The number of options which are eligible for vesting are based on the achievement of the performance criteria, the vesting cap and Board discretion set out in the Remuneration Report on pages 32 to 35. Each of the performance criteria are considered to be non-market based and accordingly will be reassessed each year.

The inputs into the Black Scholes model for the 2022 KSOP were as follows:

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

There were no KSOP awards in 2023.

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

27 ESOP reserve

	2023 award	2022 award
At 1 January	**60**	37
Shares purchased	**49**	41
SIP unwind over the vesting period	**(30)**	(18)
	79	60

The Employee Share Ownership Plan (ESOP) reserve relates to shares that are held in trust for the benefit of employees exercising their options under the Bank's share option schemes and awards under the Share Incentive Plan. At 31 December 2023, the trust held 128,486 ordinary shares (2022: 79,963) with a nominal value of £128k (2022: £80k). Share-based awards were outstanding against 128,486 of these shares at 31 December 2023 (2022: 79,963).

28 Dividends

A dividend of 7.00p is proposed in respect of the 2023 financial year at the forthcoming AGM.
A dividend of 5.50p per share was recognised in 2023 in respect of the 2022 financial year following approval at the 2023 AGM.

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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).
CEO	Chief Executive Officer
CET1	Common Equity Tier 1: is a crucial component of Tier 1 capital, primarily consisting of ordinary shares and retained earnings.
CFO	Chief Financial Officer
CDFI	Community Development Finance Institutions
CIR	Cost Income Ratio: an APM that assesses the efficiency of the Bank by comparing its costs to its income, calculated as the total operating expenses as a proportion of Total Income.
CITR	Community Investment Tax Relief
CRD IV	Capital Requirements Directive (Directive 2013/36 EU)
CRD V	Capital Requirements Directive (Directive 2019/878 EU)
EAD	Exposure at default
ECL	Expected credit loss(es)
EPS	Earnings Per Share calculated as profit after tax divided by the weighted average number of shares in issue. The EPS presented is Basic Earnings Per Share i.e. this excludes the dilution impact of share options in issue.
EIRM	Effective interest rate method
FCA	Financial Conduct Authority
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
HADI	Housing Association Decarbonisation Initiative
ICAAP	Individual Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LDR	Loan Deposit Ratio: an APM that is calculated as the customer loans as a proportion of the customer deposits.
LGD	Loss given default
MES	Macro-economic scenarios
NAV	Net Asset Value: an APM that indicates the Bank's value per share, calculated as the net assets as a proportion of the issued shares
NIM	Net Interest Margin: an APM that is calculated as Net Interest Income as a proportion of the average of Cash and balances with the Bank of England, Investment securities, and Loans and advances to customers.
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of default
PPF	Pension Protection Fund
PRA	Prudential Regulation Authority
RoE	Return on Equity: an APM that is calculated as PAT as a proportion of the average shareholder equity
RFP	Responsible Finance Provider
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest

Accreditations

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

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

Investors in People

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

Fair Tax

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

Living Wage Employer

In order to become an accredited Living Wage Employer, you need to pay all of your directly employed staff a Living Wage, and have a plan in place to extend that to regular sub-contracted staff as well. The current Living Wage rates are £12 per hour and £13.15 in London.

Disability Confident

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

PCAF

The Partnership for Carbon Accounting Financials (PCAF) is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose greenhouse gas (GHG) emissions associated with loans and investments.

Business in the Community

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

GABV

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

Women in Finance Charter

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

NACFB

The National Association of Commercial Finance Brokers (NACFB) is the UK's largest independent trade body for commercial finance brokers.