Pillar 3 Disclosures

For Year Ended 31st December 2021

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1. INTRODUCTION

1.1 Background

Weatherbys Bank Limited ("WBL" or the "Bank") is subject to the European Union Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR), collectively known as CRDIV, which took legal effect from 1st January 2014.

The aim of CRD IV is to provide for consistent capital adequacy standards across banks and other financial institutions and these have been implemented under the Basel III framework of the Basel Committee on Banking Supervision. This is enforced in the UK by the Prudential Regulation Authority (PRA). The legislation provides the rules to determine the amount of capital banks and other financial institutions must hold in order to provide security for depositors.

The Basel III capital framework consists of 3 'pillars':

- Pillar 1 – sets the minimum regulatory capital requirements for credit, market and operational risk

- Pillar 2 – is a requirement for an internal assessment of the additional regulatory capital, in addition to Pillar 1 capital, required to cover specific risks related to the firm. This is part covered by the Internal Capital Adequacy Assessment Process ("ICAAP") which is reviewed by the PRA during its Supervisory Review and Evaluation Process and used to determine the overall capital requirements that apply to the Bank

- Pillar 3 – a set of disclosure requirements allowing banks and other financial institutions to assess the scope of the application of Basel III, capital, risk exposures and risk assessment processes, and therefore the capital adequacy of the firm.

1.2 Scope

Weatherbys Bank Limited is authorised by the Prudential Regulation Authority (PRA) and regulated by both the Financial Conduct Authority (FCA) and the PRA. Weatherbys Bank Limited is a subsidiary of Weatherbys Bank Holdings Limited. Weatherbys Bank Holdings Limited together with its subsidiaries, Weatherbys Bank Limited, Arkle Finance Limited, Weatherbys General Services Limited and Weatherbys Bank (Nominees) Ltd, comprise a 'UK consolidated group'.

The PRA supervises the Group on a UK consolidated group basis ("Group") and solo consolidated basis ("Solo") and receives information on the capital adequacy of, and sets capital requirements of, the UK Consolidated Group and Solo Consolidated Group. There are no differences between the basis of consolidation for accounting and prudential purposes.

WBL makes use of the provisions laid down in the FCA handbook BIPRU Chapter 2.1 and reports to the PRA on a solo-consolidated basis. This solo consolidated group includes WBL and its subsidiaries Arkle Finance Limited, Weatherbys General Services Ltd and Weatherbys Bank (Nominees) Limited. All of the Group's subsidiaries are included in the Pillar 3 disclosures and the Group does not foresee any practical or legal impediments to the transfer of capital resources or repayment of liabilities when due within the Group.

The information contained in this document covers the disclosure requirements of Pillar 3 and have been prepared in accordance with the rules laid out under Part VIII of the Capital Requirements Regulation (EU 575/2013). Unless otherwise stated all figures are based on data as at 31st December 2021.

The Pillar 3 disclosures have been prepared in order to:

- comply with the regulatory requirements
- provide information on the Group's risk management objectives and policies
- provide information on the Group's capital position
- provide information on the Group's approach to assessing the adequacy of its capital and its exposure to credit, market and operational risk.

They do not constitute financial statements of the Group and should not be relied on in making investment decisions in relation to the Group.

1.3 Frequency of Disclosure

Pillar 3 disclosures will be issued as a minimum on an annual basis and will be published on the Bank's website (www.weatherbys.bank/about-weatherbys/corporate-information) alongside the publication of the annual report and accounts.

1.4 Verification of Disclosure

Pillar 3 disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's annual report and accounts. They are however subject to the Bank's internal review processes and sign-off by a board director and the Audit Committee.

1.5 Regulatory Changes

The Bank monitors and assesses the regulatory horizon to identify and evaluate any future changes or developments. The Bank is closely monitoring proposals to make amendments to the existing CRR which is currently referred to as 'CRRII/CRDV'. Implementation is from the beginning of 2022, and this will be reflected in next year's disclosures.

The Countercyclical Buffer (CCyB) was introduced for the UK in June 2018 at 0.5% and increased to 1% in November 2018. As a result of the coronavirus pandemic, the CCyB was reduced to zero with effect from the 11th March 2020. This is currently scheduled to be increased to 1% with effect from 13th December 2022, rising to 2% in June 2023 subject to prevailing economic conditions.

In Q2 2020, the European Union announced the acceleration of the implementation of certain CRRII measures that had been due to apply from 28 June 2021 (the so-called 'quick fix' package). This implementation had limited impact, as the Bank's historic capital ratio was already close to the regulatory limit of 8%

In Q4 2020, the PRA announced that the implementation date for those areas of CRRII which were not currently in force was delayed from June 2021 to January 2022. The following aspects of CRRII are particularly relevant:

- Binding Leverage Ratio: The leverage ratio is not presently a constraint for the Bank.
- Binding NSFR: The Bank's NSFR has consistently been above minimum requirements.
- Large Exposure: The 25% exposure limit will be calculated on a narrower capital base, namely Tier 1 capital, instead of Total Capital currently used.

The PRA announced that the implementation date for CRDV was delayed until December 2025.

2. KEY MEASURES & RATIOS

2.1 Capital Resources & Ratios

In accordance with regulatory requirements the Bank Board reviews the ICAAP annually. The PRA has set firm-specific capital requirements that determine the proportion of capital that the Bank must maintain relative to its Risk Weighted Assets (RWAs). The Board is required to manage the present and future activities within these parameters.

The table below summarises the key capital measures and ratios for the Bank as at 31st December 2021.

Total Capital Ratio

The Group's total capital ratio is defined as:

- the level of total capital resources as a percentage of total risk weighted assets.

As at 31st December 2021, this was 11.81% against a minimum requirement of 8%.

The table below summarises the key capital measures and ratios for the Bank at 31st December 2021.

Table 1 : Capital Resources & Ratios Requirements

£'000	Group	Solo
Tier 1		
Share capital	10,660	7,000
Profit and loss account	40,980	44,825
Other reserves	1,161	975
Intangible assets	(2,554)	(2,554)
Total Tier 1 capital	50,247	50,247
Tier 2		
Collective impairment provisions	1,387	1,387
Subordinated loans	10,000	10,000
Total Tier 2 capital	11,387	11,387
Total capital	61,634	61,634
Risk weighted assets	425,582	425,582
CET 1 Ratio	11.81%	11.81%
Tier 1 Ratio	11.81%	11.81%
Tier 2 Ratio	14.48%	14.48%

The Bank's Tier 1 capital is made up entirely of CET1.

During 2018 the Bank issued £10m of subordinated loans, qualifying as Tier 2 capital, to support further organic growth. The loans are repayable on 1 October 2028 and are callable from 1 October 2023.

The composition of capital reflects the current requirements under Basel III.

Leverage Ratio

Under CRDIV firms are required to calculate a leverage ratio as an additional non-risk based monitoring tool. This is intended to provide an alternative measure to assess core capital against total assets.

The Group's leverage ratio is defined as:

- the level of Tier 1 capital against balance sheet and off-balance sheet exposures.

As at 31st December 2021, this was 3.37% against a minimum requirement of 3%.

The table below summarises the leverage ratio for the Bank as at 31st December 2021

Table 2 : Leverage Ratio Requirements

£'000	
On-balance sheet exposures	1,479,180
Derivatives: Current replacement cost	929
Derivatives: Add-on under the mark-to-market method	620
Off-balance sheet exposures – gross notional amount	84,462
Adjustments for conversion to credit equivalent amounts	(75,944)
Total exposures	1,489,247
Tier 1 Capital	50,247
Leverage ratio	**3.37%**

2.2 Capital Adequacy

The Board's policy is to remain soundly capitalised at all times through the economic cycle. Under Basel III (CRDIV) the Bank is required to assess its own capital adequacy. "Pillar 1" capital, as it is described under Basel III, is required to support Credit, Operational and Market risk.

The Bank adopts the Standardised approach to assessing Credit Risk. In accordance with this approach a factor of 8% is applied to the risk weighted exposure amounts of each of the applicable standardised credit risk exposure classes.

The following table shows the minimum capital required for Credit Risk as at the 31st December 2021:

Table 3 : Capital Requirements for Credit Risk

Minimum Capital Requirement 8% £'000	**Group**	**Solo**
Central Government and Central Banks	0	0
Financial institutions	676	676
Covered bonds	415	415
Corporates	8	8
Public sector entities	0	0
Retail	6,515	6,515
Secured by mortgages on immovable property	17,507	17,507
Exposures in default	711	711
Other items	2,564	2,564
Minimum capital component for credit risk	28,396	28,396

The Bank has used the Basic Indicator Approach to assessing Operational Risk which is calculated as 15% of the average gross income over the last three years. Under this basis the Bank has assessed its operational risk as £5,572,028.

The Bank does not have a trading book and as such its exposure to Market Risk is not material.

The overall minimum capital resource requirement under Pillar 1 is calculated by adding the capital component for credit risk to that required for market risk and operational risk using the Basic Indicator Approach.

The following table shows the overall minimum capital requirement and capital adequacy position under Pillar 1 as at the 31st December 2021:

Table 4 : Minimum Capital Resource Requirements

£'000	Group	Solo
Credit Risk	28,396	28,396
Market Risk	78	78
Operational Risk	5,572	5,572
Minimum Capital Resource Requirement	34,046	34,046
Total Capital	61,634	61,634
Total Capital Requirement	38,344	38,344

In addition to the minimum capital requirement the PRA requires the Bank to hold further capital to protect against Pillar 2 risks, together with a capital conservation buffer against the impact from stressed scenarios as well as a countercyclical buffer. At 31st December 2021 the capital conservation buffer was 2.5%.

The Financial Policy Committee reduced the countercyclical buffer to 0% with effect from 11th March 2020 in response to the coronavirus pandemic and it remained at that level at 31st December 2021. The countercyclical buffer is currently scheduled to increase to 1% on the 13th December 2022. The total capital requirement was £38.34m at 31 December 2021. The capital requirement encapsulates Pillar 1 and Pillar 2A requirements but excludes the capital conservation and countercyclical buffers.

2.3 Past Due & Provisions

A financial asset is treated as past due when it has failed to make a payment within three months of its contractually due date. Weatherbys Bank has prudent policies and procedures to build up reserves against possible losses. Specific provisions are in place to deal with exposures classified as impaired or where losses are expected. In addition, the Bank maintains a collective provision to cover an identified part of the loan book where observable data indicates that impairment is likely. For prudential reporting purposes, when an individual exposure has failed to make a payment within ninety days of when it was contractually due the entire amount of the exposure is treated as past due.

On a monthly basis, the requirements for specific bad debt provisions are considered. Where monies are owing, or if there is evidence of impairment as a result of events that have occurred such as financial difficulty, breach of contractual duties or adverse changes in the payment status of the borrower, a provision will be made. If it is considered appropriate any interest charged to the customer and not paid will not be taken to the profit and loss account.

The following table provides details on the movement of provisions for bad and doubtful debts for the year to 31st December 2021:

Table 5 : Provisions for Bad & Doubtful Debts

Group and Solo £'000	Specific Provision	Collective Provision	Total Provision
Provisions at 31 December 2020	2,787	1,376	4,163
Charge for the year	1,535	24	1,559
Write offs	(2,064)	(13)	(2,077)
Balance at 31 December 2021	2,258	1,387	3,645

2.4 Credit Risk Exposures

The gross credit risk exposure (based on the definitions for regulatory capital purposes, before credit risk mitigation) and the average for the year is summarised below:

Table 6 : Credit Risk Exposures

Group and Solo - £'000	At 31 Dec 2021	Average 2021
Central Government and Central Banks	577,637	464,200
Financial institutions	38,362	43,324
Covered Bonds	51,916	57,697
Multilateral Development Banks	43,634	43,679
Corporates	99	141
Retail	131,874	137,135
CBILs – Government Guaranteed	13,240	11,839
Secured by mortgages on property	581,162	579,191
Other items	34,363	31,393
Exposures In Default	7,139	5,250
Credit Valuation Adjustment	1,549	934
Total	1,480,975	1,374,332

The residual maturity of regulated exposures on a contractual basis at 31st December 2021 is shown below:

Table 7 : Maturity of Regulated Credit Risk Exposures

Group and Solo - £'000	Up to and including 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Central Government and Central Banks	575,554	0	0	2,083	577,637
Financial institutions	38,932	0	0	(570)	38,362
Covered Bonds	5,049	8,002	38,865	0	51,916
Multilateral Development Banks	11,523	0	32,111	0	43,634
Corporates	0	50	49	0	99
Retail	14,511	38,557	73,592	5,214	131,874
CBILs – Government Guaranteed	0	544	12,696	0	13,240
Secured on real estate property	65,479	111,268	323,670	80,745	581,162
Exposures In Default	3,719	1,971	1,369	80	7,139
Credit Valuation Adjustment	127	370	990	62	1,549
Other Items	20,410	4,101	8,852	1,000	34,363
Total	735,304	164,863	492,194	88,614	1,480,975

The Bank's rated assets are all Credit Quality Step 1.

2.5 Asset Encumbrance

Asset encumbrance is the process where assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

All the Bank's assets are unencumbered and are freely available with a few, immaterial exceptions. These include a nominal amount ring-fenced under the Bank of England cash ratio deposit scheme and periodic cash collateral to cover margin calls for interest rate swaps used for interest rate risk management.

3. GOVERNANCE & RISK MANAGEMENT

3.1 Background

Risk management is the process of identifying the principal risks to the Group, establishing appropriate controls to manage those risks and to monitor and put in place reporting systems to ensure that those controls remain robust and evolve with the changing risk profile of the Group.

The Bank's primary risk management governing body is the Board of Directors. The Board is responsible for:

- approving the framework for reporting and managing risk
- approving the overall level of risk to which the Bank is exposed
- ensuring that risk management is appropriate and functioning effectively.

The Board manages risk and internal capital requirements, for both current and future activities through a combination of committees that report to it through monthly Board reporting, covering all aspects of the Bank's activities. The Bank's Internal Capital Adequacy Assessment (ICAAP), Individual Liquidity Adequacy Assessment (ILAAP) and Recovery Plan (RP) are formally approved each year.

The Board's primary committees that report to it include:

- Executive Committee (EXCO) – comprising the executive directors and key members of senior management which meets monthly to review and discuss all financial and operational issues for the Group.
- Group Risk Committee – chaired by a non-executive director, it also comprises two executive directors and senior management. This meets bi-monthly to review all aspects of the Bank's risk exposure as well as its systems, control and regulatory environment.
- Assets and Liabilities Committee (ALCO) – comprising executive directors and senior management which meets monthly to review the following:
  - Credit Risk – where it sets and monitors sector limits as well as internal credit ratings
  - Counterparty Risk
  - Liquidity Risk
  - Interest Rate Risk
  - Funding Risk.
- Credit Committee – comprising two executive directors and senior management which meets regularly to review and approve credit proposals and assess ongoing credit risk within the lending portfolio.
- Group Audit Committee – this comprises three non-executive directors and meets quarterly. Also in attendance are the Chief Risk Officer, the Internal Auditor and two executive directors. Its primary role is to ensure that controls are both present and appropriate to mitigate risk in accordance with the Board's expectations.

The Bank has a conservative approach to managing its balance sheet, which is monitored closely with protective measures in place to safeguard customer funds for minimum risk and maximum security.

In order to provide this, the Board regularly considers the principal risks facing the Group. The main risk categories are shown in the following sections.

3.2 Credit Risk

Credit risk is the risk of a financial loss if a counterparty is unable to meet its obligations to the Bank and arises mainly from our lending and treasury activities.

In order to mitigate risk in the lending book the Bank has in place formal procedures to assess all borrowing applications as well as agreed authority limits. The majority of the loan book is relatively short term (with 88% repayable within 5 years) and has a low average loan size. Credit proposals are all graded using a loan grading system to assess risk and dependent on this, and the overall loan size, various sign-off levels are in place to approve new lending applications. Full Board approval is required for new applications above a certain limit.

To mitigate risk in its treasury activities (counterparty risk) the Board has set minimum short and long term credit ratings for approved counterparties where the Bank places its surplus funds, as well as individual monetary limits. These limits are reviewed on a regular basis by the ALCO and are set by reference to WBL's assessment of the risk of default for each counterparty.

3.3 Concentration Risk

Concentration risk is the risk of loss due to either a large individual or connected exposure, or significant exposures to groups of counterparties who could be affected by common factors, including geographical location ("geographical risk").

In order to avoid concentration risk the Board has:

- set limits on the maximum percentage exposure to any individual business sector against the total lending book,
- set limits on the geographical concentration of advances.

The Bank regularly monitors concentration risk and geographical risk to ensure that the Bank is not over exposed in a particular business sector or geographical location.

The majority of secured lending (95%) relates to residential security. The following table shows the geographical exposure of residentially secured lending by region:

Table 8 : Geographical Exposure of Residential Secured Lending By Region

Region	Value Of Lending	% of Total
Greater London	212,873	37.02%
South East	138,542	24.09%
Scotland	62,268	10.83%
South West	54,172	9.42%
East Anglia	28,832	5.01%
East Midlands	23,965	4.17%
North West	23,089	4.01%
West Midlands	12,493	2.17%
Northern England	8,456	1.47%
Yorkshire & Humberside	6,971	1.21%
Wales	2,944	0.51%
Northern Ireland	532	0.09%
Total	575,137	100.00%

3.4 Operational Risk

This is the risk associated with the internal failure of people, processes or systems, or the risk arising from external events. It includes risk events such as internal fraud, the failure of internal IT infrastructure (e.g. for payment and settlement) or external factors, such as terrorism, which have the potential to impact on the Bank's ability to carry out its business. The Bank recognises that operational risk is inherent in all its products, activities, processes and systems and is particularly cognisant of all aspects of data security. The Bank has in place a robust and comprehensive internal control environment which is reviewed and tested by internal audit and external compliance consultants. The Bank also has a full disaster recovery site from where it could operate if there were disruption at its principal location.

Throughout the coronavirus outbreak, the Bank has invoked its business continuity plans and has continued to provide a full service despite the majority of staff working from home in line with government advice. In the latter part of 2021 a move to a "hybrid" way of working has been implemented as restrictions have eased.

3.5 Cyber Risk

An increasing risk that the Group is subject to within its operational processes is cyber risk. This is the risk that the Group businesses are subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group regularly tests its infrastructure and systems to ensure that it remains robust to a range of threats and has business continuity plans in place.

3.6 Market Risk

Market risk is the risk of loss that arises from the sensitivity of the market value of a portfolio. This can be impacted by changes in financial asset prices such as foreign exchange rates, interest rates, equity and commodity prices.

The Bank has no trading book and has no material exposure to market risk as generally treasury assets are held to maturity. The Bank has currency and interest rate limits in place, established by ALCO, and any derivatives transacted by the Bank's Treasury department are for the purpose of maintaining risk levels within these limits.

3.7 Currency Risk

Currency risk is the risk of loss that arises from the sensitivity of foreign currency rates. Foreign currency balances are driven by the requirements of the Bank's customers and do not form a significant part of the balance sheet. The Bank's Treasury department is responsible for managing currency risk within limits established by ALCO.

3.8 Interest Rate Risk

Interest rate risk is the risk that a significant movement in interest rates will have a material impact on the Bank's profitability, for example by reducing the net interest margin or through higher bad debts and delinquencies.

The Bank is exposed to interest rate risk that arises from a mismatch between the repricing of assets and liabilities. Though the majority of the Bank's lending and deposits are priced at variable rates, it has some fixed rate deposits and lending, as well as fixed rate lending to SMEs through its asset finance subsidiary which are generally between terms of three and four years. As a consequence of a low loan to deposit ratio and surplus funds, an interest rate risk can arise. The Treasury department monitors this risk, transacting Interest Rate SWAPS as required to maintain the risk levels with the limits set by ALCO. Interest Rate risk is reported to ALCO on a monthly basis.

A policy of Hedge Accounting was introduced during 2021 in order to reduce the volatility to the Profit and Loss account.

The table below shows the interest rate gap analysis and net present value sensitivity, based on +/- 200bps movement in the yield curve, as at 31st December 2021:

Table 9 : Interest Rate Gap Analysis & Net Present Value Sensitivity

Assets	**Up to 3 Mths £'000**	**3 – 6 Mths £'000**	**6 – 12 Mths £'000**	**1 – 5 Years £'000**	**Over 5 Years £'000**	**Total £'000**
Loans and advances to Banks / Central Banks	592,280	0	0	0	1,513	593,793
Loans and advances to customers	491,693	16,284	35,696	196,092	10,039	750,074
Marketable assets	117,625	0	0	0	0	117,625
Total Monetary (interest bearing) assets	**1,201,598**	**16,284**	**35,696**	**196,092**	**11,822**	**1,461,492**
Liabilities						
Customer deposits	1,236,607	71,607	52,488	57,330	0	1,418,032
Total Monetary (interest bearing) liabilities	**1,236,607**	**71,607**	**52,488**	**57,330**	**0**	**1,418,032**
Derivatives	128,934	(1,580)	(36,866)	(70,176)	(3,991)	
Interest Rate Gap	**93,925**	**(56,903)**	**(53,658)**	**68,586**	**7,831**	
Net Present Value (NPV) Sensitivity to:						
Positive Shift (+2%)	(914)					
Negative Shift (-2%)	1,055					

The following factors reduce the impact of future downward movements in Base Rate:

- Fixed rate lending by the asset finance subsidiary and within the Bank itself;
- Relatively short term loan portfolio with 31% renewing within 12 months giving the opportunity to re-price lending facilities; and
- Minimum lending rates on lending transactions.

3.9 Basis Risk

Basis risk is the risk of a reduction in income or economic value arising from the re-pricing of assets and liabilities according to different interest rate bases. The Bank's exposure to basis risk arises from assets and liabilities being linked to different interest rate types including:

- Bank of England base rate – reserve account deposits with the Bank of England
- SONIA – floating rate notes (FRN's) or Covered Bonds (CBs) purchased
- Fixed rates – fixed rate gilts, savings and loan products
- Managed rates – deposits and advances which are on managed (or administered) rates.

For the latest regulatory return as at 31st October 2021 (the last return prior to the year end), the following applied:

- Of the £440m administered assets, £394m represented client lending
- Of this, 99% by value and 98% by volume were subject to minimum lending rate floors
- Bank Base Rate linked assets related entirely to funds held at the Bank of England.

3.10 Reputational Risk

Reputational risk is the risk that the Bank's reputation is damaged by an event, internal or external, leading to financial loss.

The Board is fully aware of the damage that can be caused if the Bank's reputation is damaged and as such the corporate governance and control environment are designed to manage this risk.

3.11 Liquidity and Funding Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its liabilities as they fall due. This could be due to an inability to liquidate assets or obtain adequate funding (referred to as "funding liquidity risk") or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk").

The Bank's liquidity position is monitored daily and reported on a number of levels throughout the business including at Board level. A range of early warning indicators are monitored for initial signs of liquidity risk and include the close monitoring of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Against this the Bank maintains a material liquidity buffer above the minimum requirements set by the PRA to allow for daily fluctuations as well as stressed scenarios.

The Bank's latest ILAAP was completed and approved by the Board during 2021. The Bank has maintained holdings in eligible buffer assets in line with banking regulations at all times.

Funding risk is the risk that the Bank does not have sufficient funding available in the medium and longer term to enable it to fund its customer lending. The Bank's source of funding is customer deposits in the form of current accounts and savings deposits where a significant proportion of these are repayable on demand. The Bank does not use wholesale funding.

Liquidity Coverage Ratio

The Bank aims to monitor its resilience to a liquidity risk over a 30-day period. Against this the Bank has maintained a ratio well above the minimum regulatory requirement of 100% at all times. The table below shows the LCR as at 31st December 2021:

Table 10 : Liquidity Coverage Ratio

	2021	2020
Liquidity buffer (£m)	665.1	402.8
Total net outflows (£m)	125.3	59.0
Liquidity coverage ratio	531%	683%

Net Stable Funding Ratio

The Bank aims to ensure that it has an adequate amount of stable funding to support assets over a one year period of extended stress, and in excess of the minimum requirement of 100%. Based on current requirements the NSFR at 31st December 2021 was 268.2% (2020 227.8%).

3.12 Pension Risk

Pension risk is the potential that the Bank will be unable to meet additional liabilities that might arise under a defined benefit pension scheme. This can be due to a number of factors:

- A fall in the market value of investments held reducing the fair value of scheme assets
- A fall in the discount rate increasing the present value of scheme liabilities
- An increase in the life expectancy increasing the present value of scheme liabilities.

Weatherbys Bank is part of a group of companies controlled by Weatherby Family Trusts. It is part of a group defined benefit pension scheme and is therefore required to meet its share of the liabilities arising under the scheme. As at 31st December 2021 the Group scheme had a deficit and the Bank's share of this liability was estimated as £2.2m. As with other such schemes the Group has a recovery plan in place to meet this liability that has been agreed with the Pension Regulator. In addition, the PRA requires the Bank to hold additional Pillar 2 capital well in excess of the estimated liability as at 31st December 2021. This is to ensure that the Bank can meet potential increased pension liabilities should the actuarial assumptions on, for example, future mortality, equity and bond returns, deteriorate significantly.

3.13 Securitisation Risk

The Bank has not securitised any assets to date and has no plans to do so.

3.14 Counterparty Credit Risk

The Bank has no trading book and therefore has no material exposure to counterparty credit risk. Its clearing bank, NatWest Group, is used for a number of interest rate swap and foreign exchange derivatives, placed for the purposes of treasury and interest rate risk management. As part of the mitigation of the risk around the Bank's interest rate swaps, the Bank introduced Hedge Accounting during 2021.

3.15 Regulatory & Conduct Risk

As a provider of financial services, the Bank also faces potential risks arising from failures to meet customer expectations, to deal with complaints effectively and to ensure the products it provides are appropriate to their customer's needs. In addition, it must comply with all banking regulations including compliance with Financial Crime and Anti-Money Laundering laws.

The Company's internal systems, controls and protocols are designed specifically to protect against such risks.

3.16 Economic Risk

The ongoing coronavirus pandemic has caused a significant global economic downturn. Whilst it is difficult to make accurate assessments of the long-term economic impact, the Bank's Capital and Liquidity positions remain robust having always operated prudently within its financial limits and maintained significant capital and liquidity buffers to protect against the impact of unpredictable 'shocks'. Within its Private Banking lending portfolio, which accounts for 80% of the total loan book, customer loans are secured principally on residential properties at an average loan to value ratio of approximately 38%. Its high-net-worth client base is well placed to absorb the impact of the economic disruption. The Group's asset finance subsidiary accounts for 20% of the total lending portfolio and is directly exposed to the small business sector. The Government has pledged significant support to such businesses and Arkle Finance is itself a participant in the Government's Covid Business Interruption Loan scheme that aims to support small businesses through the current pandemic crisis.

3.17 Climate Change Risk

The risk that climate change and society's response to it, will affect the long- term viability of the Bank. For example, through credit losses occurring in industries that become displaced.

The Board is cognisant of the risk from climate change to the banking sector. It has hosted two 'Creating the Future' conferences that have included debate on climate changes issues and has allocated SMF climate change responsibility to its Chief Executive.

The possible effects of climate change have been discussed at Group Audit & Risk Committee and at Board level. The initial assessment is that the Bank's area of exposure relates to the value of domestic properties taken as security for loans to private clients.

Possible downside risks include exposure to:

- older residential properties that might require significant investment to meet new insulation requirements
- coastal properties at risk from land erosion
- properties on flood plains or lower lying land.

As part of the standard credit approval process, consideration is now given as to whether the value of the security might be affected by some or all of the above factors.

The Bank does not have material exposures to corporate lending and is unlikely to incur direct credit losses through industry displacement. Arkle Finance does undertake motor finance but does not hold any risk on residual values.

At this stage the Board believes that the risk that climate change will affect the long-term viability of the Bank is low, but it will continue to deepen and refine its analysis of such risks in the future.

3.18 Environmental, Social and Governance

One of Weatherbys core values is social responsibility and we seek to operate our business in a long-term sustainable manner. Part of this strategy is the effective management of our carbon footprint and the commitment to become carbon neutral.

During 2021 Weatherbys Bank met its goal to become carbon neutral and laid out its commitment to becoming net zero by 2027. The Bank is also seeking to gain external accreditation, through B Corp, who have developed a gold standard in social and environmental impact assessment. We have also offset 233 tonnes of CO_2 through investing in renewable wind energy and UK Tree Planting projects that are verified against the Gold Standard VER/Verified Carbon Standard. Our business has therefore maintained Net Zero Carbon.

See section 5 of the Strategic Report for more detail.

3.19 Ukraine

The outbreak of war in Ukraine has increased the political and economic uncertainty. It remains to be seen how this affects the UK economy. The Group's balances and operations have not been impacted by any sanctions put in place.

The perimeter for the Banking Group is assessed as secure and additional measures have been taken to prevent any potential for cyber-attacks from Russia or Ukraine.

Banking Group automated controls re sanctions are outsourced to Bottomline, NatWest and Barclays (including the use of SWIFT). These have been reviewed and regarded as effective.

Staff awareness is high, with all reminded that any questions relating to these matters are to be raised with line management in the first instance and then the Chief Risk Officer if further clarification is required.

4. REMUNERATION

All decisions regarding remuneration ultimately fall with the Bank's remuneration committee. Pay policy reflects the conservative long-term strategy adopted by the Bank, with pay and bonus awards based on the Bank's performance and aligned to the Group's objectives.

Compensation is predominantly salary based with a relatively small cash bonus available dependent on the achievement of Group and individual targets. No compensation is paid in shares or options.

These disclosures reflect the requirements under article 450 of Capital Requirement Regulation on the disclosure of remuneration.

Staff that are deemed to have a material impact on the Bank's risk profile have been identified and are included in the following groups:

- Directors and Senior Management
- Staff performing significant influence functions
- Staff engaged in control functions (compliance and finance).

Remuneration awards for the identified staff in 2021 are highlighted below. This includes a breakdown between fixed (salary) and variable (bonus, discretionary pension contributions) remuneration. The variable element of remuneration was paid in March 2021 in relation to the year ended 31 December 2020.

Table 11 : Remuneration Breakdown for Staff with a Material Impact on the Bank's Risk Profile

Staff Type	No. Beneficiaries	Fixed (£'000)	Variable (£'000)	Total (£'000)
Directors & Senior Management	13	1,477	15	1,492
Staff performing significant influence functions	20	2,350	298	2,648
Staff engaged in control functions (compliance and finance)	10	867	101	967

5. APPENDIX – OWN FUNDS DISCLOSURE

Table 12 : Common Equity Tier 1 (CET1) Capital: instruments and reserves

	Common Equity Tier 1 (CET1) capital: instruments and reserves	£'000	Regulation (EU) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	10,660	26 (1), 27, 28, 29
	of which: ordinary share capital	10,660	EBA list 26 (3)
	of which: Instrument type 2		EBA list 26 (3)
	of which: Instrument type 3		EBA list 26 (3)
2	Retained earnings	40,980	26 (1) c)
3	Accumulated other comprehensive income (and other reserves)	1,161	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)
5	Minority interests (amount allowed in consolidated CET 1)		84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	52,801	Sum of rows 1 to 5a

Table 13 : Common Equity Tier 1 (CET1) Capital: regulatory adjustments

	Common Equity Tier 1 (CET1) capital: regulatory adjustments	£'000	Regulation (EU) No 575/2013 Article Reference
7	Additional value adjustments (negative amount)		34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(2,554)	36 (1) (b), 37
9	Empty Set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges		33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(1) (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU		

	Common Equity Tier 1 (CET1) capital: regulatory adjustments	£'000	Regulation (EU) No 575/2013 Article Reference
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)		244 (1) (b), 258
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)		36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2,554)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	50,247	Row 6 minus row 28

Table 14 : Additional Tier 1 (AT1) Capital: instruments

	Additional Tier 1 (AT1) capital: instruments	£'000	Regulation (EU) No 575/2013 Article Reference
30	Capital instruments and the related share premium accounts		51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments		Sum of rows 30, 33 and 34

Table 15 : Additional Tier 1 (AT1) Capital: regulatory adjustments

	Additional Tier 1 (AT1) capital: instruments	**£'000**	**Regulation (EU) No 575/2013 Article Reference**
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital		Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)		Sum of row 29 and row 44

Table 16 : Tier 2 (T2) Capital: instruments and provisions

	Tier 2 (T2) capital: instruments and provisions	**£'000**	**Regulation (EU) No 575/2013 Article Reference**
46	Capital instruments and the related share premium accounts	10,000	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments	1,387	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	11,387	

Table 17 : Tier 2 (T2) Capital: regulatory adjustments

Tier 2 (T2) capital: regulatory adjustments		£'000	Regulation (EU) No 575/2013 Article Reference
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79
56	Empty set in the EU		
57	Total regulatory adjustments to Tier 2 (T2) capital		Sum of rows 52 to 56
58	Tier 2 (T2) capital	11,387	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	61,634	Sum of row 45 and row 58
60	Total risk weighted assets	425,582	

Table 18 : Capital ratios and buffers

Capital ratios and buffers		£'000	Regulation (EU) No 575/2013 Article Reference
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.81%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	11.81%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	14.48%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	10.5%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0%	
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		

Table 19 : Amounts below the thresholds for deduction (before risk weighting)

Amounts below the thresholds for deduction (before risk weighting)		£'000	Regulation (EU) No 575/2013 Article Reference
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48

Table 20 : Applicable caps on the inclusion of provisions in Tier 2

Applicable caps on the inclusion of provisions in Tier 2		£'000	Regulation (EU) No 575/2013 Article Reference
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62

Table 21 : Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		£'000	Regulation (EU) No 575/2013 Article Reference
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)