Pillar 3 Disclosures 2023

1 Overview

1.1 Introduction

Unity Trust Bank was launched on May 1, 1984. It was born out of a vision by trade unions to create a bank that would embrace the philosophy of serving the common good.

The purpose of the Company is:

(a) To be the bank with a social conscience,

(b) 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

(c) to achieve sustainable returns for itself and its members as well as a social benefit.

Through the consistent implementation of its relationship led, safe growth strategy, Unity is now a thriving UK commercial bank that continues to embody its founding principles. To provide prudent, profitable commercial lending in the UK and to support jobs, industries, and the British economy.

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

- Enabling
- Collaborative
- Inclusive
- Straightforward

1.2 Purpose of Pillar 3 document

This document provides the Pillar 3 disclosures required of Unity Trust Bank Plc (referred to in this document as 'Unity' or 'the Bank') as of 31 December 2023. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'). Pillar 3 disclosures provide information on the approach used by the Bank to manage risk and maintain its capital resources. It sets out the Bank's:

- Approach to risk management,
- Compliance with UK capital requirements regulations,
- Governance structure,
- Asset information and capital resources.

1.3 Background and regulatory guidance

Background

The Basel III framework of the Basel Committee on Banking Supervision (BCBS) was developed to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. The framework is structured around three 'pillars'. These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review and evaluation process in Pillar 2. The Pillar 3 disclosures are aimed at promoting market discipline by enhancing the level of disclosure of risk exposures and the management of those risks.

The Basel III reforms brought in by EU regulations, namely the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), were retained in UK law on departure from the EU. The Fifth Capital Requirements Directive (CRD V) and Second Capital Requirements Regulation (CRR II), as implemented via the PRA Rulebook, refine and continue to implement Basel III in the UK. The final rules for the UK implementation of Basel III, which sets out global standards for capital and liquidity adequacy, is set out in PRA Policy Statement PS22/21.

Basis of disclosures

These Pillar 3 disclosures are prepared in accordance with the Disclosure (CRR) Part of the PRA Rulebook which prescribes the format of disclosures via templates in order to promote transparency, consistency and comparability of information between firms.

The objective of CRD V is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy.

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

The information provided is in accordance with the rules laid out in Article 435 of the CRR.

Unity satisfies the criteria for being a 'small and non-complex' institution under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions as set out in Article 433b.

Row numbers in the standardised templates and tables within the document relate to PRA prescribed references. Where rows are not relevant to Unity, they have in some circumstances been excluded for the purposes of enhancing the readability and understandability of these disclosures in line with Article 432.

CRD V requires a concise risk statement approved by the Executive Committee describing the institution's overall risk profile associated with its business strategy. The Bank has a low-risk appetite, particularly toward credit risk. This is evidenced within the lending portfolio with a whole book average LTV of c51%, 93% of lending within risk grades 1-5 and very low levels of default.

Regulatory developments

The BCBS released 'Basel III: Finalising post-crisis reforms to the Basel III framework' in December 2017. This framework is commonly referred to as Basel 3.1 standards in the UK. Policy Statement PS17/23 sets out near final rules for first part of the framework, which include revisions to market risk, counterparty credit risk and operational risk. Near final rules for the second part of the framework are expected to be published in Q2 2024, which include significant revisions to the Standardised Approach to Credit risk. The reforms are now expected to take effect from 1 July 2025.

Alongside the Basel 3.1 reforms, the PRA is also producing a Small Domestic Deposit Takers (SDDT) regime, which aims to simplify the prudential framework for small banks. Policy Statement PS15/23 sets out final rules for liquidity and disclosure requirements under the SDDT regime. The final capital requirements under the framework is expected to be released in Q2 2024. Firms eligible for the SDDT regime will have the option to adopt the Basel 3.1 standards, or, alternatively, be subject to a Transitional Capital Regime, until the simpler capital regime becomes effective.

Unity will continue to closely monitor regulatory developments under both the Basel 3.1 framework and the SDDT regime and will decide on the appropriate framework to adopt in due course.

1.4 Basis and frequency of disclosures

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

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

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

1.5 Verification

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

1.6 Remuneration and governance arrangements

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

1.7 Scope of disclosures

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

Summary of Key Metrics

	2023 £'000	2022 £'000
Available Capital		
1 Common Equity Tier 1 (CET1) capital	172,898	122,931
2 Tier 1 capital	172,898	122,931
3 Total capital	172,898	122,931
Risk Weighted Assets		
4 Total risk weighted assets (RWA)	878,472	672,893
Risk-based Capital Ratios as a percentage of RWA		
5 CET1 ratio (%)	19.68%	18.27%
6 Tier 1 ratio (%)	19.68%	18.27%
7 Total capital ratio (%)	19.68%	18.27%
Additional CET1 buffer requirements as a percentage of RWA		
8 Capital conservation buffer requirement (%)	2.50%	2.50%
9 Countercyclical buffer requirement (%)	2.00%	1.00%
10 Combined buffer requirement (%)	4.50%	3.50%
11a Overall capital requirement (%)Overall capital requirements (%)	15.19%	14.55%
Basel III Leverage Ratio		
13 Total Basel III leverage ratio exposure measure	1,797,760	1,710,211
14 Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	9.62%	7.19%
Liquidity Coverage Ratio (LCR)		
15 Total high-quality liquid assets (HQLA)	697,018	782,783
16 Total net cash outflow	332,338	355,595
17 LCR ratio (%)[1]	210%	220%
Net Stable Funding Ratio (NSFR)		
18 Total available stable funding	1,200,480	1,144,865
19 Total required stable funding	909,694	741,481
20 NSFR ratio (%)	131.97%	154.4%

[1] LCR balances included above are as of 31 December 2023 and do not agree to LCR balances disclosed in section 3.4 which reports average LCR balances.

Total Loss Absorbing Capital (TLAC) and Minimum Requirement for Eligible Liabilities (MREL) regulations became effective from 1 January 2019. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements also known as the Total Capital Requirement (TCR). The Bank's TCR as of 31 December 2023 is 10.69% (2022: 10.10%).

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

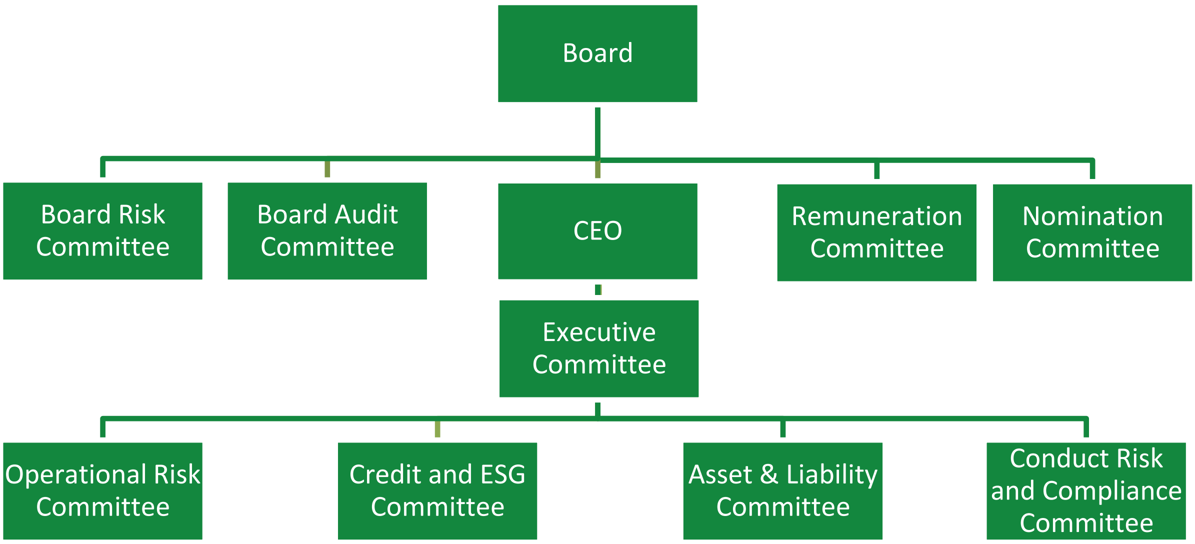
1 Risk management framework, objectives, and policies

a. Overview

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

Specific Board authority is delegated to Board Committees and the Chief Executive Officer who may, in turn, delegate elements of discretion to appropriate members of Executive and senior managers. In addition, BRC have delegated a lending authority to credit underwriting, that is overseen by the CRO but executed by Head of CR and the team.

b. Committee structures



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

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

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

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

The **Executive Committee** is a management committee and oversees and monitors strategic performance and risks of the business in line with the Board's Risk Appetite Statement.

The **Asset and Liability Committee (ALCo)** is a management committee and is primarily responsible for managing the market, capital, and liquidity risks (and treasury aspects of credit) that affect the Bank. Specific focus includes the economic outlook, interest rate risk, liquidity and funding, capital risk and treasury credit risk. ALCo met bi-monthly in 2023 and is chaired by the Chief Financial Officer.

The **Operational Risk Committee (ORC)** is a management committee which is primarily responsible for managing all of the operational risks within Unity. ORC met bi-monthly in 2023 and is chaired by the Chief Operating Officer.

The **Conduct Risk and Compliance Committee (CCC)** is a management committee with responsibility for overseeing conduct, products, marketing, regulatory compliance, and financial crime risks at Unity. CCC met bi-monthly in 2023 and is chaired by the Chief Commercial Officer.

The **Credit & ESG Committee (CC)** is a management committee with responsibility for overseeing all credit and ESG risks within Unity. CC met bi-monthly in 2023 and is chaired by the Head of Credit Underwriting.

c. Significant Risks

The Bank's significant risks arise in seven principal risk categories:

- Credit risk
- Market risk
- Capital risk
- Liquidity risk
- Operational risk
- Conduct and Compliance risk
- Financial Crime Risk.

Committee diagram showing responsibilities for risks

2.3.1. Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in core banking products (overdrafts, loans, and cards, as well as commitments to lend) and other activities (for example, treasury transactions). Credit risk is the risk that a borrower or counterparty fails to meet their financial obligations in accordance with agreed terms.

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

The Bank's Credit Risk Policy is set within the Board approved risk appetite; the bank's credit performance is reported to each BRC and Board meeting by the CRO and determines the criteria for the approval of corporate exposures. It specifies credit management standards, including sector, credit rating and issuer limits, along with delegated authorities.

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

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

Description of collateral

The Bank takes security (secondary sources of repayment) to mitigate credit risk. Loans and advances to customers are generally secured on residential or commercial property. Commercial property taken as security can involve ownership through investment vehicles or owner-occupied premises.

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

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

Debentures and personal guarantees may also be used as security.

Impaired Assets and Forbearance

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

Scorecard ratings 1 to 5 are considered 'performing' with sub-categories as follows:

RG 1	Very strong credit risk
RG 2	Strong credit risk
RG 3	Good credit risk
RG 4+ and 4-	Acceptable credit risk
RG 5+ and 5-	Weak credit risk

'Problem debt' sub-categories are:

RG 6	Poor credit risk – Watchlist - customers still performing/ expected to continue to operate.
RG 7	Substandard – risk of business failure although no loss anticipated to Unity.
RG 8	Default – risk of business failure and potential risk of loss to Unity
RG 9	Default in realisation

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

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

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

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

Such concessions typically include:

- restructuring, waiving or reserving rights in the event of covenant breaches - 59 cases;
- postponement of principal payments - 4 cases;
- restructures of principal payments - nil cases;
- extension of loan maturities - 6 cases;
- partial or full capitalisation of interest payments - 9 cases

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

Other concessions the Bank may grant include:

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

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

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

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

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

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

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

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

2.3.2. Market Risk

Market risk is the risk that changes in market rates or prices negatively impact our earnings or the market value of our assets and liabilities. The majority of the risk arises from changes in interest rates. The Bank does not have any foreign exchange exposure.

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

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

The NII sensitivities are indicative and based on scenarios and shocks prescribed in Rule 9.4A of the PRA Rulebook: CRR Firms: Interest Rate Risk Arising from Non Trading Activities Instrument 2020. They are also in accordance with Article 448(1) of the European Capital Requirements Regulation (CRR).

Calculations are done under the following scenarios:

- Parallel up;
- Parallel down;
- An immediate shock of +/-200 basis points ('bps') to the current market implied path of interest rates across over one year;

The EVE sensitivities are based on the six Basel Standard Outlier shocks:

- Parallel up;
- Parallel down;
- Steepener;
- Flattener;
- Short rates up; and
- Short rates down.

Non-maturing deposits ('NMD's) are deposits that have no contractual maturity or repricing dates, hence behaviouralisation assumptions are applied. The maturity profile for NMDs is substantially the same as the profile as at 31 of December 2022, however, a review of the assumptions will be completed in 2024 following the material changes in the UK interest rate environment over the past 24 months. The longest repricing maturity for NMDs for modelling purposes continues to be 60 months.

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

2.3.3. Capital Risk

Capital risk is the risk that we do not meet minimum regulatory capital requirements under normal and stressed conditions. The Bank continuously monitors its capital levels through forecasting and stress/ scenario modelling. Stress testing is performed quarterly and reported to ALCo.

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

In common with other financial institutions, Unity's financial performance continues to be impacted by the broader regulatory, economic and political environment, including the continued changes in Bank of England Bank rate, the cost of living crisis and the ongoing industrial action across multiple sectors. The economic environment in 2023 has been challenging but the Bank has demonstrated the strength of its financial resilience, and the Board is confident that Unity will continue deliver both positive social impact and shareholder benefit, whilst remaining compliant with all regulatory capital metrics.

2.3.4. Liquidity and Funding Risk

Funding risk is the risk that we will fail to meet our financial obligations as they fall due or can only do so at excessive cost. The Bank's funding and liquidity management processes and limits are set out in the Treasury Policy which is reviewed and approved annually by BRC and Board. Liquidity forecasting is monitored daily by the Bank's Treasury function to ensure the level of High-Quality Liquid Assets continue to meet the guidelines set in the Individual Liquidity Adequacy Assessment Process (ILAAP). The Bank holds overnight funds in the Bank of England Reserve Account and invests in high quality debt issued by financial institutions: Covered Bonds, Medium Term Notes and Floating Rate Notes. Stress testing is reported quarterly in accordance with the framework set out in the ILAAP.

During the year, the Board approved the Bank's ILAAP. The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remain significantly higher than the 100% minimum. The Bank also reviews its compliance with the liquidity systems and controls requirements as detailed in the PRA Rulebook.

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

2.3.5. Operational Risk (including cyber and information security, people, legal, third-party supplier, change and data quality).

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, third party supplier failure, or external events. This includes the effectiveness of risk management techniques and controls to minimise operational losses.

The Board accepts that the Bank will incur operational losses as the Bank grows its business. The Bank's focus is to develop systems and controls that are robust, well-defined, and scalable, and to identify and respond to threats and emerging risks which could severely harm our customers or the viability of our business. Operational resilience continues to be an important area of focus for the Bank, developing its resilience capability via ongoing enhancements.

Operational risks and corresponding actions are formally monitored and reviewed on a regular basis by ORC.

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

Conduct risk is the risk that our behaviour, culture, or processes lead to poor customer outcomes or foreseeable harm. Compliance risk is the risk of legal or regulatory sanctions, financial penalty, or reputational damage as a result of failure to comply with laws, regulations, or codes of practice. The Conduct Risk and Compliance Committee is a management committee and monitors trends in these areas. It meets a minimum if bi-monthly with matters escalated to sub-Board and Board committees as appropriate.

2.3.7. Financial Crime Risks

Financial crime risk is the risk that our product and services are used in connection with financial crime including fraud, money laundering, terrorist financing, bribery and corruption, and tax evasion. The Bank performs enhanced staff screening and due diligence checks during onboarding of employees and new customers. Second line risk and compliance reviews are conducted to test adherence to policies and procedures.

2.3.8. Emerging Risks

Climate change

The Bank recognises that climate change is a significant risk and a major challenge for the global economy and society and local communities. Extreme weather events and the impacts of transitioning to a low-carbon economy have the potential to disrupt business activities, damage property, negatively affect people's livelihoods and otherwise affect the value of assets. There is potential to impact our suppliers' delivery and customers' ability to repay loans.

The Bank's approach to climate change has been informed by supervisory guidelines and our experience of delivering Social Purpose as a Bank. A plan is in place to continually develop the Bank's approach to climate change risk with Board oversight. The Bank has identified and quantified the physical risks (flood, subsidence, and coastal erosion) and transition risks in its customer loan portfolio. Stress testing has informed through the ICAAP that no capital requirement is recommended as a result of climate change risk and adaptation needs.

Economic Uncertainty

The pandemic has had a marked economic impact on all major economies. The uneven impact of Covid-19 restrictions and support mechanisms have led to different levels of financial pressure within industry segments and on our customers depending on their area of economic activity. Government support has been beneficial, enabling businesses to weather the impact of lockdowns. However, the ability of businesses to recover is unproven.

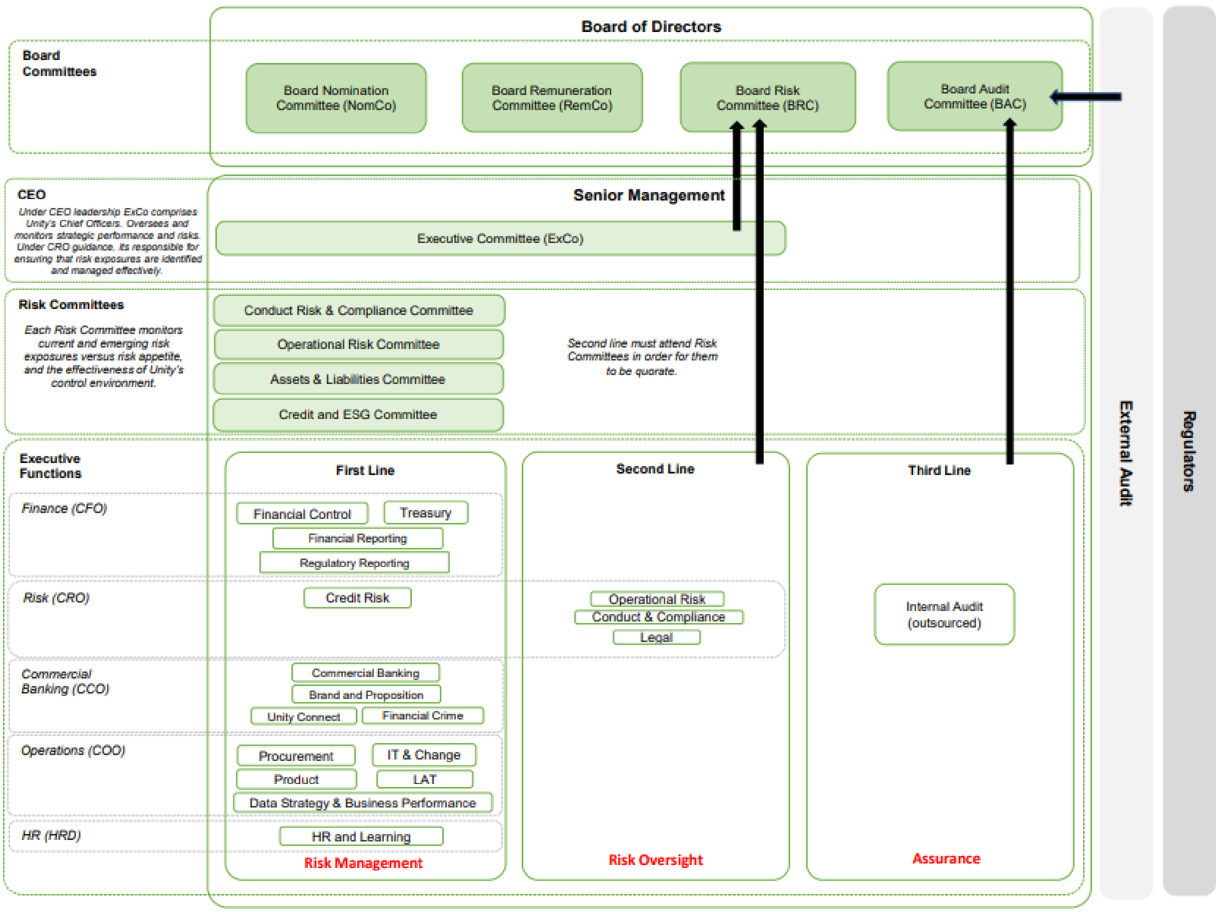
The economic outlook remained uncertain during 2023 and there are severe challenges for many people. High inflation and low growth present an environment not seen in a generation. Geopolitical tensions and the conflicts in the Ukraine and Middle East alongside domestic considerations each contribute to a continued period of economic uncertainty. The Bank of England through the Monetary Policy Committee have increased Bank Rate from 3.5% at the start of the year to 5.25% at the end of the year. Inflation is forecast to reduce in 2024, however the speed and size of any decreases will dictate the need to continue changing Bank Rate.

UK growth for 2024 is forecast to be modest. The slow growth will result in increases in unemployment, which in turn could see an increase in credit provisions and defaults.

2.4 Risk management

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

The Bank uses a three lines model in its approach to risk management.



First line activities

- Identify, assess, and manage risk
- Design, implement and operate controls to reduce or transfer risk
- Keep records of risks, controls, and control testing
- Run the business within Board-approved risk appetite
- Use key risk indicators to monitor risk exposures
- Report Risk Events and Near Misses
- Assess market conditions and external developments
- Produce management information and reports on risk

Second line activities

- Design, develop and maintain the ERMF
- Promote a consistent approach to risk measurement
- Advise, support and challenge risk management activities
- Monitor and report on risks and controls to risk committees
- Design and develop risk and compliance policies, set standards, and oversee implementation
- Oversee forward-looking risk at an aggregate level
- Act as secretariat to First Line Risk Committees

Third line activities

- Assess the effectiveness of internal control environment (including the operation of the ERMF)

- Liaise with senior management and the Board Audit Committee

The second line and third line review programmes are overseen by BAC and detailed findings are also reported into the appropriate management committee.

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

ICAAP

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

ILAAP

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

Reverse stress testing

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

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

Recovery Plan and Resolution Pack

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

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

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

3 Capital resources and requirements

3.1 Overview

To protect customers and the wider financial markets from the risk of banking failure, regulators require that sufficient loss-absorbing capital is held to cover the risk exposures entered into by the business activities. Unity's CET1 ratio of 18.76% provides comfort that the Bank is well capitalised to remain solvent with capital resource considerably above the minimum capital requirements.

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

The information below gives further details as to the Bank's capital resources, risk weighted assets and assessment for operational, concentration and market risks.

3.2 Total available capital resources

As of 31 December 2023, and throughout the financial year, the Bank complied with the capital requirements in force as set out by the PRA.

The capital resources of the Bank are as follows:

		2023 £'000	2022 £'000
Share capital		24,792	24,730
Share premium		18,205	18,150
Reserves:	Capital redemption reserve	4,511	4,511
	Retained earnings	128,221	81,615
	Available for sale reserve	(3,041)	(5,131)
	ESOP reserve	(79)	(60)
Common Equity Tier 1 (CET1) capital before adjustments[1]		**172,610**	**123,815**
Adjustments to CET1			
Intangible assets		(6)	(22)
Prudent additional valuation adjustment		(247)	(257)
Defined benefit pension fund asset		(1,756)	(2,840)
IFRS 9 transitional adjustment		2,297	2,235
CET1 and Total Tier 1 capital resources		**172,898**	**122,931**
Tier 2 adjustments		-	-
Total Capital Resources		**172,898**	**122,931**

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

3.3 Risk weighted exposure amounts and Pillar 1 capital requirements

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

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

31 December 2023

	Exposure value £'000s	Risk weight %	Risk weighted assets £'000	Pillar 1 capital requirement £'000	Average exposure value £'000
Loans and advances to zero risk weighted counterparties	611,994	0%	-	-	659,665
Debt security investments	50,061	20%	10,012	801	49,514
Regulated covered bond investments	64,844	10%	6,484	519	60,382
Investments credit risk	**726,899**		**16,497**	**1,320**	**769,561**
Loans and advances to customers	1,013,646	35/75/100%	754,672	60,374	948,965
Fixed and other assets*	6,335	100%	4,341	347	4,537
Total credit risk	**1,746,880**		**775,509**	**62,041**	**1,723,063**
Operational risk (section 3.6)		x12.5	102,963	8,237	
Total			**878,472**	**70,278**	

31 December 2022

	Exposure value £'000s	Risk weight %	Risk weighted assets £'000	Pillar 1 capital requirement £'000	Average exposure value £'000
Loans and advances to zero risk weighted counterparties	775,727	0%	-	-	758,408
Debt security investments	38,542	20%	7,709	616	89,284
Regulated covered bond investments	10,069	10%	1,007	81	29,200
Investments credit risk	**824,338**		**8,716**	**697**	**876,892**
Loans and advances to customers	836,576	35/75/150%	601,404	48,113	803,231
Fixed and other assets*	8,264	100%	3,855	308	4,909
Total credit risk	**1,669,178**		**613,975**	**49,118**	**1,685,032**
Operational risk (section 3.6)		x12.5	58,918	4,713	
Total			**672,893**	**53,831**	

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

Credit risk mitigation techniques

Credit Risk Mitigation (CRM) refers to collateral agreements used to reduce risk arising from credit positions. This table shows the use of CRM techniques, broken down by loans and debt securities. This table includes both unsecured and secured exposures, and the value of exposures secured by collateral. The Bank does not utilise financial guarantees or credit derivatives, meaning collateral is the only technique used by Unity for CRM.

31 December 2023

Carrying amount	Exposures unsecured £'000s	Exposures secured £'000s	Total exposures financial £'000	Exposures secured by collateral £'000
Total loans and advances to customers	77,562	936,084	1,013,646	936,084
Total investments	726,899	-	726,899	-
Total exposures	**804,461**	**936,084**	**1,740,545**	**936,084**

31 December 2022

Carrying amount	Exposures unsecured £'000s	Exposures secured £'000s	Total exposures financial £'000	Exposures secured by collateral £'000
Total loans and advances to customers	56,768	779,808	836,576	779,808
Total investments	824,338	-	824,338	-
Total exposures	**881,106**	**779,808**	**1,660,914**	**779,808**

Investments Credit risk

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

Treasury policy limits the maximum aggregated exposure to any single non-supranational issuer is £50m, (or £75m of aggregated exposure if the holdings are 100% regulated covered bonds to any single issuer). Supranationals and sovereigns are limited to £200m. Certain exposures, meeting the required credit quality can be up to ten years and this maximum tenor tapers to 12 months at the lower end of the acceptable ratings spectrum.

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

Investment Credit Risk:

31 December 2023	Moody's rating	Risk weight %	Exposure value £'000	Capital requirement £'000
UK Government and Bank of England				
Credit quality step 1	Aa3	0%	501,222	-
Supranational Financial Institutions				
Credit quality step 1	Aaa-Aa1	0%	110,772	-
Financial Institutions				
Credit quality step 1	Aaa-Aa3	20%	48,263	772
Credit quality step 2	Aa1-A3	50%	-	-
Credit quality step 3	Baa1-Baa3	20%	1,799	29
Regulated Covered bonds				
Credit quality step 1	Aaa	10%	64,844	519
Total			**726,899**	**1,320**

31 December 2022	Moody's rating	Risk weight %	Exposure value £'000	Capital requirement £'000
UK Government and Bank of England				
Credit quality step 1	Aa3	0%	636,195	-
Supranational Financial Institutions				
Credit quality step 1	Aaa-Aa1	0%	139,533	-
Financial Institutions				
Credit quality step 1	Aaa-Aa3	20%	38,542	617
Credit quality step 3	Aa1-A3	50%	-	-
Credit quality step 3	Baa1-Baa3	20%	-	-
Regulated Covered bonds				
Credit quality step 1	Aaa	10%	10,069	80
Total			**824,339**	**697**

Customer loans credit risk and provisions

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

Maturity analysis

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

31 December 2023

	Repayable on demand £'000s	Up to 3 months but not repayable on demand	3 months – 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Non-cash items £'000	Total £'000
Assets							
Cash and balances at central banks	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
Investments	-	159,317	88,099	-	-	-	247,416
Other assets	-	-	-	-	-	6,334	6,334
	478,412	**171,349**	**99,841**	**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	-	-	-	-	-	186,499	186,499
	1,463,804	**44,143**	**42,695**	**8,667**	**-**	**186,499**	**1,745,808**

31 December 2022

	Repayable on demand £'000s	Up to 3 months but not repayable on demand	3 months – 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Non-cash items £'000	Total £'000
Assets							
Cash and balances at central banks	567,701	-	-	-	-	-	567,701
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	-	9,476	12,989	254,293	559,818	-	836,576
Investments	-	108,294	148,344	-	-	-	256,638
Other assets	-	-	-	-	-	8,264	8,264
	567,701	**117,770**	**161,333**	**254,293**	**559,818**	**8,264**	**1,669,179**
Liabilities							
Customer deposits	1,370,007	168,650	-	-	-	-	1,538,657
Other liabilities	-	-	-	-	-	130,522	130,522
	1,370,007	**168,650**	**-**	**-**	**-**	**130,522**	**1,669,179**

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

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

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

31 December 2023	Total unweighted value (average) £'000	Total weighted value (average) £'000
High-quality liquid assets (HQLA)		**748,097**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	559,891	52,666
Stable deposits	219,785	11,010
Less stable deposits	340,106	41,657
Unsecured wholesale funding, of which:	912,023	288,500
Operational deposits (all counterparties)	396,338	95,802
Non-operational deposits (all counterparties)	515,685	192,698
Credit and liquidity facilities	159,844	24,717
Total cash outflows	1,631,758	365,883
Cash inflows		
Inflows from fully performing exposures	40,396	26,801
Total cash inflows	40,396	26,801
Liquidity Coverage Ratio (%)		**220.62%**

31 December 2022	Total unweighted value (average) £'000	Total weighted value (average) £'000
Total HQLA		**804,299**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	526,695	49,776
Stable deposits	201,652	10,083
Less stable deposits	325,043	39,693
Unsecured wholesale funding, of which:	966,759	304,457
Operational deposits (all counterparties)	435,803	105,159
Non-operational deposits (all counterparties)	530,956	199,298
Credit and liquidity facilities	140,357	23,762
Total cash outflows	1,633,811	377,995
Cash inflows		
Inflows from fully performing exposures	37,710	26,991
Total cash inflows	**37,710**	**26,991**
Liquidity Coverage Ratio (%)		**229%**

3.5 Concentration risk

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

31 December 2023

	UK £'000s	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	1,013,646	-	-	1,013,646
Cash and balances with central banks and governments	500,150	-	-	500,150
Investments	66,642	61,816	97,218	225,677
Fixed and other assets	6,335	-	-	6,335
Total	**1,586,774**	**61,816**	**97,218**	**1,745,808**

31 December 2022

	UK £'000s	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	836,576	-	-	836,576
Cash and balances with central banks and governments	636,195	-	-	636,195
Investments	34,734	68,772	84,638	188,144
Fixed and other assets	8,264	-	-	8,264
Total	**1,515,769**	**68,772**	**84,638**	**1,669,179**

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

3.6 Operational risk

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

31 December 2023

Banking Activities (£'000s)	Relevant Indicator			Own Funds Requirement	Risk Weighted Exposure Amount
	Year 3	Year 2	Last Year		
Banking activities subject to basic indicator approach (BIA)	25,137	47,183	92,421	8,237	102,963

31 December 2022

Banking Activities (£'000s)	Relevant Indicator			Own Funds Requirement	Risk Weighted Exposure Amount
	Year 3	Year 2	Last Year		
Banking activities subject to basic indicator approach (BIA)	21,948	25,137	47,183	4,713	58,918

3.7 Interest rate risk in the banking book (IRRBB)

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

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

The Bank's sensitivity to interest rate movements from an earnings perspective is disclosed in the Risk Management statement of the Annual Report and Accounts.

The Bank also assesses its IRRBB exposure using multiple shock scenarios to capture parallel as well as non-parallel gap risk measured in terms of EVE. Under this approach, capital requirements for IRRBB are measured by the scenario that results in the largest decline in EVE. The Bank has assessed each and does not meet the outlier test for a change in EVE greater than 15% of capital.

3.8 Leverage

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

The Bank's ratio calculated in accordance with the FPC's leverage regime is 9.6% at 31 December 2023 (2022: 7.2%). The UK leverage ratio framework sets a minimum ratio of 3.25%. Although not subject to the framework, the Bank follows the requirement as best practice and maintains its leverage ratio in excess of this minimum requirement.

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

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

	2023 £'000	2022 £'000
Total consolidated assets as per published financial statements	1,745,808	1,669,179
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of	42,738	35,594
Other adjustments	9,214	5,438
Leverage ratio exposure measure	**1,797,760**	**1,710,211**

Leverage ratio common disclosure template

	2023 £'000	2022 £'000
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs) but including collateral)	1,754,734	1,675,503
(Asset amounts deducted in determining Basel III Tier 1 capital)	(2,009)	(3,120)
Total on-balance sheet exposures (excluding derivatives and SFTs)	1,752,724	1,672,383
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	93,022	78,269
(Adjustments for conversion to credit equivalent amounts)	(50,283)	(42,675)
Total off-balance sheet items	42,738	35,594
Capital and total exposures		
Tier 1 capital	172,898	122,931
Total exposures	1,797,760	1,710,211
Leverage ratio (Basel III)	9.62%	7.19%

Appendix 1 – Remuneration policy and practices

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

Governance

Unity's Remuneration Policy is set by the Board of Directors with support and guidance from the Remuneration Committee. Unity's Remuneration Policy complies with the Remuneration Code and other applicable legal and regulatory requirements; the Chair of the Remuneration Committee has specific responsibilities under the FCA Senior Persons Regime for the effective oversight of the Bank's remuneration policies. The Remuneration Committee annually reviews and recommends the Remuneration Policy to the Board, which must be aligned to the Bank's values, long term strategy and risk appetite. The Committee is formed of the Chairman of the Board and two Non-Executive Directors. . The composition does not comply with Provision 32 of the UK Corporate Governance Code as a Shareholder Director serves on the Committee in addition to the Independent Non-Executive Director who chairs the Committee and the Chairman of the Board. The Committee feels that it is appropriate for a shareholder non-executive director to be on the Committee. The committee meets at least twice annually.

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.

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.

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.

To ensure compliance with the Remuneration Code, the PRA's recommended RPS template has been adopted. Unity has one business area, Business Banking, which consisted of 207 (2022: 140) paid individuals (including Directors but excluding contractors) as at 31 December 2023.

The staff costs were as follows:

	2023 £'000	2022 £'000
All Staff		
Total fixed staff employment costs	14,278	9,908
Total variable staff costs	1,037	622
Total staff costs	**15,315**	**10,530**
Material Risk Takers*		
Material Risk Takers fixed employment costs	2,537	1,582
Material Risk Takers variable costs	97	61
Total Material Risk Takers costs	**2,634**	**1,643**

*Figures shown above are the staff costs relating to the 13 (2022: 13) members of staff identified during the year as Material Risk Takers ("MRT)", including any remuneration in the year received before or after they ceased to be MRT and any received prior to approval by the PRA, and including starters and leavers.

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

In total 13 Material Risk Takers have been identified during the year and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Material Risk Takers. All Board Directors (Executive and Non-Executive) are included as Material Risk Takers.

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%). This measure shows the difference in average earnings between women and men. Due to Unity's small workforce, normal levels of attrition can result in significant fluctuations year on year. The Bank's employee policies are designed to promote gender equality. Unity has committed to support the progression of women into senior roles by targeting to have at least 40% female directors by 2025.

Diversity and Inclusion remain core values of Unity.

Fixed remuneration

Basic salary – The Bank seeks to pay basic salaries which attract and retain talent. Paid to all employees including Executive Directors, reviewed on a semi-annual basis.

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.

Variable remuneration

The Bank does not pay individual cash bonuses.

Profit share – Subject to the Bank's overall performance and review by Board Risk Committee, 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. Key highlights of the schemes are set out below with further detail provided in Note 26 of the Annual Report and Accounts.

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 shares with a market value exceeding £60,000 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. The KSOP was approved by the shareholders at the 2021 AGM. Fair and proportionate pay to all staff is an essential principal 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 retain 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.

Deferred Remuneration

The below table provides a breakdown of the deferred remuneration available to the senior management and MRT (subject to vesting periods) and the subset of remuneration dependant on the Bank achieving set targets approved by RemCo. The disclosure supplements information provided in Note 26 of the Annual Report and Accounts.

	Total amount of outstanding deferred remuneration £'000	Of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/ or implicit adjustment £'000	Total amount of deferred remuneration paid out in the financial year £'000
Deferred and retained remuneration			
Senior management	**164**	**-**	**-**
Shares and options	164	-	-
Other material risk takers	**30**	**-**	**-**
Shares and options	30	-	-

Special payments

During the year Unity made inducements to one new joiners (2022: zero) and agreed to make severance payments to four employees (2022: six).

The total severance charge included in expenses in the year is £196k (2022: £173k) of which £168k (2022: £114k) related to Material Risk Takers. The highest amount relating to one single person for the year was £109k (2022: £114k).

Staff members in control functions are remunerated independently of the businesses they oversee. Total staff employment costs (including variable remuneration) in 2023 were £15.3m of which the employment costs of Material Risk Takers were £2.6m.