



Pillar 3 Disclosures

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1. Introduction

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

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

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

CRR II and CRD V were published in June 2019 and include a number of minor amendments to CRR and CRD IV respectively. The key capital adequacy impacts on the Bank from June 2021 are as follows:

- Large exposures framework will be based on Tier 1 capital rather than eligible capital (this will reduce the maximum loan size and maximum counterparty exposure by around 13% based on current capital levels);
- EU Leverage Ratio applies (see section 5.2);
- Threshold below which the 0.7619 Small and Medium Sized Enterprise (SME)¹ supporting factor may be applied to exposures to increase from €1.5m to €2.5m and introduction of an SME factor of 0.85 for the portion of exposures above €2.5m.

The CRD comprises three 'pillars':

- Pillar 1 sets out the minimum capital requirement firms will be required to meet for credit, market and operational risk. This is known as the Capital Resources Requirement.
- Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and must take action accordingly. The Board of Kingdom Bank Limited ("the Bank") has undertaken an assessment of all of the key risks facing the Bank and additionally, the Bank has stress tested those risks to establish the level of additional capital to be held under Pillar 2. The Internal Capital Adequacy Assessment Process (ICAAP) is produced by the firm and is reviewed by the PRA ("the Regulator") as part of the Annual Prudential Review Meeting (APRM). The last full ICAAP was approved by the Board in September 2019 and was submitted to the Regulator in December 2019. The Regulator conducted an APRM in June 2018 and reported formally thereafter on a range of issues. The Regulator last indicated the level of

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

capital they considered that the Bank should hold in respect of its risk assets in the form of an Individual Capital Guidance (ICG) in August 2017. The Bank has operated and continues to operate within the ICG.

- The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management. This document includes the information required under Pillar 3 and will be updated annually.

The figures in this document are as at 31 December 2019 unless otherwise stated.

Until 31 March 2020 the Bank was a wholly owned subsidiary company of a group headed by Assemblies of God Property Trust (“AOGPT”) and was included in the consolidated financial statements of that company, which are publicly available. Consequently, the consolidated results are not included in the financial statements of the Bank. Following PRA approval, Assemblies of God Property Trust completed the sale of its shares in the Bank to a group of investors on 31 March 2020. The lead investor in this group is Stewardship Services (UKET) Limited, a Charity well known to the Bank and providing services in many cases to the same types of customers. The investor group also includes a number of private individuals. Their aim is to invest additional share capital into the Bank and increase its reach to the same target market. The acquisition vehicle was a newly incorporated company, Lamb's Passage Holding Limited. As of 31 March 2020 the directors consider the ultimate controlling party of the Bank to be Lamb's Passage Holding Limited.

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

1.1 COVID-19

The worldwide COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The outbreak has caused a significant deterioration in economic conditions for some companies and an increase in economic uncertainty for others.

Measures to prevent transmission of the virus include limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools, and cancelling events. Since these measures have resulted in the closure of places of worship, this has had an immediate impact on the Bank's core customer base.

The spread of COVID-19 represents a non-adjusting post balance sheet event in the UK and therefore it remains appropriate that the measurement of assets and liabilities as at 31 December 2019 reflects only the conditions that existed at that date. Based upon the Bank's performance year-to-date, the directors have concluded that the pandemic does not provide any additional information about uncertainties and events that existed at 31 December 2019. Consequently, the directors' assessment of potential post balance sheet events did not reveal any events that require adjustment to be made to the financial statements.

The Board has assessed 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 within normal service levels - albeit support requests may take slightly longer to be resolved. The Bank's core systems and communication channels remain fully operational and most staff are working from home, with a small team of key workers performing essential

services in the office. The Bank's customer base is located entirely in the UK and will continue to be serviced as usual within this temporary operating model.

The Bank has received a number of requests from borrowers to agree temporary payment holidays or other short-term forbearance measures but as yet only a few payment holidays have been agreed with most requests resulting in no action or another form of forbearance such as an interest-only period being agreed. The loan book has continued to perform to date. The growth in deposits has been favourable compared to budget.

The Board anticipates a reduction in new business in the short-term resulting from COVID-19 and a reduction in net interest income as a result of the Bank of England's reductions in the bank base rate from 0.75% to 0.10%. These impacts have been reflected in the Bank's updated financial forecasts and going concern scenario modelling. The Board is of the view that the Bank has sufficient capital to survive what the directors and management consider to be the most severe stress scenarios. The Bank's new shareholder has already invested £650,000 additional share capital in the Bank which has strengthened the Bank's capital position. The Bank does not use loan financing and sources its funding in the retail market from its personal and SME customers.

The Bank continues to enjoy a strong deposit pipeline and the Board does not currently anticipate any concerns in continuing to access sufficient liquidity throughout the COVID-19 pandemic and beyond. As at 31 March 2020, the Bank had £48m of deposits that were callable within 12 months of the date of these accounts. Therefore were COVID19 to result in a sustained lockdown period which resulted in an exceptional (and higher than historical) drawdown on deposits then the Bank would need to quickly obtain additional liquidity. This may involve seeking significant new deposit funding from the retail market, in excess of that which the Bank has sought historically. The Board are confident that this would be possible, despite the current economic climate - albeit potentially at higher interest rates - given the preference for the safety of cash amongst many investors.

However, the directors have concluded that the risk of this situation arising, despite current uncertainty, is low and therefore that this, in itself - given the underlying operating, capital and liquidity position of the Bank - does not create a material uncertainty in relation to the ability of the Bank to continue as a going concern.

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

2. Risk management objectives and policies

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

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

The vast majority of the Bank's advances are secured by mortgages on property and all lending is by a specialist team, using specialised valuers and bespoke documentation. Lending authorities are documented in the Credit Policy. Maximum loan size is based on LTV limits subject to a maximum single loan size of £750k. The Bank's loan book is of high quality with very few repossessions and specific bad debt provisions required in the 60 years' plus history of the Bank and its predecessor AOGPT. Regular stress testing is undertaken on the loan book. The Credit Committee reviews controls and tracking mechanisms to maintain credit exposure within internal and external guidelines. It allocates credit grades, monitors and instructs remedial action on under-performing exposures, monitors security values and associated risk/unsecured exposure and establishes and observes strict guidelines on provisioning.
 - *Institutional Counterparty risk*

The Bank's policy is to finance all advances from customer deposits. The resulting commercial surplus is placed into the wholesale markets ("the Treasury Book") and the Bank's Reserve Account with the Bank of England at maturities that ensure the Bank complies with the liquidity parameters laid down in its Individual Liquidity Adequacy Assessment Process (ILAAP) document and by the Regulator. The Bank is thus exposed to banks and building societies. A formal Treasury policy is in place to restrict exposure to creditworthy counterparties and ensure exposure to any one counterparty is always prudent. The Treasury Committee monitors institutional counterparty exposures weekly, including consideration of information in the public domain relevant to credit risk. ALCO reviews the exposures against policy limits monthly as does the Audit, Risk and Compliance Committee ("ARC") and the Board by exception at each meeting. The Bank has never experienced a loss in its Treasury Book.
- *Market risk* is the risk of loss to the Bank due to adverse market movements in e.g. interest rates, exchange rates, prices etc. The Bank has no trading book. It does not deal in FX and has no FX risk.

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

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

- *Operating risk* is risk to the Bank from inadequate or failed internal processes, systems or human resources, or from external events. The Bank seeks to mitigate operating risk by imposing a strong control environment. Specific risk areas include personnel, IT, legal, outsourcing, tax, fraud and regulatory risk and these risks are monitored weekly by the Senior Management Team and monthly by the Executive Committee. The Bank adopts the ‘Basic Indicator Approach’ (BIA) under Pillar 1. Under CRR Article 315 the BIA produces a capital charge based on 15% of average income over the last three years.
- *Capital adequacy risk* is the risk that the Bank has insufficient capital to support business growth and / or uses up all of the PRA and CRD IV buffers leading to a breach of the Individual Capital Guidance (ICG) set by the Regulator during the last APRM capital visit. Capital Adequacy is monitored monthly by senior management and ALCO.
- *Concentration risk* arises when several risks that have been identified occur close together, such that a single external event might increase the anticipated loss.
 - *Borrower concentration*

As a Christian bank, the loan book is by nature highly concentrated in loans to churches and charities funded by retail savings from, in the main, churchgoers. This appears to pose a potential sector/niche concentration risk. The risk is strongly mitigated by the expected growth in the churches to which the Bank lends and the diversification inherent in its repayment sources, namely congregations. Churches, being member-based, do not behave like other charities, whose income is volatile and vulnerable to economic downturns. Each member of the congregation feels a personal responsibility for repayment of the loan. The Bank requires a minimum Service Ratio (income / loan instalments) of between 110% and 150% depending on the type of lending.
 - *Geographic concentration*

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

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

- *Funding concentration*
Deposits invested with the Bank are from individuals, associations, churches and charities and businesses. The Bank chooses not to rely excessively on wholesale funding, which is inherently volatile, and funds its loan book from customer deposits. Key mitigants include loyal customers attracted by the Bank’s mission and personal service. Large individual deposit maturities are monitored weekly by the Treasury Committee and monthly by ALCO, and pre-emptive defensive action is taken if necessary by the Account Management Team. Further growth, which will be enabled by new capital, will increase the depositor base and dilute the level of risk.
- *Large exposures concentration*
The failure of just a few large advances could cause the Bank disproportionate losses. Such advances are tracked and controlled by the ‘large exposures ratio’. Large exposures (loans in excess of 10% of Eligible Capital²) together with loans to groups of connected clients³ are clustered within a permitted ratio of 25% of Eligible Capital for any single loan under the CRR. The Bank has an internal risk appetite which states that such exposures should not exceed 23% of Eligible Capital. The largest permitted exposure to a single institutional counterparty is 100% of Eligible Capital under the CRR. The Bank has an internal risk appetite which states that such exposures should not exceed 95% of Eligible Capital. These ratios are closely monitored each month by ALCO.
- *Liquidity risk* is the risk that the Bank, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Bank has a simple and very liquid balance sheet. It has no trading activities, no derivatives and no contingent liabilities and does not rely excessively on wholesale funding. The surplus retail deposits are placed with a range of banks and building societies at maturities of three years or less. The Bank maintains a buffer of high quality liquid assets sufficient to meet the regulatory Liquidity Coverage Requirement (LCR) ratio, which is monitored weekly by the Treasury Committee and monthly by ALCO. ALCO also monitor other key liquidity metrics.
- *Reputational risk* is the risk that the Bank may lose business or incur losses following a change in public perception following negative publicity, fraud or a similar event. The Bank employs an experienced external PR company and has a small and loyal staff base with low turnover; dedicates itself fully to the Treating Customers Fairly (TCF) principles and consideration of conduct risk issues; and therefore invariably adopts

² Eligible Capital means the sum of the following:

(a) Tier 1 capital

(b) Tier 2 capital restricted to 33% of Tier 1 (CRR Article 494)

Tier 1 capital comprises the sum of Common Equity Tier 1 (“CET1”) capital and Additional Tier 1 capital. In the Bank’s case CET1 comprises the following:

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

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

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

conservative management practices. The Bank has a Risk & Compliance function consisting of a Head of Compliance and an Assistant.

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

3. Board and committee structure

3.1. Three lines of defence

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

- **First line:** Operationally, Management have primary responsibility for the identification, measurement and management of all risks. Clear ownership of each specific risk management responsibility is set out in Board approved policy documents which establish the limit structures within which the Bank operates. In addition to the day to day risk management processes of the Bank, risk is managed through a number of executive committees.
- **Second line:** The Head of Compliance conducts independent reviews of risk management in the Bank and provides challenge to Management regarding the adequacy, accuracy and effectiveness of management information (MI) used in risk management decision making. The Head of Compliance reviews risk-related MI prior to distribution, adds commentary on significant variances and challenges Risk Managers and / or Risk Owners for explanation and actions where appropriate.

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

In addition, the Head of Compliance provides expertise and guidance on appropriate risk management practices, including good practice policies and procedures.

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

The Head of Compliance has a reporting line to the Chairman of the ARC and they meet at least annually.

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

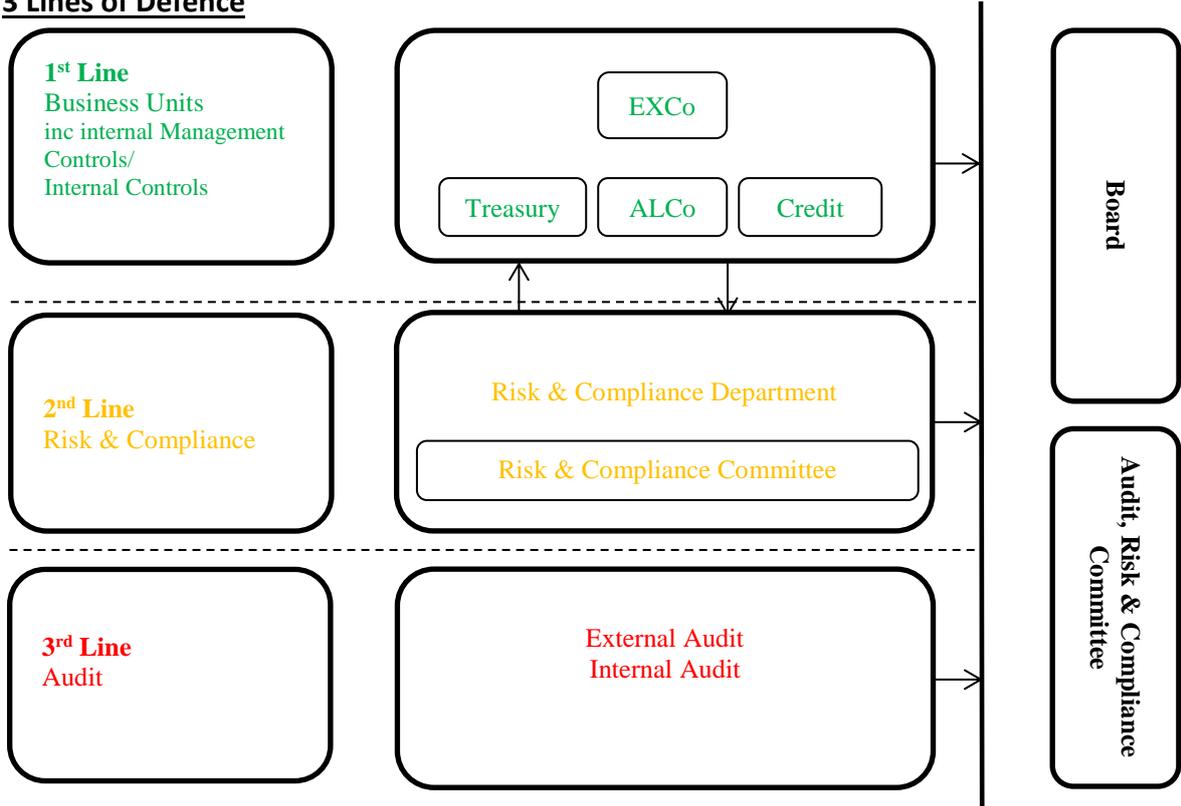
- **Third line:** Internal Audit is responsible for independent review of the effectiveness of risk management at the Bank. Internal Audit report directly to the Chairman of the ARC.

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

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

Kingdom Bank Ltd Governance Chart

3 Lines of Defence



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

Audit, Risk and Compliance Committee

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

Risk & Compliance Committee

This is the executive committee responsible for challenge to the Business areas in respect of day to day management. It responds to issues raised by Risk Owners and Managers; and reports from other staff members regarding risk profiles and the operation of mitigants. It reviews mitigants and investigates their performance with the Business Areas. In addition it manages regulatory compliance, internal audit, fraud and other financial crime.

Other Executive Committees

A range of executive committees are responsible for operational management of risks. The committees meet in a monthly cycle. These consist of: the Credit Committee (credit control, arrears management and provisioning); the Assets and Liabilities Committee (ALCO) (financial risk monitoring and balance sheet management) and the Treasury Committee (treasury management, cash flow and deposit rates). All of these committees report to the Executive Committee (EXCO) (operational and regulatory risk management, conduct risk, HR, equipment and premises) which has overall responsibility for the day to day management of the Bank.

EXCO meets informally weekly and formally monthly. It makes decisions in accordance with the delegated authorities authorised in the Corporate Governance Policy.

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

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

4. Own funds

The Bank's total Own Funds, calculated in accordance with Article 72 of the CRR, amounted to £6.7m as at 31 December 2019. This was made up of Tier 1 capital of £5.7m (after deductions) and Tier 2 capital of £1.0m (no deductions).

The full analysis is shown in the table below:

Total Own Funds	£m	£m
Tier 1 Capital		
Permanent share capital (ordinary £1 shares)	4.2	
Profit and loss account⁴	1.5	
Revaluation reserve	0.2	
Core Tier 1 capital before deductions		5.9
Deductions from Tier 1 capital: intangible assets, deferred tax assets relying on future profits (not arising from temporary differences, net of associated deferred tax liabilities)		(0.2)
Tier 1 Capital after deductions		5.7
Tier 2 Capital		
Tier 2 capital instruments (subordinated debt)	1.0	
Tier 2 Capital (no deductions)		1.0
Total Capital after deductions		6.7

⁴ The profit and loss account figure excludes audited profits for 2019, which were not approved until 27 April 2020.

5. Exposure amounts under the standardised approach

5.1. Risk weighted exposure amounts

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

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

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

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

The Bank's total Pillar 1 capital resources requirement, calculated in accordance with the requirements of the Regulator, amounted to £2.7m as at 31 December 2019. This is detailed below:

Exposure category under CRR Article 112	Exposure £m	Risk weighted exposure £m	Capital required £m
Exposures to central governments or central banks (Bank of England Reserve Account)	6.5	-	-
Retail exposures (unsecured loans)	0.2	0.2	0.0
Exposures secured by mortgages on immovable property (non-residential loans performing)	36.9	27.2	2.1
Exposures secured by mortgages on immovable property (residential loans performing)	11.5	3.3	0.3
Exposures in default (non-residential loans)	0.3	0.3	0.0
Exposures in default (residential loans)	0.0	0.0	0.0
Exposures in default (unsecured loans)	0.0	0.0	0.0
Exposures to institutions	5.5	1.1	0.1
Other items (fixed and other assets)	1.8	1.9	0.2
Credit Risk – Capital Resources Required	62.7	34.0	2.7
Operational Risk – Capital Resources Required			0.3
Pillar 1 Capital Resources Required			3.0

5.2. Leverage Ratio

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

UK Leverage Ratio

The PRA issued Policy Statement “PS27/15 Implementing a UK leverage ratio framework” on 7 December 2015 which set out minimum leverage ratio requirements for all PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion. In PS28/18 issued in November 2018 the PRA stated that it will review its implementation of the UK Leverage Ratio framework in light of the conclusions of the FPC’s review of the framework which has yet to happen. These reviews may result in the Bank being subject to the above binding leverage ratio requirement. At 31 December 2019 the Bank held retail deposits of £51.4 million and hence the minimum leverage ratio requirements do not apply to the Bank.

The Bank’s calculated leverage ratio at 31 December 2019 was 9.40% (2018: 10.10%).

EU Leverage Ratio

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

6. Credit risk and provisioning

6.1. Credit risk – Loans and advances

The geographical spread of loans and advances (before provisions and including 100% of pipeline lending commitments) as at 31 December 2019 is shown below:

Geographic regions	Amount £m	% of book
North West	6.8	14.9
North East	1.8	3.8
Yorkshire & Humber	3.1	6.8
East Midlands	6.5	14.1
West Midlands	2.8	6.0
East of England	5.6	12.3
South East	7.5	16.4
South West	2.5	5.3
London	6.7	14.6
Scotland	0.6	1.4
Wales	2.0	4.4
Total loans and advances	45.9	100.0%

It should be noted that the loan figures in the table in section 5 are after deducting specific provisions and include 50% of pipeline lending commitments.

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

Exposure class	Amount £m	Amount £m
Fully secured on land and buildings:		
Charity mortgages	40.8	
Personal mortgages	4.7	
Fully secured mortgages		45.5
Unsecured:		
Charity loans	0.0	
Personal loans	0.0	
Unsecured loans		0.0
Total loans and advances before provisions		45.5
Less: provision for bad and doubtful debts		(0.2)
Total loans and advances after provisions		45.3

A residual maturity analysis is shown below:

Repayable	Amount £m	Amount £m
In not more than three months	0.6	
Over three months but not more than one year	1.9	
Over one year but not more than five years	8.9	
In more than five years	34.1	
Total loans and advances before provisions		45.5
Less: provision for bad and doubtful debts		(0.2)
Total loans and advances after provisions		45.3

6.2. Credit risk – Institutional Counterparties

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

Short-Term Rating 1 ³	Short-Term Rating 2 ³	Max KBL Exposure ^{1,2}
1	1	75%
1	2	50%
2	1	50%
1	3	0%
2	2	0%
3	1	0%
3	2	0%
2	3	0%
3	3	0%
Not rated ⁴	Not rated ⁴	20%

Notes

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

²As a percentage of Eligible Capital

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

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

The table below shows the breakdown of counterparty exposures, credit assessments and risk weights at 31 December 2019.

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

Counterparty type	Exposure £m	Credit quality assessment step	Risk weight
Central bank (Bank of England Reserve Account)	6.5	N/A	0%
Institutions (UK banks and building societies)	1.3	1	20%
Institutions (UK banks and building societies)	0.0	2	20%
Institutions (UK banks and building societies)	0.0	3	20%
Institutions (UK banks and building societies)	4.2	Unrated	20%
Total counterparty exposures with residual maturity up to three months	12.0		
Institutions (UK banks and building societies)	0.0	1	20%
Institutions (UK banks and building societies)	0.0	2	50%
Institutions (UK banks and building societies)	0.0	3	50%
Institutions (UK banks and building societies)	0.0	Unrated	20%
Total counterparty exposures with residual maturity between three months and one year	0.0		
Total counterparty exposures	12.0		

6.3. Provisioning

Definitions

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

Accounting policy for loan provisions

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

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

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

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

A table of movements in the loan loss provision at 31 December 2019 is shown below:

Movements in provisions	Brought forward £m	Movement £m	Written off	Carried forward £m
Specific provision for bad and doubtful debts: Identified loans	0.2	(0.1)	-	0.1
Specific provision for bad and doubtful debts: IBNR losses	0.1	-	-	0.1
Total provisions	0.3	(0.1)	-	0.2

The amount of impaired exposures at 31 December 2019 was £1,112k and related to charity mortgages (£1,047k) and personal mortgages (£65k).

7. Remuneration policies and practices

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

The Bank seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Bank’s ethos, current financial condition and future prospects. The Bank does not operate any committed variable remuneration schemes for any staff and any bonuses paid are non-contractual. Subject to the performance of the Bank the Executive Directors (comprising the Chief Executive and the Finance Director) will consider and recommend to the Board a discretionary annual bonus payable to all staff. For 2019 the bonus amounted to between £181 and £2,175 per staff member.

At 31 December 2019, the Board identified that those staff whose professional activities have a material impact on the Bank’s risk profile are the Senior Management Function holders (comprising the Chief Executive, Finance Director, Head of Compliance and the Head of IT & Finance).

The Board assess the remuneration of the Executive Directors based on their levels of responsibility, performance and the market place. This information is considered alongside the performance of the Bank as compared to the Annual Business Plan. The remuneration of the other Senior Management Function holders in addition takes into account the recommendation of the Executive Directors.

Aggregate information on the remuneration of the four persons for the year ended 31 December 2019 is given below:

	£
Fixed remuneration	284,959
Variable remuneration	7,008
Total	291,967

8. Conclusion

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

For further information on the contents of this document application should be made in writing to the Finance Director at Kingdom Bank Ltd, Ruddington Fields Business Park, Mere Way, Ruddington, Nottingham NG11 6JS.