Reliance Bank Limited

Pillar 3 Disclosures

As at 31 March 2020

RELIANCE BANK

Giving money meaning

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1 Introduction

Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD) (together referred to as CRD V) implementing the Basel III framework came into force on 27 June 2019 (containing revisions to previously implemented CRD IV regulation). It is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA).

The objective of CRD V is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the wider economy. CRD V also sets out disclosure requirements relevant to banks and building societies under CRR Part Eight. These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review and evaluation process in Pillar 2.

The Pillar 3 disclosures are aimed at promoting market discipline by providing information on risk exposures and the management of those risks. The Bank uses the standardised approach to calculating Pillar 1 capital requirements, using the capital risk weighting percentages set out under CRD V. CRD V requires a concise risk statement approved by the Executive Committee describing the institution's overall risk profile associated with business strategy. The Bank has a low risk appetite. All required disclosures are either included in this document or within the Bank's Report and Accounts.

These disclosures will be updated at least annually.

2 Capital Resources

Reliance Bank Limited has a very simple capital structure and all capital resources qualify as Common Equity Tier 1 capital (CET1). There are no deductions required to capital resources in respect of expected loss amounts as this reflects the audited year-end position.

Capital Resources (£k)	31 March 2020	31 March 2019
Ordinary Share Capital	10,000	9,000
Profit & Loss Account Reserves	1,652	3,143
Deductions in respect of expected loss amounts	Nil	Nil
Total Common Equity Tier 1 Capital	**11,652**	**12,143**

3 Approach to Assessing Adequacy of Internal Capital

Reliance Bank Limited produces an ICAAP (Internal Capital Adequacy Assessment Process) report on an annual basis which represents the Bank's own assessment of its internal capital requirements. This report is approved by the Board of Directors and considers both regulatory capital requirements and an internal assessment of capital requirements.

In terms of calculating regulatory capital requirements, the Bank adopts the standardised approach to credit risk and the basic indicator approach to operational risk. Reliance Bank does not have a trading book and has no equity exposures, commodity exposures, derivatives, or securitisation.

The Bank's approach to calculating its own internal capital requirements has been to take the minimum capital required for credit risk under Pillar 1 as the starting point, assess whether this is sufficient to cover credit risk, and then identify other risks and assess prudent levels of capital to meet them.

The risk assessment is undertaken using a scorecard method to assess the likelihood of occurrence and potential impact. Estimates are further adjusted to take account of (a) the possible margin of error in assessing impact and (b) that in any one year the number of concurrent risks may well exceed the statistical average. Stress testing is an important part of the process in assessing risks and in establishing what would be a suitable Capital Planning Buffer.

Results of risk assessments are collated into a central Risk Register to enable review and challenge by the Bank's Management Team on a regular basis.

In terms of capital planning, the impact on capital adequacy of the Bank's rolling 5-Year Plan is modelled as part of the annual budgeting process.

The Bank's capital adequacy position is reported to the Board on a quarterly basis.

4 Total Capital Requirement

Reliance Bank's Total Capital Requirement (Pillar 1 plus Pillar 2A capital requirements) as at 31 March 2020 was calculated at £7,558k. This compares to the Bank's audited capital position of £11,652k.

In terms of quality of capital, the Prudential Regulation Authority (PRA) requires firms to meet their capital requirement with at least 56% of Common Equity Tier 1 capital and not more than 44% additional Tier 1 capital or 25% Tier 2 capital. All of Reliance Bank's capital is Common Equity Tier 1 capital.

Throughout the year, comfortable headroom against regulatory capital requirements (including Capital Planning Buffer requirements) has been maintained.

5 Credit Risk and Dilution Risk

5.1 Standardised Approach to Credit Risk

As at 31 March 2020, the Bank's risk weighted exposure amounts in accordance with the standardised approach to credit risk were as follows:

Exposure Class	Exposure (£k)	Risk Weighted Exposure (£k)	8% of RWAs (£k)
Central Governments or Central banks	51,769	0	0
Financial Institutions	90,061	28,852	2,308
Corporates (after credit risk mitigation)	0	0	0
Retail	370	161	13
Secured on real estate property	56,072	24,027	1,922
Past due items	37	56	4
Other items	3,667	3,667	293
Particularly High Risk (Development Exposures)	4,337	4,208	337
Total	**206,313**	**60,971**	**4,877**

Exposures under the category ‘Particularly High Risk’ represent loans for the purposes of developing immovable property with the intention of reselling for profit. Whilst these are categorised as High Risk under the Capital Requirements Regulations, the Bank applies its standard prudent lending policies to these exposures and does not view them as high risk.

5.2 Use of External Credit Assessment Institutions

The Bank applies ratings from Fitch Ratings Inc in its calculation of risk weighted exposure amounts, in accordance with the standardised approach to credit risk. It has used Fitch ratings for a number of years and complies with the credit quality assessment scale proposed under the standardised approach.

Fitch ratings are used for exposures to financial institutions and central governments or central banks. There are currently no corporate counterparties which are rated.

As at 31 March 2020, the Bank’s exposure values (including accrued interest) within each credit quality step were as follows:

Exposure Class	**Credit quality step 1** (Fitch Long Term Rating of AAA to AA-)	**Credit quality step 2** (Fitch Long Term Rating of A+ to A-)	**Credit quality step 3** (Fitch Long Term Rating of BBB+ to BBB-)	**Credit quality step 4** (Fitch Long Term Rating of BB+ to BB-)	**Credit quality step 5** (Fitch Long Term Rating of B+ to B-)	**Credit quality step 6** (Fitch Long Term Rating of CCC+ & below)
Central Governments or Central banks	51,769	-	-	-	-	-
Financial Institutions	17,968	72,093	-	-	-	-

5.3 Exposures before credit mitigation

Exposure Class	**Exposure as at 31/3/20 (£k)**	**Avg Exposure in 2019/20 (£k)**
Central Governments or Central banks	51,769	40,711
Financial Institutions	90,061	96,089
Corporates (before credit risk mitigation)	8,694	10,494
Retail	370	741
Secured on real estate property	56,072	51,296
Past due items	37	43
Other items	3,667	3,363
Particularly High Risk (Development Exposures)	4,337	2,365
Total	**215,007**	**205,102**

5.4 Credit risk mitigation

The only credit risk mitigation applied to Reliance Bank's exposures relates to exposures to one single Corporate customer - the Bank's largest depositor.

Whilst the loan is included under set-off arrangements, it is also independently secured by cash, gilts and equities with a total market value of at least 125% of the drawn down facility. This carries a zero-risk weighting for Capital Adequacy purposes.

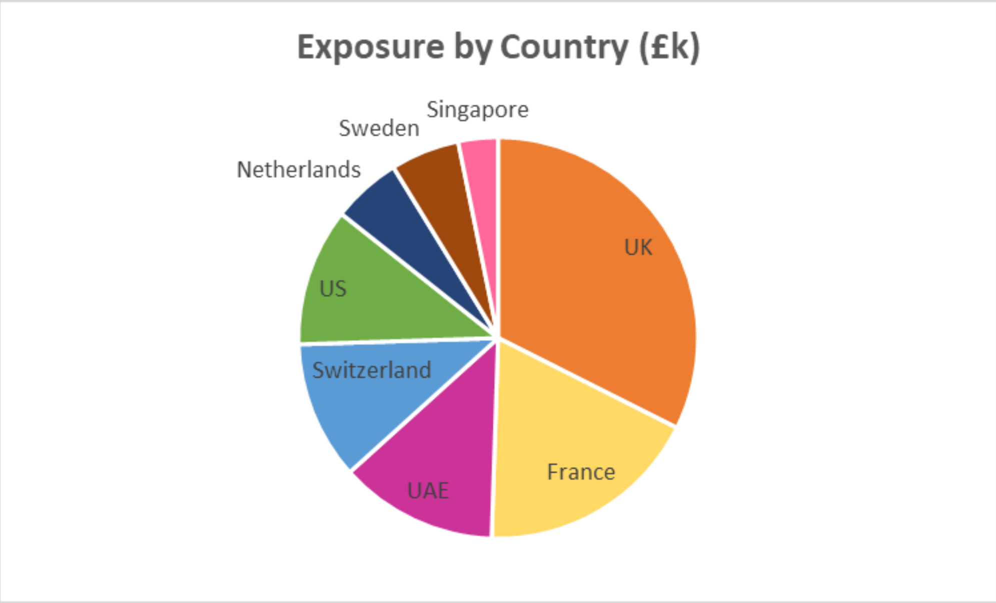
5.5 Geographic distribution of exposures

It is bank policy to restrict exposures, with the exception of exposures to financial institutions, to UK exposures only. There is the potential for there to be exceptions to this as a consequence of existing customers moving overseas. If ever overseas exposures to non-financial institutions were to exceed £10k individually or £50k in aggregate, details will be disclosed in this document.

All Central Government / Central Bank exposures are UK exposures.

<u>Exposures to Financial Institutions by country:</u>

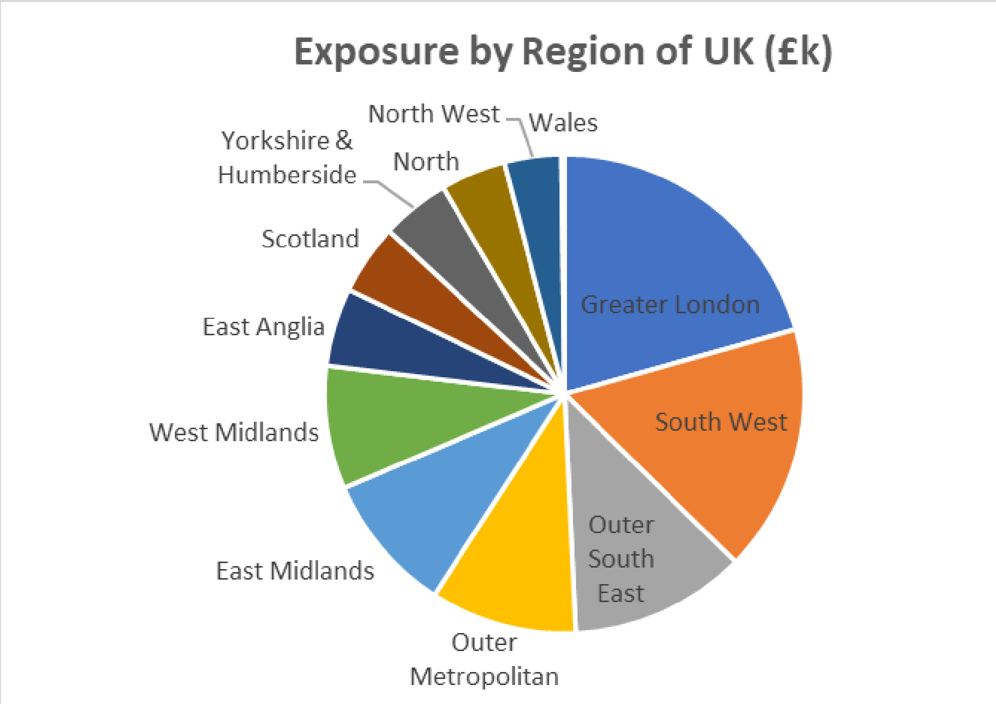
Country	Exposure (£k)
UK	29,169
France	16,337
UAE	11,538
Switzerland	10,045
United States	10,024
Netherlands	5,023
Sweden	5,018
Singapore	2,907
Total	90,061



The Bank's mortgage portfolio is analysed in terms of geographical distribution within the UK.

Mortgage Portfolio – Geographical Distribution:

Region of UK	Exposure (£k)
Greater London	5,090
South West	4,117
Outer South East	2,931
Outer Metropolitan	2,437
East Midlands	2,326
West Midlands	2,049
East Anglia	1,299
Scotland	1,172
Yorks & Humb	1,136
North	1,085
North West	947
Wales	52
Total	24,641



5.6 Exposures by industry sector

Industry Sector	Secured on real estate property (includes Commitments) (£k)	Retail (includes Commitments) (£k)	Total Exposure (£k)
Agriculture	260	-	260
Community Service / Charities	1,284	-	1,284
Construction	851	3	854
Education	1,304	-	1,304
Financial & Professional Services	911	-	911
Manufacturing	1,086	-	1,086
Other Business	-	15	15
Property Investment	8,499	-	8,499
Property Development	5,025	-	5,025
Property Housing Associations	1,921	-	1,921
Recreational	447	34	481
Services	100	34	134
Faith Based (excl Salvation Army)	4,657	-	4,657
Wholesale & Retail	1,085	4	1,089
Total	**27,430**	**90**	**27,520**

5.7 Residual maturity breakdown of exposures

Exposure Class	On demand	< 3 mths	3 mths < 1 yr	1 yr < 2 yrs	2 yrs < 5 yrs	>5 yrs	Total (£k)
Central Governments or Central banks	51,769	-	-	-	-	-	51,769
Financial Institutions	10,338	35,837	43,886	-	-	-	90,061
Corporates (after credit risk mitigation)	-	-	-	-	-	-	-
Retail	297	0	4	9	60	0	370
Secured on real estate property	12,567	9,111	6,734	5,341	4,479	17,840	56,072
Particularly High Risk (Development Exposures)	4,337	-	-	-	-	-	4,337
Total	79,308	44,948	50,624	5,350	4,539	17,840	202,609

This analysis excludes ‘Other items’ of £3,667k, primarily fixed assets, which don’t have a defined maturity. It also excludes ‘Past due items’ of £37k.

5.8 Impaired and past due exposures

Items are treated as past due if they are more than 90 days overdue. Past due items have a higher risk weighting applied when assessing capital requirements.

Impaired loans are loans which it is anticipated may not be recoverable in full (which, in practice, means they become non-performing) unless the Bank considers it has adequate security to cover all balances outstanding plus a margin.

Impairment reviews are undertaken for all financial assets, both on an individual and a collective basis. Reliance Bank makes specific provisions against doubtful receivables when the advance becomes non-performing unless the Bank is satisfied that the value of any security comfortably exceeds its exposure.

An assessment for collective impairment provisions is carried out across the loan books based on probability of default, which is informed by past experience, and the level of exposures which exceed a discounted loan to value position. An additional provision for credit losses has been recognised to reflect the estimated impact of the COVID-19 pandemic. The level of this provision reflects the estimated impact on expected credit losses based upon a revised central economic scenario and takes account of the credit risk associated with support measures provided to borrowers, recognising that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. The collective impairment provision represents the Bank's assessment of incurred but not reported losses.

The Report & Accounts contain disclosures on provisions for doubtful debts in Notes 5, 9(a) and 9(b). All provisions for doubtful debts have been made on UK exposures to personal and business customers.

6 Market Risk (Foreign Currency Position Risk Requirement)

Reliance Bank has very little market risk given that it does not operate a Trading Book. The Bank does, from time to time, have open positions in two foreign currencies – US Dollars and Euros. These open positions are maintained at very low levels and are deemed immaterial under Pillar 1. The capital requirement rounds down to nil as at March 2020.

7 Exposures to interest rate risk in the non-trading book

Interest rate risk in the banking book arises from having a range of different assets and liabilities which have different re-pricing dates. The Bank's business model results in an excess of interest rate sensitive assets over and above interest rate sensitive liabilities due to the fact that there is a proportion of customer current accounts that do not receive interest (albeit interest could be applied to these accounts with due notice) and that capital and reserves are non-interest bearing. Whilst there are no absolute measures to control the effects of interest rate movements, protection is afforded by managing the maturity profile of customer balances and investment holdings and by maintaining margins, wherever possible, as rate changes occur.

The Bank measures Interest rate risk by applying interest rate gap sensitivity analysis which assesses the impact on economic value of both an increase and decrease in interest rates of 200 basis points. Here, discounted cashflows are applied to assets and liabilities according to their re-pricing periods. This economic value analysis is completed on a quarterly basis and is reported each quarter to the Prudential Regulation Authority. Applying a change in interest rates of 200 basis points decreases the discounting applied to future cashflows which results in a fall in economic value of £155k as at 31 March 2020.