R. Raphael & Sons plc

Pillar 3 disclosure document
28 February 2017

Contents

1. Introduction

This document constitutes the Pillar 3 disclosures of R. Raphael & Sons plc ('the Bank') as required under the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive (together referred to as CRD IV). The purpose of this document is to provide information and disclosure to the Bank's depositors and other stakeholders, in relation to the internal procedures and policies adopted by the Bank to manage and mitigate its key risks. As such, it includes details of:

- The approach to risk management, its policies and objectives;
- The governance structure of the Bank, including Board and committees;
- Asset information and capital resources; and
- Compliance with the EU CRR.

Disclosures are presented as at 28 February 2017.

2. Overview of the Basel III framework

The Basel III framework is a means of regulating banks, building societies and related institutions across Europe. The updated Capital Requirements Regulation ('CRR') and the Capital Requirements Directive, known as CRD IV, came into force in the European Union on 1 January 2014.

CRD IV is split into 3 parts, known as Pillars:

- **Pillar 1 - Minimum capital requirements:** defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2 - Supervisory review process:** includes a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP represents the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the Bank that are not adequately covered by the minimum regulatory capital requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process and is used to determine the overall capital resources required by the Bank.
- **Pillar 3 - Disclosure:** requires institutions to publish information on their principal risks, capital structure and risk management to provide more transparency to market participants. The Pillar 3 disclosure requirements are set out in part VIII of the CRR component of CRD IV.

3. Scope

3.1 Application

Under **Pillar 1** the Bank has followed the Standardised Approach when calculating its minimum capital requirements. This uses prescribed formulae for calculating the amount of capital to be held in respect of credit, operational and market risks.

As required by **Pillar 2**, the Bank's Board has performed a detailed assessment of the risks facing the Bank and has calculated the amount of capital that it considers necessary to cover these risks. This includes detailed stress tests of risks and financial forecasts to determine whether additional capital is required to mitigate these risks, including in a severe economic downturn.

The process of determining the total capital requirements is called the ICAAP and this is reviewed by the PRA through a Supervisory Review and Evaluation Process. Additional information is presented in section 7.

This document sets out the **Pillar 3** regulatory disclosure requirements. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes. There are no differences between the basis of consolidation for accounting and regulatory purposes.

3.2 Basis of preparation

The Bank's accounting policies are in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and as adopted by the European Union.

3.3 Frequency, media and location

The Bank's policy is to publish the Pillar 3 disclosures on an annual basis in conjunction with the annual financial statements. The Pillar 3 disclosures are published on the Bank's website at: www.raphaelsbank.com.

3.4 Verification

The Bank's Pillar 3 disclosures have been reviewed and approved by the Board of Directors. The Board considers that, as at 28 February 2017, it has in place adequate systems and controls with regard to the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined limits for risk exposure throughout the year for credit, operational and prudential risks.

The Pillar 3 disclosures are subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Bank's Annual Report. The information contained in this document therefore has not been reviewed by the Bank's external auditors, except to the extent where equivalent disclosures are included in the annual financial statements.

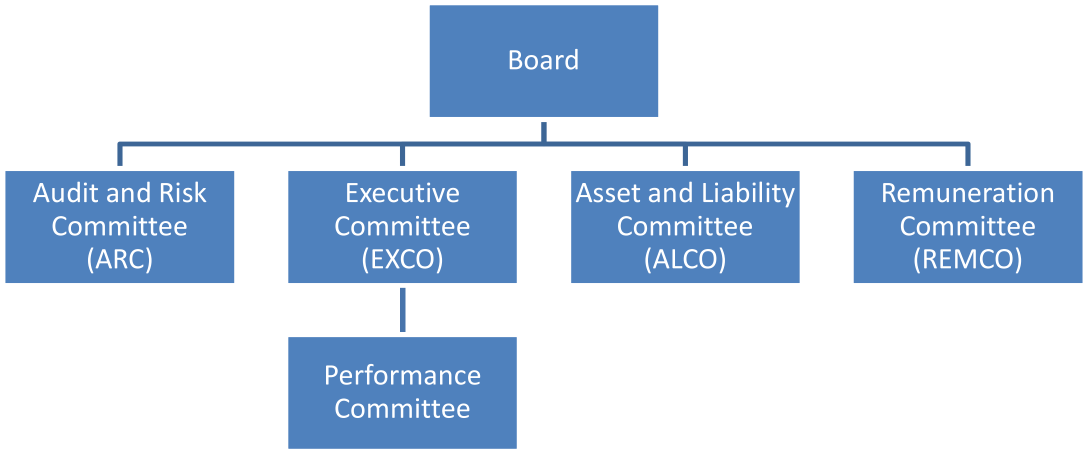
The disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Bank.

4. Board and committee structure

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks ultimately rests with the Board of Directors. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework. The Board meets at least ten times a year and comprises four executive Directors and four non-executive Directors.

The Board has delegated a range of activities to each of the Audit and Risk committee ('ARC'), the Executive committee ('EXCO'), the Asset and Liability committee ('ALCO'), the Remuneration Committee ('REMCO') and the performance committee. The Board and each of the committees have their own Terms of Reference, which are reviewed and, if necessary, updated at least annually.

The committee structure is illustrated below.



4.1 Audit and Risk committee

The committee's duties include, among other things:

- Reviewing the effectiveness of the Bank's policies and procedures for the identification, assessment and reporting of risks;
- Setting the terms of reference and activities of the internal audit function;
- Reviewing the relationship with the external auditors; and
- Reviewing consistency of accounting policies from year to year and across the Bank.

The committee is made up of three non-executive directors. Permanent invitees to each meeting of the committee are the Bank's Chairman, the executive directors and the head of internal audit. Periodically members of the central compliance team and other members of staff will be invited to attend meetings. The committee also has private meetings with both internal and external audit without the Bank's executive management being present. The ARC had 5 meetings during the financial year under review.

4.2 Executive committee

The Bank's EXCO is chaired by the CEO. Its members comprise the executive directors, and the heads of each division as well as key support function heads. The committee meets at least 10 times per annum and its responsibilities include agreeing budgets, oversight of outsourcing and considering proposals for introducing new products for the Bank to offer to clients.

4.3 Performance committee

The performance committee comprises the executive directors. It meets quarterly and its primary role is to undertake detailed analysis of each of the Bank's operating divisions including looking at actual performance against budget, the adequacy of the resources available to each division and the likely future performance taking in to account all relevant external and internal factors.

4.4 Asset and Liability committee

The ALCO acts as a sub-committee of the Board and is primarily responsible for the day-to-day management of the Bank's liquidity and for ensuring that it operates within capital adequacy limits established by the Board.

The ALCO s made up of the executive directors and meets on a monthly basis.

4.5 Remuneration committee

The remuneration committee is appointed by the Board. It reviews and sets the remuneration for all Bank staff. It comprises the Bank Chairman, the Chairman of the ARC and the CEO.

5. Risk management objectives and policies

The Bank operates in an environment that exposes it to a wide range of risks, and employs an Enterprise Risk Management Framework ('ERMF') to identify the types and quantum of risks to which it is prepared to be exposed, and to determine how those risks are to be mitigated and managed. Some of the key elements of the Bank's ERMF are:

- The use of risk appetite and tolerance statements throughout the business;
- The use of risk registers to identify key risks and ensure they are actively monitored and managed;
- The maintenance of up to date policies and procedures, including fully tested business continuity plans; and
- The delegation to various committees of the oversight of how well the Bank manages risk. The main committees in this respect are the ARC, the EXCO and the ALCO.

Ultimate responsibility for the overall framework and the risk management strategy resides with the Board. All aspects of the ERMF are reviewed, amended (where appropriate) and approved at least annually by the Board to ensure they remain in line with best practice and are consistent with the Bank's strategic objectives. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The ARC is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the ERMF in relation to the risks faced by the Bank. The committee is assisted in these functions by the Bank's three lines of governance model under which assurance is provided by the risk and compliance functions (the second line) and by internal audit (the third line), which undertakes both regular and ad-hoc reviews of risk management controls and procedures and reports directly to the committee on the results of such reviews.

5.1 Principal risks and uncertainties

The principal business and financial risks to which the Bank is exposed to are credit, operational, conduct, liquidity, interest rate, foreign exchange, and regulatory risk. An outline of the Bank's exposure to these risks, its policies and processes for measuring and managing risk and its management of capital is set out in the sections that follow.

5.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet their contractual obligations. This arises primarily from the Bank's retail lending activities but also as a result of the Bank's investments and transactions as part of its Payment Services' operations. The Board delegates day-to-day responsibility for the management of credit risk to the ALCO and EXCO.

5.2.1 Retail lending

The Lending division operates two models. The first is underwriting and servicing loans introduced mostly by intermediary brokers while the second involves working through third party companies that originate and service loans in various niche markets. In the first model, the Bank remains active in the provision of hire purchase facilities for motor vehicles, together with the more niche market of wheelchair adapted vehicles. This also includes asset finance transactions for SMEs. The Bank minimises its exposure to credit losses on its hire purchase lending facilities by:

- Applying strict lending criteria when testing the credit quality and covenant of the borrower;
- Maintaining consistent and conservative loan to value ratios;
- Lending on a predominantly secured basis;
- Maintaining rigorous and timely collections and arrears management processes; and
- Operating strong control and governance within the lending business.

In the second model, the Bank works in conjunction with lending partners whereby funding is provided by the Bank with the loans being administered by respective partner firms. These loans are generally short to medium term in nature and include sport season ticket loans, student support loans, medical loans, personal loans, funding to professional firms and vehicle finance. The majority of these loans are to individuals, and to a much lesser extent, SMEs. All these advances are written on the Bank's own paper and ultimately the associated credit risk rests with the Bank. However, the Bank has an arrangement with the lending partners, whereby each partner will buy back outstanding balances on loans they have introduced when the account has reached a certain level of delinquency. The level of delinquencies at which buy backs occurs varies from partner to partner, but falls within the range of 90-120 days. In the event of any failure of these third parties, the Bank would take over administration of the loans directly.

5.2.2 Loans and advances to banks, debt securities and derivatives held for risk management

The Bank works through a number of partners (programme managers) in bringing niche payment solutions to the European market. The programme manager typically markets the product, determines the customer proposition and services the customer base, whilst the Bank uses its scheme memberships to issue the cards, provide regulatory oversight, hold cardholder funds and settle and reconcile scheme payments. The prepaid card balances from these initiatives are held either in the form of demand deposits with major banks, in government or supranational securities, or in money market funds.

The process for the selection of counterparties and the approval of limits is governed primarily by the Bank's large exposure policy and its liquidity policy, both of which are reviewed and approved annually by the Board. The ALCO is responsible for approving counterparties for investment purposes and counterparties with which the Bank may enter into derivative contracts as hedging tools for interest rate risk and/or foreign exchange risk. Limits are placed on the amount of risk accepted in relation to one counterparty or group of counterparties. Exposure is monitored daily.

No transactions can be undertaken with counterparties which do not have a pre-approved limit. In order to qualify as an acceptable counterparty, a financial institution must have a minimum Tier 1 capital of £500 million (or equivalent in currency). Institutions (and all Sovereign risks) must also have a short term prime rating from one or more of the rating agencies. Other unrated counterparties may be added if specific approval is granted by ALCO. The maximum exposure to any individual counterparty or connected group of counterparties is limited to the Bank's total capital.

The ALCO reviews counterparty limits quarterly and recommends changes to such limits as necessary based on ratings assigned by the major credit rating agencies and any other market intelligence available. At least annually, the ARC also reviews and approves all counterparty limits.

5.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events arising from day-to-day operating activities.

The Bank seeks to mitigate this risk through a variety of measures including maintaining up-to-date policies and procedures for all key internal processes, ensuring its staff receive ongoing training, investing in appropriate systems, having documented and tested business continuity plans and, wherever possible, ensuring that it has a diversified spread of counterparties, business partners and suppliers. A key aspect of operational risk is the Bank's use of outsource service providers. Each of the Bank's operating divisions and support functions have processes and procedures by which they monitor and review outsourced third parties' activity and performance. The adequacy of these processes and procedures is regularly reviewed by the Bank's compliance, risk and internal audit functions. During the year, the Bank has undergone a project to review, refine and improve the governance and operational processes surrounding these outsourced relationships. The EXCO is the Bank's principal forum for monitoring operational risk, which it does through a variety of means including the use of risk registers, operational loss databases, control self-assessments and regular reviews of operational divisions and functional areas by Compliance and Internal Audit.

5.4 Conduct risk

The Bank defines conduct risk as "The risk that through action or inaction by the Bank, or by its employees or suppliers:

- one or more of its products and/or services fails to deliver consistently good outcomes for its customers, or
- it breaches a regulatory rule or guideline, impacts market integrity or competition, or
- it breaches a law."

The conduct risk governance framework mirrors other aspects of the Bank's ERMF and is actively managed at all levels within the Bank through training, the establishment of risk appetite and tolerances and the use of appropriate Key Risk Indicators ('KRI') and other management information.

5.5 Liquidity risk

Liquidity risk is the risk that the Bank either does not have available cash or cannot obtain sufficient financial resources to enable it to meet its obligations as they fall due, or only secure such resources at an excessive cost.

The Bank's policy is to maintain liquid assets at all times 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 in the normal course of business. The Bank also maintains a contingency funding plan to ensure that it has so far as is reasonably possible, sufficient liquid resources to meet liabilities as they fall due under a range of severe but plausible stressed scenarios.

The liquidity policy details liquidity risk limits set by the Board and day-to-day responsibility for ensuring these are adhered to rests with the ALCO. The Bank completes an Individual Liquidity Adequacy Assessment Process ('ILAAP') to assess its compliance with the liquidity systems and control requirements as detailed in the PRA rulebook.

An important factor supporting the ability of the Bank to raise retail deposits is that all such deposits are covered up to the statutory limit by the Financial Services Compensation Scheme ('FSCS'). Any change to the FSCS could in theory have an impact on the Bank's deposit-raising activities and hence on its liquidity.

5.6 Interest rate risk

Interest rate risk is the risk of reductions in income arising from unfavourable movements in interest rates.

The Bank is exposed to interest rate risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and potential divergence in the historical relationship between the interest rates applied to different balance sheet items (this last risk is commonly referred to as basis risk).

Interest rate risk is managed to ensure that it is at all times within the Board approved risk appetite. Each week the ALCO receives and considers a range of MI based on a full interest rate gap analysis for the balance sheet. This includes updated weekly stress testing to consider the impact on the Bank of a two percentage point rise in interest rates as well as a review of basis risk.

5.7 Foreign exchange risk

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Bank manages foreign exchange risk to ensure that it is at all times within the Board-approved risk appetite.

Traditionally the principal area of the Bank's business where foreign exchange risk arises is within the ATM division. This is because Euro and US Dollar notes are held in ATMs prior to them being dispensed and that for certain transactions the Bank receives settlement in a different currency to that of the original transaction.

At the reporting date the Bank is also exposed to significant foreign exchange risk on its Visa Inc. shareholding, which is denominated in US Dollar and resulted in a large net US Dollar position at 28 February 2017. The Bank also has a deferred cash receivable denominated in Euro, which originated from the sale of Visa Europe to Visa Inc. in June 2016. These positions were unhedged at the reporting date.

While a large proportion of Payment Services' cardholder liabilities are in currencies other than Sterling, the corresponding bank balance or investment in debt securities is held in the same currency. This provides for a matched position and is the key means by which foreign exchange risk within this division is mitigated.

5.8 Regulatory risk

Regulatory risk is the risk that the Bank does not adhere to the changing regulatory environment in which it operates thereby threatening the achievement of the firm's goals and objectives, possibly damaging its reputation and, in extreme cases, giving rise to it being censured or fined by a regulator.

The Bank seeks to mitigate such risks by ensuring there is a suitable level of expertise within each of its operating divisions which is then supported by a strong central compliance team and the use of risk-based compliance monitoring plans to monitor and ensure the Bank's ongoing adherence to relevant laws and regulations. Finally and reflecting the three lines of defence model employed by the Bank, at least annually, Internal Audit also undertakes a review of the Bank's overall management of regulatory risk.

6. Key metrics

A summary of the key metrics as at 28 February 2017 is provided below.

Table 1: Key metrics

	2017
Available capital	**£'000**
Common Equity Tier 1	41,974
Tier 1	41,974
Total capital	42,348
Risk-weighted assets	**£'000**
Total risk-weighted assets	189,824
Risk-based capital ratios	**%**
Common Equity Tier 1 ratio	22.1%
Tier 1 ratio	22.1%
Total capital ratio	22.3%
Basel III leverage ratio	**£'000 / %**
Total Basel III leverage ratio exposure measure	432,477
Basel III leverage ratio	9.7%

7. Capital resources

The capital resources of the Bank are calculated in accordance with Part ii of the CRR.

Table 2: Reconciliation of capital resources

	2017 **£'000**
Share capital	13,600
Share premium	900
Retained earnings	31,462
Available for sale reserve	1,613
Total balance sheet equity	47,575
Deductions:	
Investments in financial sector entities	(4,701)
Intangible assets	(832)
Prudent valuation adjustment	(68)
Total tier 1 capital	41,974
General credit risk provision	374
Total tier 2 capital	374
Total regulatory capital resources	42,348

The following regulatory adjustments are required against the Bank's tier 1 capital:

- Capital from non-significant equity investments in financial sector entities is restricted to 10% of Tier 1 capital;
- Computer software is capitalised as intangible assets, which is required to be deducted from capital; and
- A 0.1% prudent valuation adjustment ('PVA') is required on assets measured at fair value.

7.1 Adequacy of capital

The Bank is required to maintain capital resources above the minimum required by the PRA, together with a further internal buffer. In order to do this, the Bank needs to generate sufficient levels of profits that will be retained and added to reserves.

7.2 Capital adequacy assessment process

The Bank periodically undertakes an Internal Capital Adequacy Assessment Process ('ICAAP') which is reviewed and adopted by the Board. The primary objective of the ICAAP is to evidence that the Bank's capital resources are sufficient to enable it to achieve its strategic objectives under normal market conditions but also that it has sufficient capital to survive periods of stress.

The ICAAP process involves reviewing all risks to which the Bank is exposed or potentially could be exposed and making an assessment of the capital required to mitigate the potential impact of those risks down to a level that is consistent with the Board-approved risk appetite and in accordance with regulatory requirements. An integral part of the process is to subject the Bank's base case forecasts for the next five years to a range of stresses. Such stresses will consider events that might be only specific to the Bank, events that have a more market-wide impact and a combination of both types of events. Stress testing also includes combining several individual tests together to create extreme but plausible adverse scenarios that could impact the Bank. The final part of the process is to identify what management actions might be possible to mitigate any impact on the Bank, and the time it might take to return to more normal operating conditions.

To help assess the ongoing adequacy of capital, the Bank has established an overall appetite for each of the main risks to which it is exposed and established tolerances for each such risk, within which the Bank is expected to operate. Furthermore each operating division of the Bank has its own more detailed risk tolerances that are consistent with those established for the Bank overall. The use of divisional tolerances is one of the important means by which risk is controlled throughout the Bank. The Bank's performance against these tolerances is monitored regularly at divisional level and reviewed at least monthly by the EXCO and the Board.

7.3 Leverage Ratio

The leverage ratio is defined as the ratio between the Tier 1 capital and the total on and off balance sheet exposure, without taking into account any risk weighting. Its objective is to reduce the risk of excessive leverage.

Given the nature of the Bank's balance sheet, it is considered that the risk of material unexpected movements in the leverage exposure measure is limited. However, the Bank undertakes regular stress tests, which assess the sensitivity of the leverage ratio to stress conditions relative to risk-based capital metrics.

Tables 3 - 5 present the disclosures of the leverage ratio for the Bank as at 28 February 2017, based on the requirement in Part Eight of the CRR and in the related Implementing Technical Standards issued by the EBA in June 2014. Any blank lines have been removed from these disclosures.

Table 3: Leverage ratio common disclosure

	2017 £'000
On-balance sheet exposures	
1. On-balance sheet items	431,967
2. Asset amounts deducted in determining Tier 1 capital	(832)
3. Total on-balance sheet exposures	431,135
Other off-balance sheet exposures	
17. Off-balance sheet exposures at gross notional amount	2,684
18. Adjustments for conversion to credit equivalent amounts	(1,342)
19. Other off-balance sheet exposures	1,342
Capital and total exposures	
20. Tier 1 capital	41,974
21. Total leverage ratio exposures	432,477
Leverage ratio	
22. Leverage ratio	9.7%

Table 4: Summary reconciliation of accounting assets and leverage ratio exposures

	2017 £'000
1. Total assets as per published financial statements	436,252
6. Adjustment for off-balance sheet items	1,342
7. Other adjustments[1]	(5,117)
8. Total leverage ratio exposure	432,477

[1]Represent items deducted against Tier 1 capital, plus qualifying Tier 2 capital.

Table 5: Split of on-balance sheet exposures

		2017 £'000
EU-1	Total on-balance sheet exposures, of which:	431,135
EU-3	Banking book exposures, of which:	431,135
EU-5	Exposures treated as sovereigns	116,576
EU-7	Institutions	175,988
EU-8	Secured by mortgages of immovable properties	90
EU-9	Retail exposures	99,785
EU-10	Corporate	23,216
EU-11	Exposures in default	1,073
EU-12	Other exposures	14,407

8. Risk weighted exposure amounts and minimum capital requirement

Under the standardised approach for credit risk, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

Table 6: Minimum capital requirements at 28 February 2017

	Exposure £'000	Value adjusted exposure £'000	Risk weighted assets £'000	Minimum capital required £'000
Central governments or central banks	104,783	104,783	-	-
Multilateral development banks	11,795	11,795	-	-
Institutions	175,988	175,988	35,198	2,816
Retail	99,411	99,785	74,839	5,987
Corporates	23,216	23,216	18,491	1,479
Exposures in default	1,073	1,073	1,243	99
Secured by mortgages on immovable property	90	90	32	3
Equity exposures	9,522	4,863	4,863	389
Other items	10,374	9,542	7,391	591
Total on balance sheet exposure	436,252	431,135	142,057	11,364
Off balance sheet exposures	2,684	1,342	1,342	107
Total credit risk requirement	438,936	432,477	143,399	11,471
Operational risk capital requirement			36,250	2,900
Market risk capital requirement – foreign currency PRR			10,175	814
Total Pillar I capital requirement			189,824	15,185

8.1. Credit risk and provisions

8.1.1 Retail lending

The following table provides an analysis of the performing and past due loan exposures of the retail lending portfolios as at 28 February 2017.

Table 7: Retail loan book

	Loans and advances to customers £'000	Gross loans receivable under hire purchase agreements £'000	General provision £'000	Specific provision £'000
Performing loans	30,870	82,686	(374)	-
Past due but not impaired	2,140	-	-	-
1 to 2 months past due	1,356	-	-	-
3 to 4 months past due	784	-	-	-
Impaired	-	5,739	-	(2,356)
1 to 2 months past due	-	2,842	-	(467)
3 to 4 months past due	-	625	-	(204)
5 to 6 months past due	-	322	-	(98)
6 months + past due	-	710	-	(527)
Repossessed loans	-	1,240	-	(1,060)
At 28 February 2017	33,010	88,425	(374)	(2,356)

Performing loans represents exposures that are current and fully compliant with all contractual terms and conditions.

Past due but not impaired includes those exposures where the counterparty has failed to make its contractual payment, but impairment losses have not yet been incurred due to the expected recoverability of future cash flows.

Impaired loans include those where there is objective evidence that an impairment loss has been incurred and for which there has been a measurable decrease in the estimated future cash flows as a result of its payment status.

8.1.2 Provisions

Specific provisions - Identified incurred losses

All individually significant assets are assessed for individual impairment. All financial assets that are not individually significant or not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics. The Bank had no individually significant items in the loan portfolio at 28 February 2017.

When assessing collective impairment of the loan portfolio, the Bank determines impairment levels through a statistical model which multiplies the probability of default ('PD') for each loan category (based on past due status) by the loss given default ('LGD') to arrive at the projected expected loss. In addition, an adjustment is made to discount the imputed cash flows from the model at the assets' original effective interest rate ('EIR') to arrive at the recorded collective provision.

Impairment losses are recognised immediately in the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of a provision account. A write-off is made when all or part of a financial asset is deemed uncollectible after all collection procedures have been completed and the amount of the loss has been determined.

General provision - Losses incurred but not yet identified

The impairment for latent losses in a group of loans that have not yet been identified as impaired, is determined on a portfolio basis based on a calculated loss ratio. The loss ratio is based on historic loss experience and an estimated emergence period, being the time period between the loss trigger events and the date on which the Bank identifies the losses. The loss ratio is subsequently applied to the performing loan balances at the reporting date. At 28 February 2017 the loan loss ratio was calculated on a 3 month emergence period.

Table 8: Movements in the provisions during the year

	General provision £'000	Specific provision £'000	Total £'000
At 29 February 2016	(216)	(1,241)	(1,457)
Charges for the period	(158)	(1,605)	(1,763)
Utilised in the period	-	490	490
At 28 February 2017	(374)	(2,356)	(2,730)

8.1.3 Counterparty credit risk - Loans to banks and debt securities

The Bank applies Moody's ratings to non-cash liquidity exposures to central banks, governments, multilateral development banks and institutions, in order to establish the risk-weighted value of those exposures for capital adequacy purposes.

Risk-weighted asset values under the standardised approach are calculated by reference to six quality steps set out in the CRR, dependent upon whether they are exposures for up to 3 months, or longer. Step 1 represents the highest credit quality and step 6 the lowest.

The table below maps the Bank's application of Moody's ratings to CRR credit quality steps, together with the risk weightings applicable to the Bank's inter-bank deposits and its holdings of debt securities at 28 February 2017.

Table 9: Placements with banks and investments in debt securities

	Exposure £'000	Credit quality assessment step	Risk weight for short term exposures
Central bank	57,566	1	0%
Government and Supranational securities	59,010		
Rated Aaa	44,115	1	0%
Rated Aa1 to Aa3	14,895	1	0%
Institutions (< 3 months)	175,988		
Rated Aa1 to Aa3	36,255	1	20%
Rated A1 to A3	118,966	2	20%
Rated Baa1 to Baa3	20,767	3	20%
At 28 February 2017	292,564		

8.1.4 Residual maturity

The table below shows the Bank's exposures at 28 February 2017, analysed by remaining contractual maturity.

Table 10: Residual contractual maturity

	Not more than 3 months £'000	>3 months and up to 1 year £'000	>1 year and up to 5 years £'000	>5 years £'000	Undated £'000	Total £'000
Central governments or central banks	80,560	24,223	-	-	-	104,783
Multilateral development banks	6,484	5,311	-	-	-	11,795
Institutions	175,988	-	-	-	-	175,988
Retail	10,547	25,897	60,375	3,571	(979)	99,411
Corporates	1,174	8,247	10,968	-	2,827	23,216
Exposures in default	-	-	2,824	-	(1,751)	1,073
Secured by mortgages on immovable property	-	-	-	90	-	90
Equity exposures	-	118	519	-	8,885	9,522
Other items	424	4,616	3,778	-	1,556	10,374
On balance sheet	275,177	68,412	78,464	3,661	10,538	436,252
Off balance sheet	-	2,684	-	-	-	2,684
Total	275,177	71,096	78,464	3,661	10,538	438,936

8.1.5 Geographic distribution of assets

The Bank's credit risk exposures are largely within the UK, except for exposures to central governments, multilateral development banks and financial institutions outside the UK. These exposures are in the form of bonds issued by central and multilateral development banks and short term cash placements with regulated banks.

Table 11: Exposure by geographic area

	UK £'000	Other £'000	Total £'000
Central governments or central banks	72,463	32,320	104,783
Multilateral development banks	-	11,795	11,795
Institutions	106,373	69,615	175,988
Retail	99,411	-	99,411
Corporates	21,693	1,523	23,216
Exposures in default	1,073	-	1,073
Secured by mortgages on immovable property	90	-	90
Equity exposures	637	8,885	9,522
Other items	10,374	-	10,374
On balance sheet	312,114	124,138	436,252
Off balance sheet	2,684	-	2,684
Total	314,798	124,138	438,936

8.2 Operational risk

Operational risk is calculated under the 'Basic Indicator Approach' as set out in the CRR and is therefore calculated as 15% of the Bank's average net income over the previous three years.

Table 12: Operational risk capital requirement

	2015 £'000	2016 £'000	2017 £'000
Interest income	8,512	10,346	13,001
Interest expense	(2,231)	(2,556)	(3,051)
Fee and commission income	10,675	11,493	11,567
Fee and commission expense	(10,872)	(10,331)	(11,158)
Other operating income	10,310	10,236	12,050
Total	16,394	19,188	22,409
Basic indicator (3 year average)			19,330
Capital requirement (15%)			2,900

8.3 Non-trading book exposures in equities

At 28 February 2017 the Bank had £9.5m of equity investments in the non-trading book. This largely represent equity investments held for business reasons, such as VISA, MasterCard and Link. In terms of IFRS these investments are classified as available for sale and carried at fair value.

Following the sale of Visa Europe Limited ('Visa Europe') to Visa Inc. in June 2016, the Bank realised its investment in Visa Europe and recognised an investment in the preferred shares of Visa Inc. which were received as consideration. The investment in Visa Inc. is measured at fair value and at 28 February 2017 the Bank had a £2,005k unrealised gain, resulting from changes in the market value of Visa Inc., together with movements in foreign exchange rates.

The Bank has also entered into a contractual arrangement with an unlisted lending partner company, whereby the bank has an option to subscribe for a 15% share interest in the ordinary share capital in the partner company. This option may be exercised for as long as a service agreement between the Bank and the lending partner remains in force.

Further details of the year-end valuations are available in Note 27.2 to the annual financial statements.

Table 13: Cumulative net gains on non-trading book equity exposures

	Fair value £'000	Cumulative unrealised £'000
Equity investments	8,885	2,005
Equity option	520	520
Other investments	118	-
Gross equity investments	9,523	2,525
Deferred tax recognised on fair value adjustments		(429)
Regulatory deduction against Tier 1 capital[1]		(4,701)
Unrealised gains included in Tier 1 capital		(2,605)

[1]Non-significant investment in financial sector entity, restricted to 10% of Tier 1 capital.

8.4 Interest rate risk

The interest rate gap analysis covers all assets and liability interest rate mismatches, including a sensitivity scenario showing the impact of a 2% parallel shift of interest rates on the net present value ('NPV') of the net gap between asset and liability cash flows.

Table 14: Interest rate sensitivity

	NPV £'000	Change in NPV £'000
Net gap	18,101	
- Sensitivity to + 2% interest rate shift	17,720	(381)
- Sensitivity to - 2% interest rate shift	18,468	367

9. Remuneration policy and practices

This section provides details of the remuneration of the Bank's material risk takers for the year ending 28 February 2017. Material risk takers are those individuals whose actions have a material impact on the risk profile of the Bank, based on criteria set by the EBA. The policy and level of remuneration is determined by the Bank's remuneration committee noted in Section 4 above.

Non-executive Directors' remuneration

The CEO recommends the level of remuneration paid to non-executive Directors based on external data from financial institutions of a similar size and complexity. Non-executive Directors are only entitled to fees and do not receive salary, bonus incentives, pensions or other taxable benefits.

Executive Directors' remuneration

The level of Executive Directors remuneration is comparable within the industry taking account of the specific role performed. The remuneration is made up of basic salary, discretionary bonus, pension contributions and private health care.

Basic salary

The basic salary for Executive Directors takes into account market forces, responsibility and individual performance.

Discretionary bonus

All bonuses are paid on a discretionary basis and are subject to the approval of the remuneration committee.

Pension benefit

A money purchase scheme is operated by the Bank and contributions are made for all qualifying staff. There is also a death in service scheme which pays a lump sum equal to twice basic salary.

Other benefits

The Bank provided healthcare cover for Executive Directors and all managers during the year.

Contracts of employment

No Executive Director or member of the senior management team has an employment contract with a notice period longer than one year in line with recommendations made in the UK Corporate Governance Code.

Board diversity

The Bank is committed to diversity and works hard to ensure that all staff are offered equal opportunities throughout their career with the Bank. The organisation is determined that nobody is discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Bank acknowledges that promoting an environment that is diverse in terms of personal or socio-economic background, thinking, skills and experience allows its Board members the ability to make decisions based on varied knowledge. The Bank recognises that in reaching its decisions, a diverse Board should adequately reflect the diversity within the Bank's employees, clients and customers alike.

Remuneration

The table below sets out the aggregate quantitative remuneration for material risk takers in relation to their services for the Bank for the year ended 28 February 2017.

Table 15: Remuneration

	Fixed remuneration	**Variable remuneration**	**Total remuneration**	**Deferred variable**
	£'000	**£'000**	**£'000**	**£'000**
Senior Management	1,237	414	1,651	-
Non-executive Directors	127	-	127	-

Appendix 1: EBA own funds disclosure template

The table below is disclosed in accordance with the template prescribed by the EBA. Any blank lines have been removed from this disclosure.

	28 February 2017 £'000
1. Capital instruments and the related share premium accounts	14,500
of which: ordinary shares	13,600
of which: share premium	900
2. Retained earnings	31,462
3. Accumulated other comprehensive income	1,613
6. Common equity tier 1 capital before regulatory adjustments	**47,575**
7. Additional value adjustments	(68)
8. Intangible assets	(832)
18. Direct and indirect holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	(4,701)
28. Total regulatory adjustments to common equity tier 1 capital	**(5,601)**
29. Common equity tier 1 capital	**41,974**
45. Tier 1 capital	**41,974**
50. Credit risk adjustments	374
51. Tier 2 capital before regulatory adjustments	**374**
58. Tier 2 capital	**374**
59. Total capital	**42,348**
60. Total risk weighted assets	**189,824**
Capital ratios and buffers	
61. Common equity tier 1 (as a percentage of risk exposure amount)	22.1%
62. Tier 1 (as a percentage of risk exposure amount)	22.1%
63. Total capital (as a percentage of risk exposure amount)	22.3%
64. Institution specific buffer requirement (common equity tier 1 capital requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.8%
65. of which: capital conservation buffer requirement	1.3%
68. Common equity tier 1 available to meet buffers (as a percentage of risk exposure	22.1%
Amounts below the thresholds for deduction (before risk weighting)	
72. Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	4,667

Appendix 2: Capital instruments key features

The table below is disclosed in accordance with the template prescribed by the EBA. In line with the requirements in the regulations, all lines are presented and marked as not applicable ('N/A') where appropriate.

1. Issuer	R Raphael & Sons plc
2. Unique identifier (e.g. CUSIP, ISIN, Bloomberg identifier for private placement)	N/A
3. Governing law(s) of the instrument	English
Regulatory treatment	
4. Transitional CRR rules	Common equity tier 1
5. Post-transitional CRR rules	Common equity tier 1
6. Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo
7. Instrument type (types to be specified by each jurisdiction)	Share capital
8. Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£13.6 million
9. Nominal amount of instrument	£13.6 million
9a. Issue price	£1
9b. Redemption price	£1
10. Accounting classification	Shareholder equity
11. Original date of issuance	
12. Perpetual or dated	Perpetual
13. Original maturity date	N/A
14. Issuer call subject to prior supervisory approval	No
15. Optional call date, contingent call dates and redemption amount	N/A
16. Subsequent call dates, if applicable	N/A
Coupons / dividends	
17. Fixed or floating dividend/coupon	Floating
18. Coupon rate and any related index	N/A
19. Existence of a dividend stopper	No
20a. Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b. Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21. Existence of step up or other incentive to redeem	No
22. Non-cumulative or cumulative	Non-cumulative
23. Convertible or non-convertible	Non-convertible
24. If convertible, conversion trigger(s)	N/A
25. If convertible, fully or partially	N/A
26. If convertible, conversion rate	N/A
27. If convertible, mandatory or optional conversion	N/A
28. If convertible, specify instrument type convertible into	N/A
29. If convertible, specify issuer of instrument it converts into	N/A
30. Write-down features	No
31. If write-down, write-down trigger(s)	N/A
32. If write-down, full or partial	N/A
33. If write-down, permanent or temporary	N/A
34. If temporary write-down, description of write-up mechanism	N/A
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional tier 1
36. Non-compliant transitioned features	No
37. If yes, specify non-compliant features	N/A