Kingdom Bank

WE HELP CHURCHES GROW.

Pillar 3 Disclosures

Revision Date:	May 2021
Approved Date:	3 June 2021
Next Revision due:	May 2022

Contents

1. Introduction

The fourth Capital Requirements Directive (CRD IV) built on previous CRD directives which were designed to ensure the financial soundness of credit institutions (banks and building societies) and certain investment firms while reflecting the Basel Committee on Banking Supervision (BCBS) rules on capital measurement and capital standards. The bulk of the CRD IV rules applied from 1 January 2014.

The UK left the EU on 31 January 2020 and entered a transition period during which EU law continued to apply until 31 December 2020. The European Union (Withdrawal) Act 2018 converted directly applicable EU law (e.g. EU regulations) into UK law and preserved domestic law that relates to EU membership, including domestic law and regulators' rules that were introduced to implement EU directives. This body of law is referred to as 'retained EU law' and includes CRR II and CRD V and continues to apply following the end of the transition period.

CRD IV is made up of the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and the Capital Requirements Directive (CRD IV), which must be implemented through national law.

CRD IV implemented the Basel III agreement in the EU. This included enhanced requirements for quality and quantity of capital, a basis for liquidity and leverage requirements, rules for counterparty risk, and macro-prudential standards including a countercyclical capital buffer, a capital conservation buffer and capital buffers for systemically important institutions. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised EU regulatory reporting - referred to as COREP and FINREP. These reporting requirements specify the information firms must report to supervisors in areas such as own funds, large exposures and financial information.

CRR II and CRD V were published in June 2019 and include a number of minor amendments to CRR and CRD IV respectively. The key capital adequacy impacts on the Bank from January 2022 unless otherwise stated are as follows:

- Large exposures framework will be based on Tier 1 capital rather than eligible capital (this will reduce the regulatory maximum loan size and maximum counterparty exposure by around 11% based on current capital levels);
- EU Leverage Ratio applies from 28 June 2021 (see section 5.2);
- Threshold below which the 0.7619 Small and Medium Sized Enterprise (SME)[1] supporting factor may be applied to exposures to increase from €1.5m to €2.5m and introduction of an SME factor of 0.85 for the portion of exposures above €2.5m.

[1] In Article 2 of Commission Recommendation 2003/361/EC 'SME' is defined as an enterprise which employs fewer than 250 persons and which has an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

- Enhanced Pillar 3 disclosure requirements will apply which, for small and non-complex firms such as the Bank, will focus on key metrics.

The CRD comprises three 'pillars':

- Pillar 1 sets out the minimum capital requirement firms will be required to meet for credit, market and operational risk. This is known as the Capital Resources Requirement.
- Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and must take action accordingly. The Board of Kingdom Bank Limited ("the Bank") has undertaken an assessment of all of the key risks facing the Bank and additionally, the Bank has stress tested those risks to establish the level of additional capital to be held under Pillar 2. The Internal Capital Adequacy Assessment Process (ICAAP) is produced by the Bank and is normally reviewed by the PRA ("the Regulator") in alternate years as part of the Capital Supervisory Review and Evaluation Process (C-SREP). The last full ICAAP was approved by the Board in February 2021 and was submitted to the Regulator in February 2021. The Regulator conducted a C-SREP in the first half of 2021 and is expected to report formally in June 2021. The Regulator last set the minimum level of capital they considered that the Bank should hold in respect of its risk assets in the form of a Total Capital Requirement (TCR) in August 2017. The Bank has operated and continues to operate within the TCR.
- The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management. This document includes the information required under Pillar 3 and will be updated annually.

In December 2017 the BCBS issued revisions to Basel III which will impact the standardised approach for credit risk and operational risk used by the Bank together with a number of other measures which do not impact the Bank, with an implementation date of January 2023. These revisions have informally been labelled "Basel IV" by the banking industry although in fact they are revisions to Basel III. The changes are expected to result in a reduced overall capital requirement.

The figures in this document are as at 31 December 2020 unless otherwise stated.

Following PRA approval, on 31 March 2020 the Bank was acquired by a new investor group, including Stewardship Services (UKET) Limited and a number of private investors, acting through Lamb's Passage Holding Limited. The Bank's results were included in the consolidated financial statements of Lamb's Passage Holding Limited, which are publicly available. Consequently, the consolidated results are not included in the financial statements of the Bank. Stewardship Services (UKET) Limited is a charity well known to the Bank and provides services in many cases to the same types of customers. The investor group also includes a number of private individuals. Their aim is to invest additional share capital into the Bank and increase its reach to the same target market. From 31 March 2020 the directors consider the ultimate controlling party of the Bank to be Lamb's Passage Holding Limited.

AOGPT and Lamb's Passage Holding Limited are not regulated by the Regulator and accordingly this document only includes disclosures relating to the Bank.

1.1 COVID-19

The COVID-19 pandemic has been the defining hallmark of 2020. Operationally, the Bank moved to off-site working with minimal disruption to services (so demonstrating our operational resilience), and that will undoubtedly change aspects of the use of our office space in the longer term.

The main effect of the pandemic was a clear slow-down in the number of mortgage enquiries and speed of decision making by churches looking to progress with building projects. Lending targets for the year were reset and then met, with a modest £5.3m (2019: £6.6m) of drawdowns in the 12 months, ending the year with £47.1m (2019: £45.3m) on the loan book.

Although we introduced appropriate COVID-19 forbearance measures for 44 lending customers during the year, representing 21.3% of borrowing, by the date of this report almost all of these cases are now making full contractual repayments. We recognise that, even with a return to reduced restrictions for people gathering as churches, the full economic impact is yet to be felt. We will remain vigilant and manage the Bank's risks with care.

The Bank and its customer base have proved resilient to the COVID-19 pandemic. Operationally the Bank moved to remote working with limited difficulty, and the Bank's staff worked tirelessly to ensure uninterrupted customer service delivery. Forbearance measures were introduced for customers as appropriate, but no COVID-related losses have been incurred. The main financial impact has been sluggish growth in new mortgage lending as most churches have inevitably been focused on the challenge of maintaining activities through a period of changing rules and guidance on meeting.

As noted above, the Bank and its customer base have proved resilient in the face of the COVID-19 pandemic during 2020, and there are no early indications of concern in 2021.

Operationally, remote working will undoubtedly continue to be a part of the Bank's future flexible working approach for both customer-facing and support teams. Nevertheless, government rules and guidance permitting, a gradual return to a physical office base is envisaged during the months ahead as priority is placed on supportive team relationships and consistency of customer service.

Measures to prevent transmission of the virus have included the closure of places of worship and other public meeting venues. This had an immediate and ongoing impact on the Bank's core customer base, frequently reducing both income and expenditure. Church services and other gatherings have moved from physical to virtual, and many churches now envisage an ongoing online presence alongside a gradual return to physical meeting.

During 2020 the Bank received 73 requests from borrowers to agree temporary COVID-19 related payment holidays or other short-term forbearance measures, and these were managed satisfactorily. At the date of this report no COVID-19 related arrangements remain in place although we are working with two customers under regular forbearance arrangements.

The Bank will maintain close relationships with customers, in particular looking to identify early any specific difficulties or general patterns of concern as the UK and the wider world start to emerge from this challenging time of economic crisis. At the date of this report, however, there are no significant concerns to report, and the Bank has a strong liquidity position in case its deposit customers may need to withdraw funds.

The directors have considered the measurement of assets and liabilities in its balance sheet as at 31 December 2020 which might be affected by the ongoing COVID-19 situation and any related post balance sheet events. Their assessment did not reveal any events that require adjustment to be made to the financial statements.

Overall, the Board continues to monitor the impact of COVID-19 on the Bank. All material components of the Bank's supply chain are located in the UK and all critical outsourcing partners continue to function with normal service levels. The Bank's core systems and communication channels remain fully operational. The Bank's customer base is located entirely in the UK and will continue to be provided with a high quality service.

The directors have concluded that the ongoing risks to the Bank presented by the ongoing COVID-19 crisis are low and therefore that, given the underlying operating, capital and liquidity position of the Bank, the pandemic and its associated economic challenges do not create a material uncertainty in relation to the ability of the Bank to continue as a going concern.

Accordingly, on the basis of the assessment made, the Board has concluded that it remains appropriate to continue to prepare the financial statements on a going concern basis.

2. Risk management objectives and policies

The principal risks to which the Bank is exposed are as follows:

- *Credit risk* arises if the Bank's borrowers or market counterparties fail to meet their obligations.

    - *Borrower risk*
      The vast majority of the Bank's advances are secured by mortgages on property and all lending is by a specialist team, using specialised valuers and bespoke documentation. Lending authorities are documented in the Credit Policy. Maximum loan size is based on LTV limits subject to a maximum single loan size of £1m. The Bank's loan book is of high quality with very few repossessions and specific bad debt provisions required in the almost 70 year history of the Bank and its predecessor AOGPT. Regular stress testing is undertaken on the loan book. The Credit Committee reviews controls and tracking mechanisms to maintain credit exposure within internal and external guidelines. It allocates credit grades, monitors and instructs remedial action on under-performing exposures, monitors security values and associated risk/unsecured exposure and establishes and observes strict guidelines on provisioning.

    - *Institutional Counterparty risk*
      The Bank's policy is to finance all advances from customer deposits. The resulting commercial surplus is placed into the wholesale markets ("the Treasury Book") and the Bank's Reserve Account with the Bank of England at maturities that ensure the Bank complies with the liquidity parameters laid down in its Individual Liquidity Adequacy Assessment Process (ILAAP) document and by the Regulator. The Bank is thus exposed to banks and building societies. A formal Treasury policy is in place to restrict exposure to creditworthy counterparties and ensure exposure to any one counterparty is always prudent. The Treasury Committee monitors institutional counterparty exposures weekly, including consideration of information in the public domain relevant to credit risk. ALCO reviews the exposures against policy limits monthly as does the Audit, Risk and Compliance Committee ("ARC") and the Board by exception at each meeting. The Bank has never experienced a loss in its Treasury Book.

- *Market risk* is the risk of loss to the Bank due to adverse market movements in e.g. interest rates, exchange rates, prices etc. The Bank has no trading book. It does not deal in FX and has no FX risk.

  Interest rate risk is the potential adverse impact on the Bank's future cash flows from changes in interest rates. Although a significant amount of natural hedging exists in the balance sheet, the Bank is subject to an interest rate risk in the banking book due to differing repricing profiles between its assets and liabilities. In particular, fixed rate savings bonds and treasury deposits and fixed rate loans and counterparty deposits expose the Bank to the risk that a change in interest rates could cause either an increase in interest expense or a reduction in interest income relative to the variable rate interest flows. The net interest rate exposure is considered to be small. The impact of a 2% parallel shift in interest rates is reviewed monthly by ALCO and by exception at every ARC and Board meeting.

The Bank also has exposure to basis risk due to the excess of assets compared to liabilities which re-price with reference to Bank Base Rate ("BBR"). However, in practice the risk is significantly reduced as a significant portion of loans are linked to BBR with a floor rate. This means that a reduction in BBR would not result in a reduction in the rates receivable on these loans. Conversely in most cases BBR would need to exceed 3% before the rate receivable increased on these loans. Basis risk is reviewed monthly by ALCO and by exception at every ARC and Board meeting.

- *Operating risk* is risk to the Bank from inadequate or failed internal processes, systems or human resources, or from external events. The Bank seeks to mitigate operating risk by imposing a strong control environment. Specific risk areas include personnel, IT, legal, outsourcing, tax, fraud and regulatory risk and these risks are monitored weekly, and more formally monthly, by the Wider Leadership Team. The Bank adopts the 'Basic Indicator Approach' (BIA) under Pillar 1. Under CRR Article 315 the BIA produces a capital charge based on 15% of average income over the last three years.

- *Capital adequacy risk* is the risk that the Bank has insufficient capital to support business growth and / or uses up all of the PRA and CRD IV buffers leading to a breach of the Total Capital Requirement set by the Regulator during the last C-SREP review. Capital Adequacy is monitored monthly by senior management and ALCO.

- *Concentration risk* arises when several risks that have been identified occur close together, such that a single external event might increase the anticipated loss.

    - *Borrower concentration*
      As a Christian bank, the loan book is by nature highly concentrated in loans to churches and charities funded by retail savings from, in the main, churchgoers. This appears to pose a potential sector/niche concentration risk. The risk is strongly mitigated by the expected growth in the churches to which the Bank lends and the diversification inherent in its repayment sources, namely congregations. Churches, being member-based, do not behave like other charities, whose

income is volatile and vulnerable to economic downturns. Each member of the congregation feels a personal responsibility for repayment of the loan. This concentration is being mitigated by a growing proportion of the loan book which is being lent to personal borrowers secured on residential property. The Bank requires a minimum Service Ratio (income / loan instalments) of either 125% for non-personal lending or 150% for personal owner occupied lending.

- *Geographic concentration*

  The Bank currently lends in England, Wales, Scotland and Northern Ireland but does not lend outside the UK. It is recognised that a severe downturn in property values will affect some areas more than others. However, the Bank's portfolio exposure is reasonably spread throughout the UK. Geographic concentration is reviewed monthly by ALCO.

- *Product concentration*

  The Bank relies heavily on variants of two lending products, the church and charity mortgage and the personal residential mortgage. In mitigation the Bank does not rely on volatile fee or trading income. The Business Plan includes additional residential-backed lending alongside existing commercial-backed lending. The existing loan portfolio is stable and generates a healthy long-term income stream. If demand for church loans declined, the Bank would continue to run profitably, and could be wound down gradually as the loan book amortised.

- *Funding concentration*

  Deposits invested with the Bank are from individuals, associations, churches and charities and businesses. The Bank chooses not to rely excessively on wholesale funding, which is inherently volatile, and funds its loan book from customer deposits. Key mitigants include loyal customers attracted by the Bank's mission and personal service. Large individual deposit maturities are monitored weekly by the Treasury Committee and monthly by ALCO, and pre-emptive defensive action is taken if necessary by the Account Management Team. Further growth enabled by new capital is increasing the depositor base and diluting the level of risk.

- *Large exposures concentration*

  The failure of just a few large advances could cause the Bank disproportionate losses. Such advances are tracked and controlled by the 'large exposures ratio'. Large exposures (loans in excess of 10% of

Eligible Capital[2]) together with loans to groups of connected clients[3] are clustered within a permitted ratio of 25% of Eligible Capital for any single loan under the CRR. The Bank has an internal risk appetite which states that such exposures should not exceed 20% of Eligible Capital. The Bank of England has never defaulted on its debts and is seen as the 'lender of last resort', and as such there is no regulatory or internal limit on exposures to the Bank of England. The largest permitted exposure to any other single institutional counterparty is 100% of Eligible Capital under the CRR. The Bank has an internal risk appetite which states that such exposures should not exceed 95% of Eligible Capital for the Bank's clearing bank or 75% for all other institutional counterparties. These ratios are closely monitored each month by ALCO.

- *Liquidity risk* is the risk that the Bank, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Bank has a simple and very liquid balance sheet. It has no trading activities, no derivatives and no contingent liabilities and does not rely excessively on wholesale funding. The surplus retail deposits are placed with a range of banks and building societies at maturities of three years or less. The Bank maintains a buffer of high quality liquid assets sufficient to meet the regulatory Liquidity Coverage Requirement (LCR) ratio, which is monitored weekly by the Treasury Committee and monthly by ALCO. ALCO also monitor other key liquidity metrics.

- *Reputational risk* is the risk that the Bank may lose business or incur losses following a change in public perception following negative publicity, fraud or a similar event. The Bank employs an experienced external PR company and has a small and loyal staff base with low turnover; dedicates itself fully to the Treating Customers Fairly (TCF) principles and consideration of conduct risk issues; and therefore invariably adopts conservative management practices. The Bank has a Risk & Compliance function consisting of a Head of

---

[2] Eligible Capital means the sum of the following:
(a) Tier 1 capital
(b) Tier 2 capital restricted to 33% of Tier 1 (CRR Article 494)
Tier 1 capital comprises the sum of Common Equity Tier 1 ("CET1") capital and Additional Tier 1 capital. In the Bank's case CET1 comprises the following:

- Ordinary share capital, Retained earnings, Revaluation reserve
- Less: Interim net losses, Intangible assets, Deferred tax assets that rely on future profitability (not arising from temporary differences, net of associated deferred tax liabilities)

The Bank has no Additional Tier 1 capital. In the Bank's case Tier 2 capital comprises subordinated debt capital (amortised over the last 5 years of the term of the debt).

[3] two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others or who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding or repayment difficulties.

Compliance and an Assistant. In March 2021 an experienced Chief Risk Officer replaced the retiring Head of Compliance.

- *Systemic risk* is the risk that a market-wide loss of confidence in the whole or part of the UK banking sector leads to a sudden rush of withdrawals from the Bank, for example a general flight away from small banks to the perceived safety of large banks. The mitigants detailed above under *Liquidity risk* are applicable to this type of risk.

3. Board and committee structure

3.1. Three lines of defence

The Bank operates the three lines of defence model which segregates risk management into three distinct categories:

- **First line:** Operationally, Management have primary responsibility for the identification, measurement and management of all risks. Clear ownership of each specific risk management responsibility is set out in Board approved policy documents which establish the limit structures within which the Bank operates. In addition to the day to day risk management processes of the Bank, risk is managed through a number of executive committees.

- **Second line:** The Chief Risk Officer conducts independent reviews of risk management in the Bank and provides challenge to Management regarding the adequacy, accuracy and effectiveness of management information (MI) used in risk management decision making. The Chief Risk Officer reviews risk-related MI prior to distribution, adds commentary on significant variances and challenges Risk Managers and / or Risk Owners for explanation and actions where appropriate.

  The Chief Risk Officer maintains a rolling 3 year Combined Assurance Plan in conjunction with Internal Audit, which ensures that all significant areas of risk are reviewed at an appropriate frequency by either the second or third line of defence through the assurance cycle. The Combined Assurance Plan is presented by the Chief Risk Officer at each meeting of the ARC.

  In addition, the Chief Risk Officer provides expertise and guidance on appropriate risk management practices, including good practice policies and procedures.

  It is also the Chief Risk Officer's responsibility to update relevant personnel and committees at the Bank (and through them the Board) regarding new and amended rules, regulations or guidance; and to ensure that the Bank responds with appropriate actions.

  The Chief Risk Officer has a reporting line to the Chairman of the ARC and they meet at least annually.

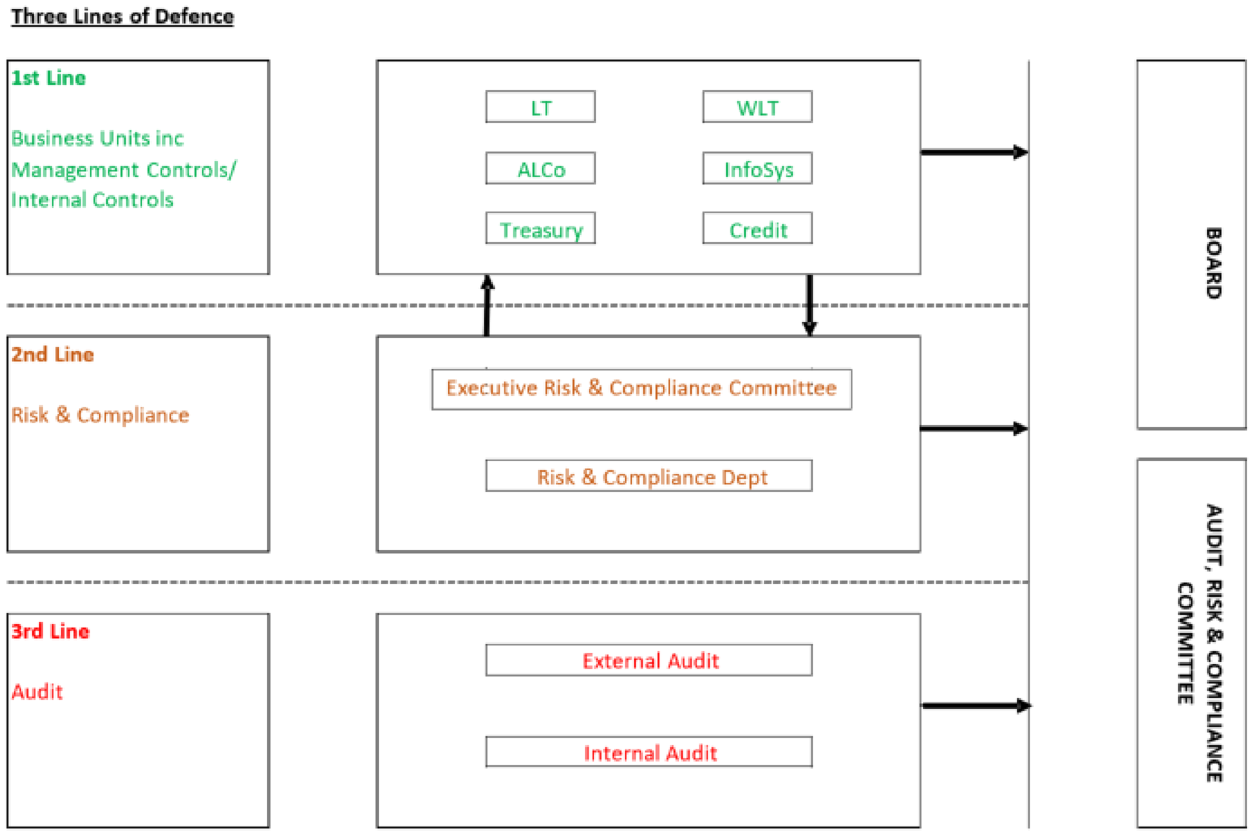
  The Executive Risk & Compliance Committee provides an internal challenge to the day to day management of risk as detailed below.

- **Third line:** Internal Audit is responsible for independent review of the effectiveness of risk management at the Bank. Internal Audit report directly to the Chairman of the ARC.

External Audit provide independent review and challenge to risk management at the Bank insofar as such risk management impacts provision of assurance with regard to the financial statements and accounts.

The following diagram illustrates how individuals and committees fit into the three lines of defence model:

Kingdom Bank Ltd Governance Chart[4]



The Board is the governing body at the Bank and, as such, has ultimate responsibility for approval of the risk management framework and oversight of performance against systems of control.

Audit, Risk and Compliance Committee[4]

The Board has delegated primary responsibility for ensuring that the risk and controls at the Bank are operating effectively, to the ARC. ARC is a Board sub-committee whose members are non-executive directors of the Bank.

Executive Risk & Compliance Committee

This is the executive committee responsible for challenge to the Business areas in respect of day to day management. It responds to issues raised by Risk Owners and Managers; and reports from other staff members regarding risk profiles and the

[4] During 2021 it is the intention of the Bank's Board to split the Audit, Risk and Compliance Committee into a Board Risk & Compliance Committee and a Board Audit Committee, subject to PRA and FCA approval of the respective Chairs.

operation of mitigants. It reviews mitigants and investigates their performance with the Business Areas. In addition it manages regulatory compliance, internal audit, fraud and other financial crime.

Leadership & Management Committee Structure

The **Leadership Team (LT)** is comprised of the four positions Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and Chief Information Officer (CIO). These are the four executive positions holding regulatory Senior Management Functions. This team is responsible to the Board and all attend Board meetings, although only the CEO and CFO are Executive Directors.

The LT is responsible for strategic direction and execution of the Board's Agenda and meets monthly. The LT includes all the executive Risk Owners.
The **Wider Leadership Team (WLT)** is comprised of the four LT members plus the Heads of Customer Operations, Lending and Insurance. Meeting monthly the WLT is responsible for operational and regulatory risk management, conduct risk, HR, equipment and premises, operationally delivering the Business Plan within the Board's Risk Appetite. This wider team meets monthly and includes the Risk Managers and receives reports from the Executive Risk & Compliance Committee.

The LT & WLT make decisions in accordance with the delegated authorities authorised in the Corporate Governance Policy.

Other Executive Committees

Additionally, a range of executive committees are responsible for operational management of risks. The committees meet in a monthly cycle reporting to the WLT. These consist of: the Credit Committee (credit control, arrears management and provisioning); the Assets and Liabilities Committee (ALCO) (financial risk monitoring and balance sheet management); the Treasury Committee (treasury management, cash flow and deposit rates) and the Information Systems Committee (InfoSys) (IT strategy and project plans).

The WLT reports to the Board via the Chief Executive. It also reports via the Executive Risk & Compliance Committee in respect of risk issues to the ARC.

Internal Audit is outsourced to Mazars LLP. BDO LLP act as the Bank's external auditors.

4. Own funds

The Bank's total Own Funds, calculated in accordance with Article 72 of the CRR, amounted to £7,448k as at 31 December 2020. This was made up of Tier 1 capital of £6,594k (after deductions) and Tier 2 capital of £854k (no deductions).

The full analysis is shown in the table below:

Total Own Funds	£000	£000
Tier 1 Capital		
Permanent share capital (ordinary £1 shares)	4,867	
Profit and loss account[5]	1,720	
Revaluation reserve	172	
Core Tier 1 capital before deductions		6,759
Deductions from Tier 1 capital: intangible assets, deferred tax assets relying on future profits (not arising from temporary differences, net of associated deferred tax liabilities)		(165)
Tier 1 Capital after deductions		6,594
Tier 2 Capital		
Tier 2 capital instruments (subordinated debt)	854	
Tier 2 Capital (no deductions)		854
Total Capital after deductions		7,448

[5] The profit and loss account figure excludes audited profits for 2020, which were not approved until 16 April 2021.

5. Exposure amounts under the standardised approach

5.1. Risk weighted exposure amounts

The Bank's ICAAP is updated annually and assesses how much capital the Board considers adequate to absorb all losses which the Bank could potentially incur yet still leave it solvent. The ICAAP covers the entire business and identifies and quantifies material risks to the Bank. An important component is the Bank's Risk Register, which evaluates risks to which the Bank is exposed within the Basel Framework Pillars 1 and 2; and identifies mitigating actions.

The Bank prepares an annual five year Business Plan which is submitted for Board challenge and approval and which includes projections for the Own Funds, capital requirement and the resulting surplus / deficit capital over TCR before and after the PRA and CRD IV buffers. In addition the Executive maintain a five year capital forecast which is updated quarterly. The Board and the ALCO Committee receive a monthly report showing the monthly forecast surplus / deficit capital for the next 15 months and the year-end capital position for the next 5 years.

The Bank adopts the standardised approach to credit risk as detailed by the Regulator and holds a minimum of 8% of the risk weighted exposure amounts for each of the standardised credit risk exposure classes (Pillar 1 capital). Additional capital is held under Pillar 2 as specified by the PRA.

The Bank calculates its operational risk capital requirement in accordance with the basic indicator approach, and provides a capital amount of 15% of the average of the last three years' operating income.

The Bank's total Pillar 1 capital resources requirement, calculated in accordance with the requirements of the Regulator, amounted to £3,171k as at 31 December 2020. This is detailed below:

Exposure category under CRR Article 112	Exposure £000	Risk weighted exposure £000	Capital required £000
Exposures to central governments or central banks (Bank of England Reserve Account)	6,677	-	-
Retail exposures (unsecured loans)	875	657	53
Exposures secured by mortgages on immovable property (non-residential loans performing)	33,865	26,073	2,086
Exposures secured by mortgages on immovable property (residential loans performing)	12,480	3,937	315
Exposures in default (non-residential loans)	266	266	21
Exposures in default (residential loans)	0	0	0
Exposures in default (unsecured loans)	0	0	0
Exposures to institutions	14,135	2,827	226
Other items (fixed and other assets)	1,699	1,728	138
Credit Risk – Capital Resources Required	69,997	35,488	2,839
Operational Risk – Capital Resources Required			332
Pillar 1 Capital Resources Required			3,171

5.2. Leverage Ratio

Basel III introduces a non-risk based leverage ratio to supplement the risk based capital requirements. The ratio shows tier 1 capital as a proportion of total exposures (on and off balance sheet assets). The ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive lending in proportion to the capital base. There are two relevant frameworks which are applicable to UK banks: the UK Leverage Ratio and the EU Leverage Ratio.

UK Leverage Ratio
The PRA issued Policy Statement "PS27/15 Implementing a UK leverage ratio framework" on 7 December 2015 which set out minimum leverage ratio requirements for all PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion. In PS28/18 issued in November 2018 the PRA stated that it will review its implementation of the UK Leverage Ratio framework in light of the conclusions of the FPC's review of the framework which is expected to happen in summer 2021. These reviews may result in the Bank being subject to the above binding leverage ratio requirement. At 31 December 2020 the Bank held retail deposits of £60.3 million and hence the minimum leverage ratio requirements do not apply to the Bank.

The Bank's calculated leverage ratio at 31 December 2020 was 9.37% (2019: 9.40%).

EU Leverage Ratio

The CRR II introduces a binding EU Leverage Ratio of 3% which applies to all EU banks from June 2021. Although the UK has now exited the EU the requirement will still be applied by the PRA alongside the UK Leverage Ratio.

6. Credit risk and provisioning

6.1. Credit risk – Loans and advances

The geographical spread of loans and advances (before provisions and pipeline lending commitments) as at 31 December 2020 is shown below:

Geographic regions	Amount £000	% of book
North West	6,848	14.4
North East	1,743	3.7
Yorkshire & Humber	3,266	6.9
East Midlands	6,355	13.4
West Midlands	2,932	6.2
East of England	5,796	12.2
South East	7,962	16.8
South West	3,053	6.4
London	6,418	13.5
Scotland	599	1.3
Wales	2,333	4.9
Northern Ireland	133	0.3
Total loans and advances	**47,438**	**100.0%**

It should be noted that the loan figures in the table in section 5 are after deducting specific provisions and include 20% of pipeline lending commitments.

A breakdown of loans and advances by loan type and borrower type (excluding pipeline lending) is shown below:

Exposure class	Amount £000	Amount £000
Fully secured on land and buildings:		
Charity mortgages	40,364	
Personal mortgages	7,074	
Total loans and advances before provisions		**47,438**
Less: provision for bad and doubtful debts		**(324)**
Total loans and advances after provisions		**47,114**

A residual maturity analysis is shown below:

Repayable	Amount £000	Amount £000
In not more than three months	739	
Over three months but not more than one year	2,216	
Over one year but not more than five years	9,304	
In more than five years	35,179	
Total loans and advances before provisions		**47,438**
Less: provision for bad and doubtful debts		**(324)**
Total loans and advances after provisions		**47,114**

6.2. Credit risk – Institutional Counterparties

The Bank's procedures for managing institutional counterparty exposures are referred to in section 2 under *Institutional Counterparty Risk*. Under the standardised approach to credit risk, risk weightings are assigned to counterparty exposures based on the credit quality assessment tables. Credit limits are set by the Board and reviewed monthly by ALCO. Exposure limits for rated counterparties range from 20% to 95% of Eligible Capital based on short term external credit agency ratings or 20% of Eligible Capital for unrated banks and building societies based on Pillar 3 capital disclosures, as detailed below:

Short-Term Rating 1[3]	Short-Term Rating 2[3]	Max KBL Exposure[1,2]
1	1	75%
1	2	50%
2	1	50%
1	3	0%
2	2	0%
3	1	0%
3	2	0%
2	3	0%
3	3	0%
Not rated[4]	Not rated[4]	20%

Notes

[1]*The maximum exposure to the Bank's Clearing Bank is limited to 95% of Eligible Capital*

[2]*As a percentage of Eligible Capital*

[3]*An initial placement with an institution will not be considered if short-term ratings are below Credit Quality Step 2 in the table above. If ratings for a particular counterparty subsequently deteriorate below these levels after placement, early withdrawal will be requested. If this incurs a penalty or loss the WLT will consider what action to take.*

[4]*The maximum exposure to an unrated institution is limited to 20% of the Bank's Eligible Capital, provided that the institution has at least £10m of Eligible Capital which shall be not less than 160% of that institution's Pillar 1 Capital Requirement. If an unrated institution has Eligible Capital below £10m at the time of considering the deal then no funds may be placed with that institution.*

The table below shows the breakdown of counterparty exposures, credit assessments and risk weights at 31 December 2020.

All exposures have a residual maturity of one year or less:

Counterparty type	Exposure £000	Credit quality assessment step	Risk weight
Central bank (Bank of England Reserve Account)	6,677	N/A	0%
Institutions (UK banks and building societies)	5,018	1	20%
Institutions (UK banks and building societies)	0.0	2	20%
Institutions (UK banks and building societies)	0.0	3	20%
Institutions (UK banks and building societies)	7,865	Unrated	20%
Total counterparty exposures with residual maturity up to three months	**19,560**		
Institutions (UK banks and building societies)	0.0	1	20%
Institutions (UK banks and building societies)	0.0	2	50%
Institutions (UK banks and building societies)	0.0	3	50%
Institutions (UK banks and building societies)	1,252	Unrated	20%
Total counterparty exposures with residual maturity between three months and one year	**1,252**		
Total counterparty exposures	**20,812**		

6.3. Provisioning

Definitions

Loans and advances are regarded as “past due” (“in default” under the CRR) when the arrears exceed three months’ contractual repayments at the balance sheet date. “Impaired loans” are those where the carrying amount is assessed to be not fully recoverable after taking into account all available security and associated costs.

Accounting policy for loan provisions

Loans and advances are initially recorded in the balance sheet at cost, less specific loan loss provisions and are subsequently carried at amortised cost using the effective interest method.

Specific loan loss provisions are made against the carrying amount of loans and advances that are identified as not fully recoverable to reduce these loans and advances to their recoverable amounts. Specific provisions are made for loans where arrears exceed three months' contractual payments or management judge that the probability of loss occurring is significant and an exposure to potential loss exists after realisation of security at a forced sale discount.

A specific loan loss provision has been included for Incurred But Not Reported ("IBNR") losses, which is maintained for loans which are likely to have incurred losses triggered by historical events but which have not yet been reported and uniquely identified by the Bank. The IBNR provision has been separated into two elements: unincorporated borrowers and incorporated borrowers and a provision has been recognised for each type of borrower which reflects the level of risk assessed by management.

Increases in the loan loss provision are recognised in the profit and loss account. If in a subsequent period the amount decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the profit and loss account.

A table of movements in the loan loss provision at 31 December 2020 is shown below:

Movements in provisions	Brought forward £000	Movement £000	Written off	Carried forward £000
Specific provision for bad and doubtful debts: Identified loans	125	88	-	213
Specific provision for bad and doubtful debts: IBNR losses	122	(11)	-	111
Total provisions	**247**	**77**	**-**	**324**

The amount of impaired exposures at 31 December 2020 was £1,127k and related to charity mortgages (£1,061k) and personal mortgages (£66k).

7. Remuneration policies and practices

A risk arises if the Bank's remuneration policies and practices could result in staff being rewarded for decisions inconsistent with the Board's Risk Appetite. It is therefore the Bank's policy to seek to ensure that its remuneration decisions are in line with effective risk management.

The Bank seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Bank's ethos, current financial condition and future prospects. The Bank does not operate any committed variable remuneration schemes for any staff and any bonuses paid are not guaranteed. Subject to the performance of the Bank the Executive Directors (comprising the Chief Executive Officer and the Chief Financial Officer) will consider and recommend to the Board a discretionary annual bonus. For 2020 the bonus amounted to between £694 and £15,000 per staff member. A revised bonus scheme which focusses on individual as well as Bank performance will be introduced in 2021.

At 31 December 2020, the Board identified that those staff whose professional activities have a material impact on the Bank's risk profile are the Wider Leadership Team (comprising the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Head of Compliance and the Heads of Lending, Account Management and Insurance) together with the Bank's three non-executive directors. Three further non-executive directors were appointed in 2021.

The Board assess the remuneration of the Executive Directors based on their levels of responsibility, performance and the market place. This information is considered alongside the performance of the Bank as compared to the Annual Business Plan. The remuneration of the other members of the Wider Leadership Team in addition takes into account the recommendation of the Executive Directors. The remuneration of the non-executive directors is agreed by the Board, with the Chairman's fee subject to approval by the shareholder.

Aggregate information on the remuneration of the ten persons for the year ended 31 December 2020 is given below:

	£000
Fixed remuneration	517.4
Variable remuneration	44.7
Total	**562.1**

8. Conclusion

This disclosure document is intended to provide background information on the Bank's approach to risk management, including its corporate governance framework. It provides a schedule of the Bank's Own Funds and capital requirement in accordance with Pillar 1. The Bank's approach to credit risk and provisioning is also included.

For further information on the contents of this document please email info@kingdom.bank or write to the Chief Financial Officer at the Bank's registered office address.