Pillar 3 disclosures 2016

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1. Overview

1.1 Purpose

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

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

1.2 Background and regulatory guidance

The European Union Capital Requirements Directive II (CRD II) came into effect on 1 January 2007. Commonly referred to as Basel II, the legislative framework is built on Basel I which introduced capital adequacy standards governing how much capital all banks and building societies must hold to protect their members, depositors and shareholders.

Basel II was replaced by Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) (together referred to as CRD IV). CRD IV implements Basel III and came into force on 1 January 2014. It is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA). The objective of CRD IV is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy.

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

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

CRD IV requires a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. The Bank has a risk philosophy to be 'a low risk institution'. This is evidenced in its Common Equity Tier 1 capital ratio of 23.3% as at 31 December 2016 (2015: 26.5%) and low level of arrears on core lending. 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.

Total loss absorbing capital (TLAC) and Minimum requirement for eligible liabilities (MREL) regulations continue to be developed and transitional arrangements are likely to be incremental up to 2022. 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, therefore no additional capital would be required. Developments in this area are being monitored closely, however.

1.3 Basis and frequency of disclosures

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

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

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

1.4 Verification

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

1.5 Remuneration and governance arrangements

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

1.6 Scope of disclosures

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

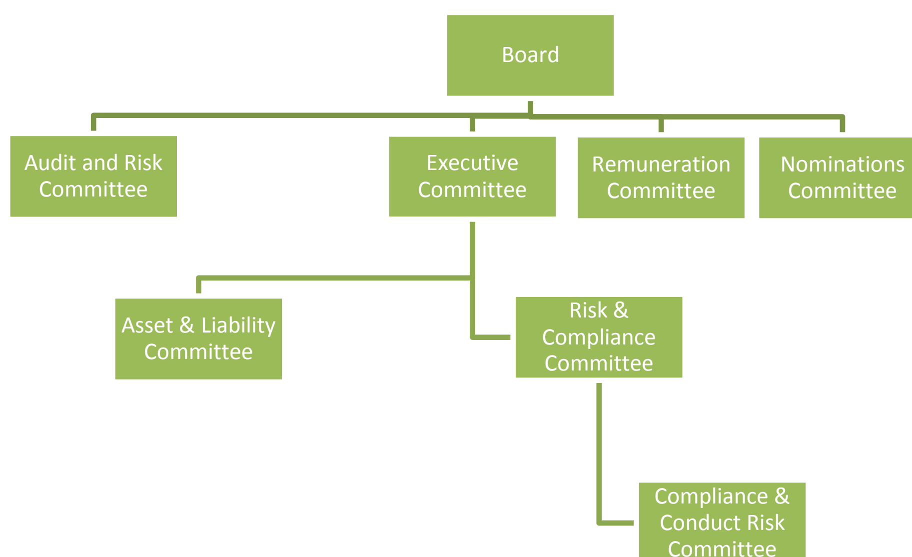
2 Risk management framework, objectives and policies

2.1 Overview

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

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

2.2 Committees structure



The **Audit & Risk Committee (ARC)** is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation and management of all significant risks across the Bank and determining that all risks are being managed appropriately, in line with its Risk Appetite Statements, and that adequate capital adequacy is maintained. It also supports the Bank's Board in carrying out its responsibilities for internal control and risk assessment, supported by the Bank's Internal Audit function (which is outsourced to PwC).

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

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

The **Asset and Liability Committee (ALCO)** is a management committee and is primarily responsible for managing the market, liquidity and funding risks that affect the Bank, including the interest rate risk inherent in the Bank's assets and liabilities, liquidity and funding risks and treasury credit risk. ALCO meets monthly and is chaired by the Chief Financial Officer.

The **Risk and Compliance Committee (RAC)** is a management committee and provides support to the Bank's compliance oversight function in providing requisite assurance to the Executive Committee and ARC. It is responsible for monitoring all risks except liquidity and funding risks, monitored by ALCO. It meets monthly and is chaired by the Chief Risk Officer.

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

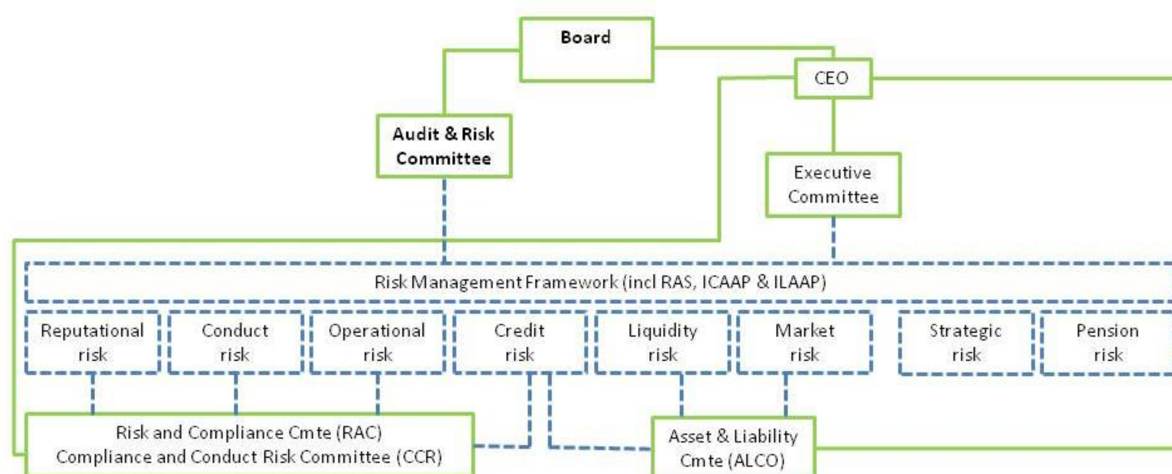
2.3 Significant Risks

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

- Reputational risk
- Conduct risk (including regulatory risk)
- Operational risk
- Credit risk
- Liquidity and Funding risk
- Market risk
- Strategic and business risk

One further area of risk considered in the sections below is Pension Risk.

Committee diagram showing responsibilities for risks



2.3.1.Reputational Risk

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

2.3.2.Credit Risk

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities, such as performance bonds) and in 'other products' (eg treasury 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 Credit Risk Policy 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 policy is to maintain a broad sectoral spread of exposures within the Bank's areas of expertise. Credit exposures to customers are assessed individually. 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. ARC receives regular reports on new facilities and changes in facilities, sector exposures, bad debt provisions and the realisation of problem loans as covered in the monthly risk reporting pack.

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

Description of collateral

The Bank uses collateral to mitigate credit risk. Within loans and advances to customers, collateral for lending is largely in the form of residential or commercial property. The latter is recognised in numerous ways such as security for property development or investment customers (i.e. "property" lending) or owner occupied premises to secure mainstream loan and overdraft facilities.

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

- the security is legally enforceable and is of a tangible nature and type;
- a margin is applied to the valuation, for the type of security involved.

Impaired Assets and Forbearance

Loans and overdrafts are considered impaired where it is determined that the Bank will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements. The loan portfolios are reviewed on an on-going basis to assess impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

Risk grades 1 to 5 are considered performing with sub-categories as follows:

1 – Very strong credit risk
2 – Strong credit risk
3 – Good credit risk
4 – Acceptable credit risk
5 – Broadly acceptable credit risk but some warning signs
6 – Customers on Watchlist but still performing and expected to continue to operate
7 – Default - Risk of business failure and potential risk of loss to the bank
8 – Default and in realisation

Customers are placed into the watchlist category if they show signs of unsatisfactory performance and require close control, but are still expected to continue paying. Events which may trigger watchlist status include a deteriorating balance sheet, material losses, trading difficulties (e.g. loss of material contracts or suppliers), breach of financial covenants, poor account conduct, arrears and material reduction in value of security. In such circumstances, the Bank works with the customer to resolve business problems and agree a clear strategy, sometimes with the support of external, independent professional advisors.

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

Such concessions typically include:

- restructuring, waiving or reserving rights in the event of covenant breaches, at 31 December 2016, 37 cases*;
- postponement of principal payments, at 31 December 2016, 1 case;
- restructures of principal payments, no cases at 31 December 2016;
- extension of loan maturities, no cases at 31 December 2016; or
- partial or full capitalisation of interest payments, no cases at 31 December 2016.

*12 of these cases are rated in risk grades 1-5

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the Bank retains the forbearance status for as long as the concession remains in place and does not remove them from the watchlist until at least six months later. In the event of one off concessions (such as capitalisation of interest payments), the Bank retains the forbearance status for at least 12 months after their occurrence.

Other forbearance concessions the Bank may grant are considered to be objective evidence of impairment and include:

- a partial write off of debt, following which the account continues to be classified as impaired for at least six months; or
- a material postponement or forgiveness of interest and/or 'soft' rates or waiver and/or reduction of normal fees and charges; the accounts must remain impaired while such favourable terms are being applied.

Additional objective evidence of impairment include:

- an instalment on a loan account being overdue, or having been in excess of its limit (or being overdrawn without an agreed limit), for 90 days or more;
- an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, liquidator or administrator; or
- if the Bank considers that at some point (normally taken within the next 12 months) actions such as an issue of formal demand will be required in order to achieve full repayment.

Specific impairment provisions for bad and doubtful debt against individual lending are raised at the point when business performance is assessed to have deteriorated to the extent that there is a real risk of loss of principal, interest or fees. Provisions will be required on either a part or the entire shortfall between the security held and the loan balance outstanding and represent a realistic assessment of the likely net loss after realisation of any security.

For provision purposes, an up to date property valuation or selling agent's recommendation will be discounted to take into account selling and legal costs and also to build in a contingency to cover potential reductions in the selling price based upon the type of security, entity and the existence or otherwise of a contracted sale. In some cases, calculation of the provision level will be based on an up to date assessment (often following an independent business review by a firm of accountants) of likely receivables from the business or a formal estimated outcome statement from an insolvency practitioner where the business has failed.

The Bank also reviews monthly all exposures of higher risk grade loans and considers the potential provision which might be required were the business to fail (notwithstanding that continued trading remains the expectation). A collective impairment provision may then be raised against this portfolio based on the propensity for the business failure in this pool, to cover where an incident of default has occurred but this has yet to be identified.

In addition to its on-going loan portfolios, the Bank also has a small number of non-performing legacy loans in the Hotel and Leisure sector which have specific impairment provisions against them. Outstanding balances in this portfolio continue to reduce.

2.3.3. Market risk

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

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

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

2.3.4. Liquidity and Funding risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management processes and limits are included in the Treasury Policy which is reviewed and approved annually by ARC and Board. Liquidity forecasting is monitored on a daily basis by the Bank's Treasury function to ensure the liquid asset buffer remains within 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, Certificates of Deposit and UK Treasury Gilts. Stress testing is undertaken quarterly in accordance with the framework set out in the ILAAP.

During the year, the Board approved the Bank's ILAAP and the Bank's Liquidity Coverage Ratio (LCR) is significantly higher than the 90% minimum effective 1 January 2017. 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 limits on the loan to deposit ratio and the liquid asset ratio. During 2015, the Financial Services Compensation Scheme (FSCS) rules were changed such that a larger proportion of the Bank's customer base became covered by the FSCS.

2.3.5. Operational Risk

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

The Board considers cyber risk to be an important facet of operational risk and has a Board approved cyber security strategy. Execution risk, as the Bank effects its transformation remains under discussion at Executive committees, ARC and the Board.

Operational risks are identified, managed and mitigated through ongoing risk management practices and scenario planning including:

- risk assessments;
- formal internal control procedures;
- training;
- segregation of duties;
- delegated authorities; and
- contingency planning.

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

2.3.6. Strategic risk

Risk that arises from changes to the Bank's business, specifically the risk 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. In a narrow sense, strategic risk is the risk the Bank suffers losses because income falls or is volatile relative to the fixed cost base.

However, in common with other Banks, Unity's financial performance will continue to be impacted by the broader industry, regulatory, economic and political environment; this includes the uncertainties of the Brexit process, ultra-low Bank of England base rates and increasingly volatile bond yields. The economic environment in 2017 will be as challenging but having taken the steps to strengthen the Bank in 2016, the Board is confident that it can achieve the future growth plans.

2.3.7. Conduct risk

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

2.3.8. Other risks

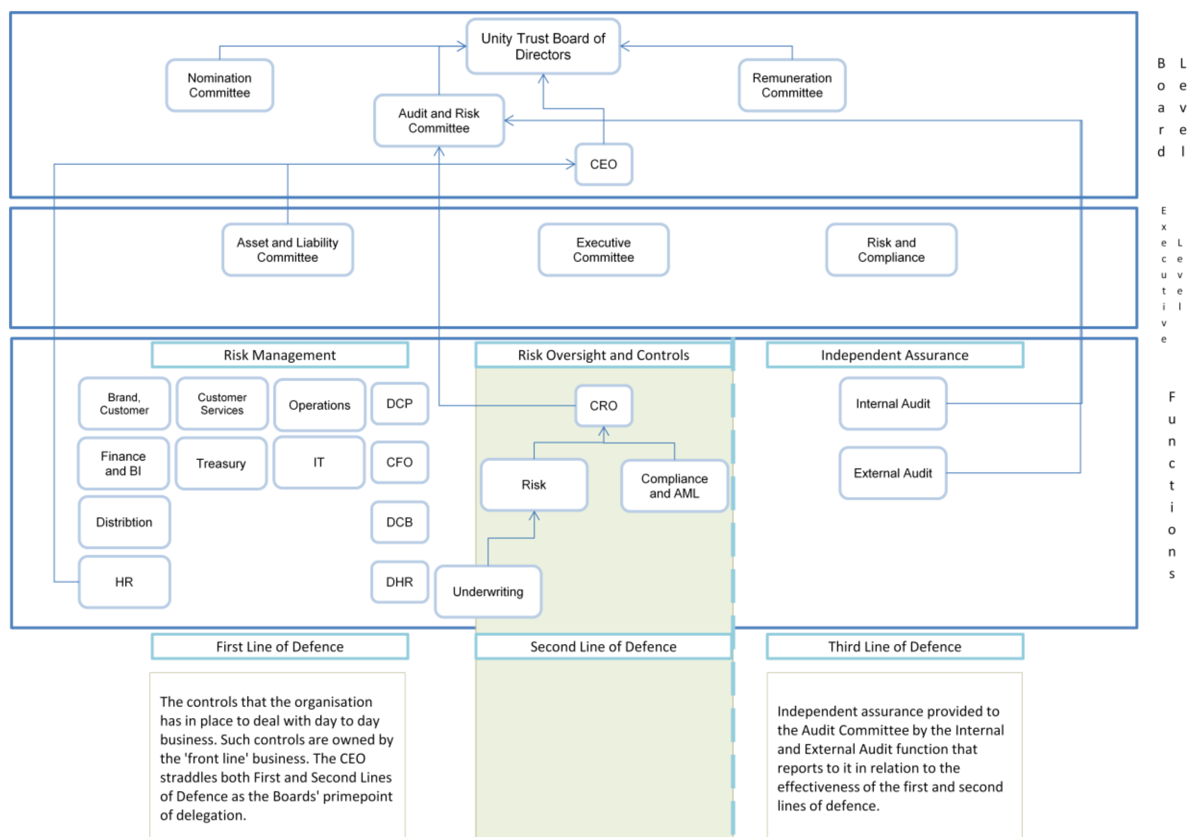
In addition to the significant risks covered above, the following principal risk is also reported in the Bank's financial statements:

- **Pension risk**: The risk to the Bank's capital and company funds from the Bank's exposure to the Pace defined benefit pension scheme, run by The Co-operative Group, and risks inherent in the valuation of scheme liabilities and assets. The pension scheme is structured on a 'last man standing' basis therefore, as a participating employer in the scheme, the Bank would be liable for a greater proportion of the scheme's liabilities were one or more other participating employers to become insolvent. The Bank closed its defined benefit pension scheme to future accrual in 2015. The Board is in dialogue with its external advisors as to how to manage and reduce this risk.

2.4 Risk management

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

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



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

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

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

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

Stress testing is a key tool to understanding and managing risk. In support of this, the Bank has developed and maintains 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 IV 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; stress testing is undertaken quarterly and reviewed by ALCO and ARC.

ILAAP

The Individual 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; stress testing is undertaken quarterly and reviewed by ALCO.

Reverse stress testing

Reverse stress testing (RST) 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 undertaken annually in conjunction with the ILAAP and the ICAAP and reviewed and approved by the Board.

Recovery and Resolution Plans

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

The Resolution Plan provides the data required, if it was necessary, to close down the Bank. In preparing and planning for such extreme events, the Board ensures that it has taken these severe risks, however remote, into account in its planning and considered the mitigating actions available.

3 Capital resources and requirements

3.1 Overview

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

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

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

3.2 Total available capital resources

As at 31 December 2016 and throughout the financial year, the Bank complied with the capital requirements in force as set out by European and national legislation.

The capital resources of the Bank are as follows:

		2016 £'000	2015 £'000
Share Capital		18,943	17,000
Share Premium		5,563	3,733
Reserves:	Capital redemption reserve	3,250	3,250
	Retained earnings	25,637	24,773
	Available for sale reserve	900	360
Common Equity Tier 1 (CET1) capital before adjustments		**54,293**	**49,116**
Intangible assets		(199)	(227)
CET1 and Total Tier 1 capital resources		**54,094**	**48,889**
Tier 2 adjustments (Collective provisions)		431	485
Total Capital Resources (excludes unverified profits for the year)		**54,525**	**49,374**

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.

Exposure description:

	2016			2015		
	Exposure value £'000s	**Risk weight %**	**Risk weighted assets £'000**	**Exposure value £'000**	**Risk weight %**	**Risk weighted assets £'000**
Loans and advances to zero risk weighted counterparties	440,921	0%	-	541,882	0%	-
Debt security investments	131,305	20%	26,309	34,593	20%	**6,916**
Regulated covered bond investments	109,250	10%	10,973	114,378	10%	**11,438**
Treasury credit risk	**681,476**		**37,282**	**690,853**		**18,354**
Loans and advances to customers	275,783	35/75/100%	174,455	217,942	35/75/100%	**153,566**
Fixed and other assets	1,163	100%	1,163	1,045	100%	**1,045**
Total credit risk	**958,422**		**212,900**	**909,840**		**172,965**
Operational risk (section 3.5)		x12.5	**19,413**		x12.5	**17,450**
Total Pillar 1 risk weighted assets			**232,313**			**190,415**

Treasury Credit risk

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

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

The table below shows the breakdown of the counterparty exposures, credit assessments and risk weights. The Moody's rating is quoted in brackets.

31 December 2016

Treasury exposure description and residual maturity:	Exposure value £'000	Risk weight %	Credit quality step	RWAs £'000
Not more than 3 months				
Cash and balances with BoE (Aa1)	310,867	0%	1	-
Loans and advances to banks (A2)	2,806	20%	2	561
Regulated covered bond investments (Aaa)	16,618	10%	1	1,661
Debt security investments (Aa3)	20,000	20%	2	4,000
Loans and advances to Governments (Aaa)	20,000	0%	1	-
Greater than 3 months and up to 1 year				
Loans and advances to supranational banks and member state governments (Aaa/Aa1)	35,384	0%	1	-
Regulated covered bonds (Aaa)	39,400	10%/20%	1	5,988
Debt security investments (Aa2)	3,000	20%	2	600
Greater than 1 year and up to 5 years				
Loans and advances to supranational banks and member state governments (Aaa/Aa1)	74,968	0%		-
Covered bond investments (Aaa)	158,433	10%/20%	1	24,472
Total treasury credit risk	**681,476**			**37,282**

31 December 2015

Treasury exposure description and residual maturity:	Exposure value £'000	Risk weight %	Credit quality step	RWAs £'000
Not more than 3 months				
Cash and balances with BoE (Aa1)	376,002	0%	1	-
Loans and advances to banks (A2)	4,557	20%	2	-
Loans and advances to banks[1] (Aa1) (gilt repos)	35,015	0%	1	-
Loans and advances to Governments (Aaa)	15,008	0%	1	-
Greater than 3 months and up to 1 year				
Debt security investments (Aaa/Aa1)	15,017	10%	1	1,502
Debt security investments (Aa2)	30,045	20%	2	2,916
Greater than 1 year and up to 5 years				
Loans and advances to supranational banks and member state governments (Aaa/Aa1)	115,848	0%	1	-
Debt security investments (Aaa)	10,007	10%	1	1,001
Regulated covered bond investments (Aaa)	89,354	10%	1	8,935
Total treasury credit risk	**690,853**			**14,354**

Customer lending credit risk and provisions

The credit risk profile of the lending portfolio of the Bank is analysed and discussed in notes 12 and 27 to the Annual Report and Accounts.

Summary information with respect to the provisions existing and the movement in the year are as follows:

	2016 £'000	2015 £'000
Gross loans and advances	237,245	189,829
Less: allowance for losses on loans and advances to customers	(1,885)	(2,589)
Total	**235,360**	**187,240**

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	2016			2015		
	Individual £'000	**Collective £'000**	**Total £'000**	**Individual £'000**	**Collective £'000**	**Total £'000**
At 1 January	(2,104)	(485)	(2,589)	(2,306)	(618)	(2,924)
Credit against profits	162	54	216	205	133	338
Amounts written off	486		486	-	-	-
Recoveries	(10)		(10)	-	-	-
Unwind of discount of allowance	12		12	(3)	-	(3)
At 31 December	**(1,454)**	**(431)**	**(1,885)**	**(2,104)**	**(485)**	**(2,589)**

All provisions are held against loans and advances to customers.

Non-performing debt:	**2016 £'000**	**2015 £'000**
Bank advances	**4,816**	6,089
Provisions for bad and doubtful debts	(1,454)	(2,104)
	3,362	**3,985**

Concentration of exposure:	**2016 £'000**	**2015 £'000**
Administrative bodies and non-commercial	187,863	158,441
Property (excluding hotels and leisure)	30,571	9,854
Hotels & Leisure	7,025	8,851
Manufacturing	-	10
Other	11,786	12,673
	237,245	**189,829**

Credit risk analysis

	2016 Loans and advances to customers £'000	**2015 Loans and advances to customers £'000**
Individually impaired		
90 days past due or evidence of impairment	1,031	3,026
Collectively impaired		
Less than 90 days past due	11,440	14,768
Past due but not impaired		
0-30	410	594
Neither past due or impaired		
Grade 1-5 (performing)	224,364	171,441
Grade 6 (Watchlist - performing)[1]	-	-
Grade 7-8 (Default non-performing)[1]	-	-
Total carrying amount before impairment allowance	**237,245**	**189,829**
Allowance for impairment losses on loans and advances	(1,885)	(2,589)
Total carrying amount	**235,360**	**187,240**

1 All loans classified as Grade 6 -8 are included within the impaired or past due but not impaired buckets

Maturity analysis

31 December 2016

	Repayable on demand £'000	3 months or less but not repayable on demand £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non cash items £'000	Total £'000
Assets							
Cash and balances at central banks	310,867	-	-	-	-	-	**310,867**
Loans and advances to banks	2,806	-	-	-	-	-	**2,806**
Loans and advances to customers	1,062	7	2,224	82,962	149,105	-	**235,360**
Investment securities- available for sale	-	59,534	77,784	233,233	-	-	**370,751**
Other assets	-	-	-	-	-	1,163	**1,163**
	314,735	**59,541**	**80,008**	**316,395**	**149,105**	**1,163**	**920,947**
Liabilities							
Customer accounts	722,901	138,603	-	-	-	-	**861,504**
Other liabilities	-	-	-	-	-	59,443	**59,443**
	722,901	**138,603**	**-**	**-**	**-**	**59,443**	**920,947**
Net liquidity gap on contractual basis	**(408,166)**	**(79,062)**	**80,008**	**316,395**	**149,105**	**(58,280)**	**-**

31 December 2015

	Repayable on demand £'000	3 months or less but not repayable on demand £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non cash items £'000	Total £'000
Assets							
Cash and balances at central banks	377,983	-	-	-	-	-	**377,983**
Loans and advances to banks	4,166	35,188	-	-	-	-	**39,354**
Loans and advances to customers	1,031	1,042	11,855	77,116	96,196	-	**187,240**
Investment securities- available for sale	-	15,005	45,112	217,132	-	-	**277,249**
Other assets	-	-	-	-	-	1,244	**1,244**
	383,180	**51,235**	**56,967**	**294,248**	**96,196**	**1,244**	**883,070**
Liabilities							
Customer accounts	677,228	154,452	-	-	-	-	**831,680**
Other liabilities	-	-	-	-	-	51,390	**51,390**
	677,228	**154,452**	**-**	**-**	**-**	**51,390**	**883,070**
Net liquidity gap on contractual basis	**(294,048)**	**(103,217)**	**56,967**	**294,248**	**96,196**	**(50,146)**	**-**

3.4 Concentration risk

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

31 December 2016

	UK £'000	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	275,783	-	-	**275,783**
Cash and balances with governments or development banks	390,537	35,000	15,384	**440,921**
Loans and advances to banks & debt securities	102,355	40,000	98,200	**240,555**
Fixed and other assets	1,163	-	-	**1,163**
Total	**769,838**	**75,000**	**113,584**	**958,422**

31 December 2015

	UK £'000	Other Europe £'000	Other £'000	Total £'000
Loans and advances to customers	217,942	-	-	**217,942**
Cash and balances with governments or development banks	511,477	15,008	15,388	**541,873**
Loans and advances to banks & debt securities	103,733	-	45,234	**148,967**
Fixed and other assets	1,045	-	-	**1,045**
Total	**834,197**	**15,008**	**60,622**	**909,827**

The Bank's customer lending is UK centred and has a broad distribution of exposures throughout the UK which 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 internal capital adequacy process and form part of the Pillar 2a capital held.

3.5 Operational risk

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

3.6 Interest rate risk in the Banking Book (IRRBB)

The Bank is 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).

This 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 get a Present Value (PV_0). The discount factors are then adjusted to simulate an immediate parallel 200bps increase in rates and also 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.

3.7 Leverage

CRD IV introduced a non-risk based leverage ratio that is supplementary to the risk based capital requirements. The 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 or recognise the relative risk of low loan to value lending.

The Bank's ratio, calculated in accordance with the FPC's leverage regime is 5.7% at 31 December 2016 (2015: 5.9%).

Appendix 1 – Remuneration policy and practices

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

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

The Remuneration Committee has reviewed and approved Unity's remuneration policies and the Remuneration Code Statement (RCS). To ensure compliance with the Code, the recommended RCS template has been adopted. Unity has one business area, Business Banking, which consisted of 86 (2015: 98) paid individuals (including Directors, but excluding contractors) as at 31 December 2016.

The staff costs were as follows:

All Staff:	**2016 £'000**	**2015 £'000**
Total fixed staff employment costs	5,941	5,122
Total variable staff costs	132	-
Total staff costs	**6,073**	**5,122**

Code Staff*:	**2016 £'000**	**2015 £'000**
Code staff fixed employment costs	1,232	990
Code staff variable costs	33	-
Total Code staff costs	**1,265**	**990**

**Figures shown above are the staff costs relating to the 11 (2015: 13) members of staff identified during the year as Code Staff, including any remuneration in the year received before or after they ceased to be Code Staff and any received prior to approval as a Board member by the PRA, and including starters and leavers.*

The Code requires that banks identify and designate as "Code Staff" 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 11 Code Staff have been identified during the year (9 at year end) and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Code Staff. All Board Directors (Executive and Non-Executive) are included as Code staff. No Code staff had either variable or total remuneration in excess of £500,000. The Senior Managers Regime, implemented at the start of the year and effective from March 2016, identifies principal risk takers, all of whom are also included as Code staff.

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

comprise a minimum of 25% females by 2019 and 33% females by 2022. The Board is currently 20% female (2 out of 10).

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

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

Unity has in place a discretionary Employee Participation scheme; awards are linked to whether Unity has met its overall business objectives based on the end of year financial results. In 2016 the Bank did not meet its trigger threshold for paying an award however, a discretionary award of c5% salary will be made (2015: nil). Awards under the scheme qualify as “variable remuneration” as defined in the Code. Any awards under the scheme that are payable to individuals will be paid as a one-off cash payment. Employees are entitled to 100 shares on completion of their first year of service with the Bank and again after 10 years service.

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

During the year Unity did not contract into any inducements to new joiners (2015: two) and agreed to make severance payments to 26 (2015: 5).

The total severance charge included in expenses in the year is £716,000 (2015: £206,000) of which £nil (2015: £160,000) related to Code staff. The highest amount relating to one single person for the year was £99,000 (2015: £160,000).

Staff members in control functions are remunerated independently of the businesses they oversee. Total staff employment costs (including variable remuneration) in 2016 were £6.1m of which the employment costs of Code staff were £1.3m.