

THE CHARITY BANK LIMITED



Public Disclosure (Pillar 3)

At 31st December 2019

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Glossary

ALCO	The internal 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 arising from the failure of a financial institution or its failure to meet its obligations.
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.
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, that are eligible for inclusion in the buffer defined under the Liquidity Coverage Requirement Regulation.
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
IFRS	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board.
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 or failed internal processes, people and systems or from external events, and includes legal risk. As defined in Article 4(1)(52) of Regulation (EU) No. 575/2013 (Capital Requirements Regulation).
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 in accordance with Part 3, Title II, Chapter 2 of the CRR.
SICC	The Super Internal Credit Committee
SSOs	Social sector organisations, including charities, community and voluntary organizations, mutually-owned businesses, and social, not-for-profit, enterprises.
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.
TCR	Total Capital Requirement to refer to the amount and quality of capital a firm must maintain to comply with the minimum capital requirements under the Capital Requirements Regulation (575/2013) (CRR) (Pillar1) and the Pillar 2A capital.
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 2019.

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 2019 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

During 2019 Charity Bank began implementing a capital plan, which saw the successful raise of nearly £5 million in five-year subordinated loan notes structured to satisfy our capacity for Tier 2 capital over the medium term. Also, an existing subordinated loan note holder converted their £0.5 million loan note into new ordinary shares (CET 1 capital) in Charity Bank.

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 a risk management framework for the identification, assessment, measurement and management of risks which covers the full range of risks that its senior management believes it may encounter.

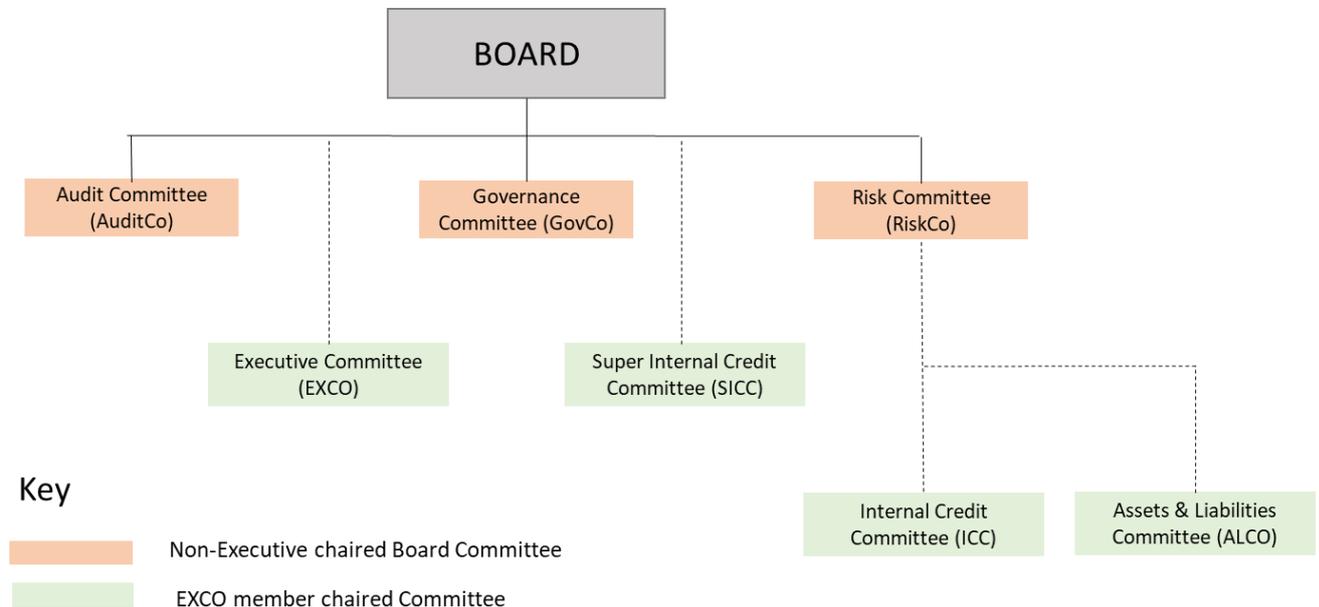
Charity Bank's risk management framework is described below, including its organisational structure, governance and ownership arrangements, risk strategies and appetite, and the scope and nature of supporting monitoring and reporting processes.

1.7 Organisational Structure

The Charity Bank Board oversees the governance of the organisation

The membership of the 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 2019, the Board consisted of ten non-executive Directors (of whom three were female) and two executive Directors. 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.

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.



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 key risks; overseeing and challenging liquidity and capital adequacy (including regulatory documents such as the Internal Capital Adequacy Assessment Process (“ICAAP”) and the Internal Liquidity Adequacy Assessment Process (“ILAAP”), oversight of the SICC and ICC; 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.

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, risk appetite 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 impairments; and recommending write-offs.

Super Internal Credit Committee (SICC): responsible for considering credit applications and variations and approve novel or contentious loans in accordance with its delegated limits. The membership of the Super ICC is the membership of the ICC plus at least one NED.

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 are 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:

- develop and enhance its risk management capability in a manner that yields business benefit;
- foster an environment where consideration of risk is embedded in its culture, business planning, decision-making and its day to day business activity;

- seek to assume appropriate risks in the delivery of its strategy, against the background of a clearly articulated risk appetite and well-designed risk management policies and procedures. Risks are only appropriate if they are well understood, support social impact objectives, and achieve the desired return on financial and other resources used; and
- seek to avoid, mitigate and/or transfer those risks for which it has little or no appetite or where the expected return is inadequate.

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 and Financial Crime Manager (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 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 is vested in the Deputy Chief Executive in his capacity as Chief Risk Officer (CRO) and he is supported by the Compliance and Financial Crime Manager, who also performs the roles of Data Protection (DP) Lead and Money Laundering Reporting Officer (MLRO). These functions provide the oversight, guidance on controls and the tools, systems and advice necessary to support the identification, management and monitoring of risk.

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, undergo regular reviews to ensure they are up to date and 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.

PriceWaterhouseCoopers LLP (“PWC”) were appointed as Charity Banks external auditors at the May 2019 AGM, taking over from Deloitte who had been in the role from 2002-2018. Under PWC’s first audit, additional planning work was performed in July 2019, with further interim work in November 2019. Final audit work is scheduled to be completed in February and March 2020.

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 PWC.

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 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 2019 Charity Bank had £12.373 million of fully paid-up ordinary shares in issue.

Tier 2 Capital

Charity Bank's Tier 2 Capital consists of the amortised value of subordinated loan stock issued by Charity Bank and carrying an interest coupon of between 1% and 2% per annum.

RECONCILIATION OF OWN FUNDS AND BALANCE SHEET AT 31 st DECEMBER 2019				
BALANCE SHEET	£,000	£,000	OWN FUNDS	£,000 £,000
CALLLED-UP SHARE CAPITAL			COMMON EQUITY TIER 1	
A ORDINARY SHARES	12,373		A ORDINARY SHARE CAPITAL	12,373
			B SHARE PREMIUM	4,563
		12,373	C RETAINED EARNINGS AND OTHER RESERVES	3,406
B SHARE PREMIUM	4,563		LESS INTANGIBLES	(1,102)
		4,563	D ADJUSTMENTS ³	80
C RETAINED EARNINGS AND OTHER RESERVES		4,217		
SHAREHOLDERS' FUNDS		21,153	TOTAL TIER 1 CAPITAL	19,320
LONG-TERM SUBORDINATED LOAN NOTES¹		5,752	TIER 2 CAPITAL	
			SUBORDINATED LOAN NOTES ¹	3,374
SHAREHOLDERS' FUNDS & SUBORDINATED LOANS		26,905		3,374
			TOTAL CAPITAL	22,694
RECONCILIATION		£,000	Notes	
SHAREHOLDERS' FUNDS & SUBORDINATED LOANS		26,905	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.	
LESS AMORTISATION OF SUBORDINATED LOAN NOTES ¹		(663)	2. Adjustments include IFRS9 transitional allowance, PruVal impact and accrued interest on Subordinated Loan Notes	
LOAN NOTES IN EXCESS OF REGULATORY LIMIT ¹		(1,713)	Adjustments as above, excluding accrued interest on Subordinated Loan Notes	
LESS: UNAUDITED 2019 PROFITS		(811)		
LESS: INTANGIBLE ASSETS		(1,102)		
ADJUSTMENTS ²		78		
OWN FUNDS TOTAL CAPITAL		22,694		

A summary of Charity Bank's "own funds" (capital resources) at 31st December 2019 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-18	31-Dec-19
TIER 1 CAPITAL		
COMMON EQUITY TIER 1	£,000	£,000
ORDINARY SHARE CAPITAL	12,077	12,373
SHARE PREMIUM	4,359	4,563
RETAINED EARNINGS AND OTHER RESERVES	3,932	3,406
INTANGIBLE ASSETS	-	(1,102)
ADJUSTMENTS	(33)	80
TOTAL COMMON EQUITY TIER 1	20,335	19,320
ADDITIONAL TIER 1		
NON-CUMULATIVE PREFERENCE SHARES	0	0
TOTAL ADDITIONAL TIER 1	0	0
TOTAL TIER 1 CAPITAL	20,335	19,320
TIER 2 CAPITAL		
SUBORDINATED LOAN NOTES	1,266	3,374
TOTAL TIER 2 CAPITAL	1,266	3,374
TOTAL CAPITAL	21,105	22,694
Credit and operational risk RWAs	121,811	141,784
Own Funds (Pillar 1 Capital Resources) Requirement	9,745	11,343
KEY CRD IV RATIOS	31-Dec-18	31-Dec-19
Common Equity Tier 1 Capital Ratio	16.29%	13.63%
Tier 1 Capital Ratio	16.29%	13.63%
Total Capital Ratio	17.33%	16.01%
Leverage Ratio	9.96%	7.62%

For 2018 and 2019, Charity Banks Total Capital Requirement ('TCR') has been set at 9.52% of our risk weighted assets.

At 31st December 2019 Charity Bank had a Common Equity Tier 1 Capital Ratio of 13.63%, a Tier 1 Capital Ratio of 13.63% and a Total Capital Ratio of 16.01%.

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.

Leverage exposure and management is embedded as part of Charity Bank's capital planning process and is one of several 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 2019; 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 CRDV, a credit conversion factor of 10% is applied (as prescribed in Article 429(10) of the CRR).

CALCULATION OF LEVERAGE RATIO AT 31st DECEMBER 2019	£'000
TIER 1 CAPITAL	19,320
TOTAL ASSETS PER BALANCE SHEET	249,003
<i>ADD BACK: LOAN AND OTHER IMPAIRMENTS, INTANGIBLE ASSETS</i>	(102)
REGULATORY ASSETS	248,901
OFF-BALANCE SHEET ITEMS @10%	4,789
LEVERAGE RATIO EXPOSURE	253,691
LEVERAGE RATIO	7.62%

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 a TCR.

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 2019 as set out in the table on the following page.

PILLAR I - CAPITAL REQUIREMENTS AT 31st DECEMBER 2019	£'000
Credit Risk	10,686
Market Risk	-
Operational Risk	657
Total	11,343

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 below.

CREDIT RISK CAPITAL REQUIREMENT AT 31st DECEMBER 2019	£'000
Central Government and Multilateral Development Banks	-
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	598
Retail exposures	1,336
Exposures secured by mortgages on immovable property	6,989
Past due items	43
Exposures to Institutions	51
Institutions and Corporates with a short-term credit assessment	271
Exposures associated with particularly high-risk	1,013
Other Items ¹	385
Total Credit Risk Capital Component	10,686

¹ *Other Items include tangible fixed assets, prepayments and accrued income.*

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 NatWest Bank, Lloyds 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 HQLAs, 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 and accrued income items.

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 90% 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 SICC, 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 SICC, 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 collective provisions 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 SICC 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 0.5% 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.

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 2019 is shown in the table below.

TOTAL ASSETS EXPOSURE AT 31st DECEMBER 2019	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	12,229	-	-	-
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	37,376	7,475	7,475	598
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	137,097	89,942	87,362	6,989
RETAIL EXPOSURES	29,235	21,926	16,706	1,336
EXPOSURES TO INSTITUTIONS	1,274	637	637	51
PAST-DUE ITEMS	1,537	538	538	43
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	16,925	3,385	3,385	271
EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK	8,442	12,663	12,663	1,013
OTHER ITEMS ¹	4,786	4,807	4,807	385
TOTALS	248,901	141,373	133,573	10,686

¹ Other Items include tangible fixed assets, prepayments and accrued income.

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 on the following page.

FURTHER DETAILS OF THE IMPAIRED EXPOSURES AT 31 ST DECEMBER 2019				
SPECIFIC PROVISION	Gross impaired exposure	Gross Past due exposures	Impairment provisions	Charges for impairment provisions during the year
LOANS AND ADVANCES				
Split by Sector				
Umbrella/voluntary org. support	508	-	113	-
Environment	637	-	126	-
Split by Region				
Northern Ireland region	508	-	113	-
Yorkshire region	114		29	-
Wales	523	-	97	-
OTHER ITEMS				
Split by Sector				
Social Care		-		(144)
Split by Region				
North West	-	-	-	(144)

An analysis of movements in the loss impairments is set out in the table below.

2019 MOVEMENT IN LOSS IMPAIRMENTS (Excluding Non-lending and commitments)	£'000
BALANCE AT 1 ST JANUARY 2019	531
AMOUNTS WRITTEN OFF	(144)
NET CHARGE FOR THE YEAR	242
BALANCE AT 31ST DECEMBER 2019	629

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 on the following page.

TOTAL ASSETS EXPOSURE AT 31st DECEMBER 2019	CENTRAL GOVERNMENT & MULTILATERAL DEVELOPMENT BANKS £'000	FINANCIAL INSTITUTIONS £'000	PRIVATE CLIENTS £'000	TOTAL £'000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	12,229	-	-	12,229
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	-	37,376	-	37,376
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	-	-	137,097	137,097
RETAIL EXPOSURES	-	-	29,235	29,235
PAST-DUE ITEMS	-	-	1,537	1,537
EXPOSURES TO INSTITUTIONS	-	1,274	-	1,274
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	-	16,925	-	16,925
EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK	-	-	8,483	8,483
OTHER ITEMS ¹	-	-	4,745	4,745
TOTALS	12,229	55,575	181,097	248,901

¹ Other Items include tangible fixed assets, prepayments and accrued income.

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

TOTAL ASSETS EXPOSURE AT 31 st DECEMBER 2019	DEMAND	LESS THAN ONE YEAR	ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NO STATED MATURITY	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	-	10,235	1,994	-	-	12,229
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	-	37,376	-	-	-	37,376
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	-	3,681	21,581	111,835	-	137,097
RETAIL EXPOSURES	-	1,509	6,150	21,576	-	29,235
PAST-DUE ITEMS	-	325	-	1,212	-	1,537
EXPOSURES TO INSTITUTIONS	-	1,274	-	-	-	1,274
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	16,925	-	-	-	-	16,925
EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK	-	2,636	2,948	2,858	41	8,483
OTHER ITEMS ¹	-	352	1,360	1,630	1,403	4,745
TOTALS	16,925	57,388	34,033	139,111	1,444	248,901

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

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 Risk in the non-trading book arising from differences in the maturity profile (and interest setting) of 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 resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

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 £656,930 at 31st December 2019

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 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.

5.7 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 below.

TOTAL ASSETS EXPOSURE AT 31 st DECEMBER 2019 £'000	CREDIT QUALITY STEP						EXPOSURE S THAT DO NOT DIRECTLY MAP TO A CQS	UNRATED	TOTAL
	1	2	3	4	5	6			
CENTRAL GOVERNMENT AND MULTILATERAL DEVELOPMENT BANKS	12,229	-	-	-	-	-	-	-	12,229
EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS ("CIUs")	22,395	10,889	4,092	-	-	-	-	-	37,376
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	-	-	-	-	-	-	-	137,097	137,097
RETAIL EXPOSURES	-	-	-	-	-	-	-	29,235	29,235
PAST DUE	-	-	-	-	-	-	-	1,537	1,537
EXPOSURES TO INSTITUTIONS	-	1,274	-	-	-	-	-	-	1,274
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	16,925	-	-	-	-	-	-	-	16,925
EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK	-	-	-	-	-	-	-	8,483	8,483
OTHER ITEMS ¹	-	-	-	-	-	-	-	4,745	4,745
TOTALS	51,549	12,163	4,092	-	-	-	-	181,097	248,901

¹ Other Items include tangible fixed assets, prepayments, SME loans and accrued income.

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 2a capital requirement includes assessments for liquidity risk, concentration risk, earnings risk, interest rate risk, operational risk and business risk.

Large exposure risk is recognised within concentration risk under the Pillar 2a 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 2019, the total exposure (by drawn value) to the top twenty borrowers amounted to £63 million (35% of the portfolio and 276% of eligible capital), with an average loan to value of asset security ratio of 47%.

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 2019 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 easy access accounts, notice accounts and fixed-term accounts, some of which offer fixed rates. These accounts have varying tenors ranging from same day to five years.

All interest-bearing assets and liabilities are placed into maturity categories according to the management view of their behavioural maturity. Analysis of the effect on earnings of a 2% parallel shift in interest rates on 31st December 2019 showed the impacts set out in the table on the following page.

INTEREST RATE RISK AT 31st DECEMBER 2019	£'000
2% UPWARD SHIFT	1,104
2% DOWNWARD SHIFT	(1,097)
INTEREST RATE RISK CAPITAL ASSESSMENT	1,104

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 58 staff (54.37 full-time equivalent) at 31st December 2019 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 stake-holders;
- 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 7.47 times. Remuneration typically comprises a salary with benefits including a pension scheme, life assurance and, private medical 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 and Financial Crime 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 2019 was £2,697,844, of which £583,095 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 31 st DECEMBER 2019	NON- EXECUTIVE DIRECTORS	MANAGEMENT WITH RESPONSIBILITY FOR THE BANK'S SENIOR MANAGEMENT FUNCTIONS (EXCO AND MLRO)
	£'000	£'000
TOTAL REMUNERATION	-	583
<i>of which</i>		
TOTAL FIXED REMUNERATION	-	583
VARIABLE REMUNERATION AWARDED IN CASH	-	-
DEFERRED REMUNERATION AWARDED IN 2016	-	-
TOTAL VARIABLE REMUNERATION	-	-
NUMBER OF CODE STAFF	9	6

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 2019. One severance payment was made by Charity Bank to one employee to the sum of £16,756 during 2019.

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.

8 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 31st DECEMBER 2019						
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					
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	12,373	585	2,023	0	766
9	Nominal value (£)	12,373	650	3,250	850	1,000
10	Accounting classification	Shareholders Equity	Liability -amortised cost			
11	Date of issue		Multiple issue dates	Multiple issue dates	Multiple issue dates	30/10/2015
12	Perpetual or dated	Perpetual	Dated			
13	Original maturity date	No maturity	June 2024	September 2024	December 2024	30/10/2022
14	Issuer call	n/a	Yes			
15	Optional call date, contingent call dates and redemption amount	n/a	n/a			Annually on 30th May or 30th October
16	Subsequent call dates					then every six months on the interest payment date until maturity
Coupons/dividends						
17	Fixed or floating dividend/coupon	Floating	Fixed			
18	Coupon rate and any related index	n/a	1%	1%	1%	2%
19	Existence of dividend stopper	none				
20	Fully discretionary, partially discretionary or mandatory	Full discretionary	Mandatory			
1%	Fully discretionary, partially discretionary or mandatory (in terms of timing)					
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)					
21	Existence of step up or other incentive to redeem	n/a	No			
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative			
23	Convertible or non-convertible	Non-convertible	Non-convertible			Convertible
24	If convertible, conversion trigger(s)	n/a	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			Always fully
26	If convertible, conversion rate			Converted into preference shares: 1 preference share per £1 of loan note
27	If convertible, mandatory or optional conversion			at the option of the holders
28	If convertible, specify instrument type it converts into			Additional Tier 1
29	If convertible, specify issuer or instrument it converts into			Preference Shares
30	Write down feature			No
31-34	If write-down trigger(s), full/partial, permanent/temporary			n/a
35	Instrument type immediately senior			n/a
36	Non-compliant transitioned features			No
37	If yes, specify non-compliant features			n/a

9 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 table, none of Charity Bank's assets are encumbered.

ASSET ENCUMBRANCE POSITION AT 31st DECEMBER 2019				
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
TOTAL ASSETS	-		249,003	
LOANS ON DEMAND	-		-	
EQUITY INSTRUMENTS	-	-	-	-
DEBT SECURITIES	-	-	49,610	49,605
LOANS AND ADVANCES OTHER THAN LOANS ON DEMAND	-		197,303	
OTHER ASSETS	-		2,090	