Company registered no: 533151
Registered Charity no: 251550

Assemblies of God Property Trust

Report and consolidated financial statements

for the year ended 31 December 2018

Assemblies of God Property Trust

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Assemblies of God Property Trust

Company information

Board of Management (trustees for the purpose of the Charities Act)
R O Anekwe
T W Bedward-Jones
A Butcher
R J Hyde
B C Niblock
D E Shearman
K P Thorpe (Chairman)

Registered office
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Mere Way
Ruddington
Nottingham
NG11 6JS

Registered company number
533151

Registered charity number
251550

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Chartered Accountants and Statutory Auditors
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Assemblies of God Property Trust

Report of the Board of Management (trustees) for the year ended 31 December 2018

The Board of Management has pleasure in presenting their report and audited consolidated financial statements for the year ended 31 December 2018 which are also prepared to meet the requirements for a directors' report and financial statements for Companies Act 2006 purposes.

Strategic report

Objectives and activities

The charitable objects of Assemblies of God Property Trust, "the Company", is to help churches, charities and retired pastors with finance for buildings so that they can more effectively reach out to their communities in relevant ways through social and spiritual action and thus help to change lives. The charity and its subsidiary, Kingdom Bank Limited, "the Bank", were set up to achieve these goals.

The strategies we embrace to achieve our aims and objectives are:

1. Mortgages on buildings and insurance cover.
2. A safe haven for investors.
3. Buy to let mortgages on properties which help house disadvantaged people and people with addictions.
4. To provide information on 'good governance' for charities.
5. To act as trustee of property for the charitable purposes of Assemblies of God Incorporated "AOG Inc.", and to promote all charitable aims, enterprises and other charitable objects of AOG Inc.

By the implementation of the above churches or charities aided will effect lives for good and help towards changing society for the better.

The Company's significant activities during the year included the following:

1. The assisting of leaders of churches and charities as to the best method of providing finance for their mission to be realised by including buy to let mortgages, insurance and financial advices. The finance provided enables churches and charities the build or acquire the buildings which then helps them reach their goals and have an effective ministry in their communities.
2. The provision of rental accommodation for retired pastors and missionaries.
3. Acting as holding trustee and providing a helpline on holding trustees and other trustee matters.

For over 60 years the Company and the Bank have been providing these services realising our aims and objectives.

An important role for the Board of Management is also to monitor the performance and plans of the Bank, reflecting its investment in this company of £4,217,000 (2017: £4,217,000) which includes:

1. The provision of stability and compliance for the Bank's continuance.
2. Seeking further capital for the Bank's operation and expansion and also to maintain compliance.
3. Continuance of the provision of loans and mortgages by the Bank to churches and charities so that the Company's mission objectives can be fulfilled.
4. The provision, when possible, of donations to AOG Inc. (via the Company) and other charities with similar goals to ourselves.

Assemblies of God Property Trust

Report of the Board of Management (continued) for the year ended 31 December 2018

Strategic report (continued)

Objectives and activities (continued)

Public benefit

The Board of Management have considered the Charities Act 2011 and the Charities Commission guidance on public benefit, in particular the specific guidance on charities for the advancement of religion. The Company tries to enable people to live out their faith by facilitating financial assistance (through the provision of funds provided by the Bank, providing administrative and legal assistance to member churches and acting as a property trustee for other Assemblies of God organisations.

Use of volunteers

The Company and Group do not use volunteers.

Social investment policy

The Company's social investment policy is carried out via the Bank by providing finance to churches and the Christian community to achieve their charitable purposes.

Achievements and performance

The Company

The model deed for AOG churches has continued to be carried out by Geldards LLP and by AOG Inc. and approved by the Charity Commission. A helpline was provided free of charge during the year, partly supported by the Bank.

The Company acted as holding trustee for 51 (2017: 57) Assemblies of God and other churches.

The 'Springtime Housing' arm of the Company provided 4 (2017: four) properties at affordable rents.

The Bank

During the year the Bank provided 59 (2017: 56) new loans to churches and Christian organisations totalling £9.2 million (2017: £8.6 million).

In addition, the Bank made £43,000 (2017: £39,000) in charitable donations, split between charities with a Christian ethos.

Expenditure

Expenditure on charitable activities for the Company individually has increased by 100% (2017: decreased by 32%) of total expenses. The increase in 2018 is due to additional interest paid to the Bank as detailed in note 30(c).

Strategic report (continued)
Achievements and performance (continued)

Ethics review
The Board of directors have maintained their commitment to the Mission Statement and Values of the business throughout the year. These are seen as the central core of all that the Bank does covering the products offered to customers, the way it looks after its staff and the interaction it has with professional advisers and suppliers. The values remain as before and continued to be embedded in the operation of the Bank:

1. Keeping God at the centre;
2. Valuing people properly;
3. Handling finance responsibly; and
4. Changing lives for good.

Financial review
The Company has performed satisfactorily throughout the year despite net expenditure of £91,000 (2017: net expenditure of £39,000) and remains well capitalised with total charity funds of £4,439,000 (2017: £4,530,000). The results of the Bank are discussed below.

The consolidated net income for the year was £39,000 (2017: £66,000).

Principal risks and uncertainties
The management of the Group's business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Group are considered to relate to the Bank. The Bank regularly reviews the risks affecting the business both internal and external. These risks are, wherever possible, managed to minimise their probability and impact. The principal risks have been identified as capital, liquidity, interest rate, credit, operational and compliance.

During the year the Bank has continued to review, update and refine its Risk Management Framework in response to emerging trends and the continuous reassessment of risks. Key performance indicators relating to the principal risks are monitored by the directors through a monthly Business Performance and Risk Review report.

Capital risk
The Bank's regulatory capital consists of shareholder's funds ("Core Equity Tier 1") and subordinated liabilities ("Tier 2"). Shareholders' funds, comprising ordinary shares and reserves, increased to £5,900,000 (2017: £5,800,000) and subordinated liabilities reduced to £1,400,000 (2017: £1,600,000).

These funds are prudently managed to ensure the Bank maintains sufficient capital for its activities. Unforeseen events can unexpectedly erode this capital and these events are analysed and assessed using the Internal Capital Adequacy Assessment Process ("ICAAP"). This process stress tests the business and allocates sufficient levels of capital to cover assessed risk. The capital is then managed against robust Risk Appetite measures for surplus capital, Core Tier 1 Capital and Leverage Ratio to maintain a healthy margin above the regulatory and internally assessed minima. The Bank continues to meet all the regulatory requirements and expects to do so in future.

Strategic report (continued)

Financial review (continued)

Principal risks and uncertainties (continued)

Liquidity risk

The Bank continues to hold a surplus of liquid reserves. The assessment of the minimum level for these reserves is set after careful analysis of potential withdrawals and regularly stress tested to ensure they are sufficient. This assessment is detailed in the Bank's Internal Liquidity Adequacy Assessment Process ("ILAAP") document.

Interest rate risk

Interest rate risk is the risk of adverse changes to earnings and capital due to changes in interest rates. It is evaluated principally in terms of the sensitivity and exposure of the value of the Bank's assets and liabilities to changes in interest rates. Analysis of the exposure to interest rate risk is managed carefully within the Board's risk appetite. The Bank operates a matching approach to financial risk management, whereby the risk arising from mismatches in re-pricing of assets and liabilities is managed internally through the balance sheet. The Bank has a maximum exposure limit of 5% of own funds for such potential losses in the event of a 2% parallel shift in the yield curve. The Bank also has exposure to basis risk due to the assets and liabilities which re-price with reference to Bank Base Rate ("BBR"). However the risk is significantly reduced as approximately one third of the loan book consists of BBR linked loans with a floor, meaning that a reduction in BBR would have no impact on the rates receivable on these loans and in most cases BBR would need to exceed 3% before the rate receivable increased. The Board has set risk appetite limits against its exposure to basis risk for each type of basis risk mismatch and against the sensitivity of its net interest margin to basis risk.

Credit risk

The Bank's main business is to lend money which brings with it an inherent risk of arrears and default. The careful assessment of each loan application against strict credit policy guidelines together with very supportive and hands-on management of arrears ensures that this risk is mitigated as far as is possible. The loan loss provision has decreased by £34,000 (2017: increase of £88,000) in the year as disclosed in note 18 c). The decrease is principally due to one loan which the Bank has exited through sale of the underlying property. The Bank's systems monitor all customers who are in arrears ensuring that we can help and support where necessary. The number of cases more than 60 days in arrears and in breach of contract reduced to 4 (2017: 5) and the total balance reduced to £400,000 (2017: £500,000), representing 1.0% (2017: 1.3%) of the loan book. This has been achieved through the Bank's now established policy of working closely with our clients over a long period resulting in them either finding a solution to reducing the arrears or deciding to sell their property.

Operational risk

The Bank's operational structure is well developed and stable. The outsourced IT systems for banking and insurance operate effectively with external support provided to the Bank's own experienced staff. During the year a restructure of the management team enabled the creation of the post of Head of IT & Finance. The individual taking on this role has been appointed to the new regulatory function SMF24 Chief Operations. Security of IT systems and Cyber Risk is kept under close scrutiny and has been reviewed by specialists as part of internal audit and continues to be improved in line with the latest industry developments. A comprehensive business continuity back-up service is available and regularly tested. Internal audits and compliance reviews confirm that the operational risks are well managed through departmental team leaders reporting to the executive directors.

Strategic report (continued)

Financial review (continued)

Principal risks and uncertainties (continued)

Compliance risk
The Bank's Risk and Compliance Officer manages the day to day operation of the compliance function supported by an assistant. This enables the Bank to maintain the focus on Compliance, Treating Customers Fairly and Conduct Risk to ensure they become even more closely embedded into the business. This senior staff member also acts as the Money Laundering Reporting Officer and oversees our management of financial crime issues.

Financial review – The Bank

Principal activities
The principal business of the Bank continues to be secured lending to churches, charities and individuals. The church and charity loans are focussed on helping the organisations to deliver their mission to their local communities. The loans to individuals are either for similar purposes or to provide housing for church workers now or in the future. The Bank is particularly interested in financing projects which provide practical help and support to people in need both physically and spiritually. This is funded from customer deposits in a range of savings and investment accounts. These savings products are designed to be easy to understand, whilst offering sufficiently competitive interest rates and easy access. In conjunction with this the Bank operates an insurance broking service specialising in churches and charities.

Review of the business
The Bank has continued to focus its activities on the areas of banking, comprising mortgage lending and retail deposits, and general insurance broking.

Mortgages
The Bank's long standing specialism is commercial lending to member based Registered Charities which operate as Churches, many of which provide benefits and services to their local community. During the year 59 (2017: 56) new loans were approved totalling £9,200,000 (2017: £8,600,000) and 61 (2017: 53) were drawn down with advances totalling £5,900,000 (2017: £5,500,000). The total value of loans approved and waiting to be drawn increased to £7,000,000 (2017: £5,200,000). The total loan book has increased to £41,400,000 (2017: £38,400,000) after the loan loss provision. Arrears management remains a key focus with an internal Risk Appetite for no more than 7.5% of the loan book to be more than 3 months in arrears. We are pleased that the Bank has remained well within the internal Risk Appetite throughout the year, and arrears stood at 1.03% at 31 December 2018 (2017: 1.34%).

The Bank continues to expand its lending secured on residential property and included in the totals above lending in this sector has increased in the year with £4,300,000 (2017: £2,900,000) of loans approved and £2,400,000 (2017: £1,500,000) drawn.

Savings
Savings accounts are provided for both private individuals as well as organisations on terms between no-notice and up to two years fixed term. Interest rates across the market continue to remain very low with surplus liquidity held by many deposit takers. As part of a planned change to our treasury management we were able to reduce deposits during the year by £2,600,000 (2017: increased by £4,800,000) to £46,100,000 (2017: £48,700,000).

Strategic report (continued)

Financial review (continued)

Financial review – The Bank (continued)

General insurance

The Bank's insurance broking provides a high level of customer service and support to Churches and Charities. Policies are offered providing protection for assets and liability risks cover. The market for insurance has remained soft during the year with pressure to reduce the overall cost for clients where possible. Despite this the commission income earned from this activity increased to £369,000 (2017: £335,000). Customer retention remains very strong at 98% (2017: 98%).

Results for the year

The profit on ordinary activities before taxation was £178,000 (2017: £140,000). The increase in profit was due mainly to increased net interest margin, as defined below under key performance indicators, which resulted from additional lending and reduced interest payable to depositors following the intentional reduction in surplus deposits held. The statement of comprehensive income shows an unrealised surplus on revaluation of operating property of £nil before tax (2017: £11,000). This performance was in excess of the budgeted plan for the year due to savings achieved in operating expenses.

Mortgage lending increased during the year with the total mortgage book reaching £41,400,000 (2017: £38,400,000). Customer deposits decreased during the year reducing surplus liquidity with total assets reducing to £53,800,000 (2017: £56,300,000).

Strategic report (continued)

Financial review (continued)

Financial review – The Bank (continued)

Key performance indicators
The Bank monitors a number of financial key performance indicators and the values reported at 31 December were as follows.

Key performance indicator	Definition	Internal Risk Appetite / Target	2018	2017
Core Equity Tier 1 ("CET1") ratio	Share capital and reserves expressed as a percentage of total risk exposure amount (risk weighted assets plus operational risk capital requirement).	Above 10%	14.57%	14.41%
Leverage ratio	Tier 1 capital (share capital and reserves plus additional Tier 1 capital) expressed as a percentage of total exposure (i.e. non-risk weighted on and off balance sheet exposures). The Bank does not have any additional Tier 1 capital.	Above 5%	10.10%	9.38%
Liquidity Coverage Requirement ("LCR") ratio	High quality liquid assets divided by expected net outflows (expected cash outflows less expected capped cash inflows) over a 30 day stressed period. The Bank's high quality liquid assets comprise balances held at the Bank of England.	Above 250%	556.3%	520.3%
Net interest margin (£'000 and as a percentage of average interest earning assets)	Interest and fees earned from balances at central banks, loans and advances to banks and loans and advances to customers less interest payable on customer accounts and subordinated liabilities. Average interest earning assets is the average sum during the year of cash and balances at central banks, loans and advances to banks and loans and advances to customers. The risk appetite for this indicator is set out in the Bank's 5 year Business Plan.	1,736 / 3.07%	1,673 / 3.15%	1,477 / 2.85%
Loans and advances to customers (before provisions) (£'000)	Total loans and advances to customers before deduction of loan loss provisions.	44,780	41,687	38,755
Loans with arrears in excess of 3 months	Non-performing loans (loans and advances to customers with arrears in excess of 3 months) as a percentage of total loans and advances to customers.	Below 7.5%	1.03%	1.34%

Strategic report (continued)

Financial review (continued)

Financial review – The Bank (continued)

The Bank actively monitors a number of risk appetite metrics to ensure that its activities are being managed within their Board's risk appetite.

Corporate governance

The Board of the Bank includes three groups of directors. There are directors who are independent and objectively bring a range of skills and experience to the Board. The second group are executive directors who are responsible for delivering accurate and timely information and implementing the strategy of the Bank and the decisions of the Board. The third group of directors are those appointed by a shareholder owning a majority of voting shares. During 2018, however, the shareholder decided they would choose no longer to appoint any such directors but would take up their right to appoint an observer. Consequently an observer also attends Board meetings to represent the shareholder's interest on the Bank's Board.

Meetings of the Board take place at least five times a year during which all strategic matters are discussed and decisions made and policies are reviewed and approved.

The Audit, Risk and Compliance Committee liaises with and reviews the performance of the second line of defence (the risk and compliance function) and the third line of defence (internal audit) as well as external audit and also reviews the Bank's internal controls, with particular reference to the Financial Conduct Authority and Prudential Regulatory Authority handbook and rulebook requirements. Additionally it provides defence at a strategic level against all manner of risk, drawing on detailed analysis and reports, ensuring robust and effective controls are in place. It ensures risk-related management information is appropriate, comprehensive and effectively used.

The Board is responsible for ensuring that it is composed of directors with the appropriate balance of knowledge, skills, diversity and experience and is not dominated by any one individual or small group of individuals. The Board also periodically assesses its structure, size, composition and performance and the knowledge, skills and experience of individual Board members and of the Board collectively. The Board periodically reviews the policy for selection and appointment of senior management and is responsible for the Bank's remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

Reserves and reserves policy

The net increase in funds in the Group for the year of £39,000 (2017: increase of £72,000) has increased the accumulated total funds which amount to £6,130,000 at 31 December 2018 (2017: £6,091,000). The net funds in the Company have decreased by £91,000 (2017: decreased by £39,000) and accumulated total funds amount to £4,439,000 (2017: £4,530,000).

Of the Group reserves £564,000 are unrestricted (2017: £623,000) and £5,566,000 are restricted (2017: £5,468,000).

Of the Company's reserves £222,000 are unrestricted (2017: £313,000) and £4,217,000 are restricted (2017: £4,217,000).

Most of the restricted reserves are made up of the Company's investment in the Bank which cannot be realised without the sale of the Bank. These reserves are maintained at a level to ensure the Bank's capital and liquidity requirements are met in line with its future plans.

Strategic report (continued)

Financial review (continued)

Financial review – The Bank (continued)

Reserves and reserves policy (continued)
The Board of Management regularly reviews the level of reserves and considers the current level adequate to meet the Company's aims and objectives.

The Company's normal policy and target for its own reserves is to have sufficient free reserves to cover expenditure anticipated in the next 3 to 6 months and it relies on the sale proceeds from the property sold in a previous year to provide the necessary reserves.

Investment policy
The members of the Board of Management recognise their duty of care in relation to investments and monitor closely the performance of its investment in the Bank. They actively appraise the performance of the Bank against its aims, including the return on capital invested. One member of the Board of Management attends as an observer at meetings of the Board of the Bank.

Plans for future years

The Bank's CEO has given notice of his intention to retire and consequently the Bank's Board have commenced the process of recruiting a replacement. The CEO has agreed to continue to lead the Bank until the selection and appointment process has been concluded.

The Bank has been preparing for the UK exiting the European Union. In the context of its operations careful consideration has been given to the expected impact including the effect on its customers, the niche property market of commercial and personal mortgage lending and a review of business contracts and support services. Within its scenario forecasting the Bank has utilised the Bank of England's stress scenarios. The Bank's directors are confident of the Bank's ability to manage the business despite the uncertainty of the UK's departure arrangements.

The Company, as 100% shareholder of the Bank, has continued to review the best way to support the development of the Bank and to meet its own objectives. During 2018, the Company engaged independent consultants to review the various strategic options, including sale of the Bank. This has resulted in asking those organisations who had expressed an interest in acquiring the entire shareholding of the Bank to make a non-binding offer. The review remains ongoing with the final decision expected to be actioned during 2019.

The Bank has now completed the second year of its revised business strategy which is to increase profitability to provide additional reserves adding to the Bank's capital. The results for 2018, as indicated above, shows the Bank was ahead of where it wanted to be due partly to the additional lending activities.

The Company also seeks to develop and provide good quality information for churches on governance. The Holding Trustee service will again be actively encouraged, giving churches the benefits and stability of a corporate holding trustee. The Board of Management is seeking to work together with AOG Inc. to consider new ways of delivering a service to the Assemblies of God movement. Where necessary, staff and other resources will be put in place to assist in the delivery of new initiatives.

Organisational structure
The Company is limited by guarantee – and not having a share capital - operates under a Memorandum and Articles of Association. It was incorporated on 11 May 1954 with registration number 533151. The Company is also a registered charity, number 251550. The Board of Management comprises up to ten members who are appointed at the Annual General Meeting from among the members, for a four year term of service, after which they are eligible for re-election.

Report of the Board of Management (continued) for the year ended 31 December 2018

Strategic report (continued)

Structure, governance and management (continued)

The Group

The Group consists of Assemblies of God Property Trust, Kingdom Bank Limited and the dormant subsidiaries, Springtime Housing Association and KBL Services Limited.

Other relationships

The Company is part of the Assemblies of God movement in Great Britain; this is a Pentecostal movement of over 500 churches of various sizes located throughout Great Britain which believes that every individual can and should have a personal relationship with Jesus Christ and have the opportunity to be part of a local, vibrant church. The Assemblies of God movement seeks to build churches that are relevant to people of all ages.

Assemblies of God Incorporated and the Company hold a deed of agreement that the Company may distribute up to 50% of any unrestricted donation received from the Bank in any year.

Assemblies of God Incorporated is a company limited by guarantee (No. 2873415) registered in England, having its registered office at The National Ministry Centre, Mattersey Hall, Retford Road, Mattersey, DN10 5HD, and is also a registered charity (No. 1032245).

Related parties

The Bank, a wholly owned subsidiary of the Company, is a financial services provider. The results of the Bank are consolidated into the financial statements of the Company.

Trustee appointment, induction and training

The Board of Management (the trustees) and the Board of the Bank aim to have a broad range of skills represented, but in particular expertise in finance, banking and charity law. These skills are necessary and looked for in selecting board members.

A selection and recruitment process takes place when potential Board members are nominated and interviewed; they then attend board meetings as probationary Board members for at least six months, and following a further interview may be nominated for election at the next Annual General Meeting. During the probationary period, full induction is provided, and, once appointed, further training is given as appropriate.

Trustee remuneration

The trustees received no remuneration as members of the Board of Management. The following trustees received payments during the year for administrative services and additional duties:

Mr. R O Anekwe	£14 (2017: £100)
Mrs. A Butcher	£nil (2017: £200)
Mr. R J Hyde	£1,333 (2017: £2,050)
Mr. B C Niblock	£19,530 (2017: £7,860)

Refer to note 11 for further details of expenses and remuneration paid.

Organisation

Decisions are taken by the Board of Management (the trustees), either at meetings or by other forms of communication. The day-to-day running of the activities is carried out by the trustees, and the Company's administrator, supplemented by the administrative support provided by the trading subsidiary, the Bank.

Reference and administrative details

Refer to page 1 for details of the trustees, Company Secretary, Registered Office and professional advisors. Refer to Structure, governance and management for other administrative details.

Strategic report (continued)

Structure, governance and management (continued)

Exemptions from disclosure

Due to the registration of the Bank as an Authorised Institution under the terms of the Financial Services and Markets Act 2000 and the preparation of the subsidiary financial statements in accordance with the special provisions of SI 2008 No. 410, Schedule 2 of the Companies Act 2006, the directors have concluded that, in order to give a true and fair view, additional headings are required to be included in the Balance Sheet compared to those in the "Accounting and Reporting by Charities" SORP 2015.

Movements in valuation of operating properties are posted through the SOFA, and investment properties have been separately disclosed on the face of the balance sheet as such presentation is relevant to the understanding of the Group's financial performance.

The Company meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

A separate Statement of Financial Activities and Income and Expenditure Account for the Company have not been presented because the Company has taken advantage of the exemption afforded by Section 408 of the Companies Act 2006.

Funds held as a custodian trustee on behalf of others

The Company acts as a custodian trustee for the following properties:

- Land and buildings at Bacon Lane, Edgeware. Held under trust deed dated 11 January 1964, formerly owned by an Assemblies of God church. The church property can only be used for churches of 'like-minded' doctrine; and
- Church property at Blaenavon.

This activity falls within the Company's charitable objects as described in the section "Objectives and activities". The safe custody of these assets is provided by our Solicitors – Geldards Solicitors – and the values are not shown in the Company's assets.

Going concern

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, the Companies Act 2006, the Charities Act 2011, the Statement of Recommended Practice 2015 (SORP 2015) Accounting and Reporting by Charities applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January FRS 102) , the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

The financial statements are prepared under the historical cost convention, modified to include the revaluation of land and buildings.

In assessing the application of the going concern assumption, the trustees have considered the current and anticipated future performance and cash requirements of the Group. They have also assessed the Company's and Bank's budgets for 2019 and forecasts for 2020, assessed capital requirements and liquidity levels, both before and after performing sensitivity analysis and stress testing on the budget and forecasts.

The forecasts, supported by current activity levels, indicate the Group will continue to generate surpluses and has sufficient cash and liquidity for its operational needs for the foreseeable future. In terms of capital requirements, The Bank continues to meet all of its current regulatory requirements. Based on their enquiries, the trustees have therefore concluded that it is appropriate to adopt the going concern basis in preparing these financial statements.

Strategic report (continued)

Donations

The trustees are committed to making donations to AOG Inc. where funds permit. For 2018 donations of £nil were given (2017: £3,450).

The Bank's charitable donations totalled £43,000 (2017: £39,000). These donations were made to a range of local and national charities with a Christian ethos. No political donations were made during the year (2017: nil).

Financial risk management

With the exception of the investment in the Bank and the valuation of its investment properties, the Company has little exposure to financial risk that requires active management.

The financial risks in respect of the Group are reflected within the assessment of principal risks and uncertainties on pages 4 to 6. See also note 33 to the financial statements.

Qualifying third-party and pension indemnity

The Group is not a party to any third-party or pension indemnities.

Fund-raising

Neither the Bank nor the Company fund-raise.

Employees

Following some changes in individual staff during the year the total staff members at the Bank at 31 December 2018 (excluding non-executive directors of the Bank) were 24.1 FTE and 27 people respectively (2017: 20.8 FTE and 22 people respectively). The Company has 7 (2017: 7) directors.

The Bank continued to support staff members in their own development including courses provided by the London Institute of Banking & Finance, the Chartered Insurance Institute and the Chartered Institute of Management Accountants, as well as technical training.

Board of Management

The members of the Board of Management are also directors for the purposes of company law and trustees for the purposes of charity law. The members of the Board of Management who were in office during the year and up to the date of signing the financial statements (unless otherwise stated) were:

R O Anekwe
A Butcher
B C Niblock
K P Thorpe (Chairman)
T W Bedward-Jones
R J Hyde
D E Shearman

The articles of association require directors who have been in office for four years to retire, and being eligible may offer themselves for re-election.

Approved by the Board of Management on 3 April 2019 and signed on its behalf by

BCNiblock

B C Niblock
Director

3 April 2019

Statement of the Board of Management's Responsibilities

Statement of trustees' responsibilities

The trustees (who are also directors of Assemblies of God Property Trust for the purposes of company law) are responsible for preparing the Report of the Board of Management (including the Strategic report) and the financial statements in accordance with applicable law and regulation.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the charitable Company and the Group and of the incoming resources and application of resources, including the income and expenditure, of the charitable Group for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Statement of Recommended Practice: Accounting and Reporting by Charities (2015);
- make judgments and estimates that are reasonable and prudent[2];
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable Company will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable Company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In so far as the trustees are aware:

(a) there is no relevant audit information of which the Company's auditors are unaware; and

(b) the trustees have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Assemblies of God Property Trust

Independent auditors' report to the members of Assemblies of God Property Trust

Report on the audit of the financial statements

Opinion

In our opinion, Assemblies of God Property Trust's group financial statements and parent charitable company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 December 2018 and of the group's and parent charitable company's incoming resources and application of resources, including its income and expenditure, and of the group's and parent charitable company's cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and consolidated financial statement (the "Annual Report"), which comprise: the consolidated and parent charitable company balance sheets as at 31 December 2018; the consolidated statement of financial activities and income and expenditure account, the consolidated and parent charitable company statement of cash flows for the year then ended; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent charitable company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's and parent charitable company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The trustees are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Assemblies of God Property Trust (continued)

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Report of the Board of Management

In our opinion, based on the work undertaken in the course of the audit the information given in the Report of the Board of Management, including the Strategic Report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic Report and the Report of the Board of Management have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and parent charitable company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Board of Management. We have nothing to report in this respect.

Responsibilities for the financial statements and the audit

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of trustees' responsibilities set out on page 14, the trustees are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The trustees are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and parent charitable company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group and parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the charity's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Assemblies of God Property Trust (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent charitable company or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andrew Batty (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
3 April 2019

Consolidated statement of financial activities and income and expenditure account for the year ended 31 December 2018

	Note	Unrestricted Funds 2018 £'000	Restricted Funds 2018 £'000	Total Funds 2018 £'000	Unrestricted Funds 2017 £'000	Restricted Funds 2017 £'000	Total Funds 2017 £'000
Income from:							
Donations and legacies	6	**1**	**-**	**1**	-	-	-
Charitable activities							
- Fees receivable	6	**4**	**-**	**4**	5	-	5
- Rents receivable	6	**19**	**-**	**19**	17	-	17
Other trading activities							
- Commercial trading operations	9	**-**	**2,553**	**2,553**	-	2,341	2,341
Total income		**24**	**2,553**	**2,577**	22	2,341	2,363
Expenditures on:							
Raising funds							
- Commercial trading operations	9	**-**	**(2,455)**	**(2,455)**	-	(2,243)	(2,243)
Charitable activities	10	**(83)**	**-**	**(83)**	(56)	-	(56)
Total expenditure		**(83)**	**(2,455)**	**(2,538)**	(56)	(2,243)	(2,299)
Profit on sale of investment properties	15	**-**	**-**	**-**	-	-	-
Unrealised surplus on revaluation of investment property	15	**-**	**-**	**-**	-	2	2
Net (expenditure)/income for the financial year		**(59)**	**98**	**39**	(34)	100	66
Unrealised surplus on revaluation of operating properties	14	**-**	**-**	**-**	-	11	11
Deferred tax on unrealised surplus on revaluation of operating properties	14	**-**	**-**	**-**	-	(5)	(5)
Total comprehensive (expenditure)/income for the financial year		**(59)**	**98**	**39**	(34)	106	72
Reconciliation of funds							
Total funds brought forward	24,25	**623**	**5,468**	**6,091**	657	5,362	6,019
Total funds carried forward	24,25	**564**	**5,566**	**6,130**	623	5,468	6,091

All income and expenditure derive from continuing activities. Other trading activities are considered by the Trustees to be directly in support of the Company's charitable activities.

Consolidated and parent charitable Company balance sheets as at 31 December 2018

	Note	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Fixed assets					
Intangible assets	13	**122**	**-**	189	-
Tangible assets	14	**685**	**-**	842	-
Investment properties	15	**1,088**	**421**	921	421
Investments	16	**-**	**4,217**	-	4,217
Total fixed assets		**1,895**	**4,638**	1,952	4,638
Current assets					
Loans and advances to banks	17	**5,939**	**-**	11,311	-
Loans and advances to customers	18	**41,125**	**-**	38,156	-
Other assets	19	**376**	**3**	348	4
Cash at bank and balances at central bank	7	**4,689**	**218**	4,795	301
Total current assets		**52,129**	**221**	54,610	305
Liabilities: amounts falling due within one year					
Customer accounts	21	**(42,693)**	**-**	(43,699)	-
Other liabilities	22	**(383)**	**(141)**	(264)	(131)
Subordinated liabilities	23	**-**	**-**	(150)	-
Total liabilities: amounts falling due within one year		**(43,076)**	**(141)**	(44,113)	(131)
Current assets less liabilities falling due within one year		**9,053**	**80**	10,497	174
Total assets less liabilities falling due within one year		**10,948**	**4,718**	12,449	4,812
Liabilities: amounts falling due after more than one year					
Loans and advances from credit institutions	20	**-**	**(279)**	-	(282)
Customer accounts	21	**(3,388)**	**-**	(4,928)	-
Subordinated liabilities	23	**(1,430)**	**-**	(1,430)	-
Total liabilities: amounts falling due after more one year		**(4,818)**	**(279)**	(6,358)	(282)
Total assets less liabilities		**6,130**	**4,439**	6,091	4,530
The funds of the charity					
Restricted funds	24,25	**5,566**	**4,217**	5,468	4,217
Unrestricted funds	24,25	**564**	**222**	623	313
Total charity funds		**6,130**	**4,439**	6,091	4,530

The loss of the Company for the year was £91,000 (2017: loss of £39,000).

The financial statements on pages 18 to 64 were approved by the Board of Management on 3 April 2019 and signed on its behalf by

BCNiblock

B C Niblock

Director

3 April 2019

Consolidated and parent charitable Company statement of cash flows for the year ended 31 December 2018

	Note	**Group 2018 £'000**	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Cash flows from operating activities					
Net cash (used in)/generated from operating activities	34	**(4,190)**	**(83)**	1,368	242
Tax paid		**(32)**	**-**	(23)	-
Net cash (used in)/generated from operating activities		**(4,222)**	**(83)**	1,345	242
Cash flows from investing activities					
Purchase of intangible assets	13	**(12)**	**-**	(16)	-
Purchase of tangible assets	14	**(40)**	**-**	(15)	-
Proceeds from disposal of investment property		**-**	**-**	-	-
Net cash used in investing activities		**(52)**	**-**	(31)	-
Cash flows from financing activities					
Repayment of subordinated liabilities		**(150)**	**-**	-	-
Net cash used in financing activities		**(150)**	**-**	-	-
Net (decrease)/ increase in cash and cash equivalents		**(4,424)**	**(83)**	1,314	242
Cash and cash equivalents at the beginning of the year		**14,800**	**301**	13,486	59
Cash and cash equivalents at the end of the year		**10,376**	**218**	14,800	301
Cash and cash equivalents consist of:					
Cash at bank and balances at central bank	7	**4,689**	**218**	4,795	301
Loans and advances to banks repayable on demand or in not more than three months (note 17)		**5,687**	**-**	10,005	-
Cash and cash equivalents		**10,376**	**218**	14,800	301

Notes to the financial statements for the year ended 31 December 2018

1. General information

The Group consists of Assemblies of God Property Trust "the Company" and its wholly owned subsidiary Kingdom Bank Limited "the Bank".

The Company is limited by guarantee – and not having a share capital – operates under a Memorandum and Articles of Association. The registered number of the Company is 533151 and its registered charity number is 251550.

The Bank is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is based in the East Midlands. The address of the registered office of the Company and the Bank is Kingdom Bank Limited, Ruddington Fields Business Park, Mere Way, Ruddington, Nottingham. The registered number of the Bank is 04346834.

The Bank has two income streams: interest receivable from secured lending to churches, charities and individuals, and commission receivable from insurance broking services specialising in churches and charities. The church and charity loans are focussed on helping the organisations to deliver their mission to their local communities. The loans to individuals are either used for similar purposes or to provide housing for church workers now or in the future. The Bank is particularly interested in financing projects which provide practical help and support to people in need both physically and spiritually. This is funded from customer deposits in a range of savings and investment accounts. These savings products are designed to be the natural choice for churchgoers, being easy to understand whilst offering sufficiently competitive interest rates and easy access.

All income relates to services provided in the UK to UK churches, charities and individuals.

2. Statement of compliance

Due to the registration of the Bank as an Authorised Institution under the terms of the Financial Services and Markets Act 2000 and the preparation of the subsidiary financial statements in accordance with the special provisions of SI 2008 No. 410, Schedule 2 of the Companies Act 2006 applicable to banking companies, the directors have concluded that, in order to give a true and fair view, additional headings are required to be included in the Balance Sheet compared to those in the "Accounting and Reporting by Charities" SORP 2015. The financial statements have been prepared in compliance with those standards.

Movements in valuation of operating properties are posted through the Statement of Financial Activities ("SOFA") and separately disclosed on the face of the balance sheet as such presentation is relevant to the understanding of the Group's financial performance.

The Company meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

3. Basis of consolidation

The SOFA and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2018. Uniform accounting policies have been applied across the Group, profits or losses on intra-group transactions have been eliminated and intra-group transactions are eliminated fully on consolidation.

The results of the Bank are consolidated into these financial statements and presented separately as commercial trading activities.

A separate Statement of Financial Activities and Income and Expenditure Account for the Company has not been presented because the Company has taken advantage of the exemption afforded by Section 408 of the Companies Act 2006.

4. Summary of significant accounting policies

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP 2015 (FRS 102)), the Companies Act 2006 and the Charities Act 2011.

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and its subsidiary's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

(b) Going concern

The Company and the Bank meet their day-to-day working capital requirements through their clearing bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

After making appropriate enquiries, the directors have formed a judgement, at the time of approving the financial statements, that the Group can have a reasonable expectation that adequate resources will be available for it to continue its operations for the foreseeable future, and consequently it is appropriate to adopt the going concern principle in the preparation of the financial statements. In forming this judgement, the directors have reviewed the Company and Bank's budgets for 2019 and forecasts for 2020, assessed capital requirements and liquidity levels, both before and after performing sensitivity analysis and stress testing on the budget and forecasts.

The Group therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Foreign currency

The Company's functional and presentation currency is the pound sterling. The Group only operates in the UK and so is not exposed to foreign exchange volatility.

(d) Income and expense recognition

(i) Interest receivable

Interest receivable represents interest and fees earned from customer balances and is recognised using the effective interest method in the SOFA in the year to which it relates. This method uses a set of estimated future cash flows through the expected life of each loan, rather than contractual cash flows. Incremental loan fees receivable (where they do not relate to 'significant acts') and payable are spread over the life of the loan. The expected life of the loan is the average period to derecognition (early redemption / full repayment). This has been estimated as 7 years (2017: 7 years) on average based on customer practice and will be kept under regular review against the Group's actual data and against market data.

(ii) Interest payable

Interest payable represents interest payable on customer balances and is recognised using the effective interest method in the year to which it relates.

(iii) Insurance commission income

Commissions receivable are recognised in the year to which they relate, less a collective provision for amounts that may be returned if this is considered material.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Summary of significant accounting policies (continued)

(d) Income and expense recognition (continued)

(iv) Other operating income

Other operating income includes rental income from investment properties and other sundry income. Rental income from investment properties is recognised in the SOFA on a straight-line basis over the term of the leases.

(v) Other income and expenses

Other income and expenses are recognised on an accruals basis.

(vi) Donations and legacies

No legacies were granted in the current or prior year. Donations are recognised when entitlement over the funds is held, any conditions associated are met, the receipt of the economic benefit is probable and the economic benefit can be measured reliably.

All income originates and arises in the UK. The Bank has two classes of business as set out under general information and reported in the SOFA and the Company holds the Bank as well as other investment properties from which it earns rental income and other fees.

(e) Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and loans and advances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Loan loss provision

Specific loan loss provisions are made against the carrying amount of loans and advances that are identified as not fully recoverable to reduce these loans and advances to their recoverable amounts. Specific provisions are made for loans where arrears exceed three months' contractual payments or management judge that the probability of loss occurring is significant and an exposure to potential loss exists after realisation of security at a forced sale discount.

A loan loss provision has been included for Incurred But Not Reported ("IBNR") losses, which is maintained for loans which are likely to have incurred losses triggered by historical events but which have not yet been reported and uniquely identified. The IBNR provision has been separated into two elements: unincorporated borrowers and incorporated borrowers and a provision has been recognised for each type of borrower which reflects the level of risk assessed by management.

Increases in the loan loss provision are recognised in the SOFA. If in a subsequent year the amount decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the SOFA.

4. Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including customer accounts, other liabilities, loans from fellow Group companies and subordinated liabilities that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Subordinated liabilities which result in fixed returns to the holder or are mandatorily redeemable on a specific date are classified as liabilities reflecting the contractual obligation for the Group to pay cash to the holders. The interest on these subordinated liabilities is recognised in the SOFA as interest expense.

Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers, and are recognised at transaction price.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Intangible fixed assets

(i) Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets acquired at the date of acquisition. Fair value is attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date.

Goodwill on acquisition is included in intangible assets. Goodwill is stated at cost less accumulated amortisation and impairment. Goodwill is amortised over its estimated useful life on a straight-line basis. Management have assessed the useful economic life of goodwill to be 10 years.

Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other years if events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its fair value.

(ii) Software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between 3 and 5 years, on a straight line basis. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

4. Summary of significant accounting policies (continued)

(g) Investment properties

Freehold investment properties are included in the balance sheet at fair value which is taken as being open market value. Movements in valuation are posted through the SOFA. Investment property is not depreciated. Open market value is reassessed annually by the directors, with reassessment by appropriately qualified third party valuers every 5 years.

The Bank's head office property is separated between investment property (ground floor and part of first floor) and operating property (remainder of first floor and land) based on an allocation of land value and building value. Building value is allocated based on floor area.

Details of the value of the properties are provided in note 15 to the financial statements.

(h) Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis at rates designed to write down the cost or valuation of fixed assets to their residual values over their expected useful lives. The following are approximations of the useful lives:

Freehold buildings	50 years
Office equipment and computer hardware	between 3 and 7 years
Furniture, fixtures and fittings	10 years

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting year to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. The effect of any change is accounted for prospectively.

Operating property is included in the balance sheet at open market value on an existing use basis. Open market value is reassessed annually by the directors, with reassessment by appropriately qualified third party valuers every 5 years. Movements in valuation are posted through the SOFA to the revaluation reserve except that a permanent diminution in value, which is in excess of any previously recognised surplus over cost relating to the same property, is charged to the SOFA. A transfer is made from the revaluation reserve to the SOFA to offset the difference in depreciation due to previous revaluations.

Repairs, maintenance and minor inspection costs are expensed as incurred unless associated with a property in possession where they are charged to the borrower's loan account in accordance with the terms of the loan.

(i) Impairment

The carrying amount of the Group's assets is reviewed at each balance sheet to determine whether there is any indication of impairment. If any such indicators exist, the asset's recoverable amount is reviewed. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of market value or the value in use of the respective asset. Impairment losses are recognised in the SOFA.

A reversal of an impairment loss is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Summary of significant accounting policies (continued)

(j) Pension costs

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and a defined contribution pension plan.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year in which the service is received.

(ii) Defined contribution pension plans

The Bank operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. Once the contributions have been paid the Bank has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Bank in independently administered funds.

(k) Operating leases

Lease incentives

Incentives received to enter into an operating lease are credited to the SOFA, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Group took advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the SOFA over the period to the first review date on which the rent is adjusted to market rates.

(l) Taxation

The Company is a registered charity, and as such is entitled to certain tax exemptions on income and profits from investments, and surpluses on any trading activities carried on in furtherance of the Company's primary objectives, if these profits and surpluses are applied solely for charitable purposes.

Taxation expense for the year comprises current and deferred tax recognised in the reporting year. Tax is recognised in the SOFA.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years of the Group. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Summary of significant accounting policies (continued)

(l) Taxation (continued)

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and income of the Group as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date including property revaluations. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Disclosure of the expected period of utilisation is given in note 19.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and building societies and other short-term highly liquid investments with original maturities of three months or less.

(n) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(o) Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the Group. It does not disclose transactions with members of the same Group that are wholly owned, applying the exemption in FRS 102 Section 33.1A.

(p) Borrowing costs

All borrowing costs are recognised in the SOFA in the year in which they are incurred.

(q) Dividends

The Company is prohibited under its Memorandum of Association from paying dividends to its members. Accordingly no dividends have been paid or proposed in the current or prior financial year.

Dividends and other distributions to the shareholders are recognised as a liability in the financial statements in the year in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Summary of significant accounting policies (continued)

(r) Fund accounting

Unrestricted funds are available to spend on activities that further any of the purposes of charity. Restricted funds are donations which the donor has specified are to be solely used for particular areas of the Company's work or for specific projects being undertaken by the Company and the Company's investment in the Bank. Details are provided within notes 24 and 25. There are no designated funds.

5. Critical accounting judgements and estimation uncertainties

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements

Subordinated liabilities have been classified as financial liabilities as detailed in note 4 (f) (ii).

(b) Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Loan loss provision

The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in SOFA for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Investment property valuation

Investment properties are stated at their fair value based on reports prepared by the directors at the end of each reporting year, with periodic reassessment by appropriately qualified third party valuers. There is sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Group's investment properties.

In preparing the valuation reports on the Group's investment properties, the external valuer will exclude distressed sales when considering comparable sales prices. Management will review the valuer's assumptions and confirm that these assumptions have been appropriately determined considering the market conditions at the end of the reporting year. Notwithstanding the above, management considers that the valuation of its investment properties is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value.

The principal assumptions underlying the estimation of the fair value are those relating to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions reported by the market.

Notes to the financial statements for the year ended 31 December 2018 (continued)

5. Critical accounting judgements and estimation uncertainties (continued)

(b) Key accounting estimates and assumptions (continued)

(iii) Operating property valuation

The part of the premises for the Bank's own use are stated at fair value based on reports prepared by directors, with periodic reassessment by appropriately qualified third party valuers. The fair value of the premises is estimated based on the income capitalisation method, where the value is estimated from the expected market rental income streams from similar properties and capitalisation yields. The method considers net income generated by comparable property, capitalised to determine the value for property which is subject to the valuation.

The principal assumptions underlying the estimation of the fair value are those relating to: the possible market rentals and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions reported by the market.

Notes to the financial statements for the year ended 31 December 2018 (continued)

6. Financial Performance of the Company

The consolidated statement of financial activities includes the results of the Bank, the wholly owned subsidiary of the Company.

The summary financial performance of the charity alone is:

	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Donations and legacies				
From the Bank		16		7
		16		7
Income from charitable activities				
Fees receivable		4		5
Rents receivable		19		17
		23		22
Expenditure on charitable activities				
Professional fees		(26)		0
Governance costs		(22)		(33)
Other charitable activities				
Bank	(2)		(12)	
Other	(80)		(23)	
		(82)		(35)
Total expenditure		(130)		(68)
Loss for the year		(91)		(39)
Total funds brought forward		4,530		4,569
Total funds carried forward		4,439		4,530

Net expenditure for the financial years for the Group:

This is stated after charging/(crediting):	2018	2017
	£'000	£'000
Depreciation of tangible fixed assets and amortisation of software	79	81
Amortisation of goodwill (note 13)	30	30
Auditors' remuneration – fees payable to Company's auditors for:		
- The audit of parent Company and consolidated statement	22	22
- The audit of Company's subsidiaries pursuant to legislation	69	68
- Other assurance services	3	3
Operating lease rentals received	(57)	(51)
Movement in loan loss provision	43	88

The Company is a registered charity and as such is entitled to certain tax exemptions on income and profits from investments, and surpluses on any trading activities carried on in furtherance of the Company's primary objectives, if these profits and surpluses are applied solely for charitable purposes which has been the case in the current and prior years. The figures are shown before consolidation adjustments which total £(32,000) (2017: £(5,000)).

Notes to the financial statements for the year ended 31 December 2018 (continued)

7. Analysis of cash and cash equivalents

Analysis of changes in net cash and cash equivalents:

	At 1 January 2018	Cash flows	At 31 December 2018
	£'000	£'000	£'000
Cash balances at central bank	4,795	(106)	4,689
Loan and advances to banks repayable on demand or in not more than three months (note 17)	10,005	(4,318)	5,687
	14,800	(4,424)	10,376

The Company held cash and cash equivalents of £218,000 (2017: £301,000) at 31 December 2018.

8. Voluntary income

£15,572 under the Gift Aid scheme was received from the Bank in 2018 (2017: £6,895). No other donations were received in the year (2017: nil).

9. Activities for generating funds

Commercial trading operations and investment in trading subsidiary

The Bank, which is incorporated in the UK, operates as a Christian bank. The Company owns the entire issued share capital of the Bank, 4,217,166 (2017: 4,217,166) ordinary shares of £1 each.

A summary of its trading results, as included within the Group's SOFA, is shown below:

(a) Summary profit and loss account of the Bank

	2018	2017
	£'000	£'000
Interest receivable and similar income	2,124	1,952
Commissions receivable	369	335
Other operating income	60	54
	2,553	2,341
Unrealised surplus on revaluation of investment property (note 15)	-	2
	2,553	2,343
Interest payable and similar charges	(495)	(478)
Operating expenses, including staff costs	(1,885)	(1,642)
Provisions and taxation	(75)	(123)
	(2,455)	(2,243)
Profit in subsidiary before amounts eliminated on consolidation	98	100
Amounts that eliminate on consolidation:		
Interest receivable from the Company	44	3
Management charge to the Company	4	9
Donations to the Company	-	(7)
Profit in subsidiary	146	105

The figures above are shown after consolidation adjustments.

Notes to the financial statements for the year ended 31 December 2018 (continued)

9. Activities for generating funds (continued)

(b) Summary Statement of Comprehensive Income of the Bank

	2018 £'000	2017 £'000
Profit for the financial year	**146**	105
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Unrealised surplus on revaluation of operating properties	-	11
Deferred tax on unrealised surplus on revaluation of operating properties	-	(5)
Other comprehensive income	-	6
Total comprehensive income in subsidiary	**146**	111
Dividends declared and paid during the year	**(16)**	-
Total changes in equity in subsidiary	**130**	111

(c) Summary assets and liabilities of the Bank

	2018 £'000	2017 £'000
Total assets	**53,803**	56,250
Liabilities	**(46,464)**	(48,891)
Subordinated liabilities	**(1,431)**	(1,581)
Equity shareholders' funds	**5,908**	5,778

The Bank has no contingent assets (2017: none).

All results arise from continuing operations and are attributable to the owners of the Bank.

10. Analysis of expenditure on charitable activities

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Support costs				
General				
Management charge (note 9)	-	4	-	9
Trustee remuneration (note 11)	19	19	2	2
Building expenses	3	3	6	6
Charitable giving	-	-	14	14
Interest payable	-	44	-	3
Governance				
Legal and professional fees	31	31	3	3
Audit	22	22	22	22
Office expenses	2	2	2	2
Meeting and sundry expenses	6	6	7	7
	83	**131**	56	68

Notes to the financial statements for the year ended 31 December 2018 (continued)

10. Analysis of expenditure on charitable activities (continued)

Refer to notes 6 and 9 for details on activities undertaken. No (2017: no) grant funding has been received towards support costs. Further audit fees of £69,000 (2017: £68,000), fees for other assurance services of £3,000 (2017: £3,000) were borne by the Bank and included within note 6.

11. Other charitable activities – trustee payments and expenses

Remuneration

The trustees received no remuneration as members of the Board of Management. The following trustees received payments during the year for administrative services and additional duties performed for the Company:

Mr. R O Anekwe	£14 (2017: £100)
Mr. R J Hyde	£1,333 (2017: £2,050)
Mr. B C Niblock	£16,205 (2017: £nil)
Total	£17,552 (2017: £2,150)

The following fees were paid by the Bank and recharged to the Company:

Mr. B C Niblock	£3,325 (2017: £7,860)

The Board of Management approved the payments in the year. The payment to Mr. B C Niblock was made under the authority of the Articles of Association of the Company.

In addition to the above, the following members of the Board of Management received payments during the year as non-executive directors of the Bank, Mr. B C Niblock, £nil (2017: £2,379), Mr. R O Anekwe, £15,586 (2017: £9,525), Mr. R J Hyde, £19,744 (2017: £13,880).

Expenses

During the year 6 (2017: 7) members of the Board of Management were reimbursed by the Company for travel and subsistence expenses totalling £2,944 (2017: £4,954).

Of the above no (2017: 3) members of the Board of Management were reimbursed by the Bank for travel and subsistence expenses totalling £nil (2017: £1,383) in their positions as non-executive directors of the Bank.

There were no other transactions with directors in the year other than those disclosed above and in note 31. No directors are members of any defined contribution scheme (2017: none).

12. Staff and related costs

	Group 2018 £'000	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Wages and salaries	**915**	**22**	734	8
Social security costs	**84**	**1**	69	-
Other pension costs	**99**	**-**	88	-
	1,098	**23**	891	8
Training costs	**16**	**-**	15	-
Recruitment	**21**	**-**	18	-
	1,135	**23**	924	8

Notes to the financial statements for the year ended 31 December 2018 (continued)

12. Staff and related costs (continued)

Company
Other than disclosed in note 11, no (2017: none) employees of the Company received any emoluments.

No (2017: none) employees of the Company received emoluments of more than £60,000. The Company made no pension contributions in the year (2017: none).

Group
One employee of the Group received emoluments between £80,000 and £90,000 (2017: none) with pension contributions amounting to £12,540 (2017: £none). No employee of the Group received emoluments between £70,000 and £80,000 (2017: one, with pension contributions of £12,336). Two employees of the Group received emoluments between £60,000 and £70,000 (2017: none) with pension contributions amounting to £11,617.

Key management compensation
Key management are defined as being the Board of Management, refer to disclosures given above and in note 11 including in respect of total compensation paid.

Headcount
The average monthly head count was 34 staff (2017: 33 staff) and the average monthly number of full-time equivalent employees (including part-time staff) during the year were as follows:

	Group 2018 Number	**Company 2018 Number**	Group 2017 Number	Company 2017 Number
Non-executive directors	**7**	**7**	7	7
Office and management	**27**	**-**	26	-
	34	**7**	33	7

13. Intangible assets

Group	**Goodwill £'000**	**Software £'000**	**Total £'000**
Cost			
At 1 January 2018	303	256	559
Additions	-	12	12
At 31 December 2018	303	268	571
Accumulated amortisation			
At 1 January 2018	262	108	370
Provided during the year	30	49	79
At 31 December 2018	292	157	449
Net book amount			
At 31 December 2018	11	111	122
At 31 December 2017	41	148	189

Notes to the financial statements for the year ended 31 December 2018 (continued)

13. Intangible assets (continued)

Goodwill represents the excess of the fair value of the consideration paid on the acquisition by the Bank of the insurance business of Stewardship Services (UKET) Limited over the fair value of the identifiable net assets acquired at the date of acquisition. The Board of Management does not consider that there were any events or changes in circumstances during the year which would indicate that the carrying value of goodwill is not recoverable.

The software intangible assets include the Bank's banking system, insurance system and website which were created by external development firms for the Bank's specific requirements. Accounting software and regulatory reporting software are also included. The software assets are carried at £111,000 (2017: £148,000) and have a remaining amortisation period of between 0.2 and 5.0 years (2017: between 1.2 and 5.0 years). There are no other individually material intangible assets.

14. Tangible assets

Group

	Freehold land and buildings £'000	Furniture, fixtures and fittings £'000	Office equipment, computer hardware and software £'000	Total £'000
Cost or valuation				
At 1 January 2018	800	113	159	1,072
Additions	-	-	40	40
Transfer to investment property	(167)	-	-	(167)
Disposals	-	-	(12)	(12)
At 31 December 2018	**633**	**113**	**187**	**933**
Accumulated depreciation				
At 1 January 2018	-	96	134	230
Provided during the year	9	3	19	31
Disposals	-	-	(13)	(13)
At 31 December 2018	**9**	**99**	**140**	**248**
Net book amount				
At 31 December 2018	**624**	**14**	**47**	**685**
At 31 December 2017	800	17	25	842

All freehold land and buildings are held at a valuation. If they had not been revalued, they would have been included at the following amounts.

	2018 £'000	2017 £'000
Cost	**685**	863
Accumulated depreciation	**192**	(225)
At 31 December	**493**	638

Notes to the financial statements for the year ended 31 December 2018 (continued)

14. Tangible assets (continued)

Revaluation movements during the year comprised the following:

	2018	2017
	£'000	£'000
Revaluation surplus on operating properties	-	11

In 2018 an internal valuation by the directors on the basis of open market value for existing use resulted in no change to the valuation.

The office premises were valued professionally during 2017 by Innes England on the basis of open market value for existing use, which resulted in an upward revaluation of £11,000 at 31 December 2017. This amount was credited to the revaluation reserve.

15. Investment properties

	Group	Company
	£'000	£'000
Valuation		
At 1 January 2018	**921**	421
Revaluation adjustment	**167**	-
At 31 December 2018	**1,088**	421

Investment properties with a net book value at 31 December 2018 of £1,088 in the Group (2017: £921,000) and £421,000 (2017: £421,000) in the Company are let on leases of various lengths and terms.

The investment property owned by the Bank was valued professionally during 2017 by Innes England on the basis of open market value, which resulted in an upward revaluation of £2,000 at 31 December 2017 in the financial statements of the Bank. This amount was credited to the SOFA.

During the year a lease over part of the Bank's Freehold building commenced resulting in a transfer from Freehold land and building to Investment property. The investment properties owned by the Company were valued by the directors at 31 December 2018 and they are of the opinion that there has been no material changes in the open market value of the properties.

All investment properties in the Group and Company are held at valuation. If they had not been revalued, they would have been included at 31 December 2018 in the Group accounts at a cost of £1,013,000 (2017: £865,000) and in the Company accounts at a cost of £421,000 (2017: £421,000).

16. Investments

Shares in Group undertakings

	Group	Company	Group	Company
	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Shares in Group undertakings	-	4,217	-	4,217

The Board of Directors believe that the carrying value of the investments is supported by their underlying net assets.

Notes to the financial statements for the year ended 31 December 2018 (continued)

16. Investments (continued)

Holdings of more than 20%

The Company holds more than 20% of the share capital of the following companies:

Subsidiary undertaking	Country of registration or incorporation	Class	Shares held (%)
Kingdom Bank Limited	England and Wales	Ordinary	100
Springtime Housing Association (a dormant company)	England and Wales	Limited by guarantee	100
KBL Services Limited (a dormant company)	England and Wales	Ordinary	100

The registered address for the above listed subsidiary undertakings is Ruddington Fields Business Park, Mere Way, Ruddington, Nottingham, NG11 6JS.

The principal business of the Bank continues to be secured lending to churches, charities and individuals. The church and charity loans are focussed on helping the organisations to deliver their mission to their local communities. The loans to individuals are either for similar purposes or to provide housing for church workers now or in the future. The Bank is particularly interested in financing projects which provide practical help and support to people in need both physically and spiritually. This is funded from customer deposits in a range of savings and investment accounts. These savings products are designed to be easy to understand, whilst offering sufficiently competitive interest rates and easy access. In conjunction with this the Bank operates an insurance broking service specialising in churches and charities. See note 9 for the Bank's results for the year.

17. Loans and advances to banks

	Group 2018 £'000	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Repayable:				
On demand	**991**	-	2,768	-
In not more than three months	**4,696**	-	7,237	-
	5,687	-	10,005	-
Over three months but not more than one year	**252**	-	1,306	-
	5,939	-	11,311	-

The average interest rate receivable during 2018 was 0.75% (2017: 0.74%).

Notes to the financial statements for the year ended 31 December 2018 (continued)

18. Loans and advances to customers

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
(a) Advances to customers				
Fully secured on land and buildings:				
Charity mortgages	40,390	-	37,417	-
Personal mortgages	1,008	-	1,027	-
Unsecured:				
Charity loans	6	-	20	-
Personal loans	4	-	9	-
	41,408	-	38,473	-
Less: loan loss provision	(283)	-	(317)	-
	41,125	-	38,156	-

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
(b) Maturity of advances to customers				
Repayable:				
In not more than three months	578	-	537	-
Over three months but not more than one year	1,725	-	1,604	-
Over one year but not more than five years	8,515	-	8,068	-
In more than five years	30,590	-	28,264	-
	41,408	-	38,473	-
Less: loan loss provision	(283)	-	(317)	-
	41,125	-	38,156	-

The average interest rate charged during 2018 was 4.90% (2017: 4.76%).

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
(c) Loan loss provision				
Balance at 1 January	317	-	229	-
Charge for the year	60	-	113	-
Utilised during the year	(77)	-	-	-
Released during the year	(17)	-	(25)	-
Balance at 31 December	283	-	317	-

Notes to the financial statements for the year ended 31 December 2018 (continued)

18. Loans and advances to customers (continued)

The Bank continues to refine and build its loan loss provisioning model and has taken into account arrears levels, resolution and forbearance arrangements and other high risk lending factors in this process. The specific loan loss provision includes provision for loans where a loss has been Incurred But Not Reported uniquely in the book.

Borrowers will from time to time find themselves in periods of financial difficulty and may struggle to meet their monthly mortgage payment. It is the Bank's policy to do all that is possible to help them maintain payments and to rapidly bring their mortgage back up-to-date, whilst minimising credit risk to the Bank.

Certain forbearance agreements may be agreed with a borrower, which mean that the account does not fall into arrears. Such agreements will depend on the borrower's circumstances and may include temporary payment concessions or changes to an interest only basis, or longer term arrangements such as term extensions and interest rate concessions. The Bank recognises that whilst there are no arrears these borrowers are at a higher risk of default and are therefore managed and categorised as such.

19. Other assets

	Group 2018 £'000	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Deferred taxation	**96**	-	90	-
Prepayments and accrued income	**280**	**3**	258	4
	376	**3**	348	4

Deferred taxation

	Group 2018 £'000	Group 2017 £'000
Deferred taxation:		
Capital allowances	(24)	(37)
Tax losses	72	81
Revaluation of investment property	15	11
Revaluation of operating property	14	18
Other short term timing differences	19	17
	96	90

The movement in the deferred tax asset was as follows:

	Group 2018 £'000	Group 2017 £'000
Asset at 1 January	**90**	93
Originations and reversal of timing differences	**9**	(7)
Unrealised surplus on revaluation of operating property	**-**	(5)
Adjustment in respect of prior year	**(3)**	9
Asset at 31 December	**96**	90

Notes to the financial statements for the year ended 31 December 2018 (continued)

19. Other assets (continued)

The movement in deferred tax in 2018 included in the SOFA of £6,000 relates to the impact of indexation on the calculation of timing differences.

The directors have performed an assessment of anticipated future profitability and believe that future profits will be sufficient to recover the deferred tax asset relating to accumulated taxable losses in full.

The Chancellor of the Exchequer's Budget presented in March 2016 included provisions to restrict the utilisation of pre-March 2015 taxable losses to 50% of taxable profits from April 2015 and to 25% of taxable profits from April 2016. The estimated period over which the Bank will utilise its asset is four years (2017: four years) which the directors have assessed as reasonable. Future reductions in the main rate of corporation tax have been reflected in the deferred tax asset in full.

20. Loans and advances from credit institutions

	Group 2018 £'000	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Repayable:				
In more than five years	**-**	**279**	-	282
	-	**279**	-	282

Company loans and advances from credit institutions comprise an amount due to the Bank of £279,000 (2017: £282,000). The loans and advances are secured on the properties to which they relate, and are mortgages with an initial term of between 15 and 30 years and the current interest rates are all at 4.25% (2017: between 1% and 5%).

The average interest rate payable at 31 December 2018 was 4.25% (2017: 1.23%).

Notes to the financial statements for the year ended 31 December 2018 (continued)

21. Customer accounts

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Repayable:				
On demand	**5,167**	**-**	5,916	-
In not more than three months	**23,891**	**-**	20,652	-
Over three months but not more than one year	**13,635**	**-**	17,131	-
	42,693	**-**	43,699	-
Over one year but not more than five years	**3,388**	**-**	4,928	-
	46,081	**-**	48,627	-

The average interest rate payable during 2018 was 0.83% (2017: 0.82%).

22. Other liabilities

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Amounts owed to Group undertakings	**-**	**110**	-	102
Corporation tax	**38**	**-**	33	-
Other taxation and social security	**33**	**-**	119	-
Other creditors	**156**	**-**	35	-
Accruals and deferred income	**156**	**31**	77	29
	383	**141**	264	131

Amounts owed to Group undertakings represent an unsecured and interest free amount due to the Bank.

All (2017: all) other liabilities are repayable on demand or within one year.

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Subordinated liabilities

	Group 2018 £'000	Group 2017 £'000
(a) Undated Tier 2		
At 1 January and 31 December	**60**	60
(b) Dated Tier 2		
At 1 January	**1,520**	1,520
Repaid during the year	**(150)**	-
Issued during the year	**-**	-
At 31 December	**1,370**	1,520
Subordinated liabilities	**1,430**	1,580
(c) Repayment profile and terms		
Repayable:		
Over three months but not more than one year	**-**	150
Over one year but not more than five years	**670**	670
Over five years	**760**	760
	1,430	1,580

The average interest rate payable during 2018 was 6.2% (2017: 6.2%).

The subordinated liabilities are held in pounds sterling and are classified as Tier 2 capital as defined by the regulatory authorities, and so form part of the Bank's permanent capital and capital resources.

Due to the fixed yield and obligation to transfer cash to redeem the subordinated liabilities, the debt is considered to have financial liability instrument characteristics and therefore has been treated for accounting purposes as a financial liability.

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Subordinated liabilities (continued)

Undated Tier 2

The terms of the undated Tier 2 deposits are unchanged from 2017 and are summarised as follows:

- The deposit is not repayable until the date of an effective resolution or Court order for the winding up of the Bank;
- The Bank may exercise its option to repay, but only with the consent of the Regulatory Authority; and
- Interest is paid at 3% per annum.

The deposits, and any unpaid interest, are intended to absorb losses made by the Bank in circumstances where the Bank would not otherwise be solvent. The deposits therefore rank pari passu with the Bank's ordinary shares.

Dated Tier 2

Dated Tier 2 deposits amounting to £670,000 remained on the same terms as 2017. The terms of the outstanding deposits are as follows:

- The deposit is repayable in full after seven or ten years (as selected by the depositor prior to the date of deposit) ;
- Interest is paid either on a fixed basis or on a variable basis as follows:

  Where the depositor elects to receive interest on the fixed basis:
  - 8% per annum for the first two years followed by 7.5% for the remaining five years (seven year term)
  - 8.5% per annum for the first five years followed by 7.5% for the remaining five years (ten year term)

  Where the depositor elects to receive interest on the variable basis:
  - at the Bank of England Base Rate plus a margin of 3%, subject to being not less than 7.5% per annum and no greater than 10% per annum

Further dated Tier 2 deposits amounting to £700,000 remained on the same terms as 2017. The terms of the outstanding deposits are as follows:

- The deposit is repayable in full after ten years;
- Interest is paid on a fixed basis as follows:
  - 5% per annum (ten year term)

The deposits, and any unpaid interest, are intended to absorb losses made by the Bank in circumstances where the Bank would not otherwise be solvent. Accordingly, if the Bank goes into liquidation and the deposit has not been repaid, it is the intention that the deposit (and any interest accrued but unpaid) should rank above the nominal amount of the Bank's ordinary shares but should be repaid only after repayment in full of the Bank's unsecured creditors and all other obligations having priority to the ordinary shares. If the Bank goes into liquidation the depositor will not be entitled to share in any surplus available for distribution to the holders of the ordinary shares.

Notes to the financial statements for the year ended 31 December 2018 (continued)

24. Analysis of charitable funds

Analysis of movement in unrestricted funds

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
General				
Brought forward at 1 January	**623**	**313**	657	352
Net movement on funds	**(59)**	**(91)**	(34)	(39)
Carried forward at 31 December	**564**	**222**	623	313

Analysis of movement in restricted funds

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
General				
Brought forward at 1 January	**5,296**	**4,217**	5,196	4,217
Net movement on funds	**98**	**-**	100	-
Carried forward at 31 December	**5,394**	**4,217**	5,296	4,217
Revaluation				
Brought forward at 1 January	**172**	**-**	166	-
Net revaluation surplus	**-**	**-**	6	-
Carried forward at 31 December	**172**	**-**	172	-
Total restricted funds carried forward at 31 December	**5,566**	**4,217**	5,468	4,217

The revaluation reserve represents the cumulative difference between the original cost and the current market value of the investment freehold properties.

The investment in the Bank has been treated as a component of restricted funds, in accordance with SORP 2015 24.25. This reflects the fact that the parent company donated funds to set up the Bank, which is subject to strict regulation from the PRA, and has no ability to change the purpose of the Bank.

Notes to the financial statements for the year ended 31 December 2018 (continued)

25. Analysis of fund balances between the net assets

(a) Group

	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000
Assets			
Intangible assets	-	122	122
Tangible assets	-	685	685
Investment properties	421	667	1,088
Loans and advances to banks	-	5,939	5,939
Loans and advances to customers	-	41,125	41,125
Other debtors	3	373	376
Cash at bank and balance at central bank	187	4,502	4,689
Liabilities			
Customer accounts	-	(46,081)	(46,081)
Other liabilities	(47)	(336)	(383)
Subordinated liabilities	-	(1,430)	(1,430)
	564	5,566	6,130

	Unrestricted funds 2017 £'000	Restricted funds 2017 £'000	Total 2017 £'000
Assets			
Intangible assets	-	189	189
Tangible assets	-	842	842
Investment properties	421	500	921
Loans and advances to banks	-	11,311	11,311
Loans and advances to customers	-	38,156	38,156
Other debtors	4	344	348
Cash at bank and balance at central bank	272	4,523	4,795
Liabilities			
Customer accounts	-	(48,627)	(48,627)
Other liabilities	(74)	(190)	(264)
Subordinated liabilities	-	(1,580)	(1,580)
	623	5,468	6,091

Notes to the financial statements for the year ended 31 December 2018 (continued)

25. Analysis of fund balances between the net assets (continued)

(b) Company

	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000
Assets			
Investment properties	421	-	421
Investments	-	4,217	4,217
Other debtors	3	-	3
Cash at bank and balances at central bank	218	-	218
Liabilities			
Loans and advances from credit institutions	(279)	-	(279)
Other liabilities	(141)	-	(141)
	222	4,217	4,439

	Unrestricted funds 2017 £'000	Restricted funds 2017 £'000	Total 2017 £'000
Assets			
Investment properties	421	-	421
Investments	-	4,217	4,217
Other debtors	4	-	4
Cash at bank and balances at central bank	301	-	301
Liabilities			
Loans and advances from credit institutions	(282)	-	(282)
Other liabilities	(131)	-	(131)
	313	4,217	4,530

The investment in the Bank has been treated as a component of restricted funds, in accordance with SORP 2015 24.25, reflecting the fact it is deemed to have a different purpose to its parent company.

26. Mortgage advances approved by the subsidiary but not yet drawn down

	Group 2018	Company 2018	Group 2017	Company 2017
Amount (£'000)	7,035	-	5,216	-
Number of advances	40	-	28	-

Notes to the financial statements for the year ended 31 December 2018 (continued)

27. Status of the Company

Assemblies of God Property Trust, a company limited by guarantee not having a share capital, has omitted limited from its name. Should the members be required to contribute their liability may not exceed £1. It is a registered charity, the registration number being 251550.

28. Controlling interest

The members of the Group have delegated the operational control of the Company to the Board of Management.

There is no parent entity or controlling party.

29. Capital commitments

The Company does not have any capital commitments at 31 December 2018 (2017: nil). The Bank has no authorised and contracted capital commitments at 31 December 2018 (2017: £18,000 to purchase replacement PCs and monitors of which £9,000 had been paid at 31 December 2017). There are no other capital commitments (2017: £nil).

30. Guarantees and other financial commitments

(a) The Group

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme ("FSCS") is the UK's statutory fund of last resort for customers of authorised financial service firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed monies from HM Treasury to fund the compensation costs associated with institutions that failed in 2008 and will receive the receipts from asset sales, surplus cash flows and other recoveries from these institutions in the future.

The FSCS meets its obligations by raising specific deposit-taker defaults ("SDD") levies. These include amounts to cover the interest on its borrowings and compensation levies on the industry. Each deposit-taking institution contributes in proportion to its share of total protected deposits.

SDD Interest Levy

The timing of recognition of the 2018/2019 charge is 31 December 2017 and the 2019/20 charge is 31 December 2018. At 1 January 2018, the Bank estimated its share of the SDD interest levy to be £7,000 (1 January 2017: £19,000) and during 2018 credited £3,000 (2017: £6,000) in respect of its current obligation to meet SDD interest levies. The amount paid in respect of the SDD interest levy during 2018 was £2,000 (2017: £6,000) leaving an amount outstanding at 31 December 2018 of £2,000 (2017: £7,000).

SDD Capital Levy

If the FSCS does not receive sufficient funds from the failed institutions to repay HM Treasury in full, it will raise SDD capital levies. On 8 March 2012 the FSCS announced that it expected to receive full repayment of the debt in relation to Bradford & Bingley plc and has maintained this assertion since then. The Bank does not expect to pay any further SDD capital levies at the date of signing the financial statements.

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. Guarantees and other financial commitments (continued)

(a) The Group (continued)

SDD Capital Levy (continued)

	2018	2017
	£'000	£'000
At 1 January	**7**	19
(Credit) for the year	**(3)**	(6)
Paid in the year	**(2)**	(6)
At 31 December (included in other liabilities)	**2**	7

(b) The Group and the Company

Custodian trustee

The Company is the custodian trustee for a property on which an existing mortgage is held (balance at 31 December 2018 of £4,311 (2017: £6,402)) which has decreased in the financial year due to repayments made of £2,571 less interest levied amounting to £480. No (2017: no) amounts have been received or paid by the Company in the financial year. No amounts are held by the Company at 31 December 2018 (2017: none). Should there be a default on the mortgage, or tenants not be found for the property, the Company would be liable for the mortgage payments. This is not considered likely in the opinion of the Board of Management.

(c) The Company

On the sale or refinancing of a number of the Company's investment properties, £nil (2017: £135,000) of additional interest would be due to the Bank. The outstanding interest was settled in full during 2018 at a reduced amount of £40,000 as part of a refinancing of the loans.

31. Related party transactions

Within the Bank a number of banking transactions are entered into with related parties in the normal course of business, including loans and deposits. Details of these related party transactions, outstanding balances at the year end and related expense and income for the year are as follows:

(i) Loans and advances to customers

	Directors		**Group companies**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 January	**8**	-	281	284
Advances	**-**	9	-	-
Interest receivable	**-**	-	44	3
Loan repayments during the year	(4)	(1)	(46)	(6)
At 31 December	4	8	279	281

The above Directors' loans relate to directors of the Bank.

Loans to Group companies relate to amounts due from the parent undertaking and are secured on the property to which they relate, and are loans with an initial term of between 15 and 30 years and the current interest rates are all at 4.25% (2017: between 1% and 5%) and no guarantees have been received. No loans were written off and no provisions were recognised during the year in respect of loans advanced to related parties (2017: none).

Notes to the financial statements for the year ended 31 December 2018 (continued)

31. Related party transactions (continued)

(i) Loans and advances to customers (continued)

Included in debtors at 31 December 2018 is an interest free loan to Mr. C J Sheldon, Chief Executive of the Bank, for the purchase of a car. The loan is a financial instrument initially recognised at fair value. Subsequently it is held at amortised cost. It is expected to be repaid in 2019. The interest rate on comparable unsecured loans was 5%. Using an effective interest rate of 5% the initial fair value of the amount advanced on 27 April 2017 was £9,000. After repayments of £4,000 (2017: £1,000) during the year the carrying value of the loan was £4,000 at 31 December 2018 (2017: £8,000).

(ii) Deposits from related parties

	Directors and close family members		Group companies	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 January	**9**	32	**28**	30
Deposits received during the year	**-**	-	**8**	7
Deposits repaid during the year	**-**	(23)	**(6)**	(9)
At 31 December	**9**	9	**30**	28

Deposits from directors and Group companies relate to amounts due to directors and the parent undertaking on normal commercial terms, with an initial term between call and 1 month (2017: between call and 2 months) which carry interest rates that vary between 0.00% and 1.00% (2017: between 0.00% and 0.85%).

See notes 11 and 12 for disclosure of trustee and Group senior employee remuneration.

32. Defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £99,000 (2017: £88,000) There were accrued pension costs at the year end of £9,000 (2017: £nil).

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank

The Company is not a financial institution and has not entered into any derivative contracts during the year. The Bank is a financial institution and therefore the following disclosures only related to the Bank in accordance with Section 34.17 (b) of FRS 102. The Bank holds the following financial instruments:

(a) Financial assets

	2018 £'000	2017 £'000
Financial assets that are debt instruments measured at amortised cost:		
Cash and balances at central banks	4,502	4,523
Loans and advances to banks	5,939	11,311
Loans and advances to customers:		
Loans to individuals:		
Unsecured loans to individuals	4	9
Secured loans to individuals	1,008	1,027
Loans to SMEs (including Charities):		
Unsecured loans to SMEs	6	20
Secured loans to SMEs	40,390	37,417
Fully secured loans to other Group companies:	279	282
	41,687	38,755
Less: loan loss provision	(283)	(317)
	41,404	38,438

Note 19 includes details of other financial assets measured at amortised cost.

(b) Financial liabilities

	2018 £'000	2017 £'000
Financial liabilities that are debt instruments measured at amortised cost:		
Customer accounts:		
Deposits from individuals	27,509	31,318
Deposits from SMEs	18,573	17,310
Deposits from other Group companies	30	28
	46,112	48,656
Subordinated liabilities:		
Deposits from individuals	650	800
Deposits from SMEs	780	780
Deposits from other Group companies	1	1
	1,431	1,581

Note 22 includes details of other financial liabilities measured at amortised cost.

33. Financial instruments of the Bank (continued)

(c) Allowance for impairment losses on loans and receivables

Allowances for impairment losses on loans and receivables are detailed in note 18. There are no allowances for impairment losses on any other financial assets.

(d) Financial instruments held at fair value

No financial instruments are held at fair value in the Bank's balance sheet.

(e) Nature and extent of risks arising from financial instruments

The Bank regularly reviews the risks affecting the business both internal and external. These risks are, where possible, mitigated to minimise their probability and impact. The principal risks arising from financial instruments have been identified as: capital adequacy, credit risk, liquidity risk, market risk.

During the year the Bank has continued to review, update and refine its Risk Management Framework in response to emerging trends and the continuous reassessment of risks.

Capital adequacy

The Bank's regulatory capital consists of shareholders' funds ("Core Equity Tier 1") and subordinated liabilities ("Tier 2"). Shareholders' funds, comprising ordinary shares and reserves, increased to £5,900,000 (2017: £5,800,000) and subordinated liabilities reduced to £1,400,000 (2017: £1,600,000). These funds are prudently managed to ensure the Bank maintains sufficient capital for its activities. Unforeseen events can unexpectedly erode this capital and these events are analysed and assessed using the Internal Capital Adequacy Assessment Process ("ICAAP"). This process stress tests the business and allocates sufficient levels of capital to cover assessed risk. The capital is then managed against robust Risk Appetite measures for surplus capital, Core Tier 1 Capital and Leverage Ratio to maintain a healthy margin above the regulatory and internally assessed minima. The Bank continues to meet all the regulatory requirements.

Credit risk

The Bank's primary exposure to credit risk arises through loans and advances to customers, and investment in the wholesale money market. Almost all of the Bank's customer advances are secured by collateral, provided by customers prior to the disbursement of loans. Collateral for loans is usually in the form of first legal charge over property. The balance of collateralised outstanding loans is disclosed in note 18.

The Bank's main business is to lend money to customers which brings with it an inherent risk of arrears and default. The careful assessment of each loan application against strict credit policy guidelines together with very supportive and hands-on management of arrears ensures that provision for losses is able to be kept low. The Bank's systems monitor all customers who are in arrears ensuring that we can help and support where necessary. The number of cases more than 60 days in arrears and in breach of contract reduced to 4 (2017: 5) and the total balance reduced to £400,000 (2017: £500,000), representing 1.0% (2017: 1.3%) of the loan book. The low level of arrears has been achieved through the Bank's now established policy of working closely with our clients over a long period resulting in them either finding a solution to reducing the arrears or deciding to sell their property.

33. Financial instruments of the Bank (continued)

(e) Nature and extent of risks arising from financial instruments (continued)

Credit risk (continued)

To manage the credit risk associated with investing in the wholesale money market, the Bank deals only with counterparties of good credit standing. Exposure to any single counterparty is restricted by prudent and regularly-reviewed limits expressed as a proportion of the Bank's capital resources.

Liquidity risk

The established Treasury policy provides a framework to minimise the risk to liquidity. The objectives of the policy with regards to liquidity risk are:

- to maintain adequate liquidity to meet known and anticipated customer withdrawals, mortgage advances, tax liabilities, capital and administrative expenses; and
- to maintain adequate liquidity to cover unexpected cash flow imbalances

The Bank continues to hold a surplus of liquid reserves. The minimum level for these reserves is set after careful analysis of potential outflows and is regularly stress tested to ensure they exceed both the regulatory minimum requirements and the Board's minimum risk appetite limits.

Market risk (interest rate risk)

Although the Bank does not have a trading book, it is exposed to interest rate risk in the banking book.

The first and most significant component of interest rate risk is fixed rate re-pricing (or duration) risk. This is the risk of adverse changes to earnings and capital due to changes in interest rates. It is evaluated principally in terms of the sensitivity and exposure of the value of the Bank's assets and liabilities to changes in interest rates. Analysis of the exposure to interest rate risk is managed carefully within the Board's risk appetite. The Bank operates a matching approach to financial risk management, whereby the risk arising from mismatches in re-pricing of assets and liabilities is managed internally through the balance sheet. The Bank has a maximum exposure limit for such potential losses for a 2% parallel shift in the yield curve of 5% of own funds. The Bank's interest rate repricing mismatches are summarised in section m) of this note and a sensitivity analysis is presented in section k) of this note.

The second component of interest rate risk is basis risk. The Bank has exposure to basis risk due to the assets and liabilities / capital which re-price with reference to Bank Base Rate ("BBR"). However the risk is significantly reduced as approximately one quarter of the loan book consists of BBR linked loans with a floor, meaning that a reduction in BBR would have no impact on the rates receivable on these loans and in most cases BBR would need to exceed 3% before the rate receivable increased. The Board has set risk appetite limits against its exposure to basis risk for each type of basis risk mismatch and against the sensitivity of its net interest margin to basis risk.

The final component of interest rate risk is optionality risk. This risk arises from the discretion that the Bank's customers and counterparties have in respect of their contractual relations with the Bank in the form of financial instruments. There is a risk that assets and liabilities may not re-price in accordance with their contractual terms.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(e) Nature and extent of risks arising from financial instruments (continued)

Market risk (interest rate risk) (continued)
The various sources of optionality risk and their mitigants are considered below:

Source of optionality risk	Mitigation
Prepayment risk on fixed rate loans.	Early repayment charges discourage early repayments on fixed rate lending.
Prepayment risk on fixed rate and notice counterparty deposits.	Very unlikely to occur in practice as contractual terms generally prohibit early repayment by the counterparty.
Early withdrawal risk on fixed term and notice customer deposits.	Permitted only at the Bank's absolute discretion and subject to loss of interest to maturity and material penalties.
Early withdrawal risk on fixed term subordinated liabilities.	Contractual terms prevent repayment unless approval granted by the Board and the PRA.
Drawdown of pipeline lending commitments.	All assumed within earliest re-pricing time bucket (0 – 3 months) with no behavioural assumptions.
Withdrawal of customer deposits held at call.	All assumed within earliest re-pricing time bucket (0 – 3 months) with no behavioural assumptions.

Optionality risk is not considered material to the Bank's current business model due to the mitigations noted above.

(f) Credit risk

The maximum exposure to credit risk is best represented by carrying value for the following classes of financial instrument:
- Cash and balances at central banks
- Loans and advances to banks
- Loans and advances to customers:
  - Unsecured loans to individuals
  - Unsecured loans to SMEs

The maximum exposure to credit risk for secured loans and advances to customers before and after collateral held as security is shown below:

	2018	2017
	£'000	£'000
Secured loans to individuals	**1,008**	1,027
Less: collateral held	**(1,008)**	(1,019)
Exposure after collateral	**-**	8
Secured loans to SMEs	**40,390**	37,417
Less: collateral held	**(40,269)**	(37,344)
Exposure after collateral	**121**	73
Fully secured loans to other Group companies	**279**	282
Less: collateral held	**(279)**	(282)
Exposure after collateral	**-**	-
Total exposure after collateral	**121**	81

Collateral held represents a first legal charge over UK commercial or residential property owned by the borrower. The property values are indexed using the IPD index for commercial property and the HPI index for residential property. The collateral amounts shown are restricted to the amount of the corresponding loans since any surplus on sale of the collateral in excess of each loan balance would be returned to the borrower.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(g) The Bank's financial assets may be classified into the following two categories:

- Neither past due nor impaired
- Individually impaired

	2018			2017		
	Cash and balances at central banks	**Loans and advances to banks**	**Loans and advances to customers**	**Cash and balances at central banks**	**Loans and advances to banks**	**Loans and advances to customers**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Neither past due nor impaired	**4,502**	**5,939**	**40,422**	4,523	11,311	37,409
Individually impaired	-	-	**1,265**	-	-	1,346
Gross	**4,502**	**5,939**	**41,687**	**4,523**	**11,311**	**38,755**
Less allowance for impairment:						
Individual impairment	-	-	(162)	-	-	(195)
Collective allowance	-	-	(121)	-	-	(122)
Total allowance for impairment	-	-	(283)	-	-	(317)
Net	4,502	5,939	41,404	4,523	11,311	38,438

Specific loan loss provisions are made against the carrying amount of loans and advances that are identified as not fully recoverable to reduce these loans and advances to their recoverable amounts. Specific provisions are made for loans and advances to customers where arrears exceed 90 days' contractual payments ("past due") or management judge that, due to other historical indications of impairment, the probability of default occurring is significant and an exposure to potential loss exists after realisation of security at a forced sale discount. Factors increasing the probability of default include cases in forbearance, high levels of other indebtedness, erratic payment history, declining income or membership levels and governance issues affecting the viability of the borrower. Customer loans which are in arrears or are classified as high risk for other reasons are monitored closely and reported monthly to the Credit Committee, who will decide whether any additional specific provisions are required.

A collective allowance has been included for Incurred But Not Reported ("IBNR") losses, which is maintained for customer loans which are likely to have incurred losses triggered by historical events but which have not yet been reported and uniquely identified by the Bank. The IBNR provision has been separated into two elements: unincorporated borrowers and incorporated borrowers and a provision has been recognised for each type of borrower which reflects the level of risk assessed by management.

Increases in the loan loss provision are recognised in the SOFA. If in a subsequent year the amount decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the SOFA.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(h) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the Bank's internal credit grading system for loans and advances to customers, and by reference to external credit ratings and published Pillar 3 disclosures for cash and balances at central banks and loans and advances to banks. Institutions with an external credit rating will only be considered if they have a minimum short term rating of Fitch F2 and Moodys P2 at the time of placing funds. Unrated institutions, i.e. institutions without an external credit rating, will only be considered if their Pillar 3 disclosures indicate that they have a minimum of £10 million eligible capital which shall not be less than 160% of that institution's Pillar 1 capital requirement. Unrated Banks will only be considered if minimum capital and liquidity criteria are met as specified in the Bank's Treasury Policy. Sector limits are in place to avoid concentrations to different institutional sectors. Pillar 3 disclosures are mandated by the EU Capital Requirements Regulations and Capital Requirements Directive (together known as "CRD IV").

	Loans and advances to customers						**Cash and balances at central banks**	**Loans and advances to banks**
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other Group companies	**Loans and advances to customers**		
	Unsecured	Secured	Unsecured	Secured	Secured			
31 December 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Credit Grade 5: Internal default (arrears 60 to 90 days)	-	-	-	-	-	-	-	-
Credit Grades 2 to 4: High risk loans and arrears up to 60 days	-	-	2	3,941	-	3,943	-	-
Credit Grade 1: Up to date and not high risk	4	947	4	35,245	279	36,479	-	-
Minimum short Term Rating Fitch F2 / Moodys P2	-	-	-	-	-	-	4,502	1,229
Unrated institutions -	-	-	-	-	-	-	-	4,710
Total	**4**	**947**	**6**	**39,186**	**279**	**40,422**	**4,502**	**5,939**

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(h) Credit quality of financial assets that are neither past due nor impaired (continued)

	Loans and advances to customers						Cash and balances at central banks	Loans and advances to banks
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other Group companies	Loans and advances to customers		
	Unsecured	Secured	Unsecured	Secured	Secured			
31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Credit Grade 5: Internal default (arrears 60 to 90 days)	-	-	-	-	-	-	-	-
Credit Grades 2 to 4: High risk loans and arrears up to 60 days	-	-	14	1,897	-	1,911	-	-
Credit Grade 1: Up to date and not high risk	9	846	6	34,355	282	35,498	-	-
Minimum short Term Rating Fitch F2 / Moodys P2	-	-	-	-	-	-	4,523	3,769
Unrated institutions	-	-	-	-	-	-	-	7,542
Total	**9**	**846**	**20**	**36,252**	**282**	**37,409**	**4,523**	**11,311**

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(i) Analysis of financial assets that are individually determined to be impaired as at the end of the reporting year

Note 33 g) describes the circumstances where the Bank considers that financial assets are individually determined to be impaired. Collateral held represents a first legal charge over UK commercial or residential property owned by the borrower. The property values are indexed using the IPD index for commercial property and the HPI index for residential property, which are considered to represent fair value.

	Loans and advances to customers					
	Loans to individuals		Loans to SMEs (including Charities)		Loans to other Group companies	**Loans and advances to customers**
	Unsecured	Secured	Unsecured	Secured	Secured	
31 December 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Book value of individually impaired loans	-	61	-	1,204	-	1,265
Provisions for individually impaired loans	-	-	-	283	-	283
Indexed value of collateral held as security	-	62	-	1,082	-	1,144
31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Book value of individually impaired loans	-	181	-	1,165	-	1,346
Provisions for individually impaired loans	-	85	-	232	-	317
Indexed value of collateral held as security	-	173	-	1,092	-	1,265

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(j) Maturity analysis for non- derivative financial liabilities

The following is a residual maturity analysis for non-derivative financial liabilities based on contractual maturity dates. The amounts represent undiscounted cash flows, and therefore include future interest payable between the balance sheet date and the contractual maturity dates. Amounts on demand and amounts with no specific maturity date have been included without the addition of any future interest payable. There were no derivative financial liabilities.

	Repayable:						
	On demand	In not more than three months	Over three months but not more than one year	Over one year but not more than five years	In more than five years	No specific maturity date	**Total**
31 December 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer accounts	5,198	23,919	13,712	3,443	-	-	**46,272**
Other liabilities	352	-	-	-	-	-	**352**
Subordinated liabilities	-	-	85	893	804	61	**1,843**
Total liabilities and shareholder's funds	**5,550**	**23,919**	**13,797**	**4,336**	**804**	**61**	**48,467**
31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer accounts	5,945	20,671	17,222	5,022	-	-	**48,860**
Other liabilities	235	-	-	-	-	-	**235**
Subordinated liabilities	-	-	243	944	839	61	**2,087**
Total liabilities and shareholder's funds	**6,180**	**20,671**	**17,465**	**5,966**	**839**	**61**	**51,182**

33. Financial instruments (continued)

(k) Market risk (interest rate risk)

The Bank uses the following sensitivity analysis to manage the interest rate risk in the banking book:

Component of interest rate risk	Measure	Board risk appetite as % of own funds (maximum)	Unaudited 31 December 2018 % of own funds	Unaudited 31 December 2018 £'000	Unaudited 31 December 2017 % of own funds	Unaudited 31 December 2017 £'000
Fixed rate re-pricing risk	Economic value at risk for a 2% parallel shift in the Bank's yield curve, as a % of own funds	5%	2.24%	150	4.62%	309
Basis risk	Change in annual net interest income from base rate linked assets and liabilities for a 0.5% shift in Bank Base Rate, as a % of own funds	5%	1.86%	124	1.42%	95

Own funds comprises the Bank's regulatory capital, and includes ordinary share capital, retained earnings, revaluation reserve, subordinated liabilities (amortised over last five years' residual maturity) less deductions for intangible assets and certain deferred tax assets. The unaudited amount of own funds at 31 December 2018 was £6.7 million (2017: £6.7 million).

Economic value at risk is calculated by examining details of interest sensitive assets and liabilities to establish when they will next re-price (i.e. be subject to a change in interest rate), and then tabulating those which re-price within set time periods (known as "time buckets", within which all items re-pricing are grouped together). Interest rate sensitive items are those assets and liabilities that are subject to contractual change in interest rates, or which mature (fall due for repayment) on a particular date. The sums of each time bucket (known as "gaps") are then discounted into present values using a yield curve. The present values are then aggregated to calculate the net present value of the Bank's balance sheet. A 2% parallel shift in interest rates, consistent with the PRA's FSA017 methodology, is then applied to the yield curve in order to calculate the impact on net present value. This impact is referred to as the economic value at risk.

In order to calculate the Bank's exposure to fixed rate re-pricing risk the Bank uses its average cost of funding (personal and SME deposits and subordinated liabilities) as a flat yield curve. A comparison has been performed against a 10 year yield curve based on UK government bonds, and the exposure value was calculated at 3.27% (2017: 4.61%) greater than that calculated using the flat funding cost yield curve, which is not considered to be material.

Exposure to basis risk is measured by calculating the change in annual net interest income from base rate linked assets and liabilities for a 0.5% shift in Bank Base Rate, as a % of own funds.

For both fixed rate re-pricing risk and basis risk the Bank's Board has set a maximum risk appetite of 5% of own funds, or £334,000 at 31 December 2018 (2017: £334,000). The Board consider that any exposure in excess of this level would represent an unacceptable risk. The exposures at 31 December 2018 and 31 December 2017 are as shown in the table above.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(l) Capital management

The Bank's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry and the prior year, the Bank monitors its capital as assessed by CRD IV, specifically the levels of minimum surplus capital over the PRA's Individual Capital Guidance ("ICG") plus applicable capital buffers. These buffers include the PRA buffer and the CRD IV combined buffer (the capital conservation buffer and the countercyclical capital buffer). The unaudited ICG amounted to £5.0m at 31 December 2018 (2017: £4.9m).

The Bank calculates its internal capital adequacy assessment ("ICA") in parallel with the PRA's ICG assessment. The ICA represents the Board's own assessment of capital requirements, which may be higher or lower than the PRA's ICG requirements. The buffer requirements are the same under both the external ICG and the internal ICA basis.

The Bank's various forms of capital (or "own funds") are described in section k) of this note.

In order to adjust the Bank's level of capital resources held, it may amend the amount of dividends paid to shareholders, return capital to shareholders or holders of subordinated liabilities or issue new shares or subordinated liabilities. In order to adjust the Bank's level of capital requirements it must change the amount of risk weighted assets as specified by CRD IV. The Bank may reduce the amount of risk weighted assets by repaying loans and advances or moving liquid funds from higher risk weighted instruments to lower risk weighted instruments, such as the Bank of England reserve account. To minimise risk weighted assets new lending may be targeted in lower risk weighted asset classes such as residential lending rather than commercial lending

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(l) Capital management (continued)

The Bank's minimum surplus capital over ICG and ICA (with and without buffers) during the year, together with regulatory capital ratios at the year end, was as follows:

	2018	2017
	£'000	£'000
	Unaudited	Unaudited
Minimum surplus capital during the year over ICG plus capital buffers	**900**	1,316
Minimum surplus capital during the year over ICG only	**1,894**	2,026
Minimum surplus capital during the year over ICA plus capital buffers	**1,167**	1,644
Minimum surplus capital during the year over ICA only	**2,059**	2,168
Capital ratios		
Common Equity Tier 1 capital as a % of total risk exposure (min 4.5%)	**14.57%**	14.41%
Tier 1 capital as a % of total risk exposure (min 4.5%)	**14.57%**	14.41%
Own funds as a % of total risk exposure (min 4.5%)	**17.51%**	17.82%

The Bank complied with the CRD IV capital requirements during the current and prior year and is expected to do so throughout the business planning period.

The Bank's stated internal risk appetite for capital is to maintain surplus capital of at least 4% over the regulatory requirements (ICG plus buffers and ICA plus buffers). In addition the Bank's risk appetite is to maintain a Core Equity Tier 1 ratio of at least 10%, and a Total capital ratio of at least 12%.

The Bank remained within its risk appetite for capital during the current and prior year and is expected to remain so throughout the business planning period.

The decrease in minimum surplus capital during the year over ICG (without capital buffers) was caused by the growth in the loan book. The decrease in minimum surplus capital during the year over ICG (with capital buffers) was caused by the increase in the countercyclical capital buffer rate and the capital conservation buffer rate. The increase in the capital ratios between 2017 and 2018 was caused by the addition of audited profits and amortisation of intangibles.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

m) Interest Rate Risk in the Banking Book

The Bank did not enter into any derivative contracts during the year (2017: none).

Interest rate risk – interest rate sensitivity gap analysis
The table below summarises interest rate repricing mismatches at 31 December 2018. Items are allocated to time bands by reference to next interest rate repricing date.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	More than five years £'000	No specific repricing date £'000	Total £'000
ASSETS							
Cash and balances at central banks	4,501	-	-	-	-	1	4,502
Loans and advances to banks	5,667	-	250	-	-	22	5,939
Loans and advances to customers	39,505	-	-	-	-	1,899	41,404
Intangible fixed assets	-	-	-	-	-	122	122
Investment property	-	-	-	-	-	667	667
Tangible fixed assets	-	-	-	-	-	685	685
Other assets	-	-	-	-	-	484	484
TOTAL ASSETS	**49,673**	**-**	**250**	**-**	**-**	**3,880**	**53,803**
LIABILITIES							
Customer accounts	34,790	3,856	4,332	2,976	-	158	46,112
Other liabilities	-	-	-	670	700	413	1,783
Shareholder's funds	-	-	-	-	-	5,908	5,908
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	**34,790**	**3,856**	**4,332**	**3,646**	**700**	**6,479**	**53,803**
Interest rate sensitivity gap	**14,883**	**(3,856)**	**(4,082)**	**(3,646)**	**(700)**	**(2,599)**	**-**
Cumulative gap	**14,883**	**11,027**	**6,945**	**3,299**	**2,599**	**-**	**-**

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. Financial instruments of the Bank (continued)

(m) Interest Rate Risk in the Banking Book (continued)

The following table summarises interest rate repricing mismatches at 31 December 2017.

	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but less than five years £'000	More than five years £'000	No specific repricing date £'000	Total £'000
ASSETS							
Cash and balances at central banks	4,522	-	-	-	-	1	4,523
Loans and advances to banks	9,977	-	1,300	-	-	34	11,311
Loans and advances to customers	36,654	-	-	-	-	1,784	38,438
Intangible fixed assets	-	-	-	-	-	189	189
Investment property	-	-	-	-	-	500	500
Tangible fixed assets	-	-	-	-	-	842	842
Other assets	-	-	-	-	-	447	447
TOTAL ASSETS	**51,153**	**-**	**1,300**	**-**	**-**	**3,797**	**56,250**
LIABILITIES							
Customer accounts	35,061	4,444	6,291	2,660	-	200	48,656
Other liabilities	50	-	100	670	700	296	1,816
Shareholder's funds	-	-	-	-	-	5,778	5,778
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	**35,111**	**4,444**	**6,391**	**3,330**	**700**	**6,274**	**56,250**
Interest rate sensitivity gap	**16,042**	**(4,444)**	**(5,091)**	**(3,330)**	**(700)**	**(2,477)**	**-**
Cumulative gap	**16,042**	**11,598**	**6,507**	**3,177**	**2,477**	**-**	**-**

Notes to the financial statements for the year ended 31 December 2018 (continued)

34. Notes to the consolidated and parent charitable Company statement of cash flows

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Net income/(expenditure) for the financial year	39	(91)	66	(39)
Tax on profit on ordinary activities	32	-	35	-
Net income/(expenditure) on ordinary activities before taxation	71	(91)	101	(39)
Amortisation of intangible assets	79	-	82	-
Revaluation of investment properties	-	-	(2)	-
Depreciation of tangible assets	30	-	29	-
Movement in loan loss provision	(34)	-	88	-
Decrease/(increase) in loans and advances to banks	1,054	-	(638)	-
(Increase) in loans and advances to customers	(2,935)	-	(3,192)	-
(Decrease)/increase in customer accounts	(2,547)	-	4,772	-
Decrease in advances from credit institutions	-	(3)	-	(2)
Working capital movements				
- (Increase)/decrease in other assets	(22)	1	234	282
- Increase/(decrease) in other liabilities	114	10	(106)	1
Net cash (used in)/generated from operating activities	(4,190)	(83)	1,368	242