Reliance Bank Limited

Pillar 3 Disclosures

As at 31 March 2021

Contents

1 Introduction and background

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. This is evidenced by its simple business model and low risk lending policies, an average LTV across the lending books of 44% (2020: 43%) and very low historical arrears levels. 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 and have been approved by the Audit Risk and Compliance Committee (ARCC) on behalf of the Board. These disclosures are not required to be subject to external audit and do not constitute any part of the Bank's financial statements.

As at 1 April 2020, the Bank adopted the valuation approach allowed under FRS102 for tangible fixed assets in relation to its head office premises. This resulted in a £2.3m increase in reserves which are included within the definition of regulatory capital.

Regulations and developments

Total Loss Absorbing Capital (TLAC) and Minimum Requirement for Eligible Liabilities (MREL) regulations became effective from 1 January 2019. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements also known as the Total Capital Requirement (TCR). The Bank's TCR as at 31 March 2021 is 10.44% (2019: 10.70%). Additional information on the Bank's management of risk and its risk profile is included in the remaining sections of this document, and the Annual Report & Accounts.

The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer which creates a cushion for banks to absorb potential losses in the event of a stress. In response to the COVID19 pandemic, the UK countercyclical capital buffer was reduced from 1% to 0% in March 2020 and subsequent planned increases in December 2020 cancelled. The FPC expected to maintain the 0% for at least 12 months, and also provides 12 months' notice of future changes, so that any subsequent increase would not take effect until March 2022 at the earliest.

Revisions to the Capital Requirements Regulation, referred to as CRR II, were officially journaled by the EU in June 2019. Rules introduced by CRR II follow a phased implementation throughout 2020 and 2021. Significant changes include enhancement to net stable funding ratio (NSFR) requirements and reduced reporting for small and non-complex institutions.

Following the COVID-19 pandemic, a CRR "Quick Fix" package was released in June 2020, escalating the application of key changes that were originally scheduled for June 2021. Key changes impacting the Bank included increased benefits from lending to SMEs.

The UK's membership of the EU came to an end on 31 January 2020. The Withdrawal Agreement which enabled the UK to continue applying EU legislation during the transition period ended on 31 December 2020. The PRA published final statutory instruments containing amendments to the EU's legislation, predominantly to ensure the legislation remains operable in the UK.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The rules are subject to a lengthy transitional period from 2022 to 2027. The amendments include changes to the standardised approaches for credit and operational risks. In response to the COVID-19 pandemic, the Basel Committee announced the deferral of these implementation timelines by one year to 1 January 2023.

The Bank of England has published CP5/21 which looks to implement Basel III standards through a new PRA Capital Requirements Regulation (CRR) rule incorporating a significant number of changes to the PRA's rulebook and reporting templates. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Bank holds or the risk profile of its assets. The final impacts are subject to uncertainty due to future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion.

2 Summary of Key Metrics

The below table provides a summary of the Key Metrics included in this document:

	2021	2020
	£'000s	£'000s
Capital		
Common Equity Tier 1 (CET1) Resources	**11,799**	11,652
Risk Weighted Assets	**71,451**	60,971
Common Equity Tier 1 ratio (%)	**15.45%**	17.74%
Additional CET1 buffer requirements as % of RWA		
Capital conservation buffer requirement (%)	**2.5%**	2.5%
Countercyclical buffer requirement (%)	**0.0%**	0.0%
Basel III Leverage Ratio		
Total Basel III leverage ratio exposure measure	**265,321**	213,916
Basel III leverage ratio (%)	**4.45%**	5.45%
Liquidity Coverage Ratio		
Total HQLA	**81,360**	51,769
Total net cash outflow	**8,200**	7,508
LCR ratio (%)	**986%**	690%

Note - LCR balances figures above are as at 31 March and do not agree to LCR balances included later in the document which report average LCR balances.

3 Capital Resources

As at 31 March 2021 and throughout the financial year, Reliance Bank Limited has complied with the capital requirements in force. The Bank has a very simple capital structure and all capital resources qualify as Common Equity Tier 1 capital (CET1). These figures reflect the audited year-end position.

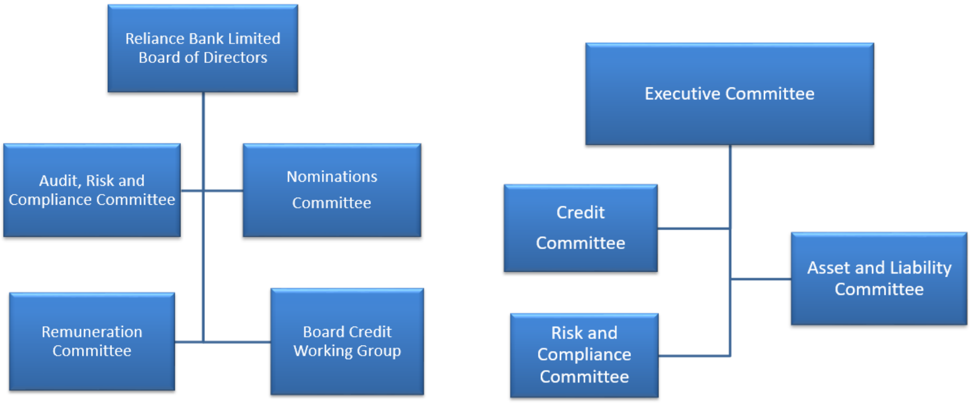
Capital Resources (£k)	**31 March 2021**	**31 March 2020**
Ordinary Share Capital	**10,000**	10,000
Revaluation Reserve	**1,258**	-
Profit & Loss Account Reserves	**934**	1,652
CET1 capital prior to adjustments	**12,192**	11,652
Adjustments made under CRR	**(239)**	-
Total Capital	**11,953**	**11,652**

4 Risk Management Framework

Overview

The Board is responsible for approving the Bank's strategy, its principal markets and the level of acceptable risks articulated through its Risk Appetite Statements. It is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management and that the level of capital held is consistent with the risk profile of the business. Specific Board authority is delegated to Board Committees and the Chief Executive Officer who may, in turn, delegate elements of discretion to appropriate members of Executive, Executive Committees and senior managers.

Committee structure



The Audit Risk & Compliance Committee (ARCC) is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation and management of all *significant risks* across the Bank and determining that all risks are being managed appropriately, in line with its Risk Appetite Statements, and that adequate capital and liquidity is maintained. It also has responsibility for oversight over internal control and risk assessment and receives reports from the Internal Audit function (outsourced). It monitors the integrity of the financial statements and the effectiveness of the external auditors.

The Remuneration Committee is a Board Committee. It determines remuneration and employment strategy and approves the remuneration arrangements of the Directors and senior executives.

The Nomination Committee is a Board Committee. It makes recommendations on the size, structure and membership of the Board and its committees and keeps under review the leadership needs of the Bank, to ensure that there continues to be a good mix of relevant skills and experience.

The Board Credit Working Group has authority to approve loan applications which fall outside of credit policy so that customers can receive decisions in a timely manner; it also reviews and challenges the Credit Policy at least annually. This committee is convened from time to time as required, all decisions (approvals and rejections) are reported to the next Board meeting.

The Executive Committee is a management committee responsible for the day-to-day operations of the business and managing the strategic risks in line with the Board's Risk Appetite Statements. It maintains oversight of risk management processes and management information. It receives business updates including on financial performance.

The Asset and Liability Committee (ALCO) is a management committee and is primarily responsible for managing the market, liquidity and funding risks that affect the Bank. Specific focus includes economic outlook, interest rate risk, liquidity and funding forecasts, capital risk and treasury counterparty credit risk.

The Risk and Compliance Committee (RCC) is a management committee which includes the Bank's second line function, providing requisite assurance to the Executive Committee and the Board. It is responsible for managing and co-ordinating the Bank's risk management and compliance activities to facilitate the identification, evaluation and management of all key business risks, including conduct risk and good customer outcomes.

The Credit Committee (CC) is a management committee which supports the Executive Committee in overseeing the customer credit activities of the Bank. It recommends non-treasury credit policy and risk appetite changes and approves credit underwriting procedures. It receives management information on business performance for lending and reviews non-performing and watchlist cases.

Significant risks

The Bank's risks arise across the following broad categories:

- Credit risk (customer and treasury)
- Conduct risk and regulatory compliance
- Operational risk (including cyber)
- Liquidity and funding risks
- Market risk (including interest rate and exchange rate risks)
- Strategic risks (including reputational risk)
- Pension risk
- Financial risks arising from climate change

These risks are identified, monitored and mitigated through the Bank's risk management framework.

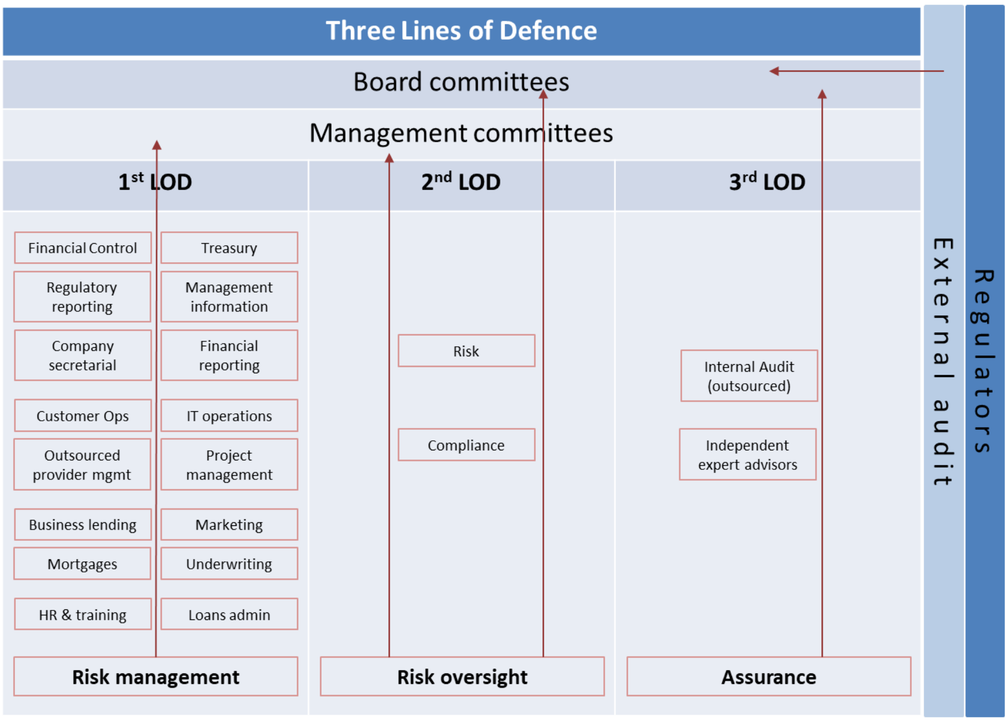
Risk management framework

Governance	Management	Monitoring
Memorandum & Articles of Association	Policies • Credit risks • Financial risks • Operational risks • Conduct risk • Ethics • Financial crime • Cyber • IT security • Complaints • Human Resources • GDPR	Risk Register (including risk and control self-assessments)
Mission, Visions, Values, Board approved strategy		Compliance monitoring plan
Terms of reference • Board • Audit Risk & Compliance Committee • Remuneration Committee • Nominations Committee • Board Credit Working Group • Management committees		Management information to: • ALCO • Credit Committee • Executive Committee • Board committees
Risk Appetite Statements	Procedure manuals	Review of regulatory returns
Regulatory Governance Framework • Senior Managers Regime • Certification Regime • PRA Rulebook, PS and SS • FCA Handbook & guidance • FRC and accounting standards • CRDV and CRR2 (capital regulations) • Basel committee	Plans • Strategic Plan (three-year plan including budget and financial forecasts) • Recovery Plan (including Liquidity Contingency Plan) • Resolution Pack • Incident Management plan • DR and Business Continuity Plan	Liquidity and capital stress testing ICAAP ILAAP

The Bank uses the industry standard "three lines of defence" model whereby risk management is embedded in the business functions and function heads are responsible for owning and managing the risks in their functions. The business is classed as the *first line of defence* which is responsible for identification of risk, designing and operating controls, and producing relevant MI.

The *second line of defence* designs and updates the risk management framework, monitors the functions' adherence to the framework and provides oversight and challenge to the management of risks. Second line comprises the risk and compliance teams who are responsible for developing compliance policies, supporting the delivery of regulatory change and overseeing effective compliance with regulations and legislation. The Compliance Monitoring Plan is a key element of second line, which is overseen by the Audit, Risk and Compliance Committee.

The *third line of defence* is the Internal Audit function which is outsourced to Grant Thornton. Internal audit conduct independent testing of the efficacy of the Bank's business model, controls, policies, processes and regulatory compliance. The third line of defence provides assurance to the Audit, Risk and Compliance Committee that the risk management framework is operating as designed.



In addition to the frameworks set out above, the Bank also has a stress testing framework which analyses idiosyncratic and system-wide shocks in order to identify and understand the potential impact of the risks being assessed. Modelling includes potential options that could be taken to mitigate these events.

The Bank uses these stress tests during its reviews of capital (ICAAP) and liquidity (ILAAP) so that the Board can be satisfied that the Bank has and will continue to have, sufficient resources. Scenario planning and contingency plans are also designed and updated regularly, to ensure that operational stresses can be mitigated wherever possible.

5 Approach to Internally Assessing Adequacy of Capital

Reliance Bank Limited produces an ICAAP (Internal Capital Adequacy Assessment Process) report which represents the Bank's own assessment of its internal capital requirements. This assessment is considered and approved by the Board and includes 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 securitisations.

The Bank's approach to calculating its own internal capital requirements takes the minimum capital required for credit risk under Pillar 1 (8% x risk weighted assets) as the starting point. Using stress testing, HHI analysis for concentration risk and historical trends, the Bank assesses whether this is sufficient to cover all credit risks to the Bank. For Pillar 1 the operational risk capital requirement is calculated using 15% total income averaged over three years.

Pillar 2a capital requirements reflect the difference between the Bank's total risk assessment and the levels of capital already held under Pillar 1, plus any capital add-ons from the supervisory review process by our Regulator, Pillar 2a reflects capital held against risks not fully captured in Pillar 1. Pillar 2b capital requirements consist of buffers which are designed to support the Bank through periods of stress. Minimum buffers are set by the regulators and additional buffers may be held if required by the Bank's risk assessment.

The Bank's internal risk assessment for operational risks (including conduct risk) 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.

Other risks are assessed using historical data, scenario analysis and stress testing, including liquidity and funding, market and climate change risks. Assessing the resiliency of the Bank's business model to withstand severe but plausible economic shocks is also an important part of the process in assessing risks and in establishing what would be a suitable Capital Planning Buffer which informs the Pillar 2b assessment.

Results of ongoing risk and control self-assessments are collated in a central Risk Register and are reviewed and challenged by the Bank's Management and RCC on a regular basis.

In terms of capital planning, capital adequacy is modelled as part of the annual budgeting process and the quarterly reforecast which ensures that the Bank's capital adequacy projections are reported to the Board on a quarterly basis.

6 Total Capital Requirement (TCR)

Reliance Bank's TCR (Pillar 1 plus Pillar 2A capital requirements) as at 31 March 2021 was calculated at £7,974k (2020: £7,558k). This compares to the Bank's audited capital position of £12,192k (2020: £11,652k).

In terms of quality of capital, the Prudential Regulation Authority (PRA) requires firms to meet their TCR with at least 56% of Common Equity Tier 1 capital and not more than 19% Additional Tier 1 capital or 25% Tier 2 capital. All of Reliance Bank's capital resources are currently Common Equity Tier 1 capital.

7 Credit and Credit Concentration Risks

7.1 Standardised Approach to Credit Risk

As at 31 March 2021, the Bank's risk weighted exposure amounts in accordance with the standardised approach to credit risk (after risk mitigation) were as follows:

Exposure Class	Exposure (£k)	Risk Weighted Exposure (£k)	8% of RWAs (£k)
Central Governments or Central banks	73,941	0	0
Financial Institutions	80,133	21,730	1,738
Corporates	0	0	0
Retail	115	62	5
Secured on real estate property	84,300	37,100	2,968
Past due items	162	243	19
Other items	6,194	6,194	496
Particularly High Risk items (Development Loans)	5,392	5,379	430
Total	**257,670**	**71,451**	**5,715**

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 Particularly high risk.

7.2 Use of External Credit Assessment Institutions

The Bank applies ratings from Fitch in its calculation of risk weighted exposure amounts for exposures to financial institutions and central governments or central banks, in accordance with the standardised approach to credit risk.

As at 31 March 2021, 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	73,941	-	-	-	-	-
Financial Institutions – interbank deposits	33,126	47,007	-	-	-	-
Financial Institutions – Covered Bonds	7,433	-	-	-	-	-

7.3 Exposures before credit mitigation

Exposure Class	Exposure as at 31/03/21 (£k)	Average Exposure in 2020/21 (£k)
Central Governments or Central banks	73,941	53,960
Financial Institutions – Interbank deposits	80,133	89,653
Financial Institutions – Covered bonds	7,433	1,858
Corporates (before credit risk mitigation)	8,694	8,694
Retail	115	296
Secured on real estate property	84,300	69,493
Past due items	162	136
Other items	6,194	5,055
Particularly High Risk (Development loans)	5,392	4,994
Total	**266,364**	**234,139**

7.4 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 / or equities with a total market value of at least 125% of the drawn down facility. This exposure carries a zero-risk weighting for Capital Adequacy purposes.

7.5 Geographic distribution of exposures

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

Exposures by Geographical Distribution

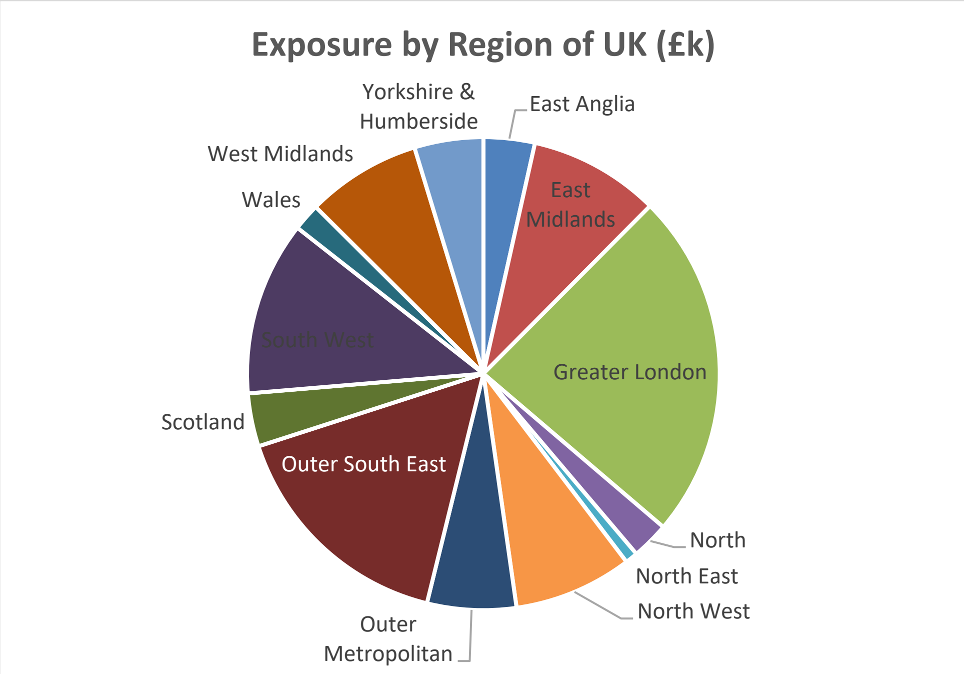
Exposure Type	UK (£k)	EU (£k)	Rest of World (£k)	Total (£k)
Financial Institutions	39,078	29,307	19,180	87,565
Residential Mortgages	38,569	0	0	38,569
Other Exposures incl Secured on Property and Retail	51,400	0	0	51,400
Total	129,047	29,307	19,180	177,534

All exposures to Central Banks are within the UK.

Mortgage Portfolio – Geographical Distribution:

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

Region of UK	Exposure (£k)
East Anglia	1,353
East Midlands	3,452
Greater London	9,169
North	988
North East	331
North West	3,125
Outer Metropolitan	2,349
Outer South East	6,244
Scotland	1,402
South West	4,595
Wales	720
West Midlands	3,023
Yorkshire & Humberside	1,818
Total	38,569



7.6 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	73,941	0	0	0	0	0	73,941
Financial Institutions	27,892	28,231	24,010	0	0	0	80,133
Covered Bonds	0	0	0	0	7,433	0	7,433
Corporates (after credit risk mitigation)	0	0	0	0	0	0	0
Retail	66	0	1	22	26	0	115
Secured on real estate property	4,856	1,154	2,398	196	3,338	72,358	84,300
Particularly High Risk (Development Exposures)	2,162	130	1,728	0	0	1,372	5,392
Total	108,917	29,515	28,137	218	10,797	73,730	251,314

This analysis excludes 'Other items' of £6,194k, primarily fixed assets, which don't have a defined maturity. It also excludes 'Past due items' of £162k.

7.7 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 9(a) and 9(b) & 29. All provisions for doubtful debts have been made on UK exposures to either personal or business customers.

8 Market Risk (Foreign Currency Position Risk Requirement)

Reliance Bank has little exposure to equity or foreign exchange risks given that it does not trade in equities or currencies. 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.

9 Exposure to interest rate risk in the banking book (IRRBB)

IRRBB 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 interest rate sensitive liabilities due to the fact that almost all financial assets are interest bearing but customer current accounts do not receive interest (albeit interest could be applied to these accounts with due notice) and that capital and reserves are also non-interest bearing.

The Bank manages its interest rate risk using a matching of asset and liability approach, 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. The net gap per time bucket is discounted at a market rate to calculate the impact on economic value. This analysis is completed monthly and is reported on a quarterly basis to the Regulator.

The Bank provides capital as part of its Pillar 2a assessment for IRRBB and manages the economic value sensitivity in line with this risk appetite.

10 Remuneration disclosures

The Bank is subject to the PRA Remuneration Code ("The Code") and SYSC section 19D. CRR Part 8 disclosure requirements and disclosures required under the Code are set out below or in the Annual Report and Accounts.

The Board has established a Remuneration Committee which has objectives to determine the Bank's broad policy for remuneration including any bonus schemes, and for the specific remuneration of the Bank's executive directors and members of the Board as appropriate.

The Remuneration Committee comprises four Non-Executive Directors including the Chair of the Board. The membership of the Committee is reviewed by the Nominations Committee on an annual basis. The Board appoint the Committee Chair. The committee members must together possess the necessary skills to exercise appropriate judgement. The committee meets at least annually.

The Bank does not currently have any variable pay elements for any employees. Non-Executive Directors are not remunerated for their services.

At the beginning of each financial year, each individual agrees their objectives with their line manager, based on overall company objectives and individual role specific objectives. Performance towards the achievement of these objectives is reviewed periodically throughout the year as part of the Bank's performance management process. At the end of the year an assessment is made of each individual's overall performance against the objectives agreed. Performance against objectives is one element of consideration for any relevant salary increases.

Staff cost disclosures are included in Note 4 to the Annual Report and Accounts for the Bank as a whole which is considered to be one 'business area' consisting of 39 employees. The Bank considers that the Executive are classified as Material Risk Takers under The Code. Their remuneration disclosures are also included within the Directors' Report of the Annual Report and Accounts.