Kingdom Bank Limited **Registered Number: 04346834**

Report and financial statements
for the year ended 31 December 2020

Kingdom Bank Limited

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Kingdom Bank Limited

Report and Financial Statements
for the year ended 31 December 2020

Company Information

Executive Directors:	P R Houghton	Chief Executive Officer
	M J Slack	Chief Financial Officer
Non-Executive Directors:	W D R Swanney	Chair
	R B Ellison	(Appointed 18 January 2021)
	M R Buttrick	Chair of Audit, Risk and Compliance Committee
	M N Hayes	
	M Maruthappu	(Appointed 19 February 2021)
Company Secretary:	M J Slack	
Registered office:	Ruddington Fields Business Park Mere Way Ruddington Nottingham NG11 6JS	
Registered number:	04346834	
Independent auditors:	BDO LLP Chartered Accountants and Statutory Auditors 55 Baker Street London W1U 7EU	
Solicitors:	Geldards Solicitors Number One Pride Place Pride Park Derby DE24 8QR	
	Flint Bishop Solicitors LLP St. Michael's Court St. Michael's Lane Derby DE1 3HQ	
Bankers:	Barclays Bank PLC Barclays Corporate Level 4 1 Chapel Quarter Maid Marian Way Nottingham NG1 6HQ	

Kingdom Bank Limited

An Introduction from the Chair

Two big events dominated 2020. The change in ownership, and COVID 19.

Change

On 31 March 2020 Kingdom Bank Ltd ("the Bank") was acquired by new owners. We thank God for the 66 years of heritage and support from the Assemblies of God church, but the time had come for a new chapter. Under the ownership of a new investor group, including Stewardship Services (UKET) Limited and a number of private investors, acting through Lamb's Passage Holding Limited the Bank has already received an initial £650k of additional capital.

We were pleased to welcome Paul Houghton as our new CEO Designate during the summer, formally taking over from Chris Sheldon in December following PRA approval. On behalf of the Board, I would like to thank Chris for his unstinting service over 18 years, during which time he led on the development of the operational and risk management systems which underpin the Bank's activity. Paul brings passion and energy for change and growth which will take the Bank into its new phase.

Following the change in ownership, we introduced a tighter leadership structure towards the end of the year, and a number of changes in board membership have taken place. Sarah Pierman decided to step down in April 2020, and I would like to thank her for the significant contribution she made during her three years' service. We subsequently identified three outstanding candidates as new non-executive directors, two of whom joined the board in the first quarter of 2021. Together, they bring a wealth of varied experience and some diversity to the Board.

With our strengthened executive and broadened non-executive, the Bank is set for development and growth.

Challenge

In business terms, of course, 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.

Continuity

The additional capital has allowed investment in those areas which will provide the foundations for future growth. We have strengthened executive leadership, enabled the bank to commence online banking for our personal savings customers, improved systems, and focussed on marketing and business development which will raise the Bank's brand profile amongst the UK evangelical churches which we seek to serve. The investment in leadership, systems and market focus has, as expected, resulted in a small loss before taxation of £38,000 (2019: profit of £326,000). However the Bank has pressed on with its core activities of lending, taking deposits and providing insurance brokerage, and the underlying business remains strong.

In summary, against the backdrop of a world pandemic and whilst we continued to deliver a solid performance, we bolstered the Bank's foundations on which we will grow our business – providing financial services for churches, Christian charities and individuals working in Christian ministry, with the overarching aim of serving the Lord Jesus Christ by serving his church across the UK. The Board is enthusiastic about the opportunities heralded by the next phase of the Bank's journey.

W D R Swanney
Chair
16 April 2021

Kingdom Bank Limited

Strategic Report for the year ended 31 December 2020

The directors are pleased to present their Strategic Report for the year ended 31 December 2020.

Principal activities

The principal business of Kingdom Bank Limited ("the Bank" or "the Company") continues to be that of providing mortgage products, savings products and insurance broking for churches, Christian charities and individuals working in Christian ministry, with the overarching aim of serving the Lord Jesus Christ by serving his church across the UK.

The Bank's church and charity loans are focused on helping active and growing gospel ministries deliver their mission in local communities. The loans to individuals are primarily to provide housing for individuals working in Christian ministry, either for now or for the future. Lending is funded from customer deposits in a range of savings accounts, in particular designed to appeal to Christians and churches who would like their money to be supporting gospel ministry. The Bank also operates a specialist insurance broking service focusing on delivering a bespoke service to churches and Christian charities.

Review of the business

The Bank has continued to deliver its banking and insurance services to customers during the year. However, 2020 marked a change of the ownership and increased capital investment, with a view to raising the Bank's profile and growing all areas of its business over the subsequent few years. The year to 31 December 2020 saw the start of this transition, albeit against a backdrop of the global Coronavirus pandemic, which has inevitably provided some market and operational challenges. The impact of COVID-19 is detailed later in the Strategic Report.

Following PRA approval, Assemblies of God Property Trust completed the sale of its shares in the Bank to a group of new investors on 31 March 2020 via an acquisition vehicle, Lamb's Passage Holding Limited. The investor group includes a number of private investors alongside Stewardship Services (UKET) Limited, a charity well known to the Bank and providing services to similar types of customers in the church and Christian charity sector. As Stewardship Services (UKET) Limited does not exercise control of Lamb's Passage Holding Limited, the directors consider the ultimate controlling party of the Bank to be Lamb's Passage Holding Limited.

From the outset, the investors' intention has been to invest additional share capital into the Bank and increase its reach to the same target market. On 31 March 2020 the Bank issued 650,000 ordinary £1 shares at par to Lamb's Passage Holding Limited.

Mortgages

The Bank's long-standing specialism is commercial lending to registered charities which operate as churches, to enable them to grow and expand. During the year, 61 (2019: 73) new loans were approved totalling £8,100,000 (2019: £12,700,000) and 38 (2019: 48) were drawn down with advances totalling £5,300,000 (2019: £6,600,000). The total loan book has increased to £47,100,000 (2019: £45,300,000) after the loan loss provision. Arrears management remains a key focus with an internal Risk Appetite for no more than 7.5% of the loan book to be more than three months in arrears. The Board is pleased that the Bank has remained well within the internal Risk Appetite throughout the year, and arrears stood at 0.56% at 31 December 2020 (2019: 0.58%).

The Bank continues to expand its lending secured on residential property and, included in the totals above, this lending has increased in the year with £4,200,000 (2019: £6,900,000) of loans approved and £3,000,000 (2019: £5,000,000) drawn.

Savings

Savings accounts are provided for both private individuals as well as organisations on terms between no-notice and up to three years fixed term. Interest rates across the market continue to remain low with surplus liquidity held by many deposit takers. The Bank increased deposits during the year by £9,900,000 (2019: increased by £5,300,000) to £61,300,000 (2019: £51,400,000).

Strategic Report for the year ended 31 December 2020 (continued)

Review of the business (continued)

General insurance

The Bank's insurance broking team provides a high level of customer service and tailored support to churches and Christian charities. Policies are offered providing protection for assets and liability risks cover. The market for insurance has begun to harden during the year with an increase in the overall level of income. Commission income earned from this activity increased to £433,000 (2019: £388,000). Customer retention remains strong at 97% (2019: 98%).

Principal risks and uncertainties and financial risk management

The Bank regularly reviews the internal and external risks affecting the business. These risks are, where possible, mitigated to minimise their probability and impact. The principal risks have been identified as: capital, liquidity, interest rate, credit, operational and compliance.

The Risk Management Framework documents how risks are identified, categorised, measured and managed within the Bank. All risks are identified on the Risk Register by the members of the Bank's Wider Leadership Team, which includes the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer and the Chief Information Officer (together the "Leadership Team") and the heads of department. The Wider Leadership Team allocates a Risk Manager who is responsible for day to day implementation of the risk mitigants and close monitoring of these risks, and a Risk Owner at Board level to oversee the management of those risks.

On a quarterly basis the Risk Manager and Risk Owner are required to attest to the ongoing implementation of the mitigants and to verify there are no other changes and no new risks. Any changes to mitigants or risks will be notified to the Compliance Department for submission to the Wider Leadership Team. Risks are allocated an inherent risk score (impact x probability) and a residual score after mitigants, by the Wider Leadership Team. Risks are categorised based on inherent score as critical, significant and non-significant. Critical risks are reviewed at every scheduled meeting by the Audit, Risk and Compliance Committee and twice annually the Board review critical and significant inherent risks.

During the year the Bank has continued to review, update and refine its Risk Management Framework in response to emerging trends and the continuous reassessment of risks. Key performance indicators relating to the principal risks are monitored by the directors through a monthly Business Performance and Risk Review report.

Capital

The Bank's regulatory capital consists of shareholders' funds ("Core Equity Tier 1") and subordinated liabilities ("Tier 2"). Shareholders' funds, comprising ordinary shares and reserves, increased to £6,700,000 (2019: £6,100,000) and subordinated liabilities remained at £1,400,000 (2019: £1,400,000). Both regulatory capital and shareholders' funds have increased by the £650,000 additional share capital invested by the new shareholder on 31 March 2020.

These funds are prudently managed to ensure the Bank maintains sufficient capital for its activities. Unforeseen events can unexpectedly erode this capital and these events are analysed and assessed using the Internal Capital Adequacy Assessment Process ("ICAAP"). This process stress tests the business and allocates sufficient levels of capital to cover assessed risk. The capital is then managed against robust Risk Appetite measures for surplus capital, Core Tier 1 Capital and Leverage Ratio to maintain a healthy margin above the regulatory and internally assessed minima. The Bank continues to meet all the regulatory requirements and expects to continue to do so in future.

Liquidity

The Bank continues to hold a surplus of liquid reserves. The assessment of the minimum level for these reserves is set after careful analysis of potential withdrawals and regularly stress tested to ensure they are sufficient. This assessment is detailed in the Bank's Internal Liquidity Adequacy Assessment Process ("ILAAP") document.

Principal risks and uncertainties and financial risk management (continued)

Interest rate
Interest rate risk is the risk of adverse changes to earnings and capital due to changes in interest rates. It is evaluated principally in terms of the sensitivity and exposure of the value of the Bank's assets and liabilities to changes in interest rates. Analysis of the exposure to interest rate risk is managed carefully within the Board's risk appetite. The Bank operates a matching approach to financial risk management, whereby the risk arising from mismatches in re-pricing of assets and liabilities is managed internally through the balance sheet. The Bank has a maximum exposure limit of 5% of own funds for such potential losses in the event of a 2% parallel shift in the yield curve. The Bank also has exposure to basis risk due to the assets and liabilities which re-price with reference to Bank Base Rate ("BBR"). However, the risk is significantly reduced as approximately 20% of the loan book consists of BBR linked loans with a floor, meaning that a reduction in BBR would have no impact on the rates receivable on these loans and in most cases BBR would need to exceed 3% before the rate receivable increased. The Board has set risk appetite limits against its exposure to basis risk for each type of basis risk mismatch and against the sensitivity of its net interest margin to basis risk.

Credit
The Bank's main business is to lend money which brings with it an inherent risk of arrears and default. The careful assessment of each loan application against strict credit policy guidelines together with very supportive and hands-on management of arrears ensures that this risk is mitigated as far as is possible. The loan loss provision has increased by £77,000 (2019: overall decrease of £36,000 for the year comprising a net charge of £43,000 offset by utilisation of £79,000) in the year as disclosed in note 12 c). The Bank's systems monitor all customers who are in arrears ensuring that we can help and support where necessary. The number of cases more than 60 days in arrears and in breach of contract was three (2019: three) and the total balance reduced to £265,000 (2019: £300,000), representing 0.6% (2019: 0.6%) of the loan book. This has been achieved through the Bank's established policy of working closely with our clients over a long period, resulting in them either finding a solution to reducing the arrears or deciding to sell their property.

Operational
The Bank's operational structure is well developed and stable. Operational resilience is assessed as a critical risk on the Bank's Risk Register and during the year a Business Impact Assessment (BIA) was undertaken by the Chief Information Officer. The BIA provides a documented evaluation process for determining continuity and recovery priorities, objectives and targets. The evaluation process includes assessing the impact that a loss, interruption or disruption might have on the Bank's customers, important business services, critical processes, functions and critical suppliers, specifically those areas that impact, either directly or indirectly external stakeholders of the Bank. During 2021 the BIA document will be developed to include the Bank's impact tolerances for each important business service. The outsourced IT systems for banking and insurance operate effectively with external support provided to the Bank's own experienced staff. Security of IT systems and Cyber Risk is kept under close scrutiny and has been reviewed by specialists as part of internal audit and continues to be improved in line with the latest industry developments. A comprehensive business continuity back-up service is available and regularly tested. Internal audits and compliance reviews confirm that the operational risks are well managed through heads of department reporting into the Wider Leadership Team.

Compliance
The Bank's Head of Compliance manages the day to day operation of the compliance function supported by an assistant. This enables the Bank to maintain the focus on compliance, treating customers fairly and conduct risk to ensure they become even more closely embedded into the business. This senior staff member also acts as the Money Laundering Reporting Officer and oversees our management of financial crime issues.

Principal risks and uncertainties and financial risk management (continued)

Climate-related risks and opportunities

Governance
The Board provides oversight of climate-related risks and opportunities through the Audit, Risk and Compliance Committee. The Board has delegated day-to-day responsibility for managing the financial risks arising from climate change to the Chief Financial Officer with assistance from the Wider Leadership Team. The Chief Financial Officer provides regular reports on climate-related risks and opportunities to the Audit, Risk and Compliance Committee.

Climate change has become a standing agenda item on the monthly Wider Leadership Team agenda, and responsibility for training fellow committee members is shared amongst members. The Wider Leadership Team is monitoring the impact of climate change on the church and Christian charity sector, alongside the UK financial services industry's understanding of climate-related risks and opportunities in order that the Bank can be proactive in managing risks and serving its customers. This will continue to be an ongoing area of development.

Strategy
The Bank has identified a number of climate-related risks and opportunities over the short, medium and long-term.

In the short-term (up to one year) the risks relate to the transition costs of moving to a low carbon economy, notably small increases in energy costs.

In the medium-term (two to five years) these energy costs are expected to increase, as are costs related to physical risks of climate-related events such as increased insurance premiums.

In the longer-term (five to 10 years) the transition costs are expected to become increasingly significant including costs of making premises more energy efficient and increased arrears due reduced borrower affordability as they are also impacted by these transition costs. Longer-term physical risks are also likely to lead to reduced property valuations and, in some cases, negative equity for the Bank's borrowers resulting in increased loan loss provisions. Other risks include disruption to the supply chain due to transition and physical risks. The climate related opportunities are expected to be modest and will crystallise over the longer-term, such as increased commission from climate-related insurance business.

The Bank's business planning horizon currently extends to five years and, over that period, the financial impacts of climate change are not expected to be material. However, as climate-related risks and opportunities become gradually more apparent for the Bank's market sector, they will become increasingly significant in the business planning process. The current focus remains to increase understanding of these issues within the business and the market.

Given that the Bank is entirely UK based and so has a relatively limited exposure to climate-related risks, overall resilience of the business strategy is considered to be high in relation to even the most severe climate change scenarios. As part of the annual ICAAP capital planning process the Bank will be carrying out stress tests based on the Bank of England's biennial exploratory scenario on the financial risks from climate change once published in 2021.

Risk Management
The physical risks and the transition risks from climate change have been identified as a separate risk on the Risk Register with a significant inherent risk score. For these risks the Chief Financial Officer is the Risk Manager and the Chief Executive Officer is the Risk Owner. Risk metrics have been developed to measure the impact of these risks as described in the Metrics & Targets section below. In addition, the physical risks from climate change in relation to potential credit losses have been incorporated into credit risk, which is a separate risk on the Risk Register with a critical inherent score.

Principal risks and uncertainties and financial risk management (continued)

Climate-related risks and opportunities (continued)

Metrics & Targets

During 2020 the Bank began internally reporting the expected financial impact of climate change over both the medium term (0 to 5 years) and long term (6 to 10 years). This will assess both the estimated risks and the estimated opportunities from climate change. These metrics have been calibrated in line with the Board's risk appetite limit for the impact of climate change over the medium term and the long term, based on the profitability and size of the Bank and the calibration will be reviewed annually.

The Bank is not currently required to report greenhouse gas (GHG) emissions and does not currently measure these. However the Bank will continue to comply with regulatory requirements in this regard and is aware that measurement and disclosure of emissions data will most likely become a requirement for all companies in the future.

Section 172(1) statement

The biggest decision impacting the Bank's stakeholders this year has been the sale of its shares to a group of investors on 31 March 2020, as noted in the Introduction from the Chair and the "Review of the Business" section within this report.

The sale allows the Bank to build on its strengths in its target market of churches, Christian charities and individuals working in Christian ministry and will enable the Bank to focus on the needs of those customers. The Bank plans to invest in people, technology, marketing and other growth initiatives in the next 5 years to improve product and service delivery to current and future customers including maintaining and developing relationships with the Bank's existing partners.

The employees are the Bank's most valuable asset and the Bank has continued to build and enhance its team, through new recruitment as well as training and development, to ensure they are able to support the execution of the Bank's Business Plan. The change in Chief Executive Officer is detailed in the Introduction from the Chair and the recruitment of a new Chief Risk Officer and three new non-executive directors is noted in the "Outlook for 2021" section of this report.

Maintaining the Bank's reputation with Regulators and other stakeholders during and after the sale process has been and continues to be of paramount importance to the Bank. We have kept all stakeholders fully informed, for example by issuing press releases to customers and a number of Christian media outlets, and have also held regular dialogue with the Regulator. The Bank's employees have been kept fully informed and engaged throughout the process. The Bank continues to undertake its business adhering to the highest standards of conduct and culture, as noted in the "People, Mission and Ethics" section of this report.

As already highlighted in this report the Bank has a clearly defined process for risk identification, assessment and mitigation and has identified those reputational risks associated with the sale and ensured mitigants are in place.

Results for the year

The loss on ordinary activities before taxation was £38,000 (2019: profit of £326,000). This deterioration was expected and was due mainly to the Bank's planned expenditure in strengthening its executive leadership, improving its IT systems, and investing in its marketing and business development activities to facilitate growth.

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.

Mortgage lending increased during the year with the total mortgage book reaching £47,100,000 (2019: £45,300,000). Customer deposits increased during the year with total deposits increasing to £61,300,000 (2019: £51,400,000).

Key performance indicators

The Bank monitors a number of financial key performance indicators and the values reported at 31 December were as follows:

Key performance indicator	Definition	Internal Risk Appetite / Target	2020	2019
Core Equity Tier 1 ("CET1") ratio	Share capital and reserves expressed as a percentage of total risk exposure amount (risk weighted assets plus operational risk capital requirement). The Bank's regulatory minimum CET1 for Pillar 1 and Pillar 2A is 13.25%.	Above 14.25%	17.13%	15.27%
Leverage ratio	Tier 1 capital (share capital and reserves plus additional Tier 1 capital) expressed as a percentage of total exposure (i.e. non-risk weighted on and off balance sheet exposures). The Bank does not have any additional Tier 1 capital. There is no binding regulatory minimum on the Bank.	Above 5%	9.37%	9.40%
Liquidity Coverage Requirement ("LCR") ratio	High quality liquid assets divided by expected net outflows (expected cash outflows less expected capped cash inflows) over a 30 day stressed period. The Bank's high quality liquid assets comprise balances held at the Bank of England. The regulatory minimum is 100%.	Above 250%	1,304.6%	861.0%
Net interest margin (as a percentage of average interest earning assets)	Interest and fees earned from balances at central banks, loans and advances to banks and loans and advances to customers less interest payable on customer accounts and subordinated liabilities. Average interest earning assets is the average sum during the year of cash and balances at central banks, loans and advances to banks and loans and advances to customers.	3.10%	2.83%	3.26%
Loans and advances to customers (before provisions) (£'000)	Total loans and advances to customers before deduction of loan loss provisions.	50,482	47,438	45,586
Loans with arrears in excess of 3 months	Non-performing loans (loans and advances to customers with arrears in excess of 3 months) as a percentage of total loans and advances to customers.	Below 7.5%	0.56%	0.58%

The Bank actively monitors a number of additional risk appetite metrics and targets to ensure that its activities are being managed within the Board's risk appetite.

The Bank considers there to be no non-financial Key Performance Indicators.

Purpose, Mission and Ethics

The Bank introduced a new purpose statement during the year to communicate simply to its market why the Bank exists:

We help churches grow.

Underlying this, the Board and executive maintain their commitment to the Bank's mission and values, which stem from a desire to serve the Lord Jesus Christ. These are central to all the Bank's activities, including customer service, people management and interactions with all stakeholders.

Outlook for 2021

Following its acquisition by new owners on 31 March 2020, the Bank has commenced a period of investment in people and systems, with a view to generating increasingly profitable growth over the next five years and beyond. Significant ongoing expansion in lending will be dependent upon growth in the capital base, and this will be driven by both reinvesting the Bank's profits and anticipated injection of further new capital.

The impact of Brexit and the end of the transition period on the Bank is minimal due to almost all of the Bank's customers, suppliers and other key stakeholders being located in the UK.

By the end of the first quarter of 2021 the Bank will have welcomed a new, permanent Chief Risk Officer, completing the Leadership Team of four. Over the same time period, the appointment of three new non-executive Directors will introduce further breadth and depth of experience in banking risk, operational delivery and technology.

15 March 2021 saw the launch of new branding, with fresh and consistent messages communicated across a new website, social media platforms and in direct communication with customers. This coincided with the introduction of changes to the Bank's lending products, specifically designed to be attractive to its target market of churches, Christian charities and individuals working in Christian ministry. Market engagement already indicates a positive response, not only to specific products, but also to the Bank's clear messaging that it exists to serve vibrant local churches across the UK.

Raising of brand awareness is expected to drive growth in the savings and deposits business, providing the Bank with the liquidity it requires to fund lending. Likewise, the insurance brokerage business will benefit from a higher brand profile amongst UK churches.

Overall, the Bank's five year Business Plan is founded on pushing ahead with steady, well-controlled, risk-managed growth across all three core business areas. However, alongside this, the Leadership Team and Board will continue to consider whether there is more that the Bank should be doing as it seeks to provide financial services for churches, Christian charities and individuals working in Christian ministry, with the overarching aim of serving the Lord Jesus Christ by serving his church across the UK.

COVID-19

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. Please see Directors' Report on page 13 for further information.

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.

Strategic Report for the year ended 31 December 2020 (continued)

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.

Approved by the Board on 16 April 2021 and signed on its behalf by

P R Houghton
Chief Executive Officer
16 April 2021

Kingdom Bank Limited

Directors' Report for the year ended 31 December 2020

The directors present their report and the audited financial statements of Kingdom Bank Limited, a private company limited by shares, company number 04346834, for the year ended 31 December 2020. The Bank is based in the East Midlands and its registered address is given on the Company Information page.

Future developments

The Bank's future developments are set out in the Strategic report.

Country-by-Country Reporting

A Country by Country Reporting ('CBCR') obligation was introduced through Article 89 of the EU Directive 2013/36/EU, otherwise known as the Capital Requirements Directive IV ('CRD IV').

Name, nature of activity and geographical location

The Bank is located in Nottingham in the UK. The registered office address is Ruddington Fields Business Park, Mere Way, Ruddington, Nottingham NG11 6JS. The principal business of the Bank continues to be secured lending to churches, charities and individuals working in Christian ministry. The church and charity loans are focussed on helping growing Churches and Charities to deliver their mission to their local communities. The loans to individuals are either for similar purposes or to provide housing now or in the future for individuals working in Christian ministry to grow God's kingdom. The Bank is particularly interested in financing projects which provide practical help and support to people in need both spiritually and physically. This is funded from customer deposits in a range of savings accounts. These savings products are designed to be easy to understand, whilst offering sufficiently competitive interest rates and easy access. The Bank operates a specialist insurance broking service focussing on churches and charities.

Turnover

The Bank's turnover for the year ended 31 December 2020 was £2,810,000 (2019: £2,794,000).

Average number of employees on a full time equivalent basis

The average number of employees on a full time equivalent basis during the year ended 31 December 2020 was 28 (2019:26).

Profit or loss before tax

The loss before tax for the year ended 31 December 2020 was £38,000 (2019: profit £326,000).

Corporation tax paid on profits

The amount of corporation tax paid in the year ended 31 December 2020 was £56,000 (2019: £40,000).

Public subsidies received

The Bank received public subsidies amounting to £9,000 through the Coronavirus Job Retention Scheme during 2020 (2019: Nil).

Basis of preparation

The information above is prepared on the following basis for the year ended 31 December 2020:

• The CBCR is prepared on a solus basis for Kingdom Bank Limited.

• Turnover represents total interest receivable and similar income from borrowers and banking counterparties together with insurance commission income and other operating income.

• The average number of employees is an average of monthly total full time equivalent employees, based on employees legally employed by the Bank excluding contractors. The disclosure is exclusive of 3 non-executive directors who are employed under a contract for services.

• Corporation tax paid on profits shows the total amount of UK corporation tax paid to HM Revenue & Customs in 2020. An element of the payments will relate to prior years and therefore the figures will not represent corporation tax charged in the period.

Dividends

No dividend to the Bank's former shareholder, Assemblies of God Property Trust, a registered charity, was proposed in the year (2019: £20,000 proposed and paid during the year). No dividend to the Bank's new shareholder, Lamb's Passage Holding Limited has been paid or proposed in the year.

Political and charitable donations

The Bank did not make any political donations during the year. Charitable donations of £10,000 (2019: £17,000) were made, split between several Charities with a Christian ethos.

Financial risk management

The directors have explained the financial risk management approach within the Strategic report and note 27 to the financial statements.

Directors

The directors holding office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

Non-Executive Directors

M R Buttrick	
R B Ellison	Appointed 18 January 2021
M N Hayes	
M Maruthappu	Appointed 19 February 2021
S R Pierman	Resigned 30 April 2020
W D R Swanney	

Executive Directors

P R Houghton	Appointed 10 December 2020
C J Sheldon	Resigned 10 December 2020
M J Slack	

As noted in the Introduction from the Chair, Chris Sheldon retired as the Bank's Chief Executive Officer on 10 December 2020 after 18 years' service. The Board wish to express their sincere gratitude to Chris for his leadership, wisdom and steady guidance over the years. Paul Houghton took over as Chief Executive Officer on 10 December 2020 and is looking forward to leading the Bank through the next chapter in its history.

Corporate governance

The Board of the Bank includes two groups of directors. There are non-executive directors who are independent and objectively bring a range of skills and experience to the Board. Two new non-executive directors were appointed during the first quarter of 2021 and bring with them a wide range of competencies and knowledge to strengthen the Board. The second group of directors are executive directors who are responsible for delivering accurate and timely information and implementing the strategy of the Bank and the decisions of the Board. In addition the 100% shareholder has appointed observers who attend Board meetings to represent the shareholder's interest on the Bank's Board.

Meetings of the Board take place at least five times a year during which all strategic matters are discussed and decisions made and policies are reviewed and approved.

The Audit, Risk and Compliance Committee liaises with and reviews the performance of the second line of defence (the compliance function) and the third line of defence (internal audit) as well as external audit and also reviews the Bank's internal controls, with particular reference to the Financial Conduct Authority and Prudential Regulatory Authority handbook and rulebook requirements. Additionally it provides defence at a strategic level against all manner of risk, drawing on detailed analysis and reports, ensuring robust and effective controls are in place. It ensures risk-related management information is appropriate, comprehensive and effectively used.

Corporate governance (continued)

The Board is responsible for ensuring that it is composed of directors with the appropriate balance of knowledge, skills, diversity and experience and is not dominated by any one individual or small group of individuals. The Board also periodically assesses its structure, size, composition and performance and the knowledge, skills and experience of individual Board members and of the Board collectively. The Board periodically reviews the policy for selection and appointment of senior management and is responsible for the Bank's remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

Qualifying third-party and pension indemnity

The Bank is not a party to any third-party or pension indemnities.

Employees

Following some changes in individual staff during the year the total number of employees at 31 December 2020 (excluding non-executive directors) was 27.6 Full Time Equivalent ("FTE") and 29 individual people (2019: 24.3 FTE and 26 individuals respectively).

We continued to support staff members in their own development including courses provided by the London Institute of Banking & Finance and the Chartered Insurance Institute as well as technical training.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

The Bank has been negatively affected by the COVID-19 pandemic this year and the directors have paid particular attention to its impact in considering the issue of going concern. Specific considerations have included the following:

- The economic impact of the pandemic has been very significant in terms of reductions in GDP and this may deteriorate further as government support unwinds and unemployment starts to increase. The impact on propensity to default and loss given default are still uncertain, but the Bank's existing stress tests used to assess its capital position allow for a severe impact on both the housing and commercial property markets. The stress tests are expected to be significantly worse than the current anticipated impact of the pandemic. The Bank's assessment is that it has sufficient capital to withstand such a stress.
- Profitability has been adversely affected by lower interest rates introduced in 2020 as a response to the pandemic. The Bank's 5 year business plan projects that interest rates will remain low across the plan period. Capital ratios are expected to remain strong.

Going concern (continued)

- New lending volumes have suffered during 2020, with gross advances of around 80% of the level achieved in 2019. However insurance commission income was 12% higher than in 2019 and net retail deposits increased sufficient to maintain funding and liquidity levels well above the minimum risk appetite.
- The need for most staff to work entirely from home represented a significant operational resilience event, which the Bank has coped extremely well with. Business volumes in the first quarter of 2021 are above those typically experienced in recent years. There has been no breakdown in customer service or underwriting standards as a result of new working practices.

After making appropriate enquiries, the directors have formed a judgement, at the time of approving the financial statements, that the Bank can have a reasonable expectation that adequate resources will be available for it to continue its operations for the foreseeable future, and consequently it is appropriate to adopt the going concern principle in the preparation of the financial statements. In forming this judgement, the directors have reviewed the budget for 2021 and business planning forecasts for 2022, assessed capital requirements and liquidity levels, both before and after performing sensitivity analysis and stress testing on the budget and forecasts including the possible long-term impact of the COVID-19 pandemic. This statement should be read in conjunction with the "COVID-19 and Going Concern" statement included in the Strategic Report.

Approved by the Board on 16 April 2021 and signed on its behalf by

P R Houghton
Chief Executive Officer
16 April 2021

Audit, Risk and Compliance Committee report for the year ended 31 December 2020

The Audit, Risk and Compliance Committee (the "Committee") is an essential part of the Bank's governance framework to which the Board has delegated oversight of the following areas:

- financial reporting;
- internal controls and risk management systems;
- whistleblowing, fraud and bribery;
- internal audit and compliance;
- external audit; and
- risk management.

This report provides an overview of the Committee's work and details of how it has discharged its responsibilities during the year.

The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- the integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgements contained therein;
- the effectiveness of the system of internal control processes;
- the internal audit and external audit processes;
- the performance and independence of both internal and external auditors; and
- the engagement of external auditors for non-audit work.

Following each Committee meeting, the minutes of the meeting are distributed to the Board, and the Committee Chairman provides an update to the Board on key matters discussed by the Committee.

The composition of the Committee during the year was as follows:

M R Buttrick (Chair)
M N Hayes

The Chief Executive Officer, Chief Financial Officer, Head of Compliance and other non-executive directors attend the meeting by invitation. Both the internal and external auditors are also invited to each meeting, and there is opportunity for discussion without the executive directors being present.

Key areas reviewed during 2020

The Committee met seven times during the year and focused on the following matters:

Financial reporting

The primary role of the Committee in relation to financial reporting is to review and assess with the Chief Executive Officer, Chief Financial Officer and Head of Compliance and the external auditors the integrity and appropriateness of the annual financial statements concentrating on amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Report and financial statements (the "Annual Report"), when taken as a whole are fair, balanced and understandable and provide information sufficient for stakeholders to assess the Bank's position and performance, business model and strategy; and
- the material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2020 accounts were:

- loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS102;
- revenue recognition: Review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies;
- investment and operating properties: Review of the executive directors' internal valuation and the remaining useful economic life of the head office property, which is split between investment property (ground floor and part of first floor) and operating property (remainder of first floor and land); and

Key areas reviewed during 2020 (continued)

Financial reporting (continued)

- going concern: Review of 5 year forecasts and stress sensitivities, COVID-19 impact as well as Chief Executive Officer succession.

The Committee considered whether the 2020 Annual Report was fair, balanced and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency and ensuring that the disclosures covered the key matters that the Committee had concerned itself with during the year. The Committee fully discharged its responsibilities in relation to financial reporting of the 2020 Annual Report.

Internal controls and risk management systems

The Board recognises the importance of sound systems of internal control and risk management systems in the achievement of its objectives and the safeguarding of the Bank's assets. Internal controls and risk management systems also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations.

The Bank operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal controls and risk management systems have been designed to ensure thorough and regular evaluation of the nature and extent of risk and the Bank's ability to mitigate or react accordingly. It is the role of the Executive Committee to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

The outsourced internal auditors provided independent assurance to the Board on the effectiveness of the internal controls and risk management systems through the Committee.

The Committee review the internal controls and risk management systems through regular reporting from the Chief Executive Officer, Chief Financial Officer and Head of Compliance and internal and external auditors. The main internal control matters which were reviewed by the Committee in 2020 were:

- prudential and conduct related;
- internal audit plans;
- control reports from the internal auditors; and
- the status of any issues raised in control reports to ensure a timely resolution.

The information received and considered by the Committee provided 'adequate and effective' assurance that during 2020 there were no material breaches of control or regulatory standards and that, overall, the Bank maintained an adequate internal control framework.

Whistleblowing, fraud and bribery

The Committee has reviewed the adequacy and security of the Bank's arrangements for its employees and contractors to raise concerns, in confidence, about possible fraud or other wrongdoings in financial reporting or other matters. The Committee has reviewed, assessed and approved the Fraud Response Plan contained in the Fraud Policy. The Committee has also reviewed, assessed and approved the Anti-Bribery and Corruption Policy and Procedures. The Board has reviewed the annual report from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Bank's anti-money laundering systems and controls.

Key areas reviewed during 2020 (continued)

Internal audit, risk and compliance

The Committee is responsible for monitoring internal audit, risk and compliance activities and effectiveness and ensuring that sufficient resources are in place. In order to provide the scalability and flexibility of specialist resources required within internal audit, the Bank continues to outsource this role to Mazars LLP. The risk and compliance function is headed up by the Head of Compliance supported by an assistant.

The Chair of the Committee meets privately with the internal auditors at least once per year without the Chief Executive Officer, Chief Financial Officer and Head of Compliance being present. In addition the non-executive directors also meet privately with the internal auditors at least once per year. This provides the opportunity for two way comment and feedback on how the internal audit plan is progressing and how the relationship is performing.

Key reviews were completed by Mazars LLP through their agreed work programme during the year including areas of internal control significance, specifically ILAAP, Regulatory Reporting, Anti-Money Laundering Systems & Controls, Operational Resilience and a review of Loan Collections & Arrears.

Internal audit findings and thematic issues identified were considered by the Committee, as well as the Executive Committee's response and the tracking and completion of outstanding actions.

The Committee considers guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the internal auditors and the Committee were fulfilling their obligations in a robust manner.

The Committee also approved the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail.

The Head of Compliance also completed a number of reviews during the year in areas not covered by internal audit. The reviews were agreed in advance by the Committee as part of the 3 year rolling combined assurance plan which includes all monitoring reviews by the second (risk and compliance function) and third (internal audit and external audit) lines of defence.

External audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle the Committee receives from the external auditors a detailed audit plan, identifying their assessment of the key risks.

The Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) were implemented in the UK on 17 June 2016. This legislation requires all EU public interest entities (including the Bank) to rotate their statutory auditors after a maximum period of tenure. The maximum period has been set at twenty years in the UK, with a mandatory tender at the ten year midpoint. After a thorough and robust tender process, BDO LLP were appointed on 22 September 2020 to carry out the statutory audit for the year ended 31 December 2020.

The Chair of the Committee normally meets privately with the external auditors at least once per year without the Chief Executive Officer, Chief Financial Officer and Head of Compliance being present. In addition the non-executive directors also normally meet privately with the external auditors at least once per year. This provides the opportunity for open dialogue and feedback from the Committee and the Auditors without the executive directors being present. Matters typically discussed include the Auditors' assessment of financial reporting risks and key financial reporting judgements, the transparency and openness of interactions with the Executive Committee, confirmation that there has been no restriction in scope placed on them and the independence of their audit. These meetings did not take place during 2020 due to the appointment of new auditors during the year but will resume in 2021.

The Committee approved the fees for audit services for 2020 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required. The Committee considers the reappointment of the external auditors, including rotation of the Senior Statutory Auditor, each year and also assesses their independence on an ongoing basis.

Key areas reviewed during 2020 (continued)

External audit (continued)

There were no non-audit services provided (2019 (previous auditors): £2,500).

Risk management

The Committee reviewed the Bank's Risk Management Framework and Risk Appetite Statement incorporating a review of the outputs and assumptions used in preparing the ICAAP, ILAAP and Recovery Plan documents. A half-yearly review of the Bank's Risk Register including the identification, evaluation and management of the Bank's risks was performed. The Committee also analysed the Bank's performance against the Risk Appetite Statement as reported by the Head of Compliance.

Audit, Risk and Compliance Committee effectiveness

The Committee's Terms of Reference were reviewed during the year and found to be fit for purpose.

Approved by the Board on 16 April 2021 and signed on its behalf by

M R Buttrick
Chair of the Audit, Risk and Compliance Committee
16 April 2021

Independent Auditors' Report to the members of Kingdom Bank Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kingdom Bank Limited (the 'Company') for the year ended 31 December 2020 which comprise the Profit and loss account, Statement of comprehensive income, Balance sheet, Statement of changes in equity, Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice)

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit, Risk and Compliance Committee.

Independence

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the Audit, Risk and Compliance Committee on 22 September 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ending 31 December 2020. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

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

As a result of inherent risk in the industry due to historical failures, which is further heightened by the current economic impacts of the Covid-19 pandemic, and as a result of the loss made by the Company during the year, we concluded that going concern was a significant risk and a Key Audit Matter.

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

Independent Auditors' Report to the members of Kingdom Bank Limited

- Together with the assistance of our internal regulatory risk expert made an assessment of the reasonableness of assumptions used by Management in their capital, liquidity, and profitability forecasts, including Internal Capital Adequacy Assessment Process (ICAAP) and Internal liquidity adequacy assessment process (ILAAP);

- Challenging management's assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress test scenarios

- Reviewed key ratios such as profitability, net assets, capital and liquidity for significant deterioration, indicating issues relating to going concern; and

- Assessed the historical accuracy of forecasts prepared by management with reference to actual results for the year ended 31 December 2020 and post year end results to assess the reliability of the forecasts prepared.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters		2020
	Going concern	□
	Impairment losses on loans and advances	□
	Revenue recognition	□
Materiality	£51,000 based on 0.75% of net assets	

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter disclosed in the Conclusions relating to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter		**How the scope of our audit addressed the key audit matter**
Impairment losses on loans and advances Management's associated accounting policies are detailed on page 36 with detail about judgements in applying Accounting policies and critical accounting estimates on page 39. As disclosed in Note 12, the impairment provision at year-end is £324,000 (2019: £247,000).	Commensurate with the activities of the Company, the total loan loss provision is a material balance subject to management judgement and estimation. The Company accounts for the impairment of loans and advances to customers using an incurred loss model which includes: (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans, being impairment that has been incurred but not reported. Estimating an appropriate loan loss provision requires significant judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property have the most significant impact on the provision. Impairment losses on loans and advances is therefore also a fraud risk area due to the judgments and complexity.	We tested the population of loans to check that all loans that meet the criteria for a specific provision had been included for specific provisioning against the Company's lending policy. We selected a sample of loans and checked the collateral valuation to external valuations obtained by management, including re-calculations of indexed property valuations. We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold, and performed benchmarking of this assumption to other financial institutions. We reconciled the loan balances in the model to the core banking system to test whether the relevant loan populations were being considered for impairment. We tested the appropriateness of the key assumptions within this model in relation to the collective provision, such as impairment triggers, indexed property valuations, and probability of defaults through a combination of, independent recalculations and agreeing inputs to external data sources where applicable, and taking into account current market conditions which pertain to the mortgage book. We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. We verified the arithmetic accuracy of the model through re-calculation. Key observations: Based on the procedures performed we consider the judgements applied by management in determining the loan impairment provision to be appropriate.

Independent Auditors' Report to the members of Kingdom Bank Limited

Revenue recognition Management's associated accounting policies are detailed on page 33 with detail about judgements in applying Accounting policies and critical accounting estimates on page 40. Net EIR liability-£265,000 (2019: £269,000).	The Company's fee and mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of applicable accounting standards. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Company's loans and advances within these models. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. The key assumption in the EIR models is the expected behavioural life redemption profile of the mortgages due to the impact on timing and quantum of expected future cash flows. Revenue recognition is therefore considered to be a key audit matter.	We assessed whether the revenue recognition policies adopted by the Company are in accordance with the requirements of applicable accounting standards. This included an assessment of the types of fees and costs being spread within the EIR models. We assessed the completeness and accuracy of data and key model inputs by agreeing samples back to the core banking system or source documents. We verified the arithmetic accuracy of the EIR models through re-calculation. We tested the loan behavioural life assumptions used by management for the EIR calculations based on the Company's historical data. We performed a manual re-calculation of the contractual interest recognised during the financial year on loans advanced. Key observations: Based on the procedures performed, we consider revenue recognition to be appropriate and in accordance with the Company's accounting policies.

Independent Auditors' Report to the members of Kingdom Bank Limited

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2020 £
Materiality	51,000
Basis for determining materiality	0.75% net assets
Rationale for the benchmark applied	We determined that net assets was the most appropriate benchmark considering the different stakeholders. In particular as regulatory stability is considered to be a main driver for the Company, as well as the purpose of the Company, which is to provide lending to specific individuals and organisations rather than to maximise profits.
Performance materiality	36,000 based on 70% of materiality
Basis for determining performance materiality	Lower percentage applied in particular considering this was the first year auditing the Company

Reporting threshold

We agreed with the Audit, Risk and Compliance Committee that we would report to them all individual audit differences in excess of £1,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditors' Report to the members of Kingdom Bank Limited

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditors' Report to the members of Kingdom Bank Limited

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. These included legislation imposed by the Companies Act 2006, tax and pension legislations. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included legislation imposed by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), Anti-Money Laundering Regulations, the Consumer Credit Act 2006 and General Data Protection Regulations;

- We made inquiries of management, internal audit, Audit, Risk and Compliance Committee and those responsible for legal and compliance matters about their own identification and assessment of the risks of irregularities and known fraud cases. We corroborated our inquiries through our review of the internal audit and compliance monitoring findings during the year, key correspondence with the FCA and PRA, minutes of the Board and Audit, Risk and Compliance Committee meetings;
- We inspected the Company's documentation of their policies and procedures relating to identifying, evaluating, detecting and responding to the risks of fraud;
- We reviewed the nature of the industry and sector, obtained an understanding of the Company's internal controls and the business performance including the design of the remuneration policies, key drivers for director's remuneration, bonus levels and performance targets, assessing the susceptibility to fraud.
- We obtained an understanding of the control environment in monitoring compliance with laws and regulations.
- We that the principal risks were related to posting inappropriate journal entries to manipulate the financial results and management bias in accounting estimates. We challenged assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment losses on loans and advances (refer to Key Audit Matter above);
- We incorporated an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- We performed journal entry tests with particular focus on those posted by senior management, posted with descriptions indicating higher level of risk, posted to unusual account combinations based on our understanding of usual business operations, and material late adjustments.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditors' Report to the members of Kingdom Bank Limited

Use of our report

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

Matthew Hopkins (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
16 April 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Profit and loss account for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	6	2,297	2,330
Interest payable	7	(523)	(552)
Net interest income		1,774	1,778
Insurance commission income		433	388
Other operating income		80	76
Operating income		2,287	2,242
Administrative expenses	8	(2,167)	(1,780)
Depreciation and amortisation	14, 15	(81)	(93)
Movement in loan loss provision	12 c)	(77)	(43)
(Loss) / profit on ordinary activities before taxation	5	(38)	326
Tax on (loss)/ profit on ordinary activities	10	14	(69)
(Loss) / profit for the financial year		(24)	257

All results arise from continuing operations and are attributable to the owners of the Bank.

Statement of comprehensive income for the year ended 31 December 2020

	Note	**2020**	2019
		£'000	£'000
(Loss) / profit for the financial year		**(24)**	257
Total comprehensive (loss)/ income for the year		**(24)**	257

Balance sheet as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Cash and balances at central banks		**6,678**	6,502
Loans and advances to banks	**11**	**14,135**	5,509
Loans and advances to customers	**12**	**47,114**	45,339
Investment property	**13**	**667**	667
Tangible fixed assets	**14**	**730**	742
Intangible fixed assets	**15**	**69**	69
Other assets	**16**	**388**	482
Total assets		**69,781**	59,310
Liabilities			
Customer accounts	**17**	**61,287**	51,378
Other liabilities	**18**	**292**	356
Subordinated liabilities	**19**	**1,431**	1,431
		63,010	53,165
Called up share capital	**20**	**4,867**	4,217
Profit and loss account		**1,732**	1,756
Revaluation reserve		**172**	172
Total shareholders' funds		**6,771**	6,145
Total liabilities and total shareholders' funds		**69,781**	59,310
Memorandum items			
Commitments - Loans and advances to customers	**22**	**4,154**	3,671

The notes on pages 32 to 74 form part of the financial statements. The financial statements were approved by the Board on 16 April 2021 and were signed on its behalf by

W D R Swanney
Chairman
16 April 2021

P R Houghton
Chief Executive Officer
16 April 2021

Statement of changes in equity for the year ended 31 December 2020

	Note	Called up share capital £'000	Profit and loss account[1] £'000	Revaluation reserve £'000	Total shareholders' funds £'000
Balance as at 1 January 2019		4,217	1,519	172	5,908
Profit for the financial year		-	257	-	257
Other comprehensive income / (expense) for the year					
Total comprehensive income for the year		-	257	-	257
Dividends declared and paid during the year		-	(20)	-	(20)
Balance as at 31 December 2019		4,217	1,756	172	6,145
Balance as at 1 January 2020		4,217	1,756	172	6,145
(Loss) for the financial year		-	(24)	-	(24)
Other comprehensive income / (expense) for the year					
Share allotment		650			650
Total comprehensive (loss)/ income for the year		650	(24)	-	626
Balance as at 31 December 2020		**4,867**	**1,732**	**172**	**6,771**

[1]Profit and loss account represents accumulated comprehensive income for the current year and prior years.

The balance of £172,000 (2019: £172,000) within the revaluation reserve is also not distributable having arisen from the revaluation of operating property.

Statement of cash flows for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flow from operating activities			
Net cash generated from / (used in) operating activities excluding tax	**28**	**7,026**	1,978
Taxation paid		**(56)**	(40)
Net cash generated from / (used in) operating activities		**6,970**	1,938
Cash flow from investing activities			
Purchase of intangible assets	**15**	**(39)**	(8)
Purchase of tangible assets	**14**	**(30)**	(89)
Net cash (used in) investing activities		**(69)**	(97)
Cash flow from financing activities			
Share allotment	**28**	**650**	-
Dividends paid		**-**	(20)
Net cash (used in) financing activities		**650**	(20)
Net movement in cash and cash equivalents		**7,551**	1,821
Cash and cash equivalents at the beginning of the year		**12,010**	10,189
Cash and cash equivalents at the end of the year		**19,561**	12,010
Cash and cash equivalents consists of:			
Cash and balances at central banks		**6,678**	6,502
Loans and advances to banks repayable on demand or in not more than three months	**11**	**12,883**	5,508
Cash and cash equivalents		**19,561**	12,010

Notes to the financial statements
For the year ended 31 December 2020

1. General information

Kingdom Bank Limited ("the Bank") has two material income streams: interest receivable and similar income from secured lending to churches, charities and individuals, and commission receivable from insurance broking services specialising in churches and charities. The church and charity loans are focussed on helping the organisations to deliver their mission to their local communities. The loans to individuals are either used for similar purposes or to provide housing for individuals working in Christian ministry now or in the future. The Bank is particularly interested in financing projects which provide practical help and support to people in need both physically and spiritually. This is funded from customer deposits in a range of savings and investment accounts. These savings products are designed to be the natural choice for churchgoers, being easy to understand whilst offering sufficiently competitive interest rates and easy access.

All income relates to services provided in the UK to UK churches, charities and individuals.

The Bank is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is based in the East Midlands. The address of its registered office is Kingdom Bank Limited, Ruddington Fields Business Park, Mere Way, Ruddington, Nottingham. The registered number of the Bank is 04346834.

2. Statement of compliance

The financial statements of the Bank have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are presented in accordance with the special provisions of SI 2008 No.410, Schedule 2 of the Companies Act 2006 applicable to banking companies.

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b) Going concern

After making appropriate enquiries, the directors have formed a judgement, at the time of approving the financial statements, that the Bank can have a reasonable expectation that adequate resources will be available for it to continue its operations for the next 12 months, and consequently it is appropriate to adopt the going concern principle in the preparation of the financial statements. In forming this judgement, the directors have reviewed the budget for 2020 and forecasts for 2021, assessed capital requirements and liquidity levels, both before and after performing sensitivity analysis and stress testing on the budget and forecasts. This statement should be read in conjunction with the COVID-19 statement included in the Strategic Report.

3. Summary of significant accounting policies (continued)

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Bank is a qualifying entity as it has a parent company who publishes publicly available accounts. The Bank has taken advantage of the following exemptions:

- *(i)* not to prepare a reconciliation of the number of shares outstanding at the beginning and end of the year.
- *(ii)* not to disclose key management personnel compensation in total.

d) Foreign currency

The Bank's functional and presentation currency is the pound sterling. The Bank only operates in the UK and so is not exposed to foreign exchange volatility.

e) Income and expense recognition

(i) Interest receivable and similar income

Interest receivable and similar income represents interest and fees earned from customer balances and is recognised using the effective interest method in the profit and loss account in the year to which it relates. This method uses a set of estimated future cash flows through the expected life of each loan, rather than contractual cash flows. Incremental loan fees receivable (where they do not relate to 'significant acts') and payable are spread over the life of the loan. The expected life of the loan is the average period to derecognition (early redemption / full repayment). This has been estimated as 7 years (2019: 7 years) on average based on customer practice and will be kept under regular review against the Bank's actual data and against market data.

(ii) Interest payable

Interest payable represents interest payable on customer balances and is recognised using the effective interest method in the profit and loss account in the year to which it relates.

(iii) Insurance commission income

Commissions receivable are recognised in the year to which they relate based on the effective date on which each insurance policy commences, less a collective provision for amounts that may be returned if this is considered material.

(iv) Other operating income

Other operating income includes rental income from investment property and other sundry income. Rental income from investment property is recognised in the profit and loss account on a straight-line basis over the term of the leases.

(v) Other income and expenses

Other income and expenses are recognised on an accruals basis.

All income originates and arises in the UK. There are two material income streams as set out under general information and reported in the profit and loss account.

3. Summary of significant accounting policies (continued)

f) Financial instruments

The Bank has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets (continued)

Basic financial assets, including trade and other receivables, cash and bank balances and loans and advances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Loan loss provision

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 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 year 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.

(ii) Financial liabilities

Basic financial liabilities, including customer accounts, other liabilities, loans from fellow group companies and subordinated liabilities that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Subordinated liabilities which result in fixed returns to the holder or are mandatorily redeemable on a specific date are classified as liabilities reflecting the contractual obligation for the Bank to pay cash to the holders. The interest on these subordinated liabilities is recognised in the profit and loss account as interest expense.

3. Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers, and are recognised at transaction price.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

g) Intangible fixed assets

(i) Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Bank's share of identifiable net assets acquired at the date of acquisition. Fair value is attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date.

Goodwill on acquisition is included in intangible assets. Goodwill is stated at cost less accumulated amortisation and impairment. Goodwill is amortised over its estimated useful life on a straight-line basis. Management have assessed the useful economic life of goodwill to be 10 years.

Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other years if events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its fair value.

(ii) Software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between 3 and 5 years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

h) Investment property

The head office property is separated between investment property (ground floor and part of first floor) and operating property (remainder of first floor and land) based on an allocation of land value and building value. Building value is allocated based on floor area.

The freehold investment property is included in the balance sheet at fair value which is taken as being open market value. Movements in valuation are posted through the profit and loss account. Investment property is not depreciated. Open market value is reassessed annually by the directors, with reassessment by appropriately qualified third party valuers at least every 5 years.

Details of the value of the property are provided in note 13 to the financial statements.

3. Summary of significant accounting policies (continued)

i) Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis at rates designed to write down the cost or valuation of fixed assets to their residual values over their expected useful lives. The following are approximations of the useful lives:

Freehold building	-	50 years
Office equipment and computer hardware	-	between 3 and 7 years
Furniture, fixtures and fittings	-	10 years

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting year to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. The effect of any change is accounted for prospectively.

The annual depreciation charge for tangible and intangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. See notes 14 and 15 for the carrying amount of the tangible and intangible fixed assets respectively. Note 14 includes details of the last professional valuation of the office premises.

Operating property is included in the balance sheet at open market value on an existing use basis. Open market value is reassessed annually by the directors, with reassessment by appropriately qualified third party valuers at least every 5 years. The decrease of operating property's carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss. A transfer is made from the revaluation reserve to the profit and loss account to offset the difference in depreciation due to previous revaluations.

Repairs, maintenance and minor inspection costs are expensed as incurred unless associated with a property in possession where they are charged to the borrower's loan account in accordance with the terms of the loan.

j) Impairment

The carrying amount of the Bank's assets is reviewed at each balance sheet to determine whether there is any indication of impairment. If any such indicators exist, the asset's recoverable amount is reviewed. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of market value or the value in use of the respective asset. Impairment losses are recognised in the profit and loss account.

A reversal of an impairment loss is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

3. Summary of significant accounting policies (continued)

k) Pension costs

The Bank provides a range of staff benefits and pension to employees, including annual bonus arrangements, paid holiday arrangements and a defined contribution pension plan.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year in which the service is received.

(ii) Defined contribution pension plans

The Bank operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. Once the contributions have been paid the Bank has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Bank in independently administered funds.

l) Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Summary of significant accounting policies (continued)

m) Taxation (continued)

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in financial statements.

Deferred tax is recognised in the balance sheet on all timing differences at the reporting date including property revaluations. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Disclosure of the expected period of utilisation is given in note 21.

n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and building societies and other short-term highly liquid investments with original maturities of three months or less.

o) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Bank’s control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

q) Related party transactions

The Bank discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned, applying the exemption in FRS 102 Section 33.

r) Borrowing costs

All borrowing costs are recognised in the profit or loss in the year in which they are incurred.

3. Summary of significant accounting policies (continued)

s) Distributions to equity holders

Dividends and other distributions to the Bank's shareholders are recognised as a liability in the financial statements in the year in which the dividends and other distributions are approved by the Bank's shareholders. These amounts are recognised in the statement of changes in equity.

4. Key accounting judgements and estimation of uncertainties

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Key judgements

Subordinated liabilities have been classified as financial liabilities as detailed in note 3 f) (ii).

b) Key accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Loan loss provision

The Bank regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Investment property valuation

Investment property is stated at its fair value based on reports prepared by the directors at the end of each reporting year, with periodic reassessment by appropriately qualified third party valuers. There is sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Bank's investment property.

In preparing the valuation reports on the Bank's investment property, the external valuer will exclude distressed sales when considering comparable sales prices. Management will review the valuer's assumptions and confirm that these assumptions have been appropriately determined considering the market conditions at the end of the reporting year. Notwithstanding the above, management considers that the valuation of its investment property is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value.

The principal assumptions underlying the estimation of the fair value are those relating to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions reported by the market.

4. Key accounting judgements and estimation of uncertainties (continued)

b) Key accounting estimates and assumptions (continued)

(iii) Operating property valuation

The part of the premises for the Bank's own use are stated at fair value based on reports prepared by directors, with periodic reassessment by appropriately qualified third party valuers. The fair value of the premises is estimated based on the income capitalisation method, where the value is estimated from the expected market rental income streams from similar properties and capitalisation yields. The method considers net income generated by comparable property, capitalised to determine the value for property which is subject to the valuation.

The principal assumptions underlying the estimation of the fair value are those relating to the possible market rentals and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions reported by the market.

(iv) Effective Interest Rate

The effective interest rate applied to the mortgage book affects the carrying value of those assets. One of the key components of the Effective Interest Rate is the expected mortgage life. The average expected mortgage life has been assessed as 7 years (2019: 7 years) and is reassessed annually. In determining the expected life of mortgage assets, the Bank uses historical redemption data as well as management judgement.

Notes to the financial statements (continued)
For the year ended 31 December 2020

5. Profit on ordinary activities before taxation

	2020	2019
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation of tangible fixed assets and amortisation of software (notes 14 and 15)	**81**	82
Amortisation of goodwill (note 15)	**-**	11
Auditors' remuneration – audit of Kingdom Bank Limited (2019 relates to previous auditor)	**90**	71
- audit of Lamb's Passage Holding Limited	**6**	
- other assurance services (2019 relates to previous auditor)	**-**	3
Operating lease rentals received	**(72)**	(72)
Movement in loan loss provision	**77**	43

6. Interest receivable and similar income

	2020	2019
	£'000	£'000
On loans fully secured on property	**2,236**	2,235
On short-term deposits with credit institutions	**61**	95
	2,297	2,330

All interest receivable arises in the UK and represents interest earned from customer balances using the Effective Interest Method.

7. Interest payable

	2020	2019
	£'000	£'000
On customer deposits	**436**	465
On subordinated liabilities	**87**	87
	523	552

8. Administrative expenses

	2020	2019
	£'000	£'000
Staff and related costs		
Wages and salaries	**1,080**	923
Social security costs	**104**	91
Other pension costs	**157**	121
	1,341	1,135
Training	**11**	10
Recruitment	**83**	7
	1,435	1,152
Other costs		
Charitable expenditure	**-**	13
Office expenses	**384**	346
Property expenses	**45**	50
Other expenses	**303**	219
Total	**2,167**	1,780

	2020	2019
The monthly average full time equivalent number of employees (excluding non-executive directors) was:	**No.**	No.
Executive directors	**2**	2
Office and management	**26**	24
	28	26

9. Directors' remuneration

	2020 £'000	2019 £'000
Directors' remuneration		
Remuneration	**234**	211
Employers pension contribution	**43**	25
Benefits in kind	**1**	-
	278	236

There were 3 (2019: 2) directors who were members of the defined contribution pension scheme.

	2020 £'000	2019 £'000
Highest paid director		
Total emoluments	**87**	82
Value of contributions paid to pension scheme	**28**	13

Directors' transactions

There were no other transactions (2019: £Nil) with directors in the year other than those disclosed in note 25.

Notes to the financial statements (continued)
For the year ended 31 December 2020

10. Tax on profit on ordinary activities

a) Tax expense included in profit or loss

	2020	2019
	£'000	£'000
Current tax:		
UK Corporation tax on profits for the year	**7**	56
Adjustments in respect of prior years	**-**	3
Total current tax	**7**	59
Deferred tax (note 21):		
Origination and reversal of timing differences	**(8)**	6
Effect of change in deferred tax as a result of higher tax rate	**(13)**	4
Total deferred tax	**(21)**	10
Tax on (loss)/ profit on ordinary activities in profit or loss	**(14)**	69

10. Tax on profit on ordinary activities (continued)

b) Reconciliation of tax charge

Tax assessed for the financial year is lower than (2019: higher than) the main rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £'000	2019 £'000
(Loss) / Profit on ordinary activities before taxation	**(38)**	326
(Loss) / Profit multiplied by the main rate of tax in the UK of 19% (2019: 19%)	**(7)**	62
Effects of:		
Expenses not deductible for tax purposes	**6**	-
Effect of change in deferred tax as a result of higher tax rate	**(13)**	4
Prior year adjustment to current tax	**-**	3
Total tax (credit)/ charge for the year	**(14)**	69

c) Tax rate changes

The tax rate for the current year is the same as the prior year. Future profits will be taxed at the main rate of corporation tax.

Factors affecting current and future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced by the Chancellor of the Exchequer on 11 March 2021. This is likely to increase the Bank's future tax charge accordingly. However as the increase had not been substantively enacted at 31 December 2020 or prior to signing these financial statements, the deferred tax asset has been calculated based on the 19% rate. As a result of the increase in corporation tax rate the deferred tax asset is likely to increase by £34,000 with a corresponding reduction in the deferred tax charge.

11. Loans and advances to banks

	2020 £'000	2019 £'000
Repayable:		
On demand	**7,459**	1,327
In not more than three months	**5,424**	4,181
	12,883	5,508
Over three months but not more than one year	**1,252**	1
	14,135	5,509

The average interest rate receivable during 2020 was 0.53% (2019: 0.83%).

12. Loans and advances to customers

a) Advances to customers

	2020 £'000	2019 £'000
Repayable:		
Fully secured on land and buildings:		
Charity mortgages	**40,095**	40,653
Personal mortgages	**7,074**	4,659
Fully secured lending to other group companies	**269**	274
	47,438	45,586
Less: loan loss provision	**(324)**	(247)
	47,114	45,339

b) Maturity of advances to customers

	2020 £'000	2019 £'000
Repayable:		
In not more than three months	**739**	629
Over three months but not more than one year	**2,216**	1,886
Over one year but not more than five years	**9,304**	8,928
In more than five years	**35,179**	34,143
	47,438	45,586
Less: loan loss provision	**(324)**	(247)
	47,114	45,339

The average interest rate receivable during 2020 was 4.61% (2019: 4.90%).

12. Loans and advances to customers (continued)

c) Loan loss provision

	2020	2019
	£'000	£'000
Balance at 1 January	**247**	283
Charge for the year	**89**	44
Utilised during the year	**-**	(79)
Released during the year	**(12)**	(1)
Balance at 31 December	**324**	247

The Bank continues to refine its loan loss provisioning model and has taken into account arrears levels, resolution and forbearance arrangements and other high risk lending factors in this process. The specific loan loss provision includes provision for loans where a loss has been Incurred But Not Reported uniquely in the book.

Borrowers will from time to time find themselves in periods of financial difficulty and may struggle to meet their monthly mortgage payment. It is the Bank's policy to do all that is possible to help them maintain payments and to rapidly bring their mortgage back up-to-date, whilst minimising credit risk to the Bank.

Certain forbearance agreements may be agreed with a borrower, which mean that the account does not fall into arrears. Such agreements will depend on the borrower's circumstances and may include temporary payment concessions or changes to an interest only basis, or longer term arrangements such as term extensions and interest rate concessions. The Bank recognises that whilst there are no arrears these borrowers are at higher risk of default and are therefore managed and categorised as such.

The most significant estimates and assumptions affecting the loan loss provision are as follows:

Indexation
In order to estimate the movement in the collateral valuation of each borrower's property since the last professional valuation, the Bank uses a national residential property index and a national commercial property index according to the type of security held.

Forced sale discount
When estimating property selling values in a recovery situation the Bank applies a 30% forced sale discount to the indexed property valuation, which is made up of a 25% reduction in value and 5% disposal costs. The Board consider these are reasonable assumptions based on the Bank's recent experience of recovery situations (albeit limited). The forced sale discount is equivalent to the loss given default percentage.

Selling prices
Once a property receiver has been appointed in a recovery situation the forced sale valuation is replaced with the estimated selling price after deducting disposal and carrying costs. The deficit between the loan balance and the estimated net selling price is equivalent to the loss given default percentage.

Probability of default
When calculating the amount to provide against each loan after deducting the forced sale value, or estimated net selling price in a recovery situation, a probability of default is applied. The probability of default will normally be 100% of the net exposure (being loss given default percentage multiplied by exposure at default) unless mitigating factors apply. Mitigating factors may include the existence of an LPA receiver which is reducing arrears levels, a forbearance arrangement or longer term mutually agreed exit strategy which is being maintained satisfactorily or a good recent payment record.

Specific loan loss provisions for impaired loans (as detailed in note 3 (f)(i)) are calculated by multiplying the probability of default by the loss given default percentage and then multiplying by the exposure at default (i.e. the loan balance).

12. Loans and advances to customers (continued)

c) Loan loss provision (continued)

Incurred But Not Reported ("IBNR")
The Bank has concluded that the IBNR provision for incorporated Charities will be at 50% of the average loan size and for unincorporated at 100% as unincorporated borrowers are considered to represent a higher probability of default. Given the Bank's low historic experience of defaults and the Credit Committee's close monitoring of loans in arrears and forbearance together with high risk cases, management have considered that there is likely to be no more than one single loan in the entire book which meets the criteria for inclusion in the IBNR provision. This loan is likely to have incurred losses triggered by historic events but which have not yet been reported and uniquely identified by the Bank. As a result a weighted average IBNR provision for one loan has been calculated based on the relative composition of incorporated and unincorporated loans in the book.

Further information regarding loan loss provisions is contained in note 27 (f).

Sensitivity analysis

Driver	**Change**	**Increase / (decrease) in loan loss provision at 31 December 2020 (£000)**
Residential indexation	10%	(65.0)
	-10%	65.0
Commercial indexation	10%	Nil (no commercial loans with specific provisions)
	-10%	
Forced sale discount	10%	67.1
	-10%	-
Selling prices	10%	Nil (no properties currently in recovery)
	-10%	
Probability of default	10%	-
	-10%	(5.9)
IBNR Incorporated	+10% average loan size	5.7
	-10% average loan size	(5.7)
	+10% weighting	5.7
	-10% weighting	(5.7)
IBNR Unincorporated	+10% average loan size	5.4
	-10% average loan size	(5.4)
	+10% weighting	10.7
	-10% weighting	(10.7)

13. Investment property

	Investment property £'000
Valuation	
At 1 January 2020	667
At 31 December 2020	**667**
Net book amount	
At 31 December 2020	**667**
At 31 December 2019	667

14. Tangible fixed assets

	Freehold land and building £'000	Furniture, fixtures and fittings £'000	Office equipment and computer hardware £'000	Total £'000
Cost or valuation				
At 1 January 2020	633	113	276	1,022
Additions	-	-	30	30
Disposals	-	-	-	-
At 31 December 2020	**633**	**113**	**306**	**1,052**
Accumulated depreciation and impairment				
At 1 January 2020	18	101	161	280
Charged during the year	9	2	31	42
Disposals	-	-	-	-
At 31 December 2020	**27**	**103**	**192**	**322**
Net book amount				
At 31 December 2020	**606**	**10**	**114**	**730**
At 31 December 2019	615	12	115	742

All freehold land and buildings are held at valuation less depreciation where applicable. If they had not been revalued, they would have been included at the following amounts.

	2020 £'000	2019 £'000
Cost	**685**	685
Accumulated depreciation	**(219)**	(206)
At 31 December	**466**	479

There were no revaluation movements during the year (2019: none).

14. Tangible fixed assets (continued)

In 2020 an internal valuation by the directors on the basis of open market value for existing use resulted in no change to the valuation.

The office premises were valued professionally during 2017 by Innes England on the basis of open market value for existing use, which resulted in an upward revaluation of £11,000 at 31 December 2017. This amount was credited to the revaluation reserve.

15. Intangible fixed assets

	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2020	303	276	579
Additions	-	39	39
At 31 December 2020	**303**	**315**	**618**
Accumulated amortisation			
At 1 January 2020	303	207	510
Provided during the year	-	39	39
At 31 December 2020	**303**	**246**	**549**
Net book amount			
At 31 December 2020	**-**	**69**	**69**
At 31 December 2019	-	69	69

Goodwill represents the excess of the fair value of the consideration paid on the acquisition of the insurance business of Stewardship Services (UKET) Limited over the fair value of the identifiable net assets acquired at the date of acquisition.

The software intangible assets include the Company's banking system, insurance system and website which were created by external development firms for the Company's specific requirements. Accounting software and regulatory reporting software are also included. The software assets are carried at £69,000 (2019: £69,000) and have a remaining amortisation period of between 0.5 and 4.6 years (2019: between 1.5 and 4.3 years). There are no other individually material intangible assets.

Notes to the financial statements (continued)
For the year ended 31 December 2020

16. Other assets

	2020	2019
	£'000	£'000
Amounts owed by group undertakings	**-**	110
Deferred taxation (note 21)	**106**	86
Prepayments and accrued income	**282**	286
	388	482

Amounts owed by group undertakings were unsecured, interest free, have no fixed repayment date and are repayable on demand.

17. Customer accounts

	2020	2019
	£'000	£'000
Repayable:		
On demand	**4,382**	4,986
In not more than three months	**37,166**	29,851
Over three months but not more than one year	**12,986**	12,286
Over one year but not more than five years	**6,753**	4,255
	61,287	51,378

The average interest rate payable during 2019 was 0.79% (2019: 0.93%).

18. Other liabilities

	2020	2019
	£'000	£'000
Corporation tax	**7**	57
Other taxation and social security	**53**	33
Other creditors	**168**	167
Accruals and deferred income	**64**	99
	292	356

19. Subordinated liabilities

a) Undated Tier 2

	2020	2019
	£'000	£'000
At 1 January and 31 December	**61**	61

b) Dated Tier 2

	2020	2019
	£'000	£'000
At 1 January	**1,370**	1,370
At 31 December	**1,370**	1,370
Subordinated liabilities	**1,431**	1,431

c) Repayment profile and terms

	2020	2019
	£'000	£'000
Repayable:		
Over three months but not more than one year	**670**	-
Over one year but not more than five years	-	670
Over five years	**761**	761
	1,431	1,431

The average interest rate payable during 2020 was 6.07% (2019: 6.09%).

The subordinated liabilities are denominated in pounds sterling and are classified as Tier 2 capital as defined by the regulatory authorities, and so form part of the Bank's permanent capital and capital resources.

Due to the fixed yield and obligation to transfer cash to redeem the subordinated liabilities, the debt is considered to have financial liability instrument characteristics and therefore has been treated for accounting purposes as a financial liability.

19. Subordinated liabilities (continued)

c) Repayment profile and terms (continued)

Undated Tier 2
The terms of the undated Tier 2 deposits amounting to £61,000 are unchanged from 2019 and are summarised as follows:

- the deposit is not repayable until the date of an effective resolution or Court order for the winding up of the Company;
- the Bank may exercise its option to repay, but only with the consent of the Regulatory Authority;
- interest is paid at 3% per annum.

The deposits, and any unpaid interest, are intended to absorb losses made by the Bank in circumstances where the Bank would not otherwise be solvent. The deposits therefore rank pari passu with the Bank's ordinary shares.

Dated Tier 2
Dated Tier 2 deposits amounting to £670,000 remained on the same terms as 2019. The terms of the outstanding deposits are as follows:

- the deposit is repayable in full after seven or ten years (as selected by the depositor prior to the date of deposit);
- interest is paid either on a fixed basis or on a variable basis as follows:
- where the depositor elects to receive interest on the fixed basis:
  - 8.5% per annum for the first five years followed by 7.5% for the remaining five years (ten year term).
- where the depositor elects to receive interest on the variable basis:
  - at the Bank of England Base Rate plus a margin of 3%, subject to being not less than 7.5% per annum and no greater than 10% per annum.

Further dated Tier 2 deposits amounting to £700,000 remained on the same terms as 2019. The terms of the outstanding deposits are as follows:

- the deposit is repayable in full after ten years;
- interest is paid on a fixed basis as follows:
  - 5% per annum (ten year term).

The deposits, and any unpaid interest, are intended to absorb losses made by the Bank in circumstances where the Bank would not otherwise be solvent. Accordingly, if the Bank goes into liquidation and the deposit has not been repaid, it is the intention that the deposit (and any interest accrued but unpaid) should rank above the nominal amount of the Bank's ordinary shares but should be repaid only after repayment in full of the Bank's unsecured creditors and all other obligations having priority to the ordinary shares. If the Bank goes into liquidation the depositor will not be entitled to share in any surplus available for distribution to the holders of the ordinary shares.

20. Called up share capital

	2020	2019
	£'000	£'000
Allotted, issued and fully paid		
4,867,000 (2019: 4,217,000) ordinary shares of £1 each	**4,867**	4,217

21. Deferred taxation

	2020	2019
	£'000	£'000
Asset in respect of timing differences:		
Capital allowances	**1**	(12)
Tax losses	**65**	59
Revaluation of investment property	**17**	15
Revaluation of operating property	**16**	14
Other short term timing differences	**7**	10
	106	86

	2020	2019
The movement in the deferred tax asset was as follows:		
Asset at 1 January	**86**	96
Origination and reversal of timing differences	**8**	(6)
Effect of change in deferred tax as a result of higher tax rate	**12**	(4)
Asset at 31 December	**106**	86

The directors have performed an assessment of anticipated future profitability and believe that future profits will be sufficient to recover the deferred tax asset relating to accumulated taxable losses in full. The Chancellor of the Exchequer's Budget presented in March 2016 included provisions to restrict the utilisation of pre-March 2015 taxable losses to 50% of taxable profits from April 2015 and to 25% of taxable profits from April 2016. The estimated period over which the Bank will utilise its asset is four years (2019: four years) which the directors have assessed as reasonable. Future increases in the main rate of corporation tax are disclosed in note 10 c) and have not been reflected in the deferred tax asset as they were not substantively enacted at 31 December 2020 or at the date of signing these financial statements.

22. Commitments

	2020	2019
	£'000	£'000
Loans and advances to customers	**4,154**	3,671
Number of advances	**32**	18

23. Guarantees and other financial commitments

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme ("FSCS") is the UK's statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed monies from HM Treasury to fund the compensation costs associated with institutions that failed in 2008 and will receive the receipts from asset sales, surplus cash flows and other recoveries from these institutions in the future.

The FSCS meets its obligations by raising specified deposit-taker defaults ("SDD") levies. These include amounts to cover the interest on its borrowings and capital levies on the industry. Each deposit-taking institution contributes in proportion to its share of total protected deposits.

Notes to the financial statements (continued)
For the year ended 31 December 2020

23. Guarantees and other financial commitments (continued)

	2020	2019
	£'000	£'000
At 1 January	**-**	2
(Credit) for the year	**-**	(2)
Paid in the year	**-**	-
At 31 December	**-**	-

Capital commitments

There were no authorised and contracted capital commitments at 31 December 2020 (2019: £Nil).

24. Ultimate controlling party

Prior to 31 March 2020, Assemblies of God Property Trust, a company limited by guarantee not having a share capital and which is a registered charity, was the ultimate controlling party of the Bank and was the largest and only group for which consolidated financial statements are prepared, as it owned 100% of the issued share capital of the Company. Copies of the financial statements of this Company are available from the registered office of the Bank.

On 31 March 2020 Lamb's Passage Holding Limited acquired 100% of the issued share capital of the Company, becoming its new holding company. Although the largest shareholder in Lamb's Passage Holding Limited is Stewardship Services (UKET) Limited, this company does not exercise control of Lamb's Passage Holding Limited, and consequently the directors consider Lamb's Passage Holding Limited to be the Company's ultimate controlling party.

25. Related party transactions

Details of amounts owed by group undertakings, relating to non-banking transactions, are disclosed in note 16.

A number of banking transactions are entered into with related parties in the normal course of business, including loans and deposits. Details of these related party transactions, outstanding balances at the year end and related expense and income for the year are as follows:

a) Loans and advances to customers

	Directors		**Group companies**	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 January	**-**	4	**274**	279
Advances	**-**	-	**-**	-
Interest receivable	**-**	-	**11**	12
Loan repayments	**-**	(4)	**(16)**	(17)
At 31 December	**-**	-	**269**	274

25. Related party transactions (continued)

a) Loans and advances to customers (continued)

Loans to group companies relate to amounts due from the former parent undertaking and are secured on the property to which they relate, are loans with an initial term of 30 years which carry interest rates of 4.25% (2019: 4.25%) and no guarantees have been received. None (2019: £Nil) of the interest receivable from group companies resulted from refinancing of those loans.

No loans were written off and no provisions were recognised during the year in respect of loans advanced to related parties (2019: none).

b) Deposits from related parties

	Directors and close family members		**Group companies**	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 January	**29**	9	**123**	30
Deposits received	**80**	40	**1,023**	120
Deposits repaid during the year	**(9)**	(20)	**(1,046)**	(27)
At 31 December	**100**	29	**100**	123

Deposits from directors and group companies relate to amounts due to directors and the former parent undertaking on normal commercial terms, with an initial term between call and 2 years (2019: between call and 1 month) which carry interest rates that vary between 0.00% and 1.10% (2019: between 0.00% and 1.25%).

There were no loans, deposits or other transactions with Lamb's Passage Holding Limited or Stewardship Services (UKET) Limited throughout the year.

See note 9 for disclosure of the directors' remuneration.

26. Defined contribution scheme

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £157,000 (2019: £121,000). There were accrued pension costs at the year-end of £Nil (2019: £Nil).

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments

The Bank has the following financial instruments:

a) Financial assets

	2020	2019
	£'000	£'000
Financial assets that are debt instruments measured at amortised cost:		
Cash and balances at central banks	**6,678**	6,502
Loans and advances to banks	**14,135**	5,509
Loans and advances to customers:		
Loans to individuals:		
Unsecured loans to individuals	**-**	-
Secured loans to individuals	**7,074**	4,659
Loans to SMEs (including Charities):		
Unsecured loans to SMEs	**-**	-
Secured loans to SMEs	**40,095**	40,653
Fully secured loans to other group companies:	**269**	274
	47,438	45,586
Less: loan loss provision	**(324)**	(247)
Loans and advances to customers	**47,114**	45,339

b) Financial liabilities

	2020	2019
	£'000	£'000
Financial liabilities that are debt instruments measured at amortised cost:		
Customer accounts:		
Deposits from individuals	**33,542**	29,801
Deposits from SMEs	**27,647**	21,454
Deposits from other group companies	**98**	123
	61,287	51,378
Subordinated liabilities:		
Deposits from individuals	**650**	650
Deposits from SMEs	**780**	780
Deposits from other group companies	**1**	1
	1,431	1,431

Note 18 includes details of other financial liabilities measured at amortised cost.

27. Financial instruments (continued)

c) Allowance for impairment losses on loans and receivables

Allowances for impairment losses on loans and receivables are detailed in note 12 c). There are no allowances for impairment losses on any other financial assets.

d) Financial instruments held at fair value

No financial instruments are held at fair value in the Bank's balance sheet.

e) Nature and extent of risks arising from financial instruments

The Bank regularly reviews the risks affecting the business both internal and external. These risks are, where possible, mitigated to minimise their probability and impact. The principal risks arising from financial instruments have been identified as: capital adequacy, credit risk, liquidity risk, market risk.

During the year the Bank has continued to review, update and refine its Risk Management Framework in response to emerging trends and the continuous reassessment of risks.

Capital adequacy

The Bank's regulatory capital consists of shareholders' funds ("Core Equity Tier 1") and subordinated liabilities ("Tier 2"). Shareholders' funds, comprising ordinary shares and reserves, increased to £6,771,000 (2019: £6,145,000) and subordinated liabilities remained at £1,431,000 (2019: £1,431,000). These funds are prudently managed to ensure the Bank maintains sufficient capital for its activities. Unforeseen events can unexpectedly erode this capital and these events are analysed and assessed using the Internal Capital Adequacy Assessment Process ("ICAAP"). This process stress tests the business and allocates sufficient levels of capital to cover assessed risk. The capital is then managed against robust Risk Appetite measures for surplus capital, Core Tier 1 Capital and Leverage Ratio to maintain a healthy margin above the regulatory and internally assessed minima. The Bank continues to meet all the regulatory requirements.

Credit risk

The Bank's primary exposure to credit risk arises through loans and advances to customers, and investment in the wholesale money market. Almost all of the Bank's customer advances are secured by collateral, provided by customers prior to the disbursement of loans. Collateral for loans is usually in the form of first legal charge over property. The balance of collateralised outstanding loans is disclosed in note 12 a).

The Bank's main business is to lend money to customers which brings with it an inherent risk of arrears and default. The careful assessment of each loan application against strict credit policy guidelines together with very supportive and hands-on management of arrears ensures that provision for losses is able to be kept low. The Bank's systems monitor all customers who are in arrears ensuring that we can help and support where necessary. The number of cases more than 60 days in arrears and in breach of contract was 3 (2019: 3) and the total balance reduced to £266,000 (2019: £300,000), representing 0.6% (2019: 0.6%) of the loan book. The low level of arrears has been achieved through the Bank's now established policy of working closely with our clients over a long period resulting in them either finding a solution to reducing the arrears or deciding to sell their property.

27. Financial instruments (continued)

e) Nature and extent of risks arising from financial instruments (continued)

Credit risk (continued)

To manage the credit risk associated with investing in the wholesale money market, the Bank deals only with counterparties of good credit standing. Exposure to any single counterparty is restricted by prudent and regularly-reviewed limits expressed as a proportion of the Bank's capital resources.

Liquidity risk

The established Treasury policy provides a framework to minimise the risk to liquidity. The objectives of the policy with regards to liquidity risk are:

- to maintain adequate liquidity to meet known and anticipated customer withdrawals, mortgage advances, tax liabilities, capital and administrative expenses; and
- to maintain adequate liquidity to cover unexpected cash flow imbalances

The Bank continues to hold a surplus of liquid reserves. The minimum level for these reserves is set after careful analysis of potential outflows and is regularly stress tested to ensure they exceed both the regulatory minimum requirements and the Board's minimum risk appetite limits.

Interest rate risk (a subset of market risk)

Although the Bank does not have a trading book, it is exposed to interest rate risk in the banking book.

The first and most significant component of interest rate risk is fixed rate re-pricing (or duration) risk. This is the risk of adverse changes to earnings and capital due to changes in interest rates. It is evaluated principally in terms of the sensitivity and exposure of the value of the Bank's assets and liabilities to changes in interest rates. Analysis of the exposure to interest rate risk is managed carefully within the Board's risk appetite. The Bank operates a matching approach to financial risk management, whereby the risk arising from mismatches in re-pricing of assets and liabilities is managed internally through the balance sheet. The Bank has a maximum exposure limit for such potential losses for a 2% parallel shift in the yield curve of 5% of own funds. The Bank's interest rate repricing mismatches are summarised in section k) of this note and a sensitivity analysis is presented in section k) of this note.

The second component of interest rate risk is basis risk. The Bank has exposure to basis risk due to the assets and liabilities / capital which re-price with reference to Bank Base Rate ("BBR"). However the risk is significantly reduced as approximately 16% of the loan book consists of BBR linked loans with a floor, meaning that a reduction in BBR would have no impact on the rates receivable on these loans and in most cases BBR would need to exceed 3% before the rate receivable increased. The Board has set risk appetite limits against its exposure to basis risk for each type of basis risk mismatch and against the sensitivity of its net interest margin to basis risk.

The final component of interest rate risk is optionality risk. This risk arises from the discretion that the Bank's customers and counterparties have in respect of their contractual relations with the Bank in the form of financial instruments. There is a risk that assets and liabilities may not re-price in accordance with their contractual terms.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

e) Nature and extent of risks arising from financial instruments (continued)

Interest rate risk (a subset of market risk) (continued)

The various sources of optionality risk and their mitigants are considered below:

Source of optionality risk	Mitigation
Prepayment risk on fixed rate loans.	Early repayment charges discourage early repayments on fixed rate lending.
Prepayment risk on fixed rate and notice counterparty deposits.	Very unlikely to occur in practice as contractual terms generally prohibit early repayment by the counterparty.
Early withdrawal risk on fixed term and notice customer deposits.	Permitted only at the Bank's absolute discretion and subject to loss of interest to maturity and material penalties.
Early withdrawal risk on fixed term subordinated liabilities.	Contractual terms prevent repayment unless approval granted by the Board and the PRA.
Drawdown of pipeline lending commitments.	All assumed within earliest re-pricing time bucket (0 – 3 months) with no behavioural assumptions.
Withdrawal of customer deposits held at call.	All assumed within earliest re-pricing time bucket (0 – 3 months) with no behavioural assumptions.

Optionality risk is not considered material to the Bank's current business model due to the mitigations noted above.

The Bank uses the following sensitivity analysis to manage the interest rate risk in the banking book:

Component of interest rate risk	Measure	Board risk appetite as % of own funds (maximum)	Audited 31 December 2020[1]		Audited 31 December 2019	
			% of own funds	£'000	% of own funds	£'000
Fixed rate re-pricing risk	Economic value at risk for a 2% parallel shift in the Bank's yield curve, as a % of own funds	5%	1.87%	139	0.97%	65
Basis risk	Change in annual net interest income from base rate linked assets and liabilities for a 0.5% shift in Bank Base Rate, as a % of own funds	5%	1.87%	139	2.09%	141

Own funds comprises the Bank's regulatory capital, and includes ordinary share capital, retained earnings, revaluation reserve, subordinated liabilities (amortised over last five years' residual maturity) less deductions for intangible assets and certain deferred tax assets. The unaudited amount of own funds at 31 December 2020 was £7.4 million (2019: £6.7 million).

[1] Not taking account of BBR linked loans with a floor.

27. Financial instruments (continued)

e) Nature and extent of risks arising from financial instruments (continued)

Interest rate risk (a subset of market risk) (continued)

Economic value at risk is calculated by examining details of interest sensitive assets and liabilities to establish when they will next re-price (i.e. be subject to a change in interest rate), and then tabulating those which re-price within set time periods (known as "time buckets", within which all items re-pricing are grouped together). Interest rate sensitive items are those assets and liabilities that are subject to contractual change in interest rates, or which mature (fall due for repayment) on a particular date. The sums of each time bucket (known as "gaps") are then discounted into present values using a yield curve. The present values are then aggregated to calculate the net present value of the Bank's balance sheet. A 2% parallel shift in interest rates, consistent with the PRA's FSA017 methodology, is then applied to the yield curve in order to calculate the impact on net present value. This impact is referred to as the economic value at risk.

In order to calculate the Bank's exposure to fixed rate re-pricing risk the Bank uses its average cost of funding (personal and SME deposits and subordinated liabilities) as a flat yield curve. A comparison has been performed against a 10 year yield curve based on UK government bonds, and the exposure value was calculated at 1.44% more than (2019: 0.53% less than) that calculated using the flat funding cost yield curve, which is not considered to be material.

Exposure to basis risk is measured by calculating the change in annual net interest income from base rate linked assets and liabilities for a 0.5% shift in Bank Base Rate, as a % of own funds.

For both fixed rate re-pricing risk and basis risk the Board has set a maximum risk appetite of 5% of own funds, or £372,000 at 31 December 2020 (2019: £336,000). The Board consider that any exposure in excess of this level would represent an unacceptable risk. The exposures at 31 December 2020 and 31 December 2019 are as shown in the table above.

Credit risk

The maximum exposure to credit risk is best represented by carrying value for the following classes of financial instrument:

- Cash and balances at central banks
- Loans and advances to banks
- Loans and advances to customers:
  - Unsecured loans to individuals
  - Unsecured loans to SMEs

27. Financial instruments (continued)

e) Nature and extent of risks arising from financial instruments (continued)

Credit risk (continued)

The maximum exposure to credit risk for secured loans and advances to customers before and after collateral held as security is shown below:

	2020 £'000	2019 £'000
Secured loans to individuals	**7,074**	4,659
Less: collateral held	**(7,074)**	(4,659)
Exposure after collateral	**-**	-
Secured loans to SMEs	**40,095**	40,653
Less: collateral held	**(40,088)**	(40,598)
Exposure after collateral	**7**	55
Fully secured loans to other group companies	**269**	274
Less: collateral held	**(269)**	(274)
Exposure after collateral	**-**	-
Total exposure after collateral	**7**	55

Collateral held represents a first legal charge over UK commercial or residential property owned by the borrower. The property values are indexed using the MSCI regional UK Monthly Property Index for commercial property and the HM Land Registry regional UK House Price Index for residential property. The collateral amounts shown are restricted to the amount of the corresponding loans since any surplus on sale of the collateral in excess of each loan balance would be returned to the borrower.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

f) The Bank's financial assets may be classified into the following two categories:

- Neither past due nor impaired
- Individually impaired

	2020			2019		
	Cash and balances at central banks	**Loans and advances to banks**	**Loans and advances to customers**	**Cash and balances at central banks**	**Loans and advances to banks**	**Loans and advances to customers**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Neither past due nor impaired	6,678	14,135	46,310	6,502	5,509	44,474
Individually impaired	-	-	1,127	-	-	1,112
Gross	**6,678**	**14,135**	**47,437**	**6,502**	**5,509**	**45,586**
Less allowance for impairment:						
Individual impairment	-	-	(212)	-	-	(125)
Collective allowance	-	-	(111)	-	-	(122)
Total allowance for impairment	**-**	**-**	**(323)**	**-**	**-**	**(247)**
Net	**6,678**	**14,135**	**47,114**	**6,502**	**5,509**	**45,339**

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 and advances to customers where arrears exceed 90 days' contractual payments ("past due") or management judge that, due to other historical indications of impairment, the probability of default occurring is significant and an exposure to potential loss exists after realisation of security at a forced sale discount. Factors increasing the probability of default include cases in forbearance, high levels of other indebtedness, erratic payment history, declining income or membership levels and governance issues affecting the viability of the borrower. Customer loans which are in arrears or are classified as high risk for other reasons are monitored closely and reported monthly to the Credit Committee, who will decide whether any additional specific provisions are required.

A collective allowance has been included for Incurred But Not Reported ("IBNR") losses, which is maintained for customer 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 year 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.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

g) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the Bank's internal credit grading system for loans and advances to customers, and by reference to external credit ratings and published Pillar 3 disclosures for cash and balances at central banks and loans and advances to banks. Institutions with an external credit rating will only be considered if they have a minimum short term rating of Fitch F2 and Moodys P2 at the time of placing funds. Unrated institutions, i.e. institutions without an external credit rating, will only be considered if their Pillar 3 disclosures indicate that they have a minimum of £10 million eligible capital which shall not be less than 160% of that institution's Pillar 1 capital requirement. Unrated Banks will only be considered if minimum capital and liquidity criteria are met as specified in the Bank's Treasury Policy. Sector limits are in place to avoid concentrations to different institutional sectors. Pillar 3 disclosures are mandated by the EU Capital Requirements Regulations and Capital Requirements Directive (together known as "CRD IV").

	Loans and advances to customers						**Cash and balances at central banks**	**Loans and advances to banks**
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other group companies	**Loans and advances to customers**		
	Unsecured	Secured	Unsecured	Secured	Secured			
31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Credit Grade 5: Internal default (arrears 60 to 90 days)	-	-	-	-	-	-	-	-
Credit Grades 2 to 4: High risk loans and arrears up to 60 days	-	-	-	4,564	-	4,564	-	-
Credit Grade 1: Up to date and not high risk	-	7,008	-	34,469	269	41,746	-	-
Minimum short Term Rating Fitch F2 / Moodys P2	-	-	-	-	-	-	6,678	5,018
Unrated institutions	-	-	-	-	-	-	-	9,117
Total	**-**	**7,008**	**-**	**39,033**	**269**	**46,310**	**6,678**	**14,135**

27. Financial instruments (continued)

g) Credit quality of financial assets that are neither past due nor impaired (continued)

	Loans and advances to customers						Cash and balances at central banks	Loans and advances to banks
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other group companies	Loans and advances to customers		
	Unsecured	Secured	Unsecured	Secured	Secured			
31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Credit Grade 5: Internal default (arrears 60 to 90 days)	-	-	-	-	-	-	-	-
Credit Grades 2 to 4: High risk loans and arrears up to 60 days	-	301	-	1,741	-	2,042	-	-
Credit Grade 1: Up to date and not high risk	-	4,294	-	37,864	274	42,432	-	-
Minimum short Term Rating Fitch F2 / Moodys P2	-	-	-	-	-	-	6,502	1,315
Unrated institutions	-	-	-	-	-	-	-	4,194
Total	**-**	**4,595**	**-**	**39,605**	**274**	**44,474**	**6,502**	**5,509**

27. Financial instruments (continued)

h) Analysis of financial assets that are individually determined to be impaired as at the end of the reporting year

Note f) describes the circumstances where the Bank considers that financial assets are individually determined to be impaired. Collateral held represents a first legal charge over UK commercial or residential property owned by the borrower. The property values are indexed using the MSCI regional UK Monthly Property Index for commercial property and the HM Land Registry regional UK House Price Index for residential property, which are considered to represent fair value.

	Loans and advances to customers					
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other group companies	**Loans and advances to customers**
	Unsecured	Secured	Unsecured	Secured	Secured	
31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Book value of individually impaired loans	-	66	-	1,061	-	1,127
Provisions for individually impaired loans	-	-	-	323	-	323
Indexed value of collateral held as security	-	66	-	1,053	-	1,119
31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Book value of individually impaired loans	-	64	-	1,048	-	1,112
Provisions for individually impaired loans	-	-	-	247	-	247
Indexed value of collateral held as security	-	65	-	991	-	1,056

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

i) Maturity analysis for non-derivative financial liabilities

The following is a residual maturity analysis for non-derivative financial liabilities based on contractual maturity dates. The amounts represent undiscounted cash flows, and therefore include future interest payable between the balance sheet date and the contractual maturity dates. Amounts on demand and amounts with no specific maturity date have been included without the addition of any future interest payable. There were no derivative financial liabilities.

	Repayable:						
	On demand	In not more than three months	Over three months but not more than one year	Over one year but not more than five years	In more than five years	No specific maturity date	**Total**
31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer accounts	4,382	37,201	13,047	6,865	-	-	**61,495**
Other liabilities	292	-	-	-	-	-	**292**
Subordinated liabilities	-	-	738	140	734	61	**1,673**
Total liabilities and total shareholders' funds	**4,674**	**37,201**	**13,785**	**7,005**	**734**	**61**	**63,460**
31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer accounts	4,986	29,901	12,363	4,341	-	-	**51,591**
Other liabilities	356	-	-	-	-	-	**356**
Subordinated liabilities	-	-	85	843	769	61	**1,758**
Total liabilities and total shareholders' funds	**5,342**	**29,901**	**12,448**	**5,184**	**769**	**61**	**53,705**

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

j) Capital management

The Bank's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry and the prior year, the Bank monitors its capital as assessed by CRD IV, specifically the levels of minimum surplus capital over the PRA's Total Capital Requirement ("TCR") plus applicable capital buffers. These buffers include the PRA buffer and the CRD IV combined buffer (the capital conservation buffer and the countercyclical capital buffer). The unaudited TCR amounted to £4.8m at 31 December 2020 (2019: £4.9m).

The Bank calculates its internal capital adequacy assessment ("ICA") in parallel with the PRA's TCR assessment. The ICA represents the Board's own assessment of capital requirements, which may be higher or lower than the PRA's TCR requirements. The buffer requirements are the same under both the external TCR and the internal ICA basis.

The Bank's various forms of capital (or "own funds") are described in section k) of this note.

In order to adjust the Bank's level of capital resources held, it may amend the amount of dividends paid to shareholders, return capital to shareholders or holders of subordinated liabilities or issue new shares or subordinated liabilities. In order to adjust the Bank's level of capital requirements it must change the amount of risk weighted assets as specified by CRD IV. The Bank may reduce the amount of risk weighted assets by repaying loans and advances or moving liquid funds from higher risk weighted instruments to lower risk weighted instruments, such as the Bank of England reserve account. To minimise risk weighted assets new lending may be targeted in lower risk weighted asset classes such as residential lending rather than commercial lending.

27. Financial instruments (continued)

j) Capital management (continued)

The Bank's minimum surplus capital over TCR and ICA (without capital buffers) during the year, together with regulatory capital ratios at the year end, was as follows:

	2020	2019
	£'000	£'000
	Unaudited	Unaudited
Minimum surplus capital during the year over TCR only	**1,846**	1,800
Minimum surplus capital during the year over ICA only	**2,053**	1,926
Capital ratios		
Common Equity Tier 1 capital as a % of total risk exposure (min 4.5%)	16.64%	15.27%
Tier 1 capital as a % of total risk exposure (min 4.5%)	16.64%	15.27%
Own funds as a % of total risk exposure (min 4.5%)	18.79%	17.90%

The Bank complied with the CRD IV capital requirements during the current and prior year and is expected to do so throughout the business planning period.

The Bank's stated internal risk appetite for capital is to maintain surplus capital of at least 4% over the regulatory requirements (TCR plus buffers and ICA plus buffers). In addition the Bank's risk appetite is to maintain a Core Equity Tier 1 ratio of at least 14.25% and a Total capital ratio of at least 17.25%.

The Bank remained within its risk appetite for capital during the current and prior year and is expected to remain so throughout the business planning period.

The increase in minimum surplus capital during the year over TCR and ICA (without capital buffers) and the increase in the Common Equity Tier 1, Tier 1 capital and Own Funds ratios between 2019 and 2020 was caused by the addition of Tier 1 capital and audited 2019 profits.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial instruments (continued)

k) Interest Rate Risk in the Banking Book

The Bank did not enter into any derivative contracts during the year (2019: none).

The table below summarises interest rate repricing mismatches at 31 December 2020. Items are allocated to time bands by reference to next interest rate repricing date.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	More than five years £'000	No specific repricing date £'000	Total £'000
ASSETS							
Cash and balances at central banks	6,678	-	-	-	-	-	6,678
Loans and advances to banks	14,121	-	-	-	-	14	14,135
Loans and advances to customers	38,658	-	734	5,751	-	1,971	47,114
Intangible fixed assets	-	-	-	-	-	69	69
Investment property	-	-	-	-	-	667	667
Tangible fixed assets	-	-	-	-	-	730	730
Other assets	-	-	-	-	-	388	388
TOTAL ASSETS	**59,457**	**-**	**734**	**5,751**	**-**	**3,839**	**69,781**
LIABILITIES							
Customer accounts	41,678	6,225	6,749	6,484	-	151	61,287
Other liabilities	-	-	670	-	700	353	1,723
Shareholder's funds	-	-	-	-	-	6,771	6,771
TOTAL LIABILITIES AND TOTAL SHAREHOLDER'S FUNDS	**41,678**	**6,225**	**7,419**	**6,484**	**700**	**7,275**	**69,781**
Interest rate sensitivity gap	**17,779**	**(6,225)**	**(6,685)**	**(733)**	**(700)**	**(3,436)**	**-**
Cumulative gap	**17,779**	**11,554**	**4,869**	**4,136**	**3,436**	**-**	**-**

27. Financial instruments (continued)

k) Interest Rate Risk in the Banking Book (continued)

The following table summarises interest rate repricing mismatches at 31 December 2019.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	More than five years £'000	No specific repricing date £'000	Total £'000
ASSETS							
Cash and balances at central banks	6,500	-	-	-	-	2	6,502
Loans and advances to banks	5,497	-	-	-	-	12	5,509
Loans and advances to customers	38,402	-	-	4,881	-	2,056	45,339
Intangible fixed assets	-	-	-	-	-	69	69
Investment property	-	-	-	-	-	667	667
Tangible fixed assets	-	-	-	-	-	742	742
Other assets	-	-	-	-	-	482	482
TOTAL ASSETS	**50,399**	**-**	**-**	**4,881**	**-**	**4,030**	**59,310**
LIABILITIES							
Customer accounts	35,732	5,424	5,813	4,201	-	208	51,378
Other liabilities	-	-	-	670	700	417	1,787
Shareholder's funds	-	-	-	-	-	6,145	6,145
TOTAL LIABILITIES AND TOTAL SHAREHOLDER'S FUNDS	**35,732**	**5,424**	**5,813**	**4,871**	**700**	**6,770**	**59,310**
Interest rate sensitivity gap	**14,667**	**(5,424)**	**(5,813)**	**10**	**(700)**	**(2,740)**	**-**
Cumulative gap	**14,667**	**9,243**	**3,430**	**3,440**	**2,740**	**-**	**-**

Notes to the financial statements (continued)
For the year ended 31 December 2020

28. a) Net cash generated from operating activities excluding tax

	2020	2019
	£'000	£'000
(Loss)/ Profit for the financial year	**(24)**	257
Tax on (loss)/ profit on ordinary activities	**(14)**	69
(Loss)/ Profit on ordinary activities before taxation	**(38)**	326
Net cash generated from operating activities excluding tax		
Amortisation of intangible assets	**39**	61
Depreciation of tangible assets	**42**	32
Revaluation of investment property	**-**	-
Movement in loan loss provision	**77**	(36)
(Increase)/ decrease in loans and advances to banks	**(1,251)**	251
(Increase) in loans and advances to customers	**(1,852)**	(3,899)
Increase in customer accounts	**9,909**	5,266
Working capital movements:		
- decrease/ (increase) in other assets	**114**	(8)
- (decrease) in other liabilities	**(14)**	(15)
Net cash generated from operating activities	**7,026**	1,978

28. b) Net cash generated from financing activities excluding tax

	2020	2019
	£'000	£'000
Share allotment	**650**	-
Net cash generated from financing activities excluding tax	**650**	-