THE CHARITY BANK LIMITED

Public Disclosure (Pillar 3)

31st December 2023

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1 Introduction

1.1 Purpose of this Disclosure

This document has been prepared in accordance with the disclosure requirements as set out in the Prudential Regulation Authority Rulebook for CRR firms. The rulebook 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 2023.

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 Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") (firm number 207701) and the PRA.

In addition, as an accredited Community Development Finance Institution (CDFI) which is eligible to accept investment by way of deposits, sub debt and loans under the Community Investment Tax Relief (CITR) scheme, Charity Bank is subject to supervision by, and reporting to, the Department for Business, and Trade ('DBT').

1.3 Accounting standards

The statements in this Disclosure for the year ended 31st December 2023 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, 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 maintaining 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 were restructured.

During 2023 Charity Bank continued to raise CET1 capital to support the capital and business plans approved by the Charity Bank Board of Directors.

Charity Bank remains controlled by charities, trusts and foundations. Big Society Capital (BSC) continues to be a majority shareholder, with voting rights capped at below 50%.

2 Risk Management Framework, Governance, Appetite and Policies

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.

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.

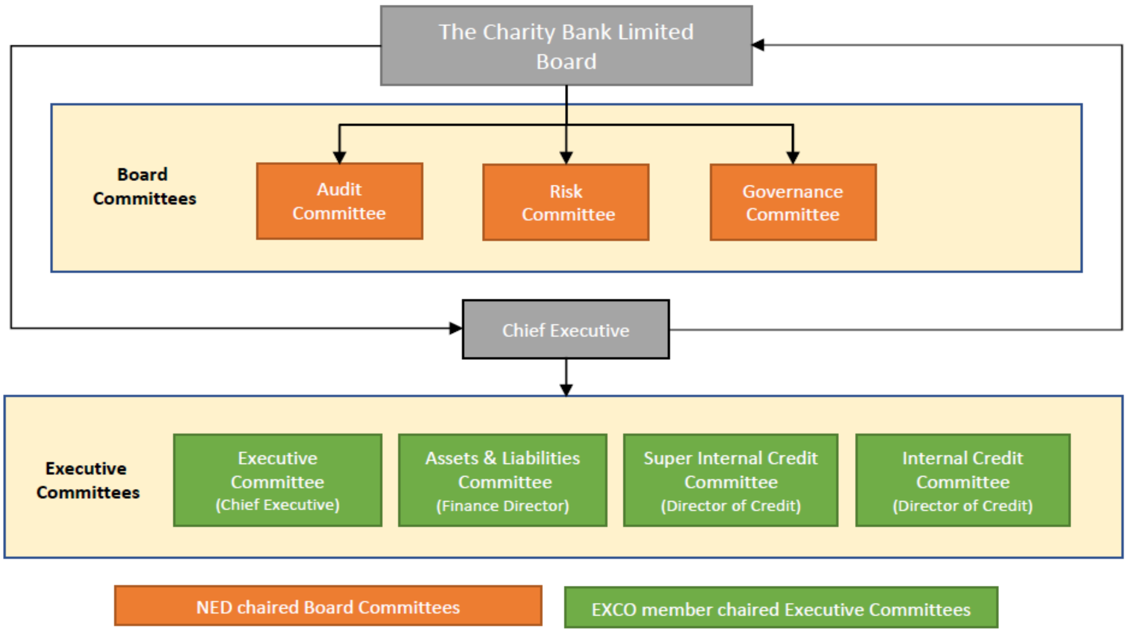
2.1 Organisational Structure & Governance

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 2023, the Board consisted of ten non-executive Directors (of whom four 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 and some of the other management committees of the Bank.

Charity Bank Governance 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; monitoring the performance and reports of the internal audit function; and approving the annual internal audit plan.

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 (including emerging risks); overseeing and challenging liquidity and capital adequacy (including regulatory documents such as the Internal Capital Adequacy Assessment Process ('ICAAP'); the Internal Liquidity Adequacy Assessment Process ('ILAAP'), and the Recovery Plan; 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; and for monitoring the work of the Assets and Liabilities Committee ('ALCO'), Super Internal Credit Committee ('SICC') and Internal Credit Committee ('ICC').

MANAGEMENT COMMITTEES

Assets and Liabilities Committee (ALCO): responsible for the management of the Bank's liquidity and assisting the Chief Finance Officer in managing financial risks; recommending policies on the investment of capital and liquid resources 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.

Super Internal Credit Committee (SICC): responsible for considering credit applications and variations and approving novel or contentious loans in accordance with its delegated limits. The membership of the SICC is the membership of the ICC but has stricter quorum 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 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 are implemented through these governance, management, and control structures.

The Board considers the above committee and governance structure sufficient and appropriate to its size and operations. They balance the need for oversight and challenge with the ability for the bank to manage and grow its business in a way that befits a small firm. The Executive Directors and Executive Committee are enabled to perform their risk management duties under the supervision of the Board and its committees.

2.2 Risk Management Framework & Strategy

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; 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':

- The first line of defence is provided by front line staff and operational management who own the risks. The systems, internal controls, the control environment and culture developed and implemented by these business units is crucial in anticipating and managing operational risks.
- The second line of defence is provided by the risk management and compliance functions, headed by the Chief Risk Officer (CRO – SMF4 & Compliance Oversight – SMF16) and supported by the Compliance & Financial Crime Manager (MLRO - SMF17). These functions provide the advice, information and monitoring necessary to support the first line in identifying, managing and monitoring risks.
- The third line of defence is provided by the internal audit function. This function provides a level of independent assurance that the risk management and internal control framework is working as designed. At the current time, the internal audit function is provided on an outsourced basis by a professional services firm, who are answerable to the CEO and Audit Committee and whose day-to-day relationship with the Bank is managed by the CRO.

The Board and its committees provide oversight and challenge across all three lines of defence.

Boards/Committees/Executive		
1st Line of Defence	***2nd Line of Defence***	***3rd Line of defence***
Business Operations	Oversight Functions	Independent Assurance
Day to day risk management; departmental Managers; EXCO	Risk Management Compliance	Internal Audit

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. Personal accountability for risk management is reinforced by the Senior Managers and Certified Persons Regime: all members of Exco are either Senior Managers or Certified Persons. 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 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. The Chief Risk Officer reports to each RiskCo and Board meeting on the risk indicators, with commentary and rationale for changes and higher risk ratings.

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 and quarterly for other relevant risk measures; 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. Exco members are responsible for escalating appropriately any risks or issues identified which due to their urgency require attention prior to the next relevant meeting.

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.

Responsibility for risk management from a second line perspective is vested in the CRO who performs the role of Data Protection (DP) Lead and Compliance Oversight. He is supported by the Compliance Manager and 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.

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.

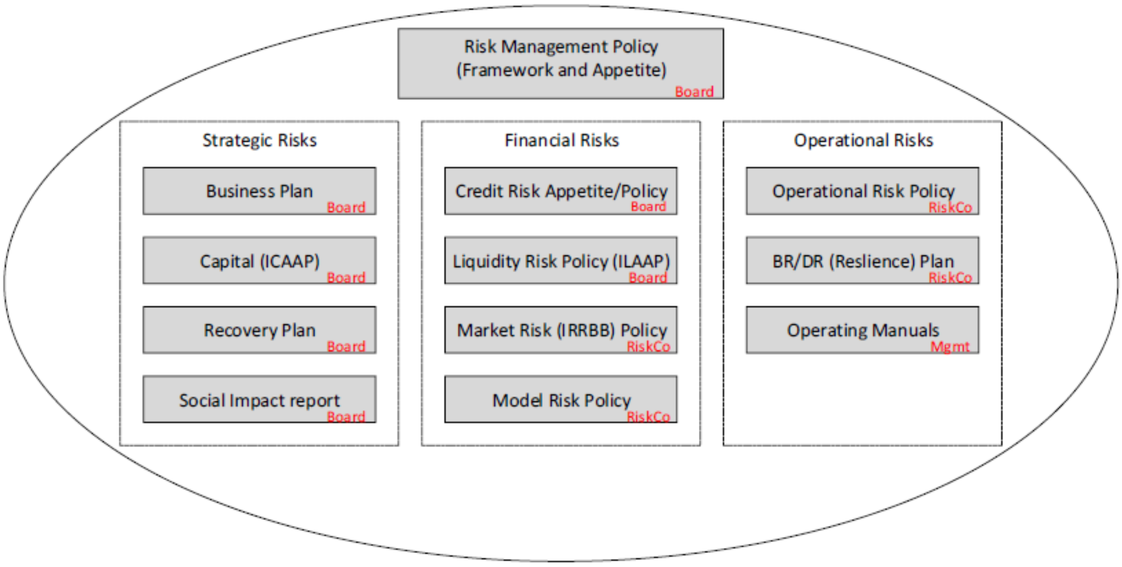
2.3 Risk Policies

Risks are considered in three high level categories:

a) Strategic Risk: the risks arising either from the external environment serving to prevent achievement of the strategy, or internally from a poor choice or execution of its strategy.
b) Financial Risk: the credit, market and liquidity risks that occur in its activities or transactions to drive financial performance.
c) Operational Risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Charity Bank's risk policies outline how risks are identified, measured, monitored, mitigated and reported in each relevant category of risk, including the stress, scenario testing and internal control framework. The risk management policies cover all the material risks faced by Charity Bank. They also describe the risk appetite framework, tolerances, limits and thresholds.

Charity Bank's Risk Management Framework includes the following documents:



Charity Bank does not have a Traded Market Risk Policy as it does not hold positions on a trading book; it has no exposure to Exchange Rate Risk as it operates exclusively in Sterling; and it takes no positions in relation to commodities.

2.4 Risk Processes

Risk processes and reporting procedures are a key part of the risk management framework and enable Charity Bank to identify, measure, monitor, manage and report, on a continuous basis, the risks to which it is or could be exposed and their inter-dependencies. All categories of risk are considered, and different types of processes are implemented to review and understand them effectively.

The key risk processes include:

a) Top-down risk process (Strategic/External Environment Risk and Financial Risk); and

b) Bottom-up risk process (Operational Risk including Loss Reporting).

2.5 Risk Appetite

The Board sets Charity Bank's risk appetite. The Chief Risk Officer provides a risk report to each RiskCo and Board meeting, with commentary and rationale for changes and higher risk ratings. Risk appetites are described qualitatively and quantitatively where applicable for each individual risk category. The Bank's risk appetites are formally approved by the Board and set out the principal risks Charity Bank faces. These capture the essence of the risks that Charity Bank faces and reflect the Board's overall view of the risks that can be taken. The risk appetites are set in the context that Charity Bank is a straight-forward savings and loans bank with a mission to use money for good.

The over-arching Risk Appetite statement is:

"We actively seek and accept credit risk through lending for social purposes to charities and other organisations; and we are willing to take the market, liquidity and operational risks that are necessary to support this activity.

In particular:

• we take reasonable and proportionate risks in order to further our mission provided they are consistent with maintaining financial soundness;

• we take care in assessing those to whom we lend and those who are our financial counterparties, and we actively monitor their credit quality thereafter;

• we seek to be highly competent in recognising, assessing and mitigating the risks that we run;

• we prefer to accept risks that we have the ability to manage or mitigate to the degree that doing so is efficient and effective; and we prefer to reduce our exposure to those where we have no such ability, measuring our exposure to both sets of risks where that is practical;

• we accept risks in relation to standards of conduct and aim to mitigate them by behaving well towards our borrowers and our depositors; and

• we conduct our business with the aim that there is a high likelihood that our exposure to risks will remain within the tolerances and limits that we set, and we seek to hold sufficient capital and liquidity resources to absorb them at or above the minimum level of confidence that we specify."

2.6 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.

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

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 UK Treasury Gilts or bank placements, and on the balances it holds in its bank accounts with NatWest Bank, Santander and Barclays Bank (which acts as a custodian for the Gilts) 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.

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 98% 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 Relationship Managers in the Banking Department who are responsible for finding lending opportunities. The members of the ICC and SICC have experience in bank lending and in the sector in which Charity Bank operates.

Each loan application undergoes detailed analysis and review by the Banking and Credit Departments and includes a credit grading matrix (the "CGM").

The CGM is an internal credit risk rating tool to assess the creditworthiness of each individual borrower, and hence of the credit quality of the 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 0.2% of loans it has advanced since it opened in 2002.

Impaired exposures are classified as those exposures where a specific provision has been taken because the estimated recovery value of the collateral secured against the loans is less than the book/carrying value of the exposure.

Whilst Charity Bank's exposures to institutions and corporates includes some non-UK banks, 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.

Large (top 20) lending exposures are reviewed monthly by the Credit Department and reported monthly to the ICC and at each ALCO and RiskCo meeting. 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 2023, the total exposure (by drawn value) to the top twenty borrowers amounted to £77 million (27% of the portfolio and 250% of eligible capital), with a weighted average LTV of 50%.

2.7 Liquidity Risk

Liquidity risk is the risk that a firm, although solvent, either is unable to realise investments and other assets to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

Charity Bank undertakes an ILAAP exercise annually, which is approved by the Board. Within this assessment are Charity Bank's internal Liquidity Stress tests, which are subsequently run monthly with results reported to ALCO. The ILAAP also details internal monitoring limits regarding depositor concentration, fixed maturity profiles and easy access balances, amongst others. Charity Bank's liquidity policy details early warning indicators for the LCR and NSFR and the Investment Policy details the investment guidelines for HQLA and surplus liquid assets.

In order to meet both the regulatory and internal requirements to hold assets that qualify as HQLAs, Charity Bank invests in UK Government Gilts which are approved by ALCO, in accordance with the risk appetite agreed by RiskCo, and a Bank of England Reserves account (held as part of Sterling Monetary Framework membership). Charity Bank's surplus liquidity, being the excess over its short-term cash holdings and HQLAs are held in bank placements made with banking counterparties approved by RiskCo, within limits specified in the Investment Policy. RiskCo receives Liquidity reporting at its regular meetings.

ACLO is responsible for recommending the ILAAP and Liquidity Policy to RiskCo for onward approval at the Board. At its regular meetings, ALCO receives liquidity mismatch and limit reports, early warning indicators and deposit origination reports, amongst others.

Charity Bank is a member of the BoE's Sterling Monetary Framework and as such has access to the discount window facility.

The CRO is responsible for Liquidity Risk from a second line of defence perspective. Day-to-day liquidity management is undertaken by the Finance team.

2.8 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.

Operational risk arises for Charity Bank in the course of pursuing its objectives and of taking strategic and financial risks, as a consequence of undertaking certain activities or executing certain transactions. The risk of loss is not actively sought but is a consequence of doing business.

The Operational Risk Policy sets out Charity Bank's framework for the identification, assessment, measurement, monitoring and mitigation of operational risk. The key objective of this policy is to ensure high-quality management of operational risk exposures so that they remain within Charity Bank's risk appetite.

2.9 Strategic Risk

Strategic risk is the risks arising either from the external environment serving to prevent achievement of the strategy, or internally from a poor choice or execution of its strategy. The Board reviews and sets business plan targets on an annual basis. Performance against plan is monitored at every Board meeting. The Board also sets early warning signals for its profitability. These are incorporated into the Recovery & Resolution Plan, which is reviewed and approved annually.

2.10 Board Risk Declaration

The Board is satisfied that the risk strategy is adequate and that there are appropriate systems and processes in place to identify and manage risks within Charity Bank. The Board is also 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 matters within its purview 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 (internal auditors) and PwC (external auditors).

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 annually 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 in light of its regular reviews of Charity Bank's ICAAP, its business model and performance.

Charity Bank's ICAAP is reviewed by the ALCO and RiskCo and approved by the Board.

In addition to business and capital plans and the ICAAP, reports are made to the EXCO on current and projected capital utilisation at least monthly, and to the ALCO at its regular meetings, 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 (inclusive of share premium) and reserves. This capital is also referred to as "going-concern" capital.

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 subject to the prior consent of the PRA, or upon the winding-up of the bank.

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 0.5% and 1% per annum. This capital is also referred to as "gone-concern" capital.

A summary of Charity Bank's "own funds" (capital resources) at 31st December 2023 is shown in table UK KM1. The key capital ratios are also included in this table.

For 2023, Charity Bank's Total Capital Requirement ('TCR') has been set at 8.59% of risk weighted assets.

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. As Charity Bank has no Additional Tier 1 capital, the ratio will be the same as the Common Equity Tier 1 ratio.

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 PRA has set 3.25% 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. Table UK KM1 shows Charity Bank's leverage ratio at 31st December 2023; the ratio is comfortably in excess of the 3.25% (excluding Central Bank holdings) 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 CRDIV, a credit conversion factor of 10% is applied (as prescribed in Article 429(10) of the CRR).

3.4 Consolidated View of Key Ratios

Template UK KM1	**31 Dec 2023**	**31 Dec 2022**
Available own funds (£000)		
Common Equity Tier 1 (CET1) capital	30,701	26,146
Tier 1 capital	30,701	26,146
Total capital	33,541	29,878
Risk-weighted exposure amounts (£000)		
Total risk-weighted exposure amount	190,056	173,774
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	16.15%	15.05%
Tier 1 ratio (%)	16.15%	15.05%
Total capital ratio (%)	17.65%	17.19%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	0.332%	0.332%
Additional AT1 SREP requirements (%)	0.111%	0.111%
Additional T2 SREP requirements (%)	0.148%	0.148%
Total SREP own funds requirements (%)	8.59%	8.590%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.500%	2.500%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%
Institution specific countercyclical capital buffer (%)	2.000%	1.000%
Systemic risk buffer (%)	0%	0%
Global Systemically Important Institution buffer (%)	0%	0%
Other Systemically Important Institution buffer	0%	0%

Combined buffer requirement (%)	4.500%	3.500%
Overall capital requirements (%)	13.09%	12.09%
CET1 available after meeting the total SREP own funds requirements (%)	11.32%	10.22%
Leverage ratio		
Total exposure measure excluding claims on central banks	318,506	311,813
Leverage ratio excluding claims on central banks (%)	9.64%	8.385%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value -average)	80,628	60,685
Cash outflows - Total weighted value	53,461	45,791
Cash inflows - Total weighted value	13,724	12,126
Total net cash outflows (adjusted value)	39,737	33,665
Liquidity coverage ratio (%)	206.0%	182.2%
Net Stable Funding Ratio		
Total available stable funding	308,698	277,789
Total required stable funding	220,941	204,829
NSFR ratio (%)	139.7%	135.6%

4 Capital Resources Requirement: Pillar 1

The Pillar 1 assessment is the sum of the credit risk capital requirement, the market risk capital requirement and the operational risk capital requirement. The requirement for Charity Bank as at 31st December 2023 is set out in the table below.

Template UK OV1 (Relevant fields only)

	Risk weighted exposure amounts (RWAs), £000		**Total own funds requirements, £000**
	2023	**2022**	**2023**
Credit risk (excluding CCR)	169,233	160,312	13,539
Of which the standardised approach	169,233	160,312	13,539
Operational risk	20,823	13,462	1,666
Of which basic indicator approach	20,823	13,462	1,666
Total	**190,056**	**173,774**	**15,204**

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.

4.1 Pillar 1 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 and so the Standardised and Basic Indicator approaches continue to be used.

4.2 Credit Risk Pillar 1 Requirement

An analysis of credit risk exposures by class and credit risk capital requirements as at 31st December 2023 is set out in the table below.

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

TOTAL ASSETS EXPOSURE AT 31st DECEMBER 2023	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	99,994	-	-	-
EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY	283,850	193,988	161,395	12,912
EXPOSURES SECURED 100% BY CASH COLLATERAL	-	-	-	-
EXPOSURES TO INSTITUTIONS	221	44	44	4
PAST-DUE ITEMS	736	755	755	60
INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT	8,114	1,623	1,623	130
EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK	2,487	3,731	3,731	298
OTHER ITEMS [1]	1,095	1,685	1,685	135
TOTALS	**396,497**	**201,826**	**169,233**	**13,539**

[1] Other Items include tangible fixed assets, prepayments, deferred tax and staff loans.

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.

4.3 Market Risk Pillar 1 Requirement

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 negligible exposure to foreign exchange rate risk as it operates exclusively in sterling (though a very small number of overseas suppliers invoice the Bank in their home currencies); 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.

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

4.4 Operational Risk Pillar 1 Requirement

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 is outlined in the table below.

Template UK OR1

	Relevant indicator £000			Own funds requirements	Risk weighted exposure amount
	Year 3	Year 2	Last year		
Banking activities subject to basic indicator approach	6,291	10,206	16,854	1,666	20,823

5 Capital Resources Requirement: Pillar 2

5.1 Pillar 2A

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, credit risk, interest rate risk, operational risk and climate risk, amongst others.

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

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 mismatches 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 as at 31st December 2023 were a mix of Cash Individual Savings Accounts ('ISAs'), easy access and other savings accounts (fixed and notice). 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 are held in easy access accounts, notice accounts and fixed-term accounts. 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.

As at 31st December 2023, Charity Bank's interest rate risk was within risk appetite limits.

5.2 Pillar 2B

In addition to Pillar 1 and Pillar 2A requirements, Charity Bank is required to hold various capital buffers. These buffers ensure the Bank is adequately capitalised to withstand shocks and stress scenarios whilst maintaining lending to the real economy during such scenarios. The PRA has stated that buffers are available to be used in times of stress. The combined buffers (Capital Conservation and Countercyclical) are detailed in table UK KM1. The Countercyclical buffer increased from 1% to 2% in July 2023.

6 Remuneration Policy

Charity Bank complies with the requirements and guidance of the Financial Conduct Authority (FCA) Remuneration Code (SYSC 19D) and the Prudential Regulatory Authority (PRA) Code on Remuneration Practices and disclosure requirements.

Charity Bank is a small organisation that had 78 staff (70.9 full-time equivalent) at 31st December 2023 and has a simple remuneration structure. Charity Bank has a Remuneration Policy, which was updated and approved by the Governance Committee (GovCo) on March 9th 2023. The next scheduled review is March 2026. The Policy is owned by the Executive Committee, but its content and any amendments are subject to approval by GovCo, which has overall responsibility for remuneration matters delegated to it by the Board. The Committee's role is to consider the Remuneration Policy and its application to all employees, with scrutiny given to the remuneration of Executive Directors. GovCo is chaired by a Non-Executive Director and consists exclusively of other Non-Executive Directors. It meets twice per year, typically in March and October.

The Remuneration Policy applies to all employees and directors of Charity Bank. It does not apply to contractors, consultants or any self-employed individuals working for the Bank.

To support Charity Bank in achieving the aspirations of its mission and values, three key principles are followed when setting the Remuneration Policy:

1. The remuneration approach reflects the Bank's value and expectations of customers and shareholders
2. The approach should allow the Bank to attract and retain talent
3. The policy should be consistent and have clear and transparent decision making

The Remuneration Policy identifies two key elements of remuneration:

1. Base salary: This is the pay received for performing the activities as defined in an employee's role profile. It is based on market rates of pay for the role and reflects skills, knowledge, required performance, and experience. Salaries are benchmarked against those of comparable financial services and social sector organisations, and internally against comparable roles.
2. Pension and other benefits: The Bank aims to provide a competitive pension, as well as other important benefits that promote wellbeing. Eligibility criteria for employees is based on service.

Charity Bank does not operate a share scheme or variable pay structure.

The need for effective financial management of the Bank's total pay bill will inform all our reward policies and approach and does not present a material risk to the Bank's financial stability. The financial performance, social mission and strategy of the Bank is also taken into consideration when reviewing the affordability of the overall salary costs. No Executive Committee Member ("ExCo") or other employee is involved in setting their own remuneration or exercising discretion over judgements that could impact on the decision-making process with respect to their own remuneration.

Remuneration benchmarking

Role profiles are the primary tool for setting salaries for new and existing jobs, using both internal and external comparators.

The Bank participates in and benchmarks annually salaries against the latest salary surveys focused on comparable Financial Services and Social Sector organisations against a median value in line with London and the home counties, as well as nationally. This enables us to evaluate the standard rate paid for similar roles across the market helping us to establish a competitive pay and benefits package.

The financial performance, social mission and strategy of the Bank is also taken into consideration when reviewing the affordability of the overall salary costs.

Fixed pay Policy

Salary reviews are conducted annually in April. The size of the pay award is based on several factors:

- the Bank's ability to fund a pay award and the annual budget process;
- measures of inflation based on the Consumer Price Inflation and House Price Index (CPIH);
- market conditions which impact on employee attraction and retention;
- the relative position of our salaries compared to market rates; and
- making sure that gender and equal pay principles are aligned.

The ratio between the highest and lowest paid member of staff is currently 6.47 times.

Individual Performance

The Bank's online performance management tool details the Bank's organisational objectives, and individual performance and development objectives to enable all employees to identify and achieve the Bank's mission, vision and values through shared goals and regular one-to-one conversations with their managers.

Additional Pay Elements

Depending on the requirements of an employee's role, they may be eligible to receive overtime, time off in lieu, and/or an acting up allowance.

During December 2023 a net payment of £1,000 (pro-rata) was paid to all staff. This was a one-time exceptional payment and is not guaranteed; it is not part of an ongoing bonus or profit-share scheme.

Material Risk Takers (MRT's)

The Bank's MRT's are those with managerial responsibility who have the ability to influence the Bank's overall risk profile. These include:

- Board Members, NED's and Executive Directors
- Chief Executive
- Chief Risk Officer
- Chief Finance Officer
- Director of Credit
- Director of Lending
- Director of Savings and Operations
- Director of Human Resources
- Director of Marketing
- Compliance Manager and MLRO

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.

Template UK REM1 (relevant fields only)

	Non Executive Directors	**Senior Management - ExCo**	**Other senior management - Compliance/MLRO**
Number of identified staff	10	8	1
Total fixed remuneration (£)	0	1,067,000	
Total variable remuneration (£)	0	9,000	
Total Remuneration (£)	**0**	**1,076,000**	

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 material risk takers, or Non-Executive Directors during 2023. No severance payments awarded in previous years were paid out during 2023. No severance payments were awarded during 2023. No deferred remuneration was awarded during 2023 and no member of staff was paid 1 million euros or more.

Template: UK REM5 (relevant fields only)

	Management body remuneration			Business areas			
	MB Supervisory function	**MB Manageme nt function**	**Total MB**	**Retail banking**	**Corporate functions**	**Independent internal control functions**	**Total**
Total number of identified staff	10	9	19	4	3	2	9
Of which: members of the MB		2	2	4	3	2	
Of which: other senior management		7	7				
Of which: other identified staff							
Total remuneration of identified staff			1,076,000	532,000	329,000	215,000	1,076,000
Of which: variable remuneration		9,000	9,000	4,000	3,000	2,000	**9,000**
Of which: fixed remuneration		**1,067,000**	**1,067,000**	**528,000**	**326,000**	**213,000**	**1,067,000**

7 Updates made to this document compared to the 2022 version

Update	Rationale
Tables Updated	
UK KM1 UK OV1 Total Assets Exposure UK OR1 UK REM1 UK REM5	To disclose the most up to date year-end information.
Other	
2.1 – Updated description of some Board Committees	To align wording with updated Risk Management framework documents and reflect more accurately the committee functions.
2.2 – Updated description of 3 lines of defence model	To align with updated wording in Risk management framework.
6 – Added information regarding the one-off payment made to all staff in Dec 2023	Although this was a one off and is not the start of a bonus scheme or other variable pay scheme, it was felt prudent to call this out.

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.

On 5th December 2023 the PRA released PS15/23 which provided feedback to CP4/23 The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms. In this Policy Statement, the PRA confirmed that Small Domestic Deposit Takers (SDDT's) without listed instruments would be excluded from the requirement to disclose a Pillar 3 report. Charity Bank falls into this category of firm; as such, management anticipate this will be the last publicly disclosed Pillar 3 report (unless and until regulatory requirements change).

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

Verification

This Disclosure is unaudited but has been verified internally. The Chief Finance Officer attests that these disclosures have been made in accordance with the requirements detailed in the PRA rule book. 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 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.

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.
BOE	Bank of England
BSC	Big Society Capital (Charity Bank's majority shareholder)
CDFI	Community Development Finance Institution, as accredited by BEIS.
CEO	Chief Executive of Charity Bank.
CGM	Credit Grading Matrix – an internal tool to assess the creditworthiness of borrowers
CITR	The Community Investment Tax Relief scheme administered jointly by BEIS and HM Revenue & Customs.
Common Equity Tier 1 Capital (CET1)	Permanent capital in a form that complies with the criteria set out in Part Two, Title I, Chapter 2 of the CRR. In Charity Bank's case, this consists of its share capital, share premium, and retained profits.
Counterparty Risk	The risk of loss arising from the failure of a financial institution or its failure to meet its obligations.
CRD	Capital Requirements Directive 2013/36/EU of the European Parliament and of the Council dated 26th 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.
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26th June 2013.
Disclosure	This public disclosure document.
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.
ICAAP	Internal Capital Adequacy Assessment Process
ICC	The Internal Credit Committee
IFRS	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board.
ILAAP	Internal Liquidity Adequacy Assessment Process
ISAs	Individual Savings Accounts
IT	Information technology
LCR	Liquidity Coverage Ratio
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.
MLRO	Money Laundering Reporting Officer
NED	Non-Executive Director
NSFR	Net Stable Funding Ratio
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.
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.
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.

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.