Methodist Chapel Aid Limited
Pillar 3 Disclosures
for the year ended 31 December 2018

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1. Overview

The European Union Capital Requirements Directive (Basel II) came into force on 1st January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord.

On 1st January 2014, Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

The Basel framework consists of three "pillars":

The three pillars are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

- Pillar 1: Minimum capital requirement, using a risk based capital calculation focusing particularly on credit and operational risk, to determine the Company's Capital Resources Requirement ('CRR').
- Pillar 2: Internal Capital Adequacy Assessment Process ('ICAAP') and Supervisory Review and Evaluation Process ('SREP'). The Company's Board has undertaken an assessment of all of the key risks facing the Company and additionally has stress tested those risks to establish a level of additional capital to be held as an internal capital buffer. The results of the Board's assessment are subject to review by the PRA under the SREP arrangements.
- Pillar 3: Disclosures of key information on risk exposures and risk management processes by the Company.

The Directives are enforced in the UK by the Prudential Regulatory Authority (PRA). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the Capital Requirements Regulation (CRR).

This document has been prepared to meet the Pillar 3 disclosure requirements. It is based upon the Company's Annual Report and Accounts for the year ended 31 December 2018, unless otherwise stated.

The Company's policy is to issue these disclosures on an annual basis as soon as practicable after the publication of the Company's Annual Report and Accounts. These disclosures are published on the Company's website (www.mcafundingforchurches.co.uk).

There is no requirement for the disclosures to be audited; however, some of the information within the disclosures also appears in the Company's Annual Report and Accounts.

The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

2. Governance - Board and Committees

2.1 The Board

The Board has overall responsibility for the business. It sets the strategic aims for the business within a control framework which is designed to enable risk to be assessed and managed.

The Board satisfies itself that financial controls and systems of risk management are robust.

As at the reporting date, the Board comprises 8 non-executive directors (including a non-executive Chair) plus the Chief Executive.

2.2 The Board - Recruitment policy

The Company's Articles state that *'the number of Directors shall not be less than five and not more than ten' and that 'each and every Director must be a member of a Christian Church, as defined at the absolute discretion of the Directors'*.

Directors will retire by rotation every three years. Directors may be re-elected after retiring by rotation. However, in order to ensure the essential spread of skills and experience, effective contact with other relevant organisations, the ability of the Board to keep up to date with the environment within which it operates, and to sustain the high quality of the Board for the future, each Director's appointment will be reviewed towards the end of the Director's three year period of office.

Recruitment onto the Board combines an assessment of both technical capability and competency. The choice of Directors will be governed by the need to have on the Board a mix of experience and knowledge which are relevant to the Company's operations.

2.3 The Board – Diversity policy

The Board's policy is to have sufficient diversity in its membership to avoid the possibility of 'groupthink' and to increase the perspective of the Board and the Company. The Board is clear that diversity in a number of areas is desirable including gender, ethnicity, age and disability among others. Thus, the Board has adopted a general policy of seeking to enhance diversity among its membership as opportunities arise but without setting any particular targets in advance of the recruitment process.

Recruitment Panels are asked to approach all interview processes with these policy guidelines in mind. It is the Board's clear intention actively to seek a wider diversity in its membership, whilst ensuring that it has the specific experience and skills needed to give the optimum blend of individual and aggregate capability having regard to the Company's Strategic Business Plan.

2.4 Board and Committee Structure

The Company is headed by an effective Board of Directors, which meets at least five times a year, and which directs and controls the work of the Company. With the exception of the Chief Executive, the Directors are all non-executive and the Board is supplied, through the offices of its Chief Executive and Company Accountant, who is also its Company Secretary, with information in the form of monthly management accounts, budgets, forecasts, etc. to allow it to discharge its responsibilities.

The Company has an Audit and Risk Committee, consisting of four non-executive Directors which meets at least three times annually and ensures that the recommendations of the Prudential Regulation Authority, the Financial Conduct Authority and the external auditors are considered in full and implemented, where appropriate. It also oversees the work and considers the reports of the Company's internal audit function, reviewing the implementation of its recommendations where appropriate, and considers the effectiveness of internal controls. To comply with the requirements of legislation and to ensure prudent management of the business, the Company has established a range of internal controls, which have operated effectively throughout the year.

In addition, the Company has a Nomination Committee, consisting of three non-executive Directors which was established to develop a recruitment and remuneration strategy and succession plans for the Board, its Committees and Senior Officers. This also includes developing training and induction processes for Directors and reviewing the Board's employment policy and practice.

As a part of the Company's governance review the Directors meet informally from time to time in order to discuss strategic issues in more depth.

2.5 Number of directorships held by members of the Board

	Directorships - Executive	Directorships – Non-Executive
G Alan Pimlott	-	1
Revd James A Booth	-	1
D Jeremy M Burchill	-	1
Rt Revd Paul J Ferguson	-	2
Peter J Forward	-	1
Anne F Goodman	-	1
A Christopher Jarratt	1	-
Peter A Mills	1	1
Andrew C Slim	1	1

(The above figures include Methodist Chapel Aid Ltd. Directorships in organisations which do not pursue predominantly commercial objectives are not included.)

3. Risk Management Policies and Objectives

The Board has an established risk management framework for the Company that is proportionate to both the size of the Company and the risks to which it is exposed. This framework enables the Board to identify, monitor, control and report on the key risks faced by the Company.

The Company operates within its policies approved by the Board which cover all aspects of its operations.

The consideration and management of risk is included in each of the Company's policies. Risk management is seen as a regular, ongoing process, inter-woven within the strategic and daily operational management of the Company.

The Company has an Audit and Risk Committee, consisting of four non-executive Directors, which meets at least three times annually and ensures that the recommendations of the PRA, the Financial Conduct Authority and the external auditors are considered in full and implemented, where appropriate. It also oversees the work and considers the reports of the Company's internal audit function, reviewing the implementation of its recommendations where appropriate, and considers the effectiveness of internal controls.

To comply with the requirements of legislation and to ensure prudent management of the business, the Company has established a range of internal controls, which have operated effectively throughout the year.

The Senior Officers are responsible for the day to day operation of the business in line with the overall Risk Appetite Statement and the resulting policies, limits and controls. They are also responsible for reporting performance against the internal limits to the Audit and Risk Committee monthly and to the Board for discussion as appropriate at each meeting, and more frequently if appropriate. The Board regularly reviews and challenges policies, documents and limits and takes action as necessary.

The Internal Auditor independently provides objective assurance as to the adequacy and effectiveness of internal controls across the business. A risk based programme of work is undertaken which is designed to provide appropriate coverage of the key business risks and processes. The Audit and Risk Committee approves the annual Internal Audit Plan and receives reports on the results of audit work.

4. Capital Resources and Business Strategy

Capital is held to provide a cushion to absorb losses that may occur during the economic cycle. In assessing the adequacy of its capital, the Company considers its risk appetite, the material risks to which the Company is exposed and the appropriate management strategies for each of the Company's material risks.

The Company's main source of capital is from retained surpluses added to the reserves that have accumulated since the Company's formation in 1890. The Company does not give priority to enhancing the level of dividend paid to its shareholders.

It is essential that the Company maintains sufficient capital to support its ongoing activities and this requirement is an integral part of the Company's corporate planning process. The Company's Strategic Business Plan projects forward and takes into account the need to maintain resources to support the Plan's objectives.

In addition to the corporate planning process the Company is required to undertake an Internal Capital Adequacy Assessment Process (ICAAP) which is a formal process that calculates the Company's capital requirement in normal and stressed conditions.

The ICAAP involves reviewing all of the Company's business activities and calculating the capital required to support them.

The Company undertakes regular stress testing and reverse stress testing with the results of this testing influencing business decisions on an ongoing basis.

The Company has in place limits in relation to both loans and the investment of surplus funds which control the level of exposures which the Company may have in those areas of business.

5. Capital Adequacy

Under the 'Standardised Approach', as specified by CRD IV, the level of capital required against a given level of exposure to credit risk is calculated as:-

Credit risk capital requirement = Exposure value x Risk weighting x 8%

The risk weighting for each exposure is determined by reference to external credit ratings or regulatory guidance. In addition, an evaluation of the capital required to cover Operational Risk is calculated under the 'Basic Indicator Approach' and determined by reference to the annual gross income of the Company averaged over the previous 3 years.

The resulting capital requirements as at 31 December 2018 are set out overleaf.

		Exposure £'000	Risk Weighted Exposure £'000	Capital Required (8% thereof) £'000
Credit Institutions		11,876	2,844	228
UK Treasury Stocks		3,628	-	-
Multilateral Development Banks		215	-	-
Sterling Corporate Bonds		1,747	1,202	96
Collective investment undertakings		2,650	1,527	122
Equity investments (net of regulatory capital deduction)		7,099	7,099	568
				-
Loans and advances to customers	(drawn)	6,316	4,737	379
	(50% of undrawn)	1,393	1,045	84
Fixed and other assets		124	124	10
Total credit risk exposure		**35,048**	**18,578**	**1,487**
Operational risk capital requirement				76
Total Pillar 1 Capital Requirement				**1,563**

(The Company has no exposures to commodities, foreign currencies or trading-book business)

The Company's approach to calculating its own internal capital requirements has been to take the above calculation of its minimum capital required for credit risk under Pillar 1 as the starting point, assess whether this is sufficient to cover credit risk and operational risk, and then identify any further capital necessary to cover credit risk, market risk, operational risk, counterparty credit risk, credit concentration risk, interest rate risk and pension risk and assess prudent levels of capital to meet them (Pillar 2A).

The total Pillar 1 and Pillar 2A capital calculation (the Total Capital Requirement) of £3.8 million is then compared with the €5 million base capital requirement applicable to banks and the higher of these two figures taken as the Company's regulatory capital requirement.

The Company's total Pillar 1 and Pillar 2A capital calculation is lower than €5 million, and so the Company's minimum regulatory capital requirement as at 31 December 2018 is the regulatory base capital requirement of €5 million (£4.5 million).

The total capital resources of the Company were £11.4 million as at 31 December 2018, (following the shareholders' approval of the audited financial positions in the Annual Report and Financial Statements at the Annual General Meeting on 25 April 2019). This was all Common Equity Tier 1 (CET1) Capital as defined in the Capital Requirements Directive, and consisted of the following:

	£
Called up equity share capital	1,197
Reserves (accumulated surpluses after tax)	11,567,564
Total Shareholders' Funds per audited financial statements	11,568,761
Less: regulatory deductions (see note below)	(161,634)
Regulatory Common Equity Tier 1 Capital	11,407,127

(**Note**: the regulatory deduction from capital represents the Company's direct and indirect equity holdings in financial services companies, adjusted by relevant threshold limits).

Therefore the Company achieved headroom of £6.9 million (153%) over the regulatory base capital requirement.

The Company is subject to UK accounting standards (FRS 102), whereby the majority of the investment portfolio is recognised in the accounts at fair value. This results in volatility in the Company's reported surpluses and is closely monitored as part of the Board's risk management.

Basel III introduced a non-risk based leverage ratio to supplement the risk based capital requirements. This ratio shows Tier 1 capital as a proportion of on and off balance sheet assets. The ratio does not distinguish between credit quality of loans and acts as a primary constraint to excessive lending in proportion to the capital base. The current regulations do not apply the minimum requirement of 3% (plus countercyclical leverage buffer) to smaller banks and so the Company is exempt. In any case, the Company's leverage ratio as at 31 December 2018 was approximately 33%, well above these minimum requirements.

5.1 Regulatory capital buffers

Pillar 2B covers risks to which the Company may become exposed over a forward-looking planning horizon (e.g. due to changes in the economic environment).

Under Pillar 2B the PRA has set a PRA Buffer defining a minimum level of capital buffer over and above the minimum regulatory requirement that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. This buffer is firm specific, and the PRA requires that the level of this buffer is not publicly disclosed.

The PRA Buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

5.1.1 Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As of 31 December 2018, the capital conservation buffer was 1.875%. The level of this buffer is being phased in in increments of 0.625% per annum to reach the end-point requirement of 2.5% of RWAs in 2019.

5.1.2 Countercyclical capital buffer

The countercyclical capital buffer requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

Each institution's specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer rate (for credit exposures located in the UK and this was increased from 0.5% to 1% in November 2018.

As at 31 December 2018, the Company's specific countercyclical buffer rate was 0.95%, largely consistent with the UK rate, reflecting the Company's limited overseas exposures.

6. Principal Risks

The principal risks faced by the Company are:

6.1 Business Risk

Business risk arises from changes to a company's business, specifically the risk of not being able to carry out its business plan and desired strategy. In assessing business risk, consideration is given to internal and external factors.

Risk Appetite

The Company will not take, or retain, risk positions that threaten its ability to remain a sustainable organisation or its ability to meet its primary purpose. The business risk appetite is set by reference to the approved budget and strategic business plan sanctioned by the Board.

Mitigation

As part of the annual budgeting and planning process, the Company develops a set of management actions to prevent or mitigate any negative impact on earnings in the event that business risks materialise. Additionally, business risk monitoring, through regular reports and oversight, enables the Company to implement corrective actions to plans and reductions in exposures where necessary.

Revenue and capital investment considerations require additional in-depth assessment followed by Board approval. Formal risk assessment is conducted as part of all financial approval processes.

6.2 Liquidity Risk

Liquidity risk is the risk that a company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost, or that a company does not have sufficiently stable and diverse sources of funding.

Risk Appetite

The Company's liquidity risk appetite has two elements: its own internal liquidity measurement and also the regulatory liquidity coverage ratio:

a) Internal measurement

   The Company ensures that it maintains a minimum liquidity position sufficient to meet a demand for payment of all retail deposits repayable within 8 days, even under stressed scenarios. The Board and the Company's management operate a low risk strategy when compared with liquidity levels and risk profiles of other UK financial institutions with similar business models and this is reflected in the measures that the Company has in place to monitor liquidity. The Company has undertaken stress tests in this regard.

   If the Company can easily achieve this test then it has sufficient liquidity not only for the 0 to 8 day period, but also for a minimum of 90 days due to the nature of the depositor maturity and loan advance profile.

   Therefore, the Company has also adopted a liquidity risk appetite based on maintaining sufficient liquid assets to cover at least 100% of anticipated outflows

under a 90 day continuous period of market-wide, Company-specific and combined stresses.

b) Liquidity coverage ratio (LCR)

The Company's policy is to maintain a LCR of at least 200% at all times, i.e. double the eventual regulatory minimum, and using only extremely high liquidity and credit quality (level 1) assets, i.e. UK gilts, European Investment Bank (EIB) and KfW bonds.

Additional liquid assets will also be held for internal liquidity management.

Mitigation

The Company mitigates the risk of a negative liquidity mismatch (inadequate liquidity) which is outside its appetite by managing the liquidity profile of the statement of financial position through both short-term liquidity management and long-term strategic funding.

The Company aims to maintain a minimum liquidity position that is well in excess of regulatory requirements, even under stressed scenarios, reflecting the organisation's low risk appetite.

6.3 Market and Interest Rate Risk

Market and interest rate risk could arise from adverse movements in external markets, e.g. interest rate movements, equity movements or currency movements which could potentially reduce income and/or increase expenses.

Risk Appetite

The Board's risk appetite for interest rate risk is to manage its assets and liabilities so as to limit the effect of a 2% market rise in interest rates (as calculated in the interest rate gap report) to a maximum of 7% of the Company's regulatory capital.

The average remaining period to maturity for fixed interest investments (excluding investments held by bond funds) will not exceed 8½ years.

In addition, no fixed interest investment will be held with a remaining maximum term of longer than 15 years.

The Board acknowledges that there is some additional interest rate sensitivity within the equity and bond fund holdings. Consequently, the Company will not hold investment assets with no specific maturity date (i.e. equities, bond funds and other collective investment schemes) with a total value exceeding 100% of the Company's regulatory capital.

The Board has decided to limit the total amount invested in equities (including equity related investment funds) to the lower of:

- 45% of the total market value of funds in its investment portfolio i.e. excluding money market investments and loans to trustees and individuals;
- 25% of the Company's total assets; and
- 80% of regulatory capital.

In relation to UK equities, only equities issued by companies within the FTSE 350 can be purchased, thereby ensuring that a high quality is maintained and that the liquidity of such

investments is not a problem. Corporate bonds are highly rated sterling-denominated direct investments in quoted companies. The Company has no direct exposure to foreign exchange risk as it does not trade in these markets or in currencies other than Sterling.

The Company does not offer any fixed rate deposit or loan products other than car loans (limited to £250,000 in total) and therefore can respond appropriately to movements in market interest rates, within the framework of giving at least 3 months advance notice of any reduction in interest rates payable to customers.

Mitigation

The Company has restricted its investments to highly rated, easily realisable fixed interest and equity stocks. The Company does not expect to incur significant losses upon the sale of these investments.

With regard to interest rate risk the Company's Treasury Policy Statement includes limits for both the average remaining period and the maximum remaining period to maturity for fixed interest investments (excluding investments held by bond funds).

Trigger points are in place in order to respond quickly to adverse market value movements.

Summary of exposures to equities

As at 31 December 2018, the Company's exposure to equities (comprising largely investments in FTSE 350 companies and equity-related investment funds) is summarised below:

	£'000
Market value	7,261
Book cost	6,612
Unrealised gain	649

The above figures are before the regulatory capital deduction of £162,000 relating to direct and indirect investments in financial services companies.

Net gains of over £363,000 were realised on the sale of equity investments during the year ended 31 December 2018.

The equity investments are generally held for the long term and in accordance with the Company's ethical investment policy. The Company is not a dealing Company and the main purpose of the equity investments is to generate income to help the Company to achieve its purpose.

The unrealised gains of £0.6 million on the equity exposures and £0.1 million of the unrealised gains on fixed interest investments are included in the calculation of the Company's capital resources under the Company's accounting policies as at 31 December 2018 under the UK accounting standard (FRS 102).

Net Interest Income Sensitivity

The principal market risk to which the Company is exposed is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps between assets and liabilities based upon the next interest rate re-pricing dates as against the contractual maturity dates of the instruments.

The Senior Officers monitor the interest rate risk on a monthly basis and this is reported to the Audit and Risk Committee. The impact of a potential 2% parallel shift in the yield curve against the Bank's interest bearing assets is computed back to a net present value.

The reported interest rate sensitivity on the year-end balance sheet for 31 December 2018 (measured as the effect of a 2% parallel shift in Sterling interest rates) was as follows:

Net Present Value Sensitivity to:	£'000
Positive Shift (+2%)	-557
Negative Shift (-2%)	675

The interest rate sensitivities above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions taken to mitigate the effect.

6.4 Operational and Regulatory Risk

Operational risk is the risk of reductions in earnings through financial or reputational loss, from inadequate or failed internal processes and systems, operational inefficiencies, or from people related or external events.

Regulatory risk arises due to the ever increasing regulatory requirements and the increasing volume and pace of change from within the UK and European financial regulators. This can impact a company, both operationally in terms of cost of compliance, with uncertainty about legal and regulatory expectations, and strategically through pressure on key earnings streams.

Risk Appetite

The Company's operational risks arise largely as a result of the following possible events:

- Business disruption (including failure of key suppliers)
- Fraud and forgeries
- Fines and penalties (including regulatory)
- Staffing issues (including long term sickness)
- Health and safety issues
- Legal cases

The Company looks to ensure that it adopts all regulatory, legal and other compliance requirements in a proportionate way.

The Company's operational/regulatory risk appetite is to limit the expected potential losses arising from these events to 2% of the Company's Own Funds (i.e. regulatory capital) in total.

Mitigation

The Company undertakes the following:

- identification of the key operational risks within the business;

- evaluation of the effectiveness of the existing control framework covering each of the key risks to which the business is exposed;
- evaluation of both the financial risk and non-financial risk (e.g. reputational damage);
- estimation of exposure to probability and event likelihood is undertaken for each material risk identified; and
- appropriate action to mitigate or minimise the risk.

The above is embedded into the Company's daily procedures.

6.5 Credit Risk

Credit risk is the risk of a reduction in earnings and/or capital, as a result of the failure of a party with whom a company has contracted to meet its obligations as they fall due (i.e. loan repayments, investments or bank deposits).

Risk Appetite

Credit Risk (wholesale markets):

The Company will not engage in wholesale deposit lending other than with UK interbank counterparties with strong long term credit ratings (minimum Moody's rating of Baa3 for UK banks / building societies and A3 for overseas banks / building societies), or allow placements exceeding the Company's large exposures capital base (subject to the PRA pre-notification rules). The amount of deposits placed with any one bank is limited to 25% of the Company's regulatory capital.

In addition, the Company invests in UK government gilts and major company corporate bonds via its Investment Manager, Sarasin & Partners LLP, which operates within parameters and limits agreed by the Board. The corporate bonds are all sterling denominated and the bond portfolio is considered by the Investment Manager to be low risk and well diversified.

Mitigation

After careful checks have been made, the counterparties with whom the Company places deposits are approved in advance by the Board.

Credit Risk (retail markets):

The Company lends to Christian churches and organisations within the UK only and the total balance on loan at any time is restricted to an internally imposed limit of 60% of the total depositors' balances or 150% of share capital plus reserves, whichever is the lower, less any non-instant access deposit accounts held by the Company with other financial institutions. Individual loan approvals cannot be greater than 10% of the Company's regulatory capital unless agreed by the Board. Term loans above £60,000 are secured by way of a declaration from the trustees as well as a legal charge (unless agreed otherwise by the Board) and loans up to £60,000 by way of a declaration from the trustees. For bridging loans for manse purchases a solicitor's undertaking is obtained to repay the proceeds of the house sale to the Company up to the amount of the loan outstanding.

Car loans to individuals (Methodist presbyters and deacons) are limited to a total balance advanced of £250,000 and a maximum loan of £12,000 per individual.

Mitigation

Financial risk assessments are undertaken on all term property loans (including review of accounts covering three years) and loans are approved in accordance with defined limits and due consideration given to the collateral. All property loans require Director approval in accordance with the Company's lending policy.

Provisions

The Company has a Provisioning Policy which is reviewed by the Board at least annually. The experience of the Company over the whole of its life is that it has never had a bad debt in relation to its property loans. Historically, no provisions in relation to property loans to trustees have been assessed as necessary. However, the Board has agreed in principle to include such provisions in the future if appropriate.

Following the introduction of unsecured car loans to Methodist ministers and deacons a provision for bad debts has been made. This is 2.5% of the outstanding capital balance on car loans at the year end. The actual amount of the provision will therefore vary each year.

The need to raise a specific provision when a borrower requests a rescheduling of repayments will be considered at the time by the Chief Executive.

At 31 December 2018, the total provisions were £1,232. This comprised a general provision in respect of car loans (2.5%). The total provision decreased by £785 in the year.

The property loans (excluding bridging loans) are repayable half-yearly on 30 June and 31 December. All payments due on 31 December 2018 have been received, including two in January 2019 and, following receipt of these funds, no property loans are currently in default of agreed payment terms.

Geographical Breakdown of exposures

A geographic breakdown of credit risk exposures at 31 December 2018 is shown below:

	UK £'000	**Rest of Europe £'000**	**Rest of World £'000**	**Total £'000**
Credit Institutions	11,366	510	-	11,876
UK Treasury Stocks	3,628	-	-	3,628
Multilateral Development Banks		215	-	215
Sterling Corporate Bonds	630	1,117	-	1,747
Collective investment undertakings	2,650	-	-	2,650
Equity investments (net of regulatory capital deduction)	6,263	836	-	7,099
Loans and advances to customers (incl. 50% of undrawn)	7,709	-	-	7,709
Fixed and other assets	124	-	-	124
Total	32,370	2,678	-	35,048

Geographical Breakdown of loans advanced

A breakdown of loan balances (excluding undrawn loans) as at 31 December 2018 analysed by region is shown below:

	Property Loans	Car Loans	Total
	£	£	£
England			
North East	56,140	-	56,140
North West	401,253	13,039	414,292
Yorkshire and The Humber	201,588	7,208	208,796
East Midlands	1,065,325	2,601	1,067,926
West Midlands	108,015	2,483	110,498
East of England	91,667	13,737	105,404
London	2,600,434	1,458	2,601,892
South East	1,096,918	208	1,097,126
South West	100,000	7,083	107,083
	5,721,340	47,817	5,769,157
Scotland	525,702	208	525,910
Wales	20,154	1,274	21,428
Northern Ireland	-	-	-
Channel Islands / Isle of Man	-	-	-
	6,267,196	**49,299**	**6,316,495**

Credit Quality

The table below sets out the credit quality of corporate bonds and investments in collective investment undertakings (on a see-through basis) as at 31 December 2018.

The Company has adopted the standardised approach to credit risk and follows the standard mapping of credit quality steps to ratings provided by Standard & Poor's.

Whilst the Company uses credit risk mitigation techniques where suitable, these are not used in the calculation of the Pillar 1 capital requirements. Hence the exposure values and exposure values after credit risk mitigation are the same:

	Corporate Bonds			Collective Investment Undertakings		
Credit quality step	**Risk Weight**	**Exposure £'000**	**Exposure after credit risk mitigation £'000**	**Risk Weight**	**Exposure £'000**	**Exposure after credit risk mitigation £'000**
1	20%	419	419	20%	1,148	1,148
2	50%	571	571	50%	468	468
3	100%	606	606	100%	870	870
4	100%	-	-	100%	106	106
5	150%	-	-	150%	-	-
6	150%	151	151	150%	58	58
		1,747	**1,747**		**2,650**	**2,650**

All investments in treasury stocks, multilateral development banks and regional governments and local authorities are credit quality step 1.

As at 31 December 2018, all exposures to financial institutions have a residual maturity of 6 months or less and the exposure by credit quality step is as shown below:

	Deposits with UK Financial Institutions with effective maturity of 6 months or less		
Credit quality step	**Risk Weight**	**Exposure**	**Exposure after credit risk mitigation**
1	20%	10,313	10,313
2	50%	1,563	1,563
		11,876	**11,876**

(For the above short-term deposits with financial institutions, the Company used standard mapping of credit quality steps to ratings provided by Moody's. The above table includes £892,000 of funds held short-term by the Company's Investment Manager for investment).

6.6 Capital Risk

Capital risk is defined as the risk that a company has insufficient capital to provide a resource large enough to absorb losses or that the capital structure is insufficient to meet regulatory requirements.

Risk Appetite

The Company's target is to maintain its capital resources at a level which is increasingly above the €5 million plus an internally calculated buffer to cover potential stresses as identified in the Company's Internal Capital Adequacy Assessment Process (ICAAP) document.

Mitigation

The Company has developed an early warning system to enable the occurrence of the risks to its capital base to be quickly identified and corrective action taken where necessary.

The Company adopts a prudent and responsible approach to the management of capital and has prepared a detailed ICAAP document which was approved by the Board and in response to which the PRA felt able to issue a Total Capital Requirement to the Company.

The Board of the Company accepts that there is inherent risk in running a banking business; however, it is the Company's policy to minimise the unavoidable risks and further mitigate them wherever the costs of doing so are proportionate to the potential impact.

7. Remuneration

The Company is subject to the Remuneration Code (the Code). The aim of the Code is to ensure that all firms within scope have risk focused remuneration policies that are consistent with and promote effective risk management and do not expose them to excessive risk.

The Company is required to disclose certain qualitative and quantitative information. It is confident that its policies and procedures, covering salaries, bonuses and pension arrangements, comply with the requirements of the Code.

The Company seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Company's ethos, current financial condition and future prospects. The Company does not operate any committed variable remuneration schemes for any staff and does not make any bonus payments.

The Board has identified that those Directors and staff whose professional activities have a material impact on the Company's risk profile are

- Non-Executive Directors (8 in total)
- Chief Executive
- Company Accountant

i.e. all Directors and staff excluding the 3 part-time Administrative Assistants.

Aggregate information on the remuneration of these (including Employer's National Insurance) is given below:

	Fixed Remuneration £	Variable Remuneration £
Senior Officers (Note)	132,729	-
Non-Executive Directors	31,751	-
	164,480	-

Note: Senior Officers' remuneration includes overtime and 9% of their salaries in lieu of a pension contribution

Remuneration for staff is considered by the Nomination Committee whose proposals are then reviewed and approved by the Board. Generally these reflect inflation and market considerations. Remuneration is set at a level which is adequate to attract qualified and experienced staff.

The remuneration of all non-executive Directors is reviewed annually by the Board as a whole and approved by the shareholders at the AGM.

In the exceptional case of other payments to Directors, these are proposed and approved by the shareholders at the AGM before the payment is made.

The Company's small size and small number of employees means that it does not have a Remuneration Committee. However, the Nomination Committee makes recommendations to the Board in relation to the development of a recruitment and remuneration strategy and succession plans for the Board and its Committees and for its staff.

8. Asset Encumbrance

The Company has no encumbered assets.

9. Conclusion

This disclosure document is intended to provide background information on the Company's approach to risk management as related to maintaining and preserving the capital position of the Company.

In the event that a user of this document has comments or requires further information they are requested to contact the Company using the details shown below or by e-mailing info@mcafundingforchurches.co.uk

10. Notices

This Disclosure is based on the Company's latest ICAAP review (using figures as at 31 December 2018) and is subject to periodic review and update.

The information contained in this disclosure has not been audited by the Company's external auditors.

Methodist Chapel Aid Ltd is registered in England and Wales and its registration number is 30546.

The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Firm Reference No: 204508).

The registered office address of the Company is: 1 Telford Terrace, Albemarle Road, York, YO24 1DQ. Tel: 01904 622150.