



Public Disclosure (Pillar 3)

At 31st December 2016

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Glossary

ALCO	The Assets and Liabilities Committee, whose membership is drawn from both Charity Bank's management and its Finance and Treasury Department.
AuditCo	The Audit Committee of the Board.
Charity Bank	The Charity Bank Limited.
Basic Indicator Approach to Operational Risk	An approach to calculating a CRD firm's capital requirement in respect of its exposure to Operational Risk, as set out in CRR Part 3 Title III Chapter 2.
BEIS	The Department for Business, Energy & Industrial Strategy.
Board	The Board of directors of Charity Bank.
CDFI	Community Development Finance Institution, as accredited by BEIS.
CEO	Chief Executive of Charity Bank.
CITR	The Community Investment Tax Relief scheme administered jointly by BEIS and HM Revenue & Customs.
Common Equity Tier 1 Capital	Permanent capital in a form that complies with the criteria set out in Part Two, Title I, Chapter 2 of the CRR.
Counterparty Risk	The risk of loss from default by a party to which Charity Bank has exposure in respect of its market investments.
Credit Quality Step ('CQS')	A measure of a counterparty's credit worthiness.
CRD	Capital Requirements Directive 2013/36/EU of the European Parliament and of the Council dated 26 th June 2013.
CRD IV	The CRD and the CRR.
Credit Risk	The risk of loss from a default by a borrower under a loan advanced by a bank, as addressed in Part 3, Title II of the CRR.
CRR	Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 th June 2013.
CSCO	The Credit Sub-Committee of the Board.
Disclosure	This public disclosure document.

EBA	European Banking Authority.
EXCO	The Executive Committee, whose members consist of Charity Bank's senior managers.
FCA	Financial Conduct Authority.
GovCo	The Governance Committee of the Board.
HQLA	High Quality Liquid Assets, as defined in Part 6 Title II of the CRR, which are eligible for inclusion in the Liquid Assets Buffer.
Incurred But Not Reported loss provision ('IBNR')	In accordance with IFRS accounting standards, IBNR provisions are maintained to cover loans which are impaired at the balance sheet date, and while not specifically identified, are known to be present in any portfolio of loans. IBNR impairment provisions are only made for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events.
ICAAP	Internal Capital Adequacy Assessment Process document.
ICC	The Internal Credit Committee, whose membership is drawn from both Charity Bank's management and its Credit Department.
IFRS	International Financial Reporting Standards.
Individual Capital Guidance ('ICG')	Individual Capital Guidance issued to Charity Bank by the PRA.
ISAs	Individual Savings Accounts.
IT	Information technology.
Liquidity Risk	The risk of loss from a bank's failure to maintain sufficient liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
LTV ratio	The ratio of the loan amount to the value of any related asset security.
Market Risk	The risk of loss from adverse movements on the net positions on a Charity Bank's trading book, or its foreign exchange rate positions whether or not on a trading book, or its positions on commodities, or on positions which are non-trading book items, as set out in Part 3, Title IV of the CRR.
Operational Risk	The risk of loss from inadequate internal processes and failures in relation to the people or systems of a bank or from external events, including legal and documentation risk, as described in Part 3, Title III of the CRR.
PRA	Prudential Regulation Authority.

Remuneration Code	A code that sets out standards that banks have to meet when setting pay and bonus awards for their staff.
Remuneration Code Staff	Categories of staff identified in the Remuneration Code including senior management, risk-takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk-takers, whose professional activities have a material impact on a bank's risk profile.
RiskCo	The Risk Committee of the Board.
RWA	The value of an exposure weighted for its credit risk after application of a risk-weight under the Standardised Approach to Credit Risk.
SSOs	Social sector organisations.
SMF	Senior management function held by the holder of a post at a regulated and authorised deposit-taking bank that is so designated by the FCA and the PRA.
Standardised Approach to Credit Risk	A standard approach to determining a bank's exposure to Credit Risk, as set out in Part 3, Title II of the CRR, that is used to calculate the amount of this exposure in accordance with the risk-weights specified in Part 3, Title II, Chapter 2 of the CRR.
Strategic Risk Register	A register used by Charity Bank to identify, measure, monitor, mitigate and report its exposure to Business Risk against its specified risk appetite, as set by the Board.
Tier 1 capital	Tier 1 capital instruments, as defined in Part 2, Title I, Chapters 1-3 of the CRR.
Tier 2 capital	Tier 2 capital instruments, as defined in Part 2, Title I, Chapter 4 of the CRR.

1 Introduction

1.1 Purpose of this Disclosure

This document has been prepared in accordance with the prudential standards of the European Banking Authority ('EBA') as outlined in the Capital Requirements Directive 2013/36/EU ('CRD') and the Capital Requirements Regulation (EU) No 575/2013 ('CRR'), jointly known as the Capital Requirements Directive ('CRD IV'). The Directive requires firms to disclose publicly certain regulatory information (known as a "Pillar 3 Disclosure"); the following disclosures conform to the relevant regulations applicable on 31st December 2016.

This public disclosure ('Disclosure') and other information are available on Charity Bank's website. This Disclosure should be read in conjunction with Charity Bank's annual report and financial statements for the corresponding financial year, where more detailed information can be found.

This Disclosure has been subject to internal review processes consistent with those undertaken for unaudited information published in the annual report and accounts. The information contained in this Disclosure is not subject to audit by Charity Bank's external auditors.

1.2 General

Charity Bank is a company limited by shares (number 4330018) and is a bank authorised by the Prudential Regulatory Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") (firm number 207701) and the PRA.

In addition, as an accredited CDFI which is eligible to accept investment by way of deposits and loans under the CITR scheme, Charity Bank is subject to supervision by, and reporting to, the Department for Business, Energy and Industrial Strategy ('BEIS').

1.3 Accounting standards

The statements in this Disclosure for the year ended 31st December 2016 have been prepared on an IFRS basis.

1.4 Principal Activities

Charity Bank's objects are to facilitate access to affordable finance to social sector organisations ("SSOs") with charitable purposes. Where appropriate and if within Charity Bank's credit risk appetite, the Charity Bank will also provide finance to other organisations where there is a clear link between the purpose of a loan and Charity Bank's mission to create lasting social change in communities. For this purpose it receives deposits from individuals and organisations that identify with this mission. Consistent with its obligation to safeguard depositors' funds and with its aim of achieving financial sustainability, Charity Bank seeks to provide loans to creditworthy borrowers on terms that are appropriate for their needs.

1.5 Capital

Since its establishment in 2002 as a registered charity, Charity Bank has provided financial services to SSOs.

Charity Bank determined in 2012 that it should re-structure its capital in the light of new banking regulations. Charity Bank accordingly ceased to be a charity on 31st May 2013 and its ordinary shares restructured. In parallel it started a capital-raising programme, as the surrender of charitable status enabled Charity Bank to raise capital from a wider community of investors aligned to its mission. On 28th March 2014, following the receipt of the necessary regulatory approvals, Big Society Capital entered into agreements under which it agreed to invest up to £14.5 million in new ordinary shares in Charity Bank in three tranches subject to specified conditions being met; the first tranche of £4.5 million was invested on that date.

During 2016 Charity Bank's capital position was further strengthened by two investments in our Core Equity Tier 1 ("CET1") capital; £250,000 by the Barrow Cadbury Trust and the second tranche of £5.0 million under the agreement with Big Society Capital. The later investment took place following receipt of all necessary regulatory approvals and a reduction in the nominal value of Charity Bank's ordinary shares from £1.00 to £0.50p per share. This change in nominal value was a technical requirement and has had no impact on the net asset value of Charity Bank's shares. Charity Bank remains controlled by charities, trusts and foundations, with BSC's voting rights capped at below 50%. These injections of capital will support Charity Bank in its mission and its plans for growth over the coming years.

1.6 Risk Management

Charity Bank has a strategy in place for the management of its risk profile that takes account of the range, significance and impact of identified risks, from the operational to the external economic environment, and of changes to those risks. The Board is satisfied that this strategy is adequate and that there are appropriate systems and processes in place to identify and manage risks within Charity Bank.

Charity Bank uses an enterprise-wide risk management framework for the identification, assessment, measurement and management of risks. Charity Bank's risk management principles and risk management framework cover the full range of risks that its senior management believes it may encounter.

Charity Bank's risk management framework is described below, including its organisational structure, governance and ownership arrangements, risk strategies and appetite, and the scope and nature of supporting monitoring and reporting processes.

1.7 Organisational Structure

Charity Bank's organisational structure was revised with effect from 1st January 2017 to reflect current best practice and to increase the decision-making powers of the executive management through greater delegation. These new arrangements are described accordingly in this Disclosure and not those in place up to 31st December 2016.

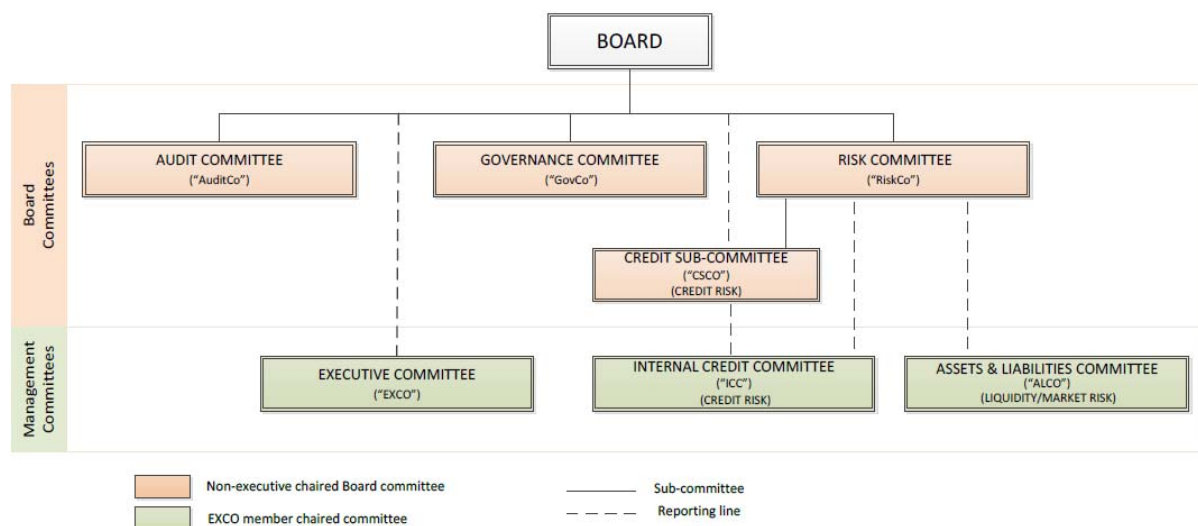
The Board has responsibility for Charity Bank’s performance.

The membership of Charity Bank’s Board provides the diverse range of skills and knowledge within both the social and banking sectors that it believes is required to assist Charity Bank in achieving its mission. As at 31st December 2016, the Board consisted of nine non-executive Directors (of whom four were female) and two executive Directors; a further non-executive director was appointed to the Board on 1st January 2017. The Board, through GovCo, maintains a governance framework statement which details, amongst other things, its policies in relation to: Board composition and remit; Directors’ suitability and recruitment; and the structure and membership of the Board committees. This framework forms a key and fundamental part of the role of the Board in managing the affairs of Charity Bank.

The Board delegates some of its responsibilities to its three committees: the Audit Committee (‘AuditCo’); the Risk Committee (‘RiskCo’); and the Governance Committee (‘GovCo’).

The table below illustrates this structure.

CHARITY BANK BOARD COMMITTEE STRUCTURE



Board Committees

Audit Committee (AuditCo): responsible for oversight and challenge of the accounting policies and disclosures; supervising the issue and integrity of the audited financial statements of Charity Bank and the performance of the external auditors; reviewing and challenging the overall effectiveness of Charity Bank’s systems, processes and controls; overseeing whistleblowing arrangements; and monitoring the performance and reports of the internal audit function.

Governance Committee (GovCo): responsible for overseeing good Board and Board committee governance; reviewing succession-planning, nominations and the skills mix of non-executive Board members and senior executives; and approving remuneration of the executive management and the reward policy for other members of staff.

Risk Committee (RiskCo): responsible for the oversight of risk management systems, policies and procedures; monitoring the operation of the risk management framework; reviewing forward looking and strategic risks; overseeing and challenging liquidity and capital adequacy (including ILAAP and ICAAP); recommending the setting of risk appetite statements to the Board; approving credit, liquidity, market (interest rate) risk and operational risk policies; monitoring financial crime and regulatory risks; and setting policy on asset and liability management, interest rate risk and exposures to financial counterparties.

Credit Sub-Committee (CSCO): a sub-committee of the Risk Committee, responsible for approving large, novel or contentious loans and variations under the delegated authority of the Board; and monitoring the work of the Internal Credit Committee.

Management Committees

Assets and Liabilities Committee (ALCO): responsible for assisting the Finance Director to manage financial risks; recommending policies on the investment of capital, liquidity resources and interest rate risk to the Risk Committee; reviewing exposures to interest rate risk and financial counterparty credit risk; and monitoring that management of liquidity and capital meets business and regulatory requirements.

Internal Credit Committee (ICC): responsible for considering credit applications and variations in accordance with its delegated limits; managing the loan book including the higher risk accounts (designated Out of Order, Full Watch List and Internal Watch List or forborne accounts); approving the taking of provisions; and recommending write-offs.

Executive Committee (EXCO): responsible for assisting the Chief Executive in the performance of their duties within the bounds of their authority, including consideration of business strategy and management, investment and financing, risk management and controls, and any other activities required to deliver effective management oversight of Charity Bank.

These committees meet regularly in accordance with their terms of reference; and Charity Bank's policies on managing its risks is implemented through these governance, management and control structures.

2 Risk Management Objectives and Policies

2.1 Risk Governance

Charity Bank's governance framework outlines how the Board and senior management fulfil their respective responsibilities for risk management through a risk management framework, the key objective of which is to identify and manage risk within the risk appetite approved by the Board.

Charity Bank's risk management framework has the following key objectives:

- continued development of Charity Bank's ability to identify and assess risks;
- definition of Charity Bank's risk appetite;

- development of solutions for risk reduction or mitigation; and
- securing benefit from those risks that can be managed.

The risk governance framework is designed by reference to objectives set by the Board and by the overall risk appetite. It is based on the model of ‘three lines of defence’:

- managers within the business have primary “first line” responsibility for the day to day management of risk;
- a “second line of defence” is provided by the Risk function, overseen by the Deputy Chief Executive as Chief Risk Officer, and the Compliance function, overseen by the Compliance Manager and MLRO: where appropriate, line management and staff expertise are used to monitor and assess risk; and
- the “third line of defence” is provided by the Internal Audit function, which has responsibility for providing independent assurance over the risk management and business processes.

The Board sets Charity Bank’s risk appetite, which is assessed and monitored using the Strategic Risk Register; this is reviewed regularly by relevant Board committees led by the RiskCo. The Overarching Risk Appetite Statement is formally approved by the Board annually and sets out what are considered to be the principal risks for Charity Bank.

The Board believes that the most effective way of managing risk is by embedding risk management awareness and techniques throughout the organisation. This is achieved by ensuring that all identified risks are owned by specific Board committees and by members of EXCO who have the responsibility for risk identification and risk management in their respective areas. The RiskCo takes a general view of risk and monitors the process of risk management and reporting within Charity Bank. This approach allows for risk decisions to be taken at the most appropriate level whilst remaining subject to review and challenge.

The Strategic Risk Register is subject to challenge by RiskCo and by the Board. The key performance and risk indicators, which are used by the executive management to monitor the performance of Charity Bank, are also monitored by the Board and its other committees.

2.2 Risk Management Framework

For the purposes of managing Charity Bank’s capital and liquidity resource requirements to a high standard and of ensuring that key financial performance indicators are properly tracked and reported, reliance is placed upon the competence, integrity and good judgement of Charity Bank’s management and staff, supported by appropriate internal processes, procedures and IT systems, and operating under an appropriate and effective system of internal control, and subject to the Board’s independent oversight and scrutiny.

Financial and management reporting to the EXCO is undertaken at least once a month for capital and liquidity measures, management accounts and financial KPIs; reporting to the Board is undertaken either at each board meeting or quarterly. This frequency of reporting permits the identification and

monitoring of trends in Charity Bank's performance by the EXCO, with these trends being reported and reviewed by the Board on a timely basis.

Employees also have a responsibility for the management of risk by ensuring they are familiar with the risks faced by their department and through the application of operating manuals and policies that affect the work that they perform. Charity Bank has manuals covering, for example, its services to depositors, financial and regulatory accounting, and lending activities; these set out key procedures and controls, and are revised regularly. Charity Bank also provides staff training in key potential risk areas such as anti-money laundering, data protection, bribery and corruption, and material regulatory developments.

Controls over the flow of funds are exercised using a list of authorised signatories and the controls built into the cash management system provided by Charity Bank's clearing bank. These controls are based upon the principle of segregation of duties.

Responsibility for risk (Senior Manager Function SMF4) is vested in the Deputy CEO. The Compliance Manager (SMF16) is also Charity Bank's Money Laundering Reporting Officer (SMF17). These officers submit independent reports to the Board or its committees in relation to their responsibilities under these functions.

Charity Bank employs an IT Manager who is supported by three IT assistants. In addition, it continues to have an agreement with a specialist consultancy firm to provide technical support and assurance to the IT function and for on-site support if relevant Charity Bank staff are absent and/or in the event of recovery from a disaster. The IT Manager oversees the installation of both hardware and software, with external support as required.

HR controls are established on the basis described in Charity Bank's employment policies; HR policies, which undergo a review at least every three years, are updated in line with changes in employment legislation, case law and best practice.

The Board relies on Charity Bank's internal auditors to provide a measure of additional assurance on the effectiveness of Charity Bank's system of internal control and of the nature of its exposure to, and the quality of its management of, its risks. An external independent opinion over the accounting records and financial statements is provided by the external auditors.

Deloitte has been Charity Bank's external auditor since the bank's foundation in 2002. Its external audit includes a control systems audit, which incorporates a review of Charity Bank's IT systems, in November/December each year. This is followed by substantive checking of transactions in January/February, following the closure of the accounts on 31st December of each year.

The Board decided that, given Charity Bank's small size and the technical issues that it must manage, Charity Bank would derive most value from its internal audit function if it were to be provided by an external and multi-disciplinary firm. Since July 2012 KPMG has undertaken this function under a service provision agreement. The internal audit function reports to the AuditCo and its activities are overseen by the Deputy CEO.

An annual internal audit plan is developed for each year and the undertaking of additional internal audit work is approved by the AuditCo on behalf of the Board. The AuditCo receives all KPMG's internal audit reports, reviews their findings and recommendations, and approves management's proposed responses to those recommendations. The internal audit work programme seeks to address all relevant process and control issues laid out in the Strategic Risk Register and any other operational matters commissioned by the AuditCo.

Day-to-day decisions regarding the implementation of business plans and the management of the business are the responsibility of the CEO as advised by the EXCO. The Finance Director is responsible for all aspects of the statutory and management accounts, cash management and treasury activities, and chairs the ALCO.

The Board is satisfied that review and oversight of Charity Bank's risk management arrangements are appropriately managed by RiskCo. Additional oversight of the risk framework is undertaken by the AuditCo, which conducts regular reviews of risk registers and of whether the programme of internal audit review addresses the needs of the business and the incidence of material exposure to risk or of changes in the profile of risks. The AuditCo has independent access to both KPMG and Deloitte.

3 Own Funds and Capital Requirements

3.1 Capital Management

Objectives

Charity Bank's approach to managing its capital is driven by its requirement to maintain a strong capital base to meet regulatory capital requirements and to support its business.

Approach

Business and capital plans are written each year covering the following four or five-year period and are presented to, and approved by, the Board. This forms part of the budget-setting process for the following year.

Plans are based on Charity Bank's risk appetite and incorporate forecast capital requirements that are based in turn on an estimate of its risk profile. They enable the sufficiency of the capital required to support Charity Bank's strategy to be determined.

Capital planning reflects:

- currently known regulatory capital requirements in the planning period;
- increases in capital required to support business growth, market shocks or stresses, or the nature and degree of Charity Bank's exposure to risk; and
- expected future availability of new capital and related options on raising it.

This planning process recognises the internal control and governance processes in place for the continuous management of Charity Bank's risk, performance and capital.

Charity Bank prepares an ICAAP to support its capital requirements. This is a key part of Charity Bank's governance and management process; each material risk is assessed, including relevant mitigating factors, and appropriate levels of capital determined. The minimum capital requirements for Charity Bank are set by the PRA from time to time in the light of its regular reviews of Charity Bank's ICAAP, its business model and performance.

Charity Bank's ICAAP is reviewed regularly by the ALCO; new versions are approved by RiskCo and the Board.

In addition to business and capital plans and to the ICAAP, reports are made to the EXCO on current and projected capital utilisation at least monthly, and to the ALCO quarterly, to ensure Charity Bank is able to assess the adequacy of its capital to support current and estimated future business volumes. These reports also include the identification and monitoring of CRR capital ratios and trends in Charity Bank's performance.

3.2 Capital Structure

Capital Instruments used by the Charity Bank

For regulatory purposes, capital is divided into two main categories (tiers) with the distinction between these tiers being their degree of permanence and the degree to which they are available for loss absorption. These categories, which constitute Charity Bank's 'Own Funds', are known as Tier 1 and Tier 2 capital; they are described in the following paragraphs.

Tier 1 Capital

For Charity Bank, Tier 1 Capital is represented by its Common Equity Tier 1 Capital which consists of its ordinary share capital and reserves.

Permanent ordinary share capital represents an instrument issued by a business to an investor which is fully paid-up and where the proceeds of issue are immediately and fully available to the business. These instruments carry no obligation to pay a coupon or dividend to the shareholder. This capital is available for immediate and unrestricted use to cover risks and losses and to enable the organisation to continue trading. Such capital is only redeemed if Charity Bank undertakes a share buy-back, as allowed by its Articles of Association, or upon the winding-up of the bank.

At 31st December 2016 Charity Bank had £9.153 million of fully paid-up ordinary shares in issue.

Tier 2 Capital

Charity Bank's Tier 2 Capital consists of the aggregate of IBNR provisions and of the amortised value of subordinated loan stock issued by Charity Bank and carrying an interest coupon of between 2% and 4% per annum.

RECONCILIATION OF OWN FUNDS AND BALANCE SHEET AT 31 st DECEMBER 2016					
BALANCE SHEET			OWN FUNDS		
	£,000	£,000		£,000 £,000	
CALLED-UP SHARE CAPITAL			COMMON EQUITY TIER 1		
A	ORDINARY SHARES	9,153	A	ORDINARY SHARE CAPITAL	9,153
			B	SHARE PREMIUM	2,283
		<u>9,153</u>	C	RETAINED EARNINGS AND OTHER RESERVES	<u>4,503</u>
B	SHARE PREMIUM	<u>2,283</u>			15,939
		2,283			
	TOTAL UNRESTRICTED RETAINED EARNINGS AND OTHER RESERVES	4,281			
	RESTRICTED RESERVE - AVAILABLE -FOR-SALE RESERVE	222			
C	RETAINED EARNINGS AND OTHER RESERVES	<u>4,503</u>			
	SHAREHOLDERS' FUNDS	<u>15,939</u>		TOTAL TIER 1 CAPITAL	<u>15,939</u>
				TIER 2 CAPITAL	
	LONG-TERM SUBORDINATED LOAN NOTES¹	2,000		SUBORDINATED LOAN NOTES ¹	1,566
				GENERAL PROVISIONS ²	<u>622</u>
					2,188
	SHAREHOLDERS' FUNDS & SUBORDINATED LOANS	<u>17,939</u>		TOTAL CAPITAL	<u>18,127</u>
RECONCILIATION			Notes		
		£,000	1. The amount of subordinated loan notes that qualify as Tier 2 items is calculated in accordance with the amortisation rules of Article 64 of the CRR.		
	SHAREHOLDERS' FUNDS & SUBORDINATED LOANS	<u>17,939</u>	2. In accordance with Article 62 of the CRR, the amount of general provisions that qualify as Tier 2 items is limited to 1.25% of risk-weighted exposure amounts in respect of credit risk.		
	LESS AMORTISATION OF SUBORDINATED LOAN NOTES ¹	(434)			
	PLUS GENERAL PROVISIONS ²	622			
	OWN FUNDS TOTAL CAPITAL	<u>18,127</u>			

A summary of Charity Bank's "own funds" (capital resources) at 31st December 2016 is shown in the table on the following page. The key capital ratios and the main features and terms of the various components of own funds are described after the table.

OWN FUNDS	31-Dec-15	31-Dec-16
TIER 1 CAPITAL		
COMMON EQUITY TIER 1	£,000	£,000
ORDINARY SHARE CAPITAL	12,622	9,153
SHARE PREMIUM	0	2,283
RETAINED EARNINGS AND OTHER RESERVES	(608)	4,503
TOTAL COMMON EQUITY TIER 1	12,014	15,939
ADDITIONAL TIER 1		
NON-CUMULATIVE PREFERENCE SHARES	0	0
TOTAL ADDITIONAL TIER 1	0	0
TOTAL TIER 1 CAPITAL	12,014	15,939
TIER 2 CAPITAL		
GENERAL PROVISIONS	637	622
SUBORDINATED LOAN NOTES	1,666	1,566
TOTAL TIER 2 CAPITAL	2,303	2,188
TOTAL CAPITAL	14,317	18,127
Credit and operational risk RWAs	57,154	74,317
Own Funds (Pillar 1 Capital Resources) Requirement	4,572	5,945
KEY CRD IV RATIOS	31-Dec-15	31-Dec-16
Common Equity Tier 1 Capital Ratio	21.02%	21.45%
Tier 1 Capital Ratio	21.02%	21.45%
Total Capital Ratio	25.05%	24.39%
Leverage Ratio	11.19%	12.69%

At 31st December 2016 Charity Bank had a Common Equity Tier 1 Capital Ratio of 21.45%, a Tier 1 Capital Ratio of 21.45% and a Total Capital Ratio of 24.39%.

Key Capital Ratios

Common Equity Tier 1 Capital Ratio - is calculated in line with CRD IV; it reflects Common Equity Tier 1 Capital as a percentage of RWAs, where Common Equity Tier 1 Capital includes ordinary share capital and reserves and where the total risk exposure amount includes the sum total of the risk-weighted asset exposures for credit risk and the exposure to operational risk as calculated in accordance with CRD IV.

Tier 1 Capital Ratio - is calculated in the same way as the Common Equity Tier 1 ratio, but includes Additional Tier 1 (Non-Cumulative Preference Shares) capital in the numerator.

Total Capital Ratio - is calculated in the same way as the Tier 1 Capital Ratio, but includes Tier 2 capital in the numerator.

Leverage Ratio - is calculated as the percentage of Tier 1 Capital to total asset exposures (with no risk-weightings applied).

3.3 Leverage Ratio

The Basel III reforms include the introduction of a leverage ratio framework designed to reinforce risk-based capital requirements with a simple, transparent, 'backstop' measure that is not based on weighting different asset exposures for degrees of deemed credit risk.

The leverage ratio is defined as Tier 1 capital divided by the exposure measure. For monitoring purposes the Basel Committee has set 3% as the minimum requirement for the leverage ratio. Final calibrations and adjustments to the definition of the leverage ratio will be completed during 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1st January 2018.

Leverage exposure and management is embedded as part of Charity Bank's capital planning process and is one of a number of capital ratios reported to, and monitored by, the Board, the RiskCo, the ALCO and the EXCO. The table below shows Charity Bank's leverage ratio at 31st December 2016; the ratio is comfortably in excess of the 3% regulatory minimum and demonstrates a low risk appetite for high degrees of leverage.

Charity Bank's off-balance sheet items consist of undrawn commitments to lend. The leverage ratio exposure value for off-balance sheet items is determined by applying a credit conversion factor to the nominal values of those items. Based on the classification of the undrawn commitments under CRD IV, a credit conversion factor of 10% is applied (as prescribed in Article 429(10) of the CRR).

CALCULATION OF LEVERAGE RATIO AT 31st DECEMBER 2016	£'000
TIER 1 CAPITAL	15,939
TOTAL ASSETS PER BALANCE SHEET	120,970
<i>ADD BACK LOAN PROVISIONS</i>	916
REGULATORY ASSETS	121,886
OFF-BALANCE SHEET ITEMS @10%	3,716
LEVERAGE RATIO EXPOSURE	125,602
LEVERAGE RATIO	12.69%

4 Supervisory Review Process

4.1 Introduction

The prudential regulatory framework applicable to Charity Bank is designed to assess the adequacy of a firm's 'own funds' (capital resources) by considering all material risks to the business, including those not covered or otherwise not adequately addressed by credit risk, market risk and operational risk, and the impact of stress tests conducted across a variety of different scenarios. Additionally, the requirements for assessing additional risks provide encouragement to firms to develop, operate and continuously improve their risk management techniques for monitoring, measuring and managing their specific material risks.

Charity Bank's own funds requirement is split into two categories: the Pillar 1 Capital Resources Requirement ("Pillar 1") (being the sum of the credit risk capital requirement, the market risk capital requirement and the operational risk capital requirement); and the Pillar 2 Capital Resources Requirement ("Pillar 2") (which includes assessments for liquidity risk, concentration risk, earnings risk, interest rate risk, reputation risk and business risk).

There are two stages to determining the level of Pillar 2: the analysis and conclusion in Charity Bank's ICAAP and the PRA's view which takes account of its oversight of Charity Bank and the results of its supervisory review meetings with Charity Bank.

The ICAAP is a firm's own internal assessment of the overall adequacy of its capital strength in the context of the material risks it has identified and of the outcome of the assessment of stress scenarios it has identified and quantified taking into account regulatory guidance. The ICAAP process also includes the identification and evaluation of the impact of appropriate stress conditions, which are sets of sensitivities and scenarios designed to show the ability of Charity Bank to continue to meet its capital and liquidity requirements under adverse (firm-specific and/or market-wide) conditions.

The supervisory review meeting is part of an independent review conducted by the PRA in order both to review and to evaluate a firm's ICAAP processes and documentation, and to assess the quality of the firm's risk management systems and internal controls. Based on this, the PRA makes its own determination of the capital adequacy of the firm and sets a minimum capital requirement for the firm through the issue of Individual Capital Guidance.

5 Pillar 1 Capital Resources Requirement

The Pillar 1 assessment is the sum of the credit risk capital requirement, the market risk capital requirement and the operational risk capital requirement. It was determined at 31st December 2016 as set out in the table below.

PILLAR I - CAPITAL REQUIREMENTS AT 31st DECEMBER 2016	£'000
Credit Risk	5,408
Market Risk	-
Operational Risk	538
Total	5,946

Charity Bank does not hold a trading book; it has neither market risk exposure nor counterparty credit risk exposure for the purpose of Pillar 1 capital requirements.

5.1 Credit Risk

Credit risk is the risk that losses may arise as a result of Charity Bank's market counterparties or borrowers failing to meet their obligations to repay outstanding balances.

An analysis of credit risk capital requirement is set out in the table on the following page.

CREDIT RISK CAPITAL REQUIREMENT AT 31st DECEMBER 2016	
	£'000
Central Government and Multilateral Development Banks	-
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	764
Retail exposures	1,405
Exposures secured by mortgages on immovable property	3,048
Past Due Items	-
Exposures to Institutions	3
Institutions and Corporates with a short-term credit assessment	85
Other Items ¹	103
	<hr/>
	5,408
Total Counterparty Risk Capital Component	-
Total Credit Risk Capital Component	<hr/>
	5,408

¹ *Other Items include tangible fixed assets, prepayments, accrued income and regulatory high risk categories.*

The two key aspects of credit risk are considered in the following two sections.

5.2 Credit Risk on Market Investments and Bank Account Balances

Charity Bank is exposed to credit risk on its portfolio of High Quality Liquid Assets ("HQLAs"), surplus liquid assets that are held as market investments or bank placements, and on the balances it holds in its bank accounts with the Co-operative Bank, NatWest Bank and HSBC Bank (which holds its market

investments as a custodian) for operational and short-term cash purposes. Charity Bank's ALCO holds responsibility for monitoring the credit quality of Charity Bank's exposure to credit risk in this form.

Charity Bank has a contract with RLAM to provide investment management services in relation to Charity Bank's portfolio of market investments under specified guidelines.

In order to meet both the regulatory and internal requirements to hold assets that qualify as High Quality Liquid Assets, Charity Bank invests in UK Government securities and bonds issued by selected multilateral development banks which are approved by ALCO, in accordance with the risk appetite agreed by RiskCo. Charity Bank's surplus liquidity, being the excess over its short-term cash holdings and HQLAs, is held in two collective investment undertakings ("CIUs") and term placements with selected banking counterparties approved by RiskCo. The CIUs diversify Charity Bank's exposure to individual obligors, thereby reducing concentration risk. Bank placements are made with banking counterparties approved by RiskCo, within limits for credit rating, balance and tenor.

Surplus liquidity investments are diversified to avoid excessive exposure to any individual counterparty. The associated credit risk capital charge for these assets is included in the table on the previous page under "Exposures in the form of units or shares in collective investment undertakings". The credit risk associated with bank account balances is included in either "Institutions and Corporates with a short-term credit assessment" if the balance has a residual maturity of three months or less, or "Exposures to Institutions" if the maturity is over three months. The charge for "Other Items" shown in the table relates to exposures in the form of tangible fixed assets, prepayments, accrued income and items belonging to regulatory high risk categories.

5.3 Credit Risk in the Loan Book

Charity Bank is exposed to the risk of loss from credit risk on its portfolio of loans.

The principal source of credit risk to Charity Bank arises from its loan book exposure which accounts for 82% of Charity Bank's total capital requirement for credit risk. Credit risk on the loan book is mitigated on each individual loan through the setting of appropriate terms and documentation as part of the credit assessment process and through regular monitoring of the borrower's performance under its loan.

Loan applications are subject to scrutiny and challenge from the Credit Department and, for larger amounts, from the ICC, the CSCO, and, for loans that exceed 22.5% of Charity Bank's Regulatory Capital, the Board; these processes are independent from the Regional Managers in the Banking Department who are responsible for finding lending opportunities. The members of the CSCO, supported by independent advisors, have experience in bank lending and in the sector in which Charity Bank operates.

Each loan application undergoes detailed analysis and review by the Credit Department following submission by Regional Managers who are responsible for the initial due diligence. As part of its credit assessment the Credit Department allocates an internal credit risk rating using a credit grading matrix (the "CGM").

The credit risk rating is a tool in Charity Bank's assessment of the creditworthiness of each individual borrower, and hence of the credit quality of its loan portfolio. It is also a constituent part of Charity Bank's calculation of its general IBNR for loan losses and of the delegation of credit approval limits.

The CGM provides a numerical value for key areas of credit analysis, including debt service, gearing, quality of income and quality of management. The sum of these individual values is used to derive the credit risk rating for each new loan, whose level is then reviewed as part of the approval process by the Credit Department, the ICC, the CSCO and the Board (as appropriate).

In assessing a loan application, the Credit Department staff members focus on the following key elements of analysis: debt service capacity, quality of financial information and business plans and projections, charitable purposes, nature and degree of social impact, quality and track record of trustees and management, external environment, financing structure, nature and value of any security, financial ratios, and loan terms and conditions.

Charity Bank's losses through loan write-offs account for less than 0.40% of loans it has advanced since it opened in 2002.

Given Charity Bank's history of very low losses from credit risk, coupled with its stringent procedures for managing credit risk, the Board considers that credit risk capital for Pillar 1, as calculated under the Standardised Approach to Credit Risk, is more than sufficient to cover Charity Bank's actual exposure to credit risk.

5.4 Market Risk

Market risk is the risk that arises on a bank's trading book from fluctuations in values of, or income from, assets or in interest or exchange rates.

Charity Bank does not hold positions in a trading book (that is, investments held for the express purpose of trading at a profit); it has no exposure to foreign exchange rate risk as it operates exclusively in sterling; and it takes no positions in relation to commodities. No market risk capital is therefore allocated in respect of any such exposures under Pillar 1 capital calculations.

Charity Bank is exposed to interest rate risk in its banking book where it holds non-trading book items through a mismatch of maturities (and interest rate setting) on its assets and liabilities. Capital to cover this form of market risk is addressed under earnings risk in Pillar 2 capital calculations.

The Board accordingly considers that Charity Bank does not need to allocate capital in respect of market risk under Pillar 1 capital.

5.5 Operational Risk

Operational risk is the risk of loss or negative impact to a bank resulting from inadequate or failed internal processes, people and systems, or from external factors such as the effects of regulation or the failure of key suppliers.

The Basic Indicator Approach to Operational Risk under Pillar 1 requires a calculation of the three-year rolling average of the aggregate of Charity Bank's net interest income and net non-interest income.

The amount of capital that Charity Bank would require to support operational risk on this basis was accordingly calculated to be £537,778 at 31st December 2016.

The amount of capital internally assessed by the Board as required to cover Charity Bank's exposure to operational risk is comparable to the capital assessed by applying the Basic Indicator Approach to Operational Risk.

The Board accordingly considers that no additional capital is necessary to cover Charity Bank's exposure to operational risk over and above that required by the Basic Indicator Approach to Operational Risk.

5.6 Credit Risk Analysis

All Charity Bank's lending exposures are to UK customers.

An analysis of total credit risk exposures by class at 31st December 2016 is shown in the table below.

TOTAL ASSETS EXPOSURE AT 31 st DECEMBER 2016	TOTAL ASSETS EXPOSURE £'000	TOTAL RISK WEIGHTED ASSETS EXPOSURE (RWA) £'000	TOTAL RISK WEIGHTED ASSETS EXPOSURE (RWA) AFTER SME SUPPORTING FACTOR £'000	CREDIT RISK REQUIREMENT @ 8% £'000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	7,120	-	-	-
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	19,986	9,550	9,550	764
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	57,314	39,840	38,104	3,048
RETAIL EXPOSURES	30,725	23,044	17,557	1,405
EXPOSURES TO INSTITUTIONS	1,248	33	33	3
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	4,369	1,059	1,059	85
OTHER ITEMS ¹	1,124	1,291	1,291	103
TOTALS	121,886	74,817	67,594	5,408

¹ Other Items include tangible fixed assets, prepayments, accrued income and regulatory high risk categories.

For the purposes of regulatory capital Charity Bank has defined "past-due" items as those being 90 days or more past the due date for settlement.

Impaired exposures are classified as those exposures where a provision has been taken against the book value of the exposure. A credit risk charge has been taken against the gross amount of the exposure before deduction of the provisions.

The provision for impaired exposures is analysed by sector and by region in the table below.

FURTHER DETAILS OF THE IMPAIRED EXPOSURES AT 31 st DECEMBER 2016				
SPECIFIC PROVISION	Gross impaired exposure	Gross Past due exposures	Impairment provisions	Charges for impairment provisions during the year
LOANS AND ADVANCES				
Split by Sector				
Social Care	110	-	110	76
Environment	521	-	99	99
Split by Region				
Northern Ireland region	110	-	110	76
Wales	521	-	99	99
OTHER ITEMS				
Split by Sector				
Business support	157	-	86	(5)
Split by Region				
Yorkshire region	157	-	86	(5)

An analysis of movements in the loss provision is set out in the table on the following page.

MOVEMENT IN LOSS PROVISION IN 2016	£'000
BALANCE AT 1 ST JANUARY 2016	677
AMOUNTS WRITTEN OFF	-
AMOUNTS RECOVERED	-
CHARGE FOR THE YEAR	368
BALANCE AT 31ST DECEMBER 2016	1,045

Whilst Charity Bank's exposures to institutions and corporates includes some non-UK banks and companies, all instruments held within the 'Exposures to institutions' and 'Exposures to institutions and corporates with a short-term credit assessment' classes are sterling-denominated and traded in the UK.

An analysis of Charity Bank's total exposures by exposure class and counterparty type is shown in the table below.

TOTAL ASSETS EXPOSURE AT 31ST DECEMBER 2016	CENTRAL GOVERNMENT & MULTILATERAL DEVELOPMENT BANKS	FINANCIAL INSTITUTIONS	PRIVATE CLIENTS	TOTAL
	£'000	£'000	£'000	£'000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	7,120	-	-	7,120
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUS")	-	19,986	-	19,986
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	-	-	57,314	57,314
RETAIL EXPOSURES	-	-	30,725	30,725
EXPOSURES TO INSTITUTIONS	-	1,248	-	1,248
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	-	4,369	-	4,369
OTHER ITEMS ¹	-	-	1,124	1,124
TOTALS	7,120	25,603	89,163	121,886

¹ Other Items include tangible fixed assets, prepayments, accrued income and regulatory high risk categories.

An analysis of Charity Bank's total exposures by exposure class and residual maturity is provided below.

TOTAL ASSETS EXPOSURE AT 31st DECEMBER 2016	LESS THAN THREE MONTHS £'000	THREE MONTHS TO 1 YEAR £'000	OVER 1 YEAR £'000	NON-DEFINED MATURITY £'000	TOTAL £'000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	7,120	-	-	-	7,120
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	19,986	-	-	-	19,986
LOANS AND ADVANCES	1,512	3,154	83,373	-	88,039
PAST-DUE ITEMS	-	-	-	-	-
EXPOSURES TO INSTITUTIONS	-	1,248	-	-	1,248
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	4,369	-	-	-	4,369
OTHER ITEMS ¹	-	-	-	1,124	1,124
TOTALS	32,987	4,402	83,373	1,124	121,886

¹ Other Items include tangible fixed assets, prepayments, accrued income and regulatory high risk categories.

5.7 Regulatory Approach to Credit Risk and Operational Risk

The Board decided in December 2004 that, for the purposes of its analysis of Pillar 1 capital, Charity Bank should opt for the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk. This decision took into account the following factors:

- Charity Bank's business model was simple in nature; and
- Charity Bank's database on its loan assets and deposit liabilities possessed limited statistical significance.

The Board's opinion remains unchanged.

5.8 Calculation of Credit Risk - Mapping Balance Sheet Exposures to Risk Weightings

Charity Bank uses the rules embedded within the articles of the CRR relating to the calculation of credit risk under the Standardised Approach, to map exposures to the six credit quality steps ("CQS") in a credit quality assessment scale.

For the purpose of the credit risk calculation, no mitigation has been taken on the value of any asset security held against the loan book.

An analysis of Charity Bank's total exposure by exposure class and credit quality step is provided in the table on the following page.

TOTAL ASSETS EXPOSURE AT 31 st DECEMBER 2016	CREDIT QUALITY STEP 1	CREDIT QUALITY STEP 2	CREDIT QUALITY STEP 3	CREDIT QUALITY STEP 4	CREDIT QUALITY STEP 5	CREDIT QUALITY STEP 6	EXPOSURES THAT DO NOT DIRECTLY MAP TO A CQS	UNRATED	TOTAL
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	7,120	-	-	-	-	-	-	-	7,120
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	2,073	-	-	-	-	-	17,913	-	19,986
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	-	-	-	-	-	-	-	57,314	57,314
RETAIL EXPOSURES	-	-	-	-	-	-	-	30,725	30,725
EXPOSURES TO INSTITUTIONS	-	1,248	-	-	-	-	-	-	1,248
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	4,054	224	-	91	-	-	-	-	4,369
PAST-DUE ITEMS	-	-	-	-	-	-	-	-	-
OTHER ITEMS ¹	-	-	-	-	-	-	-	1,124	1,124
TOTALS	13,247	1,472	-	91	-	-	17,913	89,163	121,886

6 Pillar 2 Capital Resources Requirement

The Pillar 2 capital requirement charge is set by the PRA as part of its Supervisory Review and Evaluation Process and covers additional risks not deemed to be included in the Pillar 1 capital requirement charge. The basis of its calculation is confidential.

Charity Bank's internal assessment of its Pillar 2 capital requirement includes assessments for liquidity risk, concentration risk, earnings risk, interest rate risk and business risk.

Large exposure risk is recognised within concentration risk under the Pillar 2 capital assessment.

Large exposures are reviewed monthly by the Credit Department and reported quarterly to the ICC and the RiskCo. In order to support more borrowers when there is strong demand for larger loans, Charity Bank seeks to co-finance with other lenders.

Regular monitoring of portfolio concentration and of large exposures is used to ensure that the concentration risk in the loan portfolio is within Charity Bank's risk appetite.

Limits have been established for maximum exposure to the top twenty borrowers for drawn loans, with a further additional limit for committed but not drawn loans. At 31st December 2016, the total exposure (by drawn value) to the top twenty borrowers amounted to £34.7 million (39% of the portfolio and 192% of eligible capital), with an average loan to value of asset security ratio of 52%. The ICAAP assessment is based on the potential loss on the twenty largest loans (after adjusting for security realisation and assuming value attrition in accordance with the guidance provided in the PRA's applicable stress scenario).

6.1 Interest Rate Risk in the Banking Book

Exposure to interest rate risk arises from the potential adverse impact on Charity Bank's future cash flows and earnings from changes in interest rates and derives from mis-matches in the maturity profile of Charity Bank's assets and liabilities.

Charity Bank has the contractual ability to change the interest rates on its managed rate loans upon giving notice to its borrowers. The notice period in its loan agreements varies between thirty to ninety days depending on when the loan was made available by Charity Bank.

Charity Bank's liabilities reflect a deposit book that is split between amounts in CITR accounts and amounts in other accounts that at 31st December 2016 were a mix of Cash Individual Savings Accounts ('ISAs') and other savings accounts. These accounts had the following characteristics:

- Deposits in CITR accounts are fixed term five-year deposits which give depositors the option to make a withdrawal of up to a maximum of 25% in the fourth year and up to a cumulative maximum of 50% during the fifth year, with the balance being repaid at the end of the fifth year. If a depositor withdraws any amount before the final maturity date of the deposit, they lose part or all of the accrued tax relief on such withdrawn amount. This provides a strong incentive for depositors to keep the full amount of their deposit until final contractual maturity.
- Deposits in Cash ISA accounts are all subject to 33-days' notice.
- The balance of deposits with Charity Bank is held in notice accounts and fixed-term accounts, some of which offer fixed rates. These accounts have varying tenors ranging from 33 days to five years.

All interest-bearing assets and liabilities are placed into maturity categories according to their contractual maturity; the expected exposure to an unexpected 2% movement in interest rates is calculated daily.

An analysis of the effect on earnings of a 2% parallel shift in interest rates on 31st December 2016 showed the impacts set out in the table below.

INTEREST RATE RISK AT 31st DECEMBER 2016	£'000
2% UPWARD SHIFT	1,229
2% DOWNWARD SHIFT	(1,333)
INTEREST RATE RISK CAPITAL ASSESSMENT	1,333

Charity Bank would benefit from an upward shift in interest rates given that it has the ability to increase rates on its lending book prior to fixed-rate term deposits reaching maturity.

Conversely, in the event of a downward shift in interest rates, Charity Bank would receive less interest income on its loan book if it were to reduce its loan rates in response to market conditions. This would not be fully offset by the potential decrease in interest payments on deposits, primarily because of the fixed term nature of a portion of the deposit book.

7 Reward Policy

Charity Bank is subject to the Remuneration Code (the “Code”) of the EBA. The aim of the Code is to ensure that all firms within its scope have risk-focused remuneration policies that are consistent with and promote effective risk management and do not expose them to excessive risk.

Charity Bank is a small organisation that had 63 staff (46.17 full-time equivalent) at 31st December 2016 and has a simple remuneration structure. Charity Bank’s reward policy (the “Reward Policy”) takes account of Charity Bank’s size, internal organisation, and the nature and complexity of its activities. The Reward Policy is set by the GovCo, whose members are exclusively Non-Executive Directors of Charity Bank.

The Reward Policy provides a framework to attract, retain and reward employees to achieve the strategic and business objectives of Charity Bank within its risk appetite and risk management framework. The related remuneration arrangements are reviewed annually by GovCo.

Charity Bank seeks to ensure that the Reward Policy and related practices establish, implement and maintain a remuneration structure which is compatible with effective risk management. This is achieved through application of the following principles:

- remuneration is to be compatible with the risk management and risk tolerance of Charity Bank;
- remuneration should support Charity Bank’s business strategy, objectives, values and the long-term interests of its shareholders and stakeholders;
- employees in Senior Manager Functions should have appropriate authority and are remunerated adequately in accordance with their functions; and
- GovCo, on behalf of the Board, should approve and periodically review the general principles of the Reward Policy.

Charity Bank also operates a separate policy which sets out measures to avoid conflicts of interests.

The Board considers that the mission of Charity Bank will be best achieved if its staff work as a team and that its reward structure should reflect this.

The ratio between the highest and lowest paid member of staff is currently nine times. Remuneration typically comprises a salary with benefits including a pension scheme, life assurance, private medical insurance and permanent health insurance; it varies among employees.

Salaries are set in the context of market data and the knowledge and skills required for the particular role.

Charity Bank does not operate a bonus scheme.

All Charity Bank’s staff are employed in ‘retail banking’.

Charity Bank’s Remuneration Code Staff (‘Code Staff’) comprises the members of EXCO, the Compliance Manager who also acts as the Money Laundering Reporting Officer, and the Non-Executive Directors.

The aggregate of the gross salaries paid to all staff members in the year ending 31st December 2016 was £2,668,463, of which £628,304 was allocated to Code Staff; no variable remuneration was paid.

Non-Executive Directors of Charity Bank are all unpaid and are entitled to reimbursement of their reasonable expenses incurred wholly and exclusively in fulfilling their duties as directors of Charity Bank. No other emoluments were paid to Non-Executive Directors during the year.

The table below provides further analysis on the remuneration of Charity Bank's Code Staff.

TOTAL REMUNERATION MADE CODE STAFF TO YEAR ENDING 31st DECEMBER 2016	NON-EXECUTIVE DIRECTORS £'000	MANAGEMENT WITH RESPONSIBILITY FOR THE BANK'S SENIOR MANAGEMENT FUNCTIONS (EXCO AND MLRO)
	£'000	£'000
TOTAL REMUNERATION	-	628
<i>of which</i>		
TOTAL FIXED REMUNERATION	-	628
VARIABLE REMUNERATION AWARDED IN CASH	-	-
DEFERRED REMUNERATION AWARDED IN 2016	-	-
TOTAL VARIABLE REMUNERATION	-	-
NUMBER OF CODE STAFF	9¹	7

¹ an additional non-executive Director was appointed to the Board on 1st January 2017

The combination of the simple structure of remuneration and the absence of bonus schemes or other forms of variable remuneration linking pay and performance means it should be unlikely that remuneration would have a detrimental effect or influence on the assessment or decision of a staff member relying on that information for the purpose of making economic decisions.

No sign-on payments were made by Charity Bank to any employee, including code staff, or Non-Executive Director during 2016. The table below details the severance payments that Charity Bank made during this period.

DETAILS OF SEVERANCE PAYMENTS MADE TO YEAR ENDING 31 st DECEMBER 2016	£'000
SEVERANCE PAYMENTS MADE	22
NUMBER OF BENEFICIARIES	4
HIGHEST INDIVIDUAL AWARD	11

Disclosure

This Disclosure includes the disclosure requirements that are required by CRD IV.

Frequency

Public issue of this Disclosure is made on an annual basis or more often if circumstances so require.

Location

This Disclosure is published in the Publications section of Charity Bank's website, and can also be available on request by writing to:

The Finance Director, The Charity Bank Limited, Fosse House, 182 High Street, Tonbridge, Kent, TN9 1BE.

Verification

This Disclosure is unaudited but has been verified internally. It will only be subject to external verification to the extent its contents are equivalent to those made in published financial information prepared in accordance with regulatory requirements.

This Disclosure explains how the Board has calculated certain capital requirements and information about risk management generally. It does not constitute a financial statement and should not be relied upon in making judgements about Charity Bank or for any other purpose than that for which it is intended.

Appendix 1 – Transitional Own Funds Disclosure

The table below details the main features of Charity Bank’s regulatory instruments.

MAIN FEATURES OF CHARITY BANK'S CAPITAL INSTRUMENTS AT 31 st DECEMBER 2016						
1	Issuer	The Charity Bank Limited				
2	Unique identifier	n/a				
3	Governing law	England and Wales				
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1	Tier 2			
5	Post-transitional rules	Common Equity Tier 1	Tier 2			
6	Eligible at Group of Bank	Bank				
7	Instrument type (type to be specified by each jurisdiction)	Ordinary share capital	Subordinated Loan Notes			
8	Regulatory capital value	9,153	500	87	79	1,000
9	Nominal value (£)	9,153	500	250	250	1,000
10	Accounting classification	Shareholders Equity	Liability -amortised cost			
11	Date of issue		30/11/2005	01/10/2007	30/07/2007	30/10/2015
12	Perpetual or dated	Perpetual		Dated		
13	Original maturity date	No maturity		30/09/2017	30/07/2017	30/10/2022
14	Issuer call	Yes				
15	Optional call date, contingent call dates and redemption amount	n/a	30/05/2017	31/03/2017	30/05/2017	30/05/2017
16	Subsequent call dates	n/a	then every six months on the interest payment date until maturity			
	Coupons/dividends					
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	4%	4%	4%	2%
19	Existence of dividend stopper	none	none	none	none	none
20	Fully discretionary, partially discretionary or mandatory	Full discretionary	Mandatory			
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary	Mandatory			
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary	Mandatory			
21	Existence of step up or other incentive to redeem	n/a	No			
22	Non-cumulative or cumulative	Non-cumulative				
23	Convertible or non-convertible	Non-convertible	Convertible			
24	If convertible, conversion trigger(s)	n/a	Each note holder shall have the right to convert at any time, on notice. Contractual trigger for conversion			
25	If convertible, fully or partially	n/a	Always fully			
26	If convertible, conversion rate	n/a	Converted into preference shares: 1 preference share per £1 of loan note			
27	If convertible, mandatory or optional conversion	n/a	at the option of the holders			
28	If convertible, specify instrument type it converts into	n/a	Additional Tier 1			
29	If convertible, specify issuer or instrument it converts into	n/a	Preference Shares			
30	Write down feature	n/a	No			
31-34	If write-down trigger(s), full/partial, permanent/temporary	n/a	n/a			
35	Instrument type immediately senior	n/a	n/a			
36	Non-compliant transitioned features	n/a	No			
37	If yes, specify non-compliant features	n/a	n/a			

Appendix 2 - Asset Encumbrance

The following disclosure is made using the standard asset encumbrance format, and with reference to the relevant regulations contained within CRD IV. It also takes account of the guidance issued by the European Banking Authority in June 2014.

As demonstrated in the following tables, none of Charity Bank's assets are encumbered.

ASSET ENCUMBRANCE POSITION AT 31 st DECEMBER 2016				
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
TOTAL ASSETS	-	-	121,886	-
LOANS ON DEMAND	-	-	-	-
EQUITY INSTRUMENTS	-	-	-	-
DEBT SECURITIES	-	-	27,106	27,106
LOANS AND ADVANCES OTHER THAN LOANS ON DEMAND	-	-	88,039	-
OTHER ASSETS	-	-	6,741	-
	Fair value of encumbered collateral received or own debt securities issued	Unencumbered		
		Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance	
COLLATERAL RECEIVED	-	-	-	-
LOANS ON DEMAND	-	-	-	-
EQUITY INSTRUMENTS	-	-	-	-
DEBT SECURITIES	-	-	-	-
LOANS AND ADVANCES OTHER THAN LOANS ON DEMAND	-	-	-	-
OTHER COLLATERAL RECEIVED	-	-	-	-
OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR ABSS	-	-	-	-
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered		
CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	-	-	-	-
DERIVATIVES	-	-	-	-
DEPOSITS	-	-	-	-
DEBT SECURITIES ISSUED	-	-	-	-
OTHER SOURCES OF ENCUMBRANCE	-	-	-	-