Reliance Bank Limited

Pillar 3 Disclosures

As at 31 March 2023

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1 Introduction and background

The Basel III framework of the Basel Committee on Banking Supervision (BCBS) was developed to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. The framework is structured around three 'pillars' whereby Pillar 1 represents minimum capital requirements, Pillar 2 the supervisory review process and Pillar 3 market discipline.

The Basel III reforms originally brought in by EU regulations, namely the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), were retained in UK law on its departure from the EU. The Fifth Capital Requirements Directive (CRD V) and Second Capital Requirements Regulation (CRR II), as implemented via the PRA Rulebook, refine and continue to implement Basel III in the UK.

Changes effective from 1 January 2022 include revisions to the leverage ratio, the net stable funding ratio, counterparty credit risk, market risk, exposures to central counterparties, interest rate risk in the banking book, maximum distributable amounts and reporting and disclosure requirements. The PRA has elected to revoke the revised capital treatment of intangible software assets, implemented in the EU during 2020/21 as part of its 'CRR quick fix' package, meaning that all such assets must be fully deducted from capital.

These Pillar 3 disclosures are prepared in accordance with the Disclosure (CRR) Part of the PRA Rulebook which, with effect from 1 January 2022, prescribes the format of disclosures via templates in order to promote transparency, consistency and comparability of information between firms. The disclosures complement the minimum capital requirements in Pillar 1 and the supervisory review and evaluation process in Pillar 2.

The BCBS released 'Basel III: Finalising post-crisis reforms to the Basel III framework' in December 2017. Having been delayed in response to the pandemic, the reforms are now expected to take effect from 1 January 2025. As the reforms include significant revisions to the Standardised approaches for credit and operational risk, they are being closely monitored for internal planning purposes.

Concise risk statement

The regulations require 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 commercial lending book of 38% (2022: 39%) and mortgage book of 54% (2022: 48%) together with very low historical arrears levels. All required disclosures are either included in this document or within the Bank's Annual Report and Accounts, for the year ended 31 March 2023.

These disclosures will be updated annually and have been approved by the Board Audit Committee 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.

Regulatory 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 2023 is 10.21% (2022: 10.42%). 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 rose again to 1% in December 2022. The FPC provides 12 months' notice of future changes, and in July 2022 announced that the buffer would rise to 2% from July 2023. The disclosures below are based as at 31 March 2023 and therefore include a countercyclical buffer of 1%.

2 Summary of Key Metrics

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

	2023	2022
	£'000s	£'000s
Capital		
Common Equity Tier 1 (CET1) Resources	**20,965**	13,952
Risk Weighted Assets	**83,146**	71,782
Common Equity Tier 1 ratio (%)	**23.07%**	18.05%
Additional CET1 buffer requirements as % of RWA		
Capital conservation buffer requirement (%)	**2.5%**	2.5%
Countercyclical buffer requirement (%)	**1.0%**	0.0%
Basel III Leverage Ratio		
Total Basel III leverage ratio exposure measure	**267,687**	274,521
Basel III leverage ratio (%)	**7.90%**	5.08%
Liquidity Coverage Ratio		
Total HQLA	**108,155**	115,575
Total net cash outflow	**33,781**	18,809
LCR ratio (%)	**315%**	605%

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 2023 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. During the year, the shareholders subscribed for an additional £7 million ordinary share capital.

Capital Resources (£k)	**31 March 2023**	31 March 2022
Ordinary Share Capital	20,000	13,000
Revaluation Reserve	812	1,132
Profit & Loss Account Reserves	438	311
CET1 capital prior to adjustments	**21,250**	14,443
Adjustments made under CRR	(32)	(306)
Total Capital	**21,218**	14,137

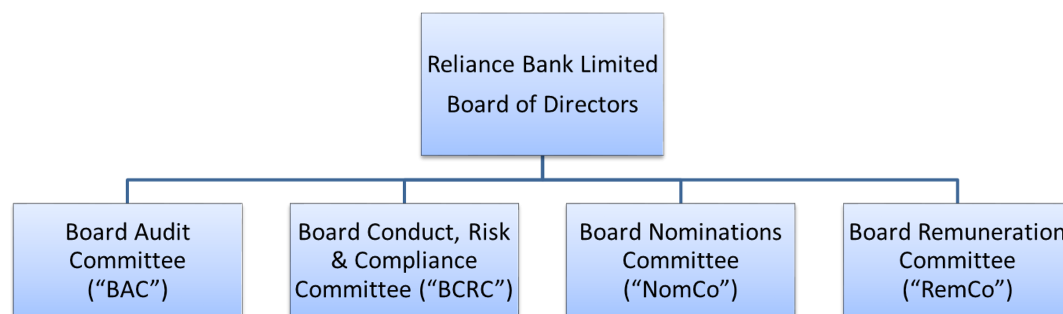
4 Risk Management Framework

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 Committee structure was enhanced from 1 April 2022 and these disclosures represent the structure as at the date of approving this document.

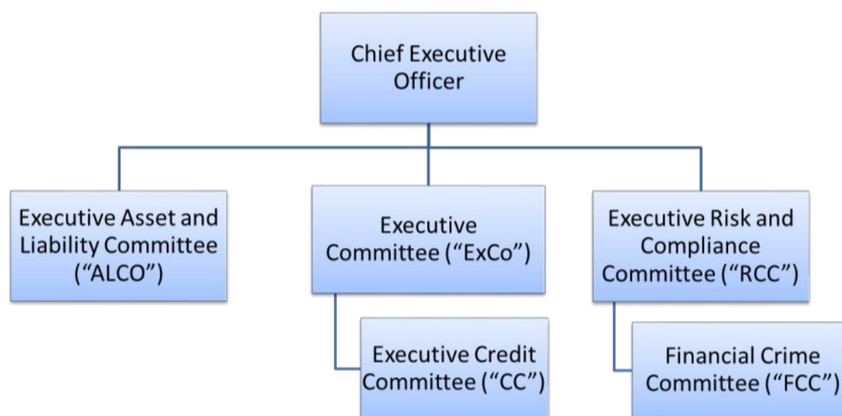


The Board Conduct, Risk & Compliance Committee (BCRC) is a Board Committee. It supports the Board by monitoring the ongoing process of identification, evaluation and management of all *significant risks* across the Bank and determining that all risks are being managed appropriately, in line with its 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).

The Board Audit Committee oversees the integrity of the Bank's external reporting, including the Pillar 3 document, regulatory reporting and the financial statements. It also reviews 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 design and structure of remuneration policy, including the decision-making processes, have been disclosed in Appendix 1.

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 Asset and Liability Committee is a management committee and is primarily responsible for managing the market, liquidity and funding risks that affect the Bank. Specific focus includes reviewing the economic outlook, monitoring: interest rate risk, liquidity and funding forecasts, capital risk and treasury counterparty credit risk, and driving the annual reviews of the ILAAP, ICAAP and Recovery Plan documents.

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 Credit Committee is a management committee which supports the Executive Committee in overseeing the customer credit activities of the Bank. It approves lending facilities, 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.

The Risk and Compliance Committee is a management committee which includes the Bank's second line function, providing requisite assurance to the Board Conduct, Risk and Compliance Committee. 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 consumer duty, conduct risk and good customer outcomes, under PS22/9. It monitors a list of outstanding actions from internal and external audits and ensures suitable progress is being made against the plan.

The Financial Crime Committee supports the Executive Risk and Compliance Committee by reviewing the risk-based monitoring programme to ensure that the Bank's Financial Crime policies are adhered to that financial crime controls remain effective. It reviews relevant policies and procedures annually to ensure the Bank keeps up to date with changes in legislation, and that the Bank operates within the applicable regulatory and legal frameworks.

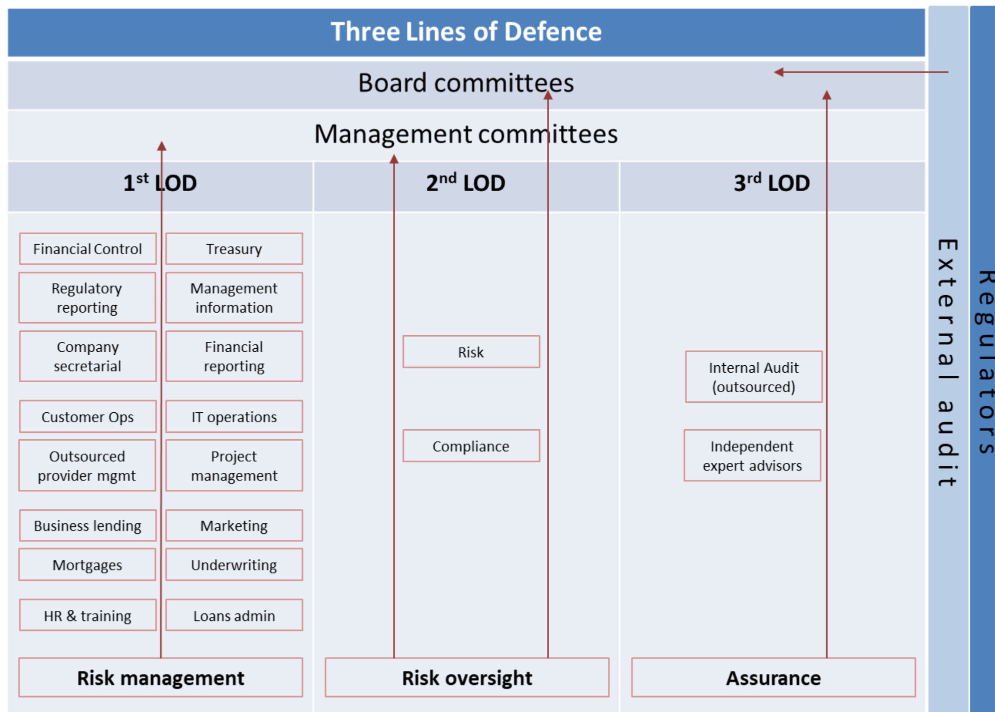
Significant risks

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.

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 Board Conduct, 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 Board Conduct, 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 also includes potential actions 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 annually 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 for credit, operational and market risks, and the levels of capital already held under Pillar 1. Pillar 2a reflects capital held against risks not fully captured in Pillar 1, offset by any over-conservatism in Pillar 1 from using the standardised approach to credit risk, plus any capital add-ons from the supervisory review process by our Regulator.

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 the Bank's risk assessment identifies such a need.

The Bank's internal risk assessment for operational risks (including conduct risk) is undertaken using a scorecard methodology 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 Executive Risk and Compliance Committee and BCRC on a regular basis.

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

6 Total Capital Requirement (TCR)

Reliance Bank's TCR (Pillar 1 plus Pillar 2A capital requirements) as at 31 March 2023 was calculated at £9,280k (2022: £8,057k). This compares to the Bank's audited capital position of £21,250k (2022: £14,443k).

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 more than 25% Tier 2 capital. All of Reliance Bank's capital resources are currently Common Equity Tier 1 capital.

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7 Credit and Credit Concentration Risks

7.1 Standardised Approach to Credit Risk

As at 31 March 2023, 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	83,262	0	0
Financial Institutions	27,048	6,693	535
Covered Bonds	18,245	1,824	146
Corporates	0	0	0
Retail	32	20	2
Secured on real estate property	120,113	62.925	5,034
Past due items	1,751	2,627	210
Other items	5,736	5,736	459
Particularly High Risk items (Development Loans)	3,799	3,321	266
Total	**259,986**	**83,146**	**6,652**

Exposures under the category 'Particularly High Risk' represent loans for the purposes of developing immovable property with the intention of reselling for profit. These are categorised as High Risk under the Capital Requirements Regulations.

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 2023, 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	83,262	-	-	-	-	-
Financial Institutions	9,764	17,284	-	-	-	-
Covered Bonds	18,245	-	-	-	-	-

7.3 Exposures before credit mitigation

Exposure Class	Exposure as at 31/03/2023 (£k)	Average Exposure in 2022/23 (£k)
Central Governments or Central banks	83,262	57,659
Financial Institutions	27,048	32,182
Covered bonds	18,245	21,524
Corporates (before credit risk mitigation)	-	-
Retail	32	45
Secured on real estate property	120,113	120,749
Past due items	1,751	1,383
Other items	5,736	6,087
Particularly High Risk (Development loans)	3,799	3,424
Total	**259,986**	**243,053**

7.4 Credit risk mitigation

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

Whilst any exposures can be included under set-off arrangements, some are also independently secured by cash and therefore treated as a net nil exposure for Capital Adequacy purposes.

7.5 Geographic distribution of exposures

It is bank policy to restrict concentration of exposures, with the exception of exposures to financial institutions, to domestic exposures only. There is the potential for exceptions to this as a consequence of existing personal customers moving overseas before a loan was fully repaid. If 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

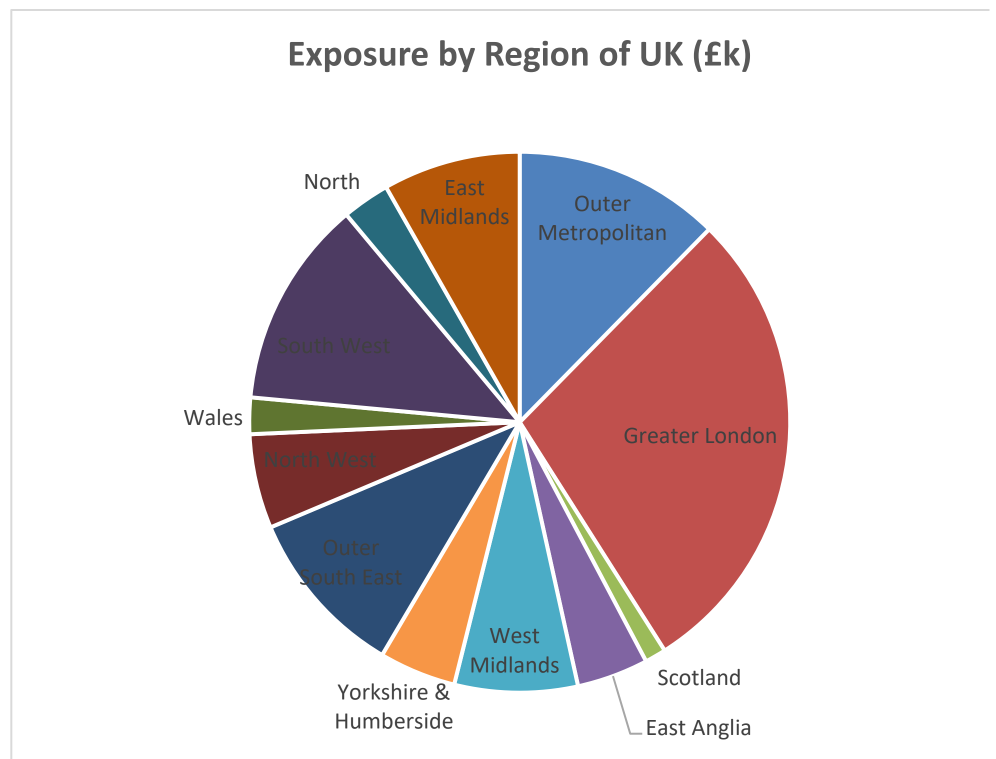
Exposure Type	UK (£k)	EU (£k)	Rest of World (£k)	Total (£k)
Financial Institutions	6,920	13,391	6,737	27,048
Covered Bonds	18,245	0	0	18,245
Residential Mortgages	61,979	0	0	61,979
Other Exposures incl Secured on Property and Retail	61,965	0	0	61,965
Total	149,109	13,391	6,737	169,237

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)
Outer Metropolitan	7,658
Greater London	17,750
Scotland	784
East Anglia	2,649
West Midlands	4,563
Yorkshire & Humberside	2,850
Outer South East	6,290
North West	3,499
Wales	1,351
South West	7,720
North	1,766
East Midlands	5,099
Total	61,979



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	83,262	0	0	0	0	0	83,262
Financial Institutions	11,302	11,470	4,276	0	0	0	27,048
Covered Bonds	0	0	5,276	12,969	0	0	18,245
Corporates (after credit risk mitigation)	0	0	0	0	0	0	0
Retail	16	0	3	0	13	0	32
Secured on real estate property	2,439	832	7,212	1,213	27,316	81,101	120,113
Particularly High Risk (Development Exposures)	-	2,663	1,136	-	-	-	3,799
Total	97,019	14,965	17,903	14,182	27,329	81,101	252,499

This analysis excludes 'Other items' of £5,736k, primarily fixed assets, which don't have a defined maturity. It also excludes 'Past due items' of £1,751k.

7.7 Impaired and past due exposures

Credit exposures are treated as non-performing for regulatory purposes if they are more than 90 days past due and have a higher risk weighting applied when assessing capital requirements. Impaired loans are those which it is anticipated may not be recoverable in full 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. The 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 general 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 at the year end, to reflect management's estimate of the impact of the economic environment cognisant of the current cost of living increases and other factors not captured in the underlying model. 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. The general impairment provision represents the Bank's assessment of incurred but not reported losses.

The financial statements 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, hold positions in two foreign currencies – US Dollars and Euros. The net positions are maintained at very low levels, disclosed in note 29 to the financial statements and are immaterial under Pillar 1.

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

IRRBB arises from having a range of non-interest bearing and interest-bearing assets and liabilities which have different re-pricing dates. The Bank's business model results in more interest rate sensitive assets than interest rate sensitive liabilities due to the fact that almost all financial assets are interest bearing but customer current accounts do not receive interest and capital and reserves are also non-interest bearing.

The Bank manages its interest rate risk using a matching of assets and liabilities approach; protection is also afforded by managing the maturity profile of customer balances and investment holdings and by managing margins, 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 a forward interest curve of 200 basis points. The net asset or liability per time bucket is discounted to calculate the impact on economic value. A similar approach is used to analyse the earnings impact for a 2% shock increase and decrease over 12 months.

The Bank also assesses its IRRBB exposure using other scenarios to capture non-parallel gap risk. The Bank has assessed these and does not meet the outlier test for a change in economic value greater than 15% of capital. The Bank provides capital as part of its Pillar 2a assessment for IRRBB and manages the economic value sensitivity in line with its risk appetite.

Appendix 1: Remuneration Disclosures

The Bank is subject to the PRA Remuneration Code (“The Code”) and SYSC section 19D. 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 reviews Executive objectives and annually considers performance against such objectives when considering executive remuneration. The Remuneration Committee also considers external benchmarking when arriving at remuneration decisions. The Committee also determines 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 twice 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 the performance 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, moderated to ensure consistency of application. 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 47 (2022: 41) 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.