Airdrie Savings Bank

Proud to serve Scotland since 1835

Pillar III Disclosures 2016
Capital

V1.3

Table of Contents

Document Control

Governance

Document Owner	**Chief Finance Officer**
Review Committees	**Audit & Compliance Committee**
Approval	**Board**
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Administration

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Version	**Date**	**By Who**	**Summary of Change**
1.1	**30/03/2016**	**CCRO**	**First draft of Disclosures**
1.2	**24/05/2013**	**CFO**	**Final Review**
1.3	**01/07/2016**	**CCRO**	**Review following Committee.**

1. Introduction

1.1. The European Union (EU) Capital Requirements Directive (CRD) came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. The Directive is enforced in the UK as rules and guidance by the Prudential Regulation Authority (PRA) in the General Prudential sourcebook and the prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The rules include disclosure requirements known as 'Pillar III' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

1.2. This document sets out the 2016 Pillar III Disclosures for Airdrie Savings Bank ["*the Bank*"]. The purpose of these disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the Bank. This is in accordance with the rules laid out in the PRA Handbook (BIPRU Chapter 11).

1.3. The Basel III capital accord, which is being implemented by the EU via 'Capital Requirements Directive IV' (CRD 4), has become effective, and this essentially maintains the PRA Handbook requirements for Pillar III Disclosures.

1.4. The Board of Airdrie Savings Bank are committed to maintaining high standards of corporate governance in every aspect of the Bank including risk management. The Board aim to ensure the protection of customers' deposits by holding sufficient capital at all times.

1.5. The CRD requirements are made up of three main elements (known as 'Pillars') as follows:

Pillar I

Minimum capital requirements, using a risk based capital calculation focusing particularly on credit and operational risk, to determine the Capital Resources Requirement (CRR) as set out in Table 1.

Pillar II

Focuses on risks either not adequately covered in, or excluded from Pillar I. Each Bank is required to undertake an Internal Capital Adequacy Assessment Process (ICAAP) designed to assess all of the risks facing the Bank and to establish a level of additional capital to be held under Pillar II. The ICAAP is then subject to a Supervisory Review and Evaluation Process (SREP) by the PRA.

Pillar III

This document deals with the requirements under Pillar III (disclosure) and the information provided is in accordance with the Rules laid down in Section 11 of BIPRU.

1.6. Management are required to undertake a review of the ICAAP on an annual basis. The most recent review took place in May 2015. The Bank's ICAAP was reviewed by the Risk Committee before being recommended to the Board for review and approval. The Board reviews the Bank's capital position on a monthly basis.

1.7. The Bank is not part of a group and has no subsidiary or associated companies. Accordingly, all information in this document relates to Airdrie Savings Bank as a single entity.

2. Structure and Organisation of the Risk Management Function

Governance

2.1. The Bank is governed by a Board, which consists principally of Trustees appointed to represent the interests of depositors and to ensure that the Bank is managed prudently and efficiently. The Trustees are all non-executive, independent of the Bank's day to day operations and none of the Trustees receives any form of remuneration for their services to the Bank. The Trustees are responsible for determining a framework for risk management and control. The Trustees approve all risk management policies and Committee terms of reference. During 2014, the governance arrangements of the Bank were reviewed and the non-executive chairman of the Board, the Chief Executive Officer and Chief Finance Officer are now considered to be part of the Board, although they are not Trustees and are present at Board meetings in a non-voting capacity.

2.2. The Senior Management Team is formed of the heads of each individual business unit and is led by the CEO and Executive (Chief Finance Officer, Chief Banking & Risk Officer and Chief Compliance and Risk Officer).

2.3. Senior Management is responsible for ensuring there are effective systems and controls in place to identify, manage, monitor and control risks across all of the Bank's operations. However, membership of each of the Board's sub-committees is confined to the Trustees, thereby assuring independence; reports from each sub-committee meeting are considered by the full Board with which final authority rests.

2.4. The sub-committees in place during the year under review were; Risk Committee, Audit & Compliance Committee, Scrutiny Committee, Nominations Committee, Remuneration Committee and Sales & Business Development Committee.

Risk Committee

2.5. The Risk Committee met on four occasions during the year ended 31 October 2015. Its primary responsibilities are:

2.5.1. Assist the Board in the development, implementation and maintenance of the Bank's Statement of Risk Appetite;

2.5.2. Oversee the Bank's Risk Register to provide review and challenge that these documents adequately identify all the key risks faced by the Bank and that for those risks they also identify appropriate management responses, policy and operating limits, stress tests, management information and management ownership;

2.5.3. Review and recommend to the Board the Bank's internal risk processes e.g. Internal Capital Adequacy Assessment Process, Individual Liquidity Systems Assessment and Recovery and Resolution Plan;

2.5.4. Review and recommend to the Board for approval the Enterprise Risk Management Framework and associated policies;

2.5.5. Consider the Bank's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment drawing on financial stability assessments such as those published by the Bank of England, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies; and

2.5.6. Oversee and advise the Board on the current risk exposures of the Bank and future risk strategy through receiving and considering bi-monthly structured reports from management committees.

Audit and Compliance Committee

2.6. The Audit & Compliance Committee met on five occasions during the year ended 31 October 2015. Its primary responsibilities are:

2.6.1. To ensure that the Bank maintains a permanent and effective compliance function and that the compliance function has the necessary authority, resources, expertise and access to all relevant information to carry out its duties effectively;

2.6.2. Monitor and review the effectiveness of the Bank's Internal Audit and Quality Assurance functions;

2.6.3. Monitor the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and judgements contained in them and review and challenge where necessary;

2.6.4. Keep under review the adequacy and effectiveness of the Bank's internal financial controls and internal control systems;

2.6.5. Review and approve the statements to be included in the annual report concerning internal controls;

2.6.6. Consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the Bank's External Auditor. The Committee shall oversee the selection process for a new Auditor and, if an Auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required; and

2.6.7. Oversee the relationship with the External Auditor.

Scrutiny Committee

2.7. The Scrutiny Committee met on four occasions during the year ended 31 October 2015 to undertake in depth reviews of performance compared with budget to consider the corporate planning process and associated financial budget proposals. It's primary responsibilities are:

2.7.1. Review and recommend to full Board on an annual basis the updated strategic plan, annual business plan and budget prior to 31 October each year;

2.7.2. Monitor financial performance against budget on a quarterly basis agreeing with management at each review any appropriate actions to be taken;

2.7.3. Monitor performance against strategic and operational objectives on a six monthly basis, agreeing with management at each review any appropriate actions to be taken; and

2.7.4. The Convener along with the Chairman will carry out the annual appraisal of the CEO.

Nominations committee

2.8. The Trustees maintain an ongoing process of review of the composition of the Board and the range of skills and experience available to it. Chaired by the Senior Independent Trustee, the Nominations sub-committee meets as and when required to review prospective new Trustee appointments as well as recommendations in respect of the proposed office bearers for the following year to be considered at the Annual General Meeting.

2.9. The Nominations Committee met on two occasions during the year ended 31 October 2015. It's primary responsibilities are:

2.9.1. To engage a broad set of qualities and competences when recruiting members to the Board and for that purpose puts in place a policy promoting diversity on the Board;

2.9.2. To identify and recommend for approval, by the Board or by general meeting, candidates to fill Board vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the Board;

2.9.3. To prepare a description of the roles and capabilities for a particular appointment, and assesses the time commitment required;

2.9.4. To agree on a target for the representation of the underrepresented gender in the Board and prepare a policy on how to increase the number of the underrepresented gender in the Board in order to meet that target;

2.9.5. Periodically, and at least annually, to assess the structure, size, composition and performance of the Board and make recommendations to the Board with regard to any changes;

2.9.6. Periodically, and at least annually, to assess the knowledge, skills and experience of individual members of the Board and of the Board collectively, and reports this to the Board; and

2.9.7. Periodically review the policy of the Board for selection and appointment of senior management and makes recommendations to the Board.

Remuneration Committee

2.10. The Remuneration Committee meets as and when required to review executive remuneration and to ensure appropriate adoption by the Bank of the Financial Conduct Authority's Remuneration Code and compliance therewith.

2.11. During the course of the year matters arising in the business of the Remuneration Committee were managed directly by the Board. The Remuneration Committee's primary responsibilities are:

2.11.1. Review, on an annual basis, the Remuneration Policy Statement required under PRA/FCA regulation and review and approve annual Pillar 3 Disclosure on Remuneration, otherwise Disclosure to be approved by full Board.

2.11.2. To establish, on an annual basis, the parameters which will apply in relation to the Staff Value Added Award Scheme and approve any award under that Scheme if merited by performance against those parameters;

2.11.3. To review and approve any changes to executive remuneration packages on an annual basis; and

2.11.4. To undertake an annual review of overall Bank remuneration arrangements not least to ensure consistent with effective risk management in terms of the UK banking industry.

Sales & Business Development Committee

2.12. The Sales and Business Development Committee is a new committee and met on a monthly basis in order to review progress in actual sales against targets and to discuss other business development initiatives. The committee is attended by Trustees, the Chairman, members of executive management (including the Chief Executive Officer and Chief Financial Officer) and by members of both the personal and commercial lending teams.

2.13. The Sales & Business Development Committee met on five occasions during the year. It's primary responsibilities are:

2.13.1. To monitor mortgage and lending sales performance against plan on a monthly basis agreeing with management at each review any appropriate actions to be taken;

2.13.2. To monitor commercial lending sales performance against plan on a monthly basis agreeing with management at each review any appropriate actions to be taken;

2.13.3. To monitor performance against business development objectives on a monthly basis, agreeing with management at each review any appropriate actions to be taken; and

2.13.4. Identifying barriers to achieving sales and business development objectives including product, policy matters and supporting appropriate management action to resolve these in a timely fashion, engaging with other Board Committees and functions as required.

Management Committees

2.14. In the day-to-day running of the Bank, the management team operates a number of management committees. These generally comprise the CEO, CFO, CCRO and CBRO plus appropriate members of the senior management team. There are three formal management committees: Assets and Liabilities Committee, Operational & Conduct Risk Committee and Credit Risk Committee. These management committees receive their delegated authority from Board via the appropriate Board sub-committee and in turn they provide that same sub-committee with appropriate information and reporting.

Assets & Liabilities Committee (ALCO)

2.14.1. The main function of the ALCO is to ensure that an appropriate framework exists, and is being successfully operated, around all areas of financial risk management. ALCO are responsible for defining, reviewing and updating financial risk management policies and for approving decisions which are out with day to day financial risk management boundaries. ALCO's principal duties are the monitoring and reporting on financial risk management, interest rate risk, treasury risk, funding, liquidity, net interest margin and product pricing. The ALCO reports appropriate issues and information to the Risk Committee.

Operational & Conduct Risk Committee (OCR)

2.14.2. The main function of the OCR is to act as a formal management committee to evidence analysis of operational, compliance and conduct issues. The committee will review relevant management information and report appropriate issues and information to Risk Committee or Audit and Compliance Committee as appropriate.

Credit Risk Committee (CRC)

2.14.3. The main function of the CRC is to monitor and report on all aspects of lending including policies, reports and trend analysis of credit quality and risk profile of the lending portfolio including forbearance and arrears, regular review of provisioning models and required provision levels, regulatory and legal issues, assessment of new products, monitor general economic and mortgage market conditions and provide a forum for discussion of all credit related matters and report to the Risk Committee as appropriate. A key development during the year was the separation of all loan sanctioning from Credit Risk Committee responsibility to the Credit Sanctioning Committee. This change facilitates segregation of duties of credit operational and credit risk matters.

Three Lines of Defence

2.15. Successful risk management requires a strong risk culture and common approach throughout the Bank. The Bank's risk management approach follows the standard model in a modern financial institution's approach to managing uncertainty and preventing risk, built on the three lines of defence model and risk processes.

2.16. The first line of defence consists of the Bank's operational business units and management committees. The business line management is closer to the changing nature of risks. They are responsible for identifying, monitoring and reviewing the risks within their business area and subsequently providing updates to the second line of defence via departmental risk and control self-assessments and the risk register.

2.17. The second line of defence consists of the Bank's Risk and Compliance Department which is responsible for providing oversight and challenge to the first line of defence and providing assurance to the Board, and it's sub-committees in respect of risk management and compliance with the Bank's legal and regulatory requirements.

2.18. The third line of defence consists of the Bank's outsourced Internal Audit function and Board Sub-Committees. The third line of defence is collectively responsible for:

2.18.1. Providing objective assurance, independent to the first and second lines of defence, and consulting activities designed to add value and improve the business' operations;

2.18.2. Independent challenge, audit of key controls, formal reporting on assurance, audit of assurance providers (in the first and second line);

2.18.3. Independent challenge and scrutiny to the Executive and Senior Management in relation to systems and controls; and

2.18.4. Reporting on the adequacy and effectiveness of the risk management and control environment to the Board.

3. Risk Management Objectives and Policies

Enterprise Risk Management Framework (ERMF)

3.1. Risk management is essential to ensuring the Bank's sustainability and ensuring robust control. A strong culture of risk management provides the foundation for this and by embedding a strong risk culture throughout the business, we ensure there are robust processes in place to identify, measure and control risk exposures and respond effectively to shocks. The ERMF sets out the Bank's approach to risk management and the foundations upon which the Bank seeks to ensure the risk strategy is suitably aligned to assist the achievement of the Bank's corporate objectives.

3.2. This framework outlines the components of the Bank's risk framework and how these components assist the Bank's integrated approach to risk management. Specifically, it:

3.2.1. Provides an overview of the Bank's strategy and risk governance, including the Bank's approach to strategic risk management and its alignment to corporate strategy;

3.2.2. Articulates of the Bank's risk appetite and related framework within which the Board agrees the amount and level of risk the Bank is prepared to take in pursuit of its Corporate Plan objectives;

3.2.3. Details the Bank's risk policy management framework which seeks to ensure principles, limits, roles and responsibilities are clearly articulated and formalised in the appropriate policies and aligned with the ERMF;

3.2.4. Documents high level risk processes such as the ICAAP, the ILAAP and the Recovery and Resolution Plan;

3.2.5. Sets out the risk management tools and techniques implemented to ensure timely and accurate identification, management and control of existing, emerging and high priority risks and the related monitoring and reporting requirements; and

3.2.6. Articulates the Bank's risk universe which sets out the four risk pillars under which risks are managed.

Adequacy of Risk Management Framework

3.3. The Framework is a live, strategic document and will be enhanced as risk strategy within the Bank develops. The Board view the Framework as proportionate to the nature and scale of our business operations.

Risk Profile and Appetite

3.4. The Bank's approach to risk management is focused on financial resilience and business sustainability. Our approach is aligned with our Corporate Plan Objectives; which reflects the uncertain macroeconomic environment and fast-paced regulatory setting – is balanced with our strategy to expand through the introduction of fresh delivery channels, aims to increase the level of deposits lent to customers and improve the geographic concentration of our business.

3.5. The Bank's Board Risk Appetite is to achieve our corporate objectives in a prudent and controlled manner through the enhancement of our risk management tools and the promotion of a strong risk management culture.

Risk Universe

3.6. In line with the Bank's Corporate Risk Strategy; the Bank has adopted a simplified approach to high-level risk categorisation. This is referred to as the Bank's 'Risk Universe' which outlines the principal business and financial risks to which the Bank are exposed. These are:

3.6.1. Operational & Conduct Risk;
3.6.2. Market & Liquidity Risk;
3.6.3. Business & Strategic Risk; and
3.6.4. Credit Risk.

Operational & Conduct Risk

3.7. Operational Risk is the risk of loss from inadequate or failed internal processes, people and systems, or from external events (such as regulation/sector environment). It includes legal and financial crime risks but does not include strategic, reputational and business risks. The Board and the Risk Committee monitor these risks through the maintenance and monitoring of the risk register and through planned actions to mitigate against the effects of any identified risks.

3.8. Conduct Risk is the Risk of the Bank treating its retail customers unfairly and delivering inappropriate outcomes. The fair treatment of customers is of paramount importance to the Bank. The Board believes that the way the Bank conducts its business and the fair treatment of its customers shall be integral to its corporate culture, embracing the FCA Principle 6 which states: "a firm must pay due regard to the interests of its customers and treat them fairly".

Market & Liquidity Risk

3.9. Liquidity Risk is the risk that the Bank will be unable to meet its financial obligations as they fall due. The objective of liquidity is to help smooth mis-matches between maturing assets and liabilities and to provide a degree of protection against any unexpected development that might arise. The Bank's liquidity position is monitored on a daily basis and reported to the Board on a monthly basis.

3.10. Market Risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices, and typically encompasses the risks pertaining to interest rate related instruments.

3.11. The main Market Risk applicable to the Bank is Interest Rate Risk. Interest Rate Risk is the risk of a potential adverse impact on the Bank's future cash flows and profitability from changes in interest rates and arising from the different interest rate risk characteristics of the Bank's assets and liabilities. A negative rate sensitivity gap exists when more liabilities than assets re-price during a given period. The actual effect of this will depend upon a number of factors including the extent to which repayments are made earlier or later than the next reset or maturity date. Interest rate risk arises naturally in the course of the Bank's business and includes the interest rate risk inherent in offering a range of products to meet customer's demands. The Bank's exposure to interest rate risk is monitored each month and reviewed quarterly by the Board.

3.12. At 31 October 2015 ASB had £124 million of mainly variable rate deposits, £50 million of variable and fixed rate customer lending, £37 million of fixed rate medium to longer term Government Debt Securities, £46 million of fixed and variable lending to banks and £2 million of balances in the Bank of England Reserve Account.

3.13. Basis Risk, which is a part of Interest Rate Risk, arises from hedging exposures to one interest rate with exposure to a rate which re-prices under different conditions. Basis risk is monitored and reported through ALCO with quarterly ALCO reporting.

3.14. Each quarter the Bank's Basis Risk is calculated in accordance with the guidance provided by the PRA and is submitted to the PRA. The calculation allocates assets and liabilities to the categories specified by the PRA and then takes the sum of the differences between assets and liabilities (regardless whether positive or negative) and divides by total assets to provide a mismatch percentage.

Business & Strategic Risk

3.15. Business & Strategic risk encompasses the risk due to uncertainty in the macroeconomic environment with specific consideration of continued low interest rates, earnings volatility and cost overruns in severely adverse conditions. It is the risk to the Bank of failing to achieve the strategic objectives outlined in the Corporate Plan and potential loss due to a weakening in competitive position. The Bank's financial forecasts monitored by the Trustees ensure that the Bank maintains capital ratios at a sufficient level to provide long-term financial strength and stability.

3.16. One other key Business and Strategic Risk if Pension Obligation Risk; this is the risk that there may be a shortfall with respect to pension benefits due to employees/former employees within the Bank's defined benefit pension scheme. This scheme was closed for future service accrual in June 2006 and the Bank makes regular contributions in line with the actuarial valuations of the scheme undertaken on a triennial basis.

Credit Risk

3.17. Credit Risk is the risk arising from the possibility that the Bank will incur losses from the failure of a customer to meet its obligations in respect of monies advanced. It includes risk from the Bank's investments in fixed interest securities and deposits placed with other banks.

3.18. There are three main types of credit risk which may have an impact on the Bank:

3.18.1. Concentration Risk
3.18.2. Counterparty Risk
3.18.3. Default Risk

These risks are monitored between ALCO and Credit Risk Committee and monitored monthly in terms of overall Board risk appetite.

3.19. Senior Management is responsible for reviewing the Bank's lending policies for customer advances and for monitoring arrears and the Board is responsible for approving the lending policy on recommendation from the Risk Committee. Risks are managed through adherence to Board-approved lending, liquidity and counterparty policies, which provide for a range of limits that are regularly monitored and reviewed in the light of changing economic conditions and Bank objectives. On a monthly basis, the Board monitors overall exposures on customer advances, individual customer advances that are causing concern, investments in fixed interest securities and exposures to other banks. Arrears on customer advances are reviewed by the Board on a quarterly basis and the Bank's policy is to make immediate provision for any advance in respect of which there is sufficient doubt about the likelihood of full repayment.

3.20. Concentration risk, which adds a further dimension to credit risk, arises as a result of any concentration of exposures within the same category, be it geographical location, industry sector or counterparty type. For the Bank's customer advances, the principal concentration risk is geographical, as the majority of its lending is in Scotland. All of the Bank's branches are located in the North Lanarkshire area, and while much of the business is concentrated there, advances are also made to customers in other parts of Scotland and, to a limited extent, England. The Bank has no exposure outside the United Kingdom.

Risk Management

3.21. The Bank uses a risk register to assess its key risks. The full risk register is reviewed every six months by the Risk Committee with not acceptable, top and emerging risks being reviewed quarterly by the Risk Committee. The full risk register is reviewed by the Board of Trustees on an annual basis. The risk register is used to identify risks for incorporation into the ICAAP under Pillar II.

3.22. The system of internal controls is designed to enable the Bank to achieve its corporate objectives within a managed risk profile, not to eliminate risk entirely.

Monitoring and Reporting

3.23. The Bank monitors and tracks current exposures against the limits defined from the Risk Appetite and report exceptions on a quarterly basis to the Risk Committee and Board. Adherence to these limits are independently monitored, measured and reported on using a suite of key indicators defined by Risk and Compliance. Decisions made at sub-committees are also reported up to senior committees as appropriate.

Risk Reporting & Measurement Systems

3.24. Risk reporting and measurement systems detailed in relation to paragraphs 3.1 – 3.2 (ERMF) apply to all business areas. These systems of reporting seek to ensure:

3.24.1. Management knows exactly the kind of reporting they need to manage the business effectively and support them in proactive decision-making;

3.24.2. Information is specific, measurable, accurate, relevant and timely and is regularly reviewed to ensure it keeps meeting business needs;

3.24.3. Information is appropriate to the subject matter and audience – small amounts of good information rather than large amounts of irrelevant information are provided;

3.24.4. Information is effectively analysed to show where and how we can improve our risk management and the way it's run;

3.24.5. Information supports forward looking trends and where appropriate the potential impact of scenarios or events;

3.24.6. Both internal and external data sources are looked at, and the integrity of the data is checked on a regular basis; and

3.24.7. Effective communication allows information to flow freely – at the right time and to the people who need it – within the business and beyond as appropriate.

Residual Risks

3.25. The Trustees recognise that there are residual risks inherent in any business, which may not be identified specifically. Accordingly the Board has resolved that the Bank should operate with a buffer of capital in excess of the regulatory requirement.

4. Capital Resources

4.1. The capital resources of the Bank as at 31 October 2015 were £14.250 million, comprising core Tier 1 capital of that amount representing the Bank's profit and loss account (accumulated reserves).

4.2. There is also upper Tier 2 capital of £0.536 million, comprising the Bank's property revaluation reserve as at 31 October 2015.

4.3. The Bank has no external debt or equity capital.

4.4. The Bank's total assets as at 31 October 2015 were £142.402 million.

5. Capital Adequacy Assessment

5.1. The Bank has a five-year financial planning framework which is reviewed and updated by the Trustees on an annual basis. The financial plan enables a forecast of the Bank's capital and its regulatory capital resources requirement to be made, and this is a key element of the Bank's ICAAP. The Annual Budget is produced with reference capital requirements defined in the ICAAP, and both reflect the Bank's low risk appetite in relation to its operations, thus integrating the capital adequacy position and forecasts into business strategy.

5.2. The ICAAP contains calculations of the capital resources requirement as at the most recent financial year end, with forecasts for the following five years, using the standardised approach for credit risk and the basic indicator approach for operational risk.

5.3. Under the standardised approach for credit risk set out in section 3 of BIPRU, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value (lending to SME's risk weighted assets, for lending less than £1 million and secured on property, are then adjusted by a further 0.7619% in line with BIPRU guidance) as the minimum capital requirement for credit risk, as required under Pillar I. Projections of capital requirements based on anticipated business volumes for the following two years are then calculated to ensure that any business growth is capable of being accommodated.

5.4. For operational risk, using the basic indicator approach set out in section 6 of BIPRU, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk. As above, a projected capital requirement based on forecast business volumes is then calculated.

5.5. The ICAAP also includes assessments of the capital adequacy position under stressed scenarios in order to ensure that this will be satisfactory in such circumstances.

5.6. Table 1 below provides details of the calculation of the Pillar I capital resources requirements of the Bank as at 31 October 2015. The Bank's Core Tier 1 capital ratio at 31 October 2015 was 23.1%.

6. Leverage ratio

6.1. From January 2014, the Basel III capital accord, which is being implemented by the EU via 'Capital Requirements Directive IV' (CRD 4), has become effective. This requires the disclosure of the Bank's leverage ratio, which measures the level of Tier 1 capital against both on and off balance sheet exposures. At 31 October 2015 the Bank's leverage ratio was 10%, against the minimum ratio required by CRD 4 of 3.0%.

7. Credit Risk – further information

7.1. This section provides information additional to that in paragraphs 3.12 – 3.15 above in respect of the Bank's credit risk exposures through customer advances.

7.2. Table 1 below includes an analysis, for capital adequacy purposes, of loans and advances exposures at 31 October 2015.

7.3. Table 2 below provides a geographical analysis of loans and advances secured by commercial and residential property as at 31 October 2015.

7.4. Table 3 below provides a residual maturity analysis of Loans and Advances as at 31 October 2015.

7.5. Customer advances arrears are monitored closely and the level of provisions made as at 31 October 2015 represents an up to date assessment of the impact of the arrears as at that date.

7.6. When an account becomes one month in arrears the need for a provision for bad and doubtful debts is considered. The requirement for specific and general provisions continues to be assessed on a quarterly basis. For general provisions this assessment considers any evidence of bad and doubtful debts, present within the advances portfolio, which have not been separately identified and where the effects are not yet evident. At 31 October 2015 specific provision balances for bad and doubtful debts were £1.278 million and general provision balances were nil.

7.7. Table 4 below shows the secured and unsecured bad debt provisions at 31 October 2015 and a year earlier with the charge for the year.

8. Interest Rate Risk – further information

8.1. Interest rate risk is referred to in paragraph 3.8 of this document.

8.2. The main activities undertaken by the Bank that give rise to interest rate risk are as follows:-

8.2.1. Fixed rate deposits from customers;

8.2.2. Fixed rate customer lending by way of personal loans and mortgages; and

8.2.3. Fixed rate deposits with other banks and investments in fixed interest securities.

8.3. The majority (89% as at 31 October 2015) of the Bank's customer deposits are on nil or variable interest rate terms. As at the same date, 77% of the Bank's total assets were on variable rate terms or fixed for periods of up to one year. Further information on interest rate risk is provided in Table 5.

9. Conclusion

9.1. This disclosure document, prepared in accordance with the requirements of BIPRU 11, is intended to provide background information on the Bank's approach to risk management. It also provides asset information and capital calculations under Pillar I.

9.2. Future disclosures will be published within four months of the Bank's financial year end and will be updated annually.

9.3. In the event that a user of this disclosure document requires further explanation of the disclosures given, application should be made in writing to the Chief Executive Officer at Airdrie Savings Bank, 56 Stirling Street, Airdrie, North Lanarkshire. ML6 0AW.

10. Tables

10.1. Table 1 – Capital Resources Requirement as at 31 October 2015

Item	Asset Amount	RWA	Minimum Capital Required
Advances - Secured by Residential Property			
Retail	£23.582 m	£8.878 m	£0.710 m
Non Retail	£3.983 m	£3.535 m	£0.278 m
Non-Performing	£0.768 m	£0.768 m	£0.061 m
Subtotal Secured by Residential Property	**£28.333 m**	**£13.181 m**	**£1.049 m**
Advances - Secured by Non Residential Property			
Retail	£0.163 m	£0.163 m	£0.013 m
Non Retail	£18.083 m	£18.083 m	£1.222 m
Non-Performing	£1.897 m	£1.897 m	£0.152 m
Sub-total Secured by Non Residential Property	**£20.143 m**	**£20.143 m**	**£1.387 m**
Advances - Unsecured			
Retail	£0.583 m	£0.437 m	£0.035 m
Non Retail	£1.364 m	£1.273 m	£0.102 m
Non-Performing	£0.108 m	£0.108 m	£0.009 m
Sub-total Unsecured	**£2.055 m**	**£1.818 m**	**£0.146 m**
Advances - Secured by Cash	**£0.437 m**	**£0.000 m**	**£0.000 m**
Advances - secured by Other	**£0.000 m**	**£0.000 m**	**£0.000 m**
TOTAL ADVANCES	**£50.968 m**	**£35.142 m**	**£2.582 m**
Bank Deposits, Gilts and B of E			
Deposits with other banks	£46.511 m	£15.069 m	£1.206 m
Fixed Interest - UK Gilts and Multilateral dev banks	£37.402 m		
Bank of England Reserve Account	£2.114 m		
Total Capital for Credit	**£136.995 m**	**£50.211 m**	**£3.788 m**
Other including Fixed Assets, Prepayments, Cash and Off Balance Sheet items	**£5.407 m**	**£4.586 m**	**£0.366 m**
Operation Risk Component			
Operation Risk Capital Requirement			**£0.773 m**
Total Minimum capital requirement			**£4.927 m**

Notes to Table 1

Customer advances are summarised by reference to the various categories of advances under the standardised approach for credit risk and are stated before deductions for specific and general bad debt provisions

Under that standardised approach for credit risk, the Bank uses credit rating information supplied by Moody's, Standard & Poor's and Fitch, and by its stockbrokers, to determine the risk weightings applying to its holdings of fixed interest securities and its deposits with other banks. These credit ratings are monitored on a regular basis and any changes to capital requirements calculated if and when any changes in ratings are noted.

10.2. Table 2 – Concentration Risk

The Bank has measured its concentration risk by reference to the geographic split of the commercial and residential properties held as security for customer advances. The split, as at 31 October 2015, was as follows:

Geographic Area	Value	Percent of Total Lending
Aberdeen	£0.12m	0.2%
Dundee	£1.1m	2.2%
Renfrewshire	£3.69m	7.2%
West Dunbartonshire	£1.14m	2.2%
East Dunbartonshire	£2.38m	4.7%
Glasgow	£6.35m	12.5%
North Lanarkshire	£11.13m	21.8%
Falkirk	£1.12m	2.2%
Edinburgh	£4.23m	8.3%
Midlothian	£0.29m	0.6%
East Lothian	£0.4m	0.8%
Highlands	£0.33m	0.7%
Argyll & Bute	£1.32m	2.6%
Perth & Kinross	£2.64m	5.2%
Stirling	£1.12m	2.2%
North Ayrshire	£1.28m	2.5%
East Ayrshire	£0.19m	0.4%
Dumfries & Galloway	£0.28m	0.5%
South Lanarkshire	£9.39m	18.4%
Scottish Borders	£0.26m	0.5%
England	£0.62m	1.2%
Borrowings not Secured by Property	£1.54m	3.0%
Other	£0.05m	0.1%
Total	£50.97m	100%

10.3. Table 3 – Residual maturity analysis of Loans and Advances

The Bank’s residual maturity analysis of loans at 31 October 2015 was as follows:

Repayable	Value	Percent of total lending
On demand	£10.692m	21.0%
Within three months	£2.629m	5.2%
Between three months and one year	£1.292m	2.5%
Between one year and five years	£15.313m	30.0%
After five years	£21.042m	41.3%
Total	£50.968m	100.00%

10.4. Table 4 – Specific Bad Debt Provisions

The table below shows the secured and unsecured specific bad debt provisions at 31 October 2015 and a year earlier with the charge for the year. The general provision balance was nil at both dates.

£000	Loans fully secured on property	Loans fully secured on land	Unsecured loans	Total Provisions
At 1 November 2014	84	1,148	159	**1,391**
Advances written off	(125)		(62)	**(187)**
Net charge against profit	65		9	**74**
At 31 October 2015	**24**	**1,148**	**106**	**1,278**

10.5. Table 5 – Interest Rate Risk Analysis Table

The Bank's Interest Rate Risk analysed by re-pricing date at 31 October 2015 was as follows:

£000	Three Months or Less	More than three months, less than six months	More than six months, less than one year	More than one year, less than five years	More than five years	No specific repricing	Total
Assets							
Liquid Assets	30,450	9,627	8,512	-	-	623	**49,212**
Debt Securities	2,798	0	9,691	24,913	-	-	**37,402**
Loans and Advances to Customers	41,202	185	1,823	6,480	-	-	**49,690**
Tangible Fixed Assets	-	-	-	-	-	3,058	**3,058**
Prepayments and Accrued Income	-	-	-	-	-	968	**968**
Total Assets	**74,450**	**9,812**	**20,026**	**31,393**	**0**	**4,649**	**140,330**
Liabilities							
Customer Accounts	106,928	1,390	2,806	-	-	12,734	**123,858**
Accruals and Deferred Income	-	-	-	41	-	594	**635**
Provisions for Liabilities and Charges	-	-	-	-	-	392	**392**
Taxation Payable	-	-	-	-	-	5	**5**
Revaluation Reserve	-	-	-	-	-	1,190	**1,190**
Profit and Loss Account	-	-	-	-	-	14,250	**14,250**
Total Liabilities	**106,928**	**1,390**	**2,806**	**41**	**0**	**29,206**	**140,330**
Interest Rate Sensitivity Gap	**(32,478)**	**8,422**	**17,220**	**31,352**	**0**	**N/A**	**N/A**
Cumulative Gap	**(32,478)**	**(24,056)**	**(6,836)**	**24,516**	**24,516**	**N/A**	**N/A**