WEATHERBYS

BANK

Pillar 3 Disclosures

For Year Ended 31st December 2022

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1. INTRODUCTION

1.1 Background

This document presents the consolidated Pillar 3 disclosures of Weatherbys Bank Limited ("WBL" or the "Bank"), and its subsidiaries Arkle Finance Limited, Weatherbys General Services Ltd and Weatherbys Bank (Nominees) Limited as at 31 December 2022.

Weatherbys Bank Limited is a limited company with share capital which is incorporated and domiciled in the United Kingdom and has its registered office and principal place of business at 52-60 Sanders Road, Finedon Road Industrial Estate, Wellingborough, Northamptonshire, NN8 4BX.

WBL is a family-owned bank founded on a heritage of traditional values and prudent stewardship but one that adopts a progressive and forward-looking approach. The Group provides retail banking services to a client base of predominantly high net worth individuals. In addition to private banking and wealth advisory services, it provides banking services to the horseracing industry and wider community, asset finance to SMEs, tax and insurance services.

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 31 December 2022.

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 Capital Framework

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 Bank is also subject to the amendments to the CRR (CRRII), from the beginning of 2022.

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.

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 11 March 2020. As the effects of the coronavirus pandemic reduced, the CCyB was raised to 1% with effect from 13th December 2022.

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.

The Bank is now subject to the amendments to the CRR (CRRII), from the beginning of 2022.

New Leverage Ratio rules introduced from 1st January 2022 raised the minimum Leverage Ratio from 3% to 3.25%. Also included in this change was the exclusion of Bank of England cash from the total assets value used in the Leverage Ratio calculation.

1.6 Future Regulatory Changes

The Bank monitors and assesses the regulatory horizon to identify and evaluate any future changes or developments. The following future Regulatory changes are currently under review:

- Consumer Duty requirements are currently being analysed so that implementation of Phase 1 can be met from 28th April 2023 and Phase 2 by 21st July 2023.
- The Bank is currently assessing the implications of Basel 3.1, which is due for implementation from January 2025.
- The CCyB is currently scheduled to rise to 2% with effect from 5th July 2023.

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 2022.

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 2022, this was 12.07% against a minimum requirement of 8%

The table below summarises the key capital measures and ratios for the Bank at 31st December 2022.

Table 1 : Capital Resources & Ratios Requirements

£'000	Group	Solo
Tier 1		
Share capital	10,660	7,000
Profit and loss account	50,889	54,734
Other reserves	952	767
Intangible assets	(4,977)	(4,977)
Total Tier 1 capital	57,524	57,524
Tier 2		
Collective impairment provisions	1,584	1,584
Subordinated loans	10,000	10,000
Total Tier 2 capital	11,584	11,584
Total capital	69,108	69,108
Risk weighted assets	476,472	476,472
CET 1 Ratio	12.07%	12.07%
Tier 1 Ratio	12.07%	12.07%
Total Capital Ratio	14.50%	14.50%

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, excluding assets constituting claims on central banks, where they are matched by liabilities, denominated in the same currency and of identical or longer maturity. Assets constituting claims on central banks relates to WBLs cash deposit held at the Bank of England.

As at 31st December 2022, this was 5.30% against a minimum requirement of 3.25%

The table below summarises the leverage ratio for the Bank as at 31st December 2022

Table 2 : Leverage Ratio Requirements

£'000	
On-balance sheet exposures	1,067,192
Derivatives: Current replacement cost	1,158
Derivatives: Add-on under the mark-to-market method	700
Off-balance sheet exposures – gross notional amount	15,908
Total exposures	1,084,958
Tier 1 Capital	57,524
Leverage ratio	**5.30%**

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, and this is completed through the ICAAP process. "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 (retail and counterparty), which is determined by risk weights, which give rise to risk weighted assets (RWAs), which are then multiplied by the CRR prescribed 8%. 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 other element of the Bank's Pillar 1 capital is operational risk. The CRR prescribed method of calculation is to multiply the average gross income for the previous 3 years by 15%. Under this basis the Bank has assessed its operational risk as £7.5m .

The Pillar 2 capital assessment is firm specific and ensures capital is required to support risks that are not adequately addressed under Pillar 1. Pillar 1 and 2 combined are known as the Total Capital Requirement (TCR). The Pillar 2 assessment comprises of Pillar 2A which is the Group's own assessment of capital requirement above Pillar 1.

The risk-based measure, i.e., the sum of Pillar 1 and Pillar 2A, results in a TCR, with any PRA Buffer added on top. The PRA will individually apply buffers to firms in line with scheduled capital reviews.

In September 2022 the PRA set the Bank's TCR at 9% of RWAs plus a static add-on of £4.4m for pension obligation risk.

The following table shows the total capital required for Credit Risk as at the 31 December 2022:

Table 3 : Capital Requirements for Credit Risk

Minimum Capital Requirement £'000	**Group**	**Solo**
Central Government and Central Banks	0	0
Financial institutions	923	923
Covered bonds	608	608
Corporates	1	1
Public sector entities	0	0
Retail	9,561	9,561
Secured by mortgages on immovable property	19,106	19,106
Exposures in default	1,121	1,121
Other items	3,932	3,932
Minimum capital component for credit risk	35,253	35,253

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

The total 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.

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 2022 the capital conservation buffer was 2.5% and the countercyclical buffer was 1%.

A further rise in the countercyclical buffer to 2% is scheduled with effect from 5th July 2023. The overall capital requirement was £63.96m at 31 December 2022. The capital requirement encapsulates Pillar 1 and Pillar 2A requirements but excludes the capital conservation and countercyclical buffers.

The following table shows the total capital requirement and capital adequacy position under Pillar 1 as at the 31 December 2022:

Table 4 : Minimum Capital Resource Requirements

£'000	**Group**	**Solo**
Credit Risk	35,253	35,253
Market Risk	0	0
Operational Risk	7,509	7,509
Static Pension add-on	4,400	4,400
Total Capital Requirement (TCR)	47,162	47,162
Total Capital	69,108	69,108

2.3 Past Due & Provisions

A financial asset is treated as past due when the debtor 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 three months 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 2022:

Table 5 : Provisions for Bad & Doubtful Debts

Group and Solo £'000	Specific Provision	Collective Provision	Total Provision
Provisions at 31 December 2021	2,258	1,387	3,645
Charge for the year	1,358	42	1,400
Write offs	(1,580)	155	(1,425)
Balance at 31 December 2022	2,035	1,584	3,620

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 2022	Average 2022
Central Government and Central Banks	646,149	578,468
Financial institutions	48,477	39,271
Covered Bonds	67,566	55,876
Multilateral Development Banks	37,092	37,111
Corporates	15	46
Retail	196,497	177,359
CBILs – Government Guaranteed	12,793	10,281
Secured on real estate property	568,369	562,349
Other items	22,514	21,078
Exposures In Default	9,269	8,138
Total	1,608,741	1,489,977

The residual maturity of regulated exposures on a contractual basis at 31st December 2022 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	643,473	0	0	2,676	646,149
Financial institutions	48,477	0	0	0	48,477
Covered Bonds	8,857	3,015	55,694	0	67,566
Multilateral Development Banks	0	7,522	29,570	0	37,092
Corporates	0	15	0	0	15
Retail	6,247	16,788	154,357	19,105	196,497
CBILs – Government Guaranteed	231	505	12,057	0	12,793
Secured on real estate property	61,005	106,332	339,784	61,248	568,369
Other Items	22,514	0	0	0	22,514
Exposures In Default	7,588	1,187	494	0	9,269
Total	798,392	135,364	591,956	83,029	1,608,741

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.

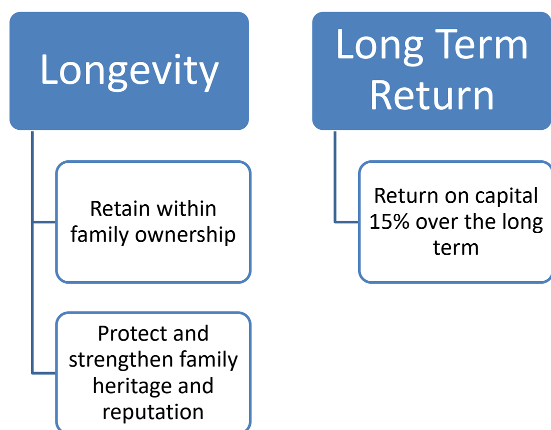
3. GOVERNANCE & RISK MANAGEMENT

3.1 Background

The Weatherbys group has operated as a family business for over 250 years. The longevity of the business remains a central objective for the family shareholders, and they adopt a conservative approach to risk in all areas.

The priority remains to build a platform for long term sustained growth rather than meeting short term profit objectives.

The objectives of both the stakeholders and the Board are aligned and provide the cornerstone of the risk management framework which the Bank adopts. It has two pillars and can be summarised as:



Both objectives, around longevity and long-term returns, are consistent with a conservative approach to risk management.

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:

Group Audit Committee	
Committee members	Group Audit Chair, Two Non Executive Directors
Summary Terms of reference	The purpose of the Audit Committee, a formal sub-committee of the Board: ▪ Review and monitor the integrity of the financial statements and other financial information ▪ Seek assurance and provide advice to the Board on the adequacy and effective operation of the Board's internal systems of financial control across all areas of the Group's business ▪ Compliance - Review the effectiveness of the system for monitoring compliance, Review the findings of any examinations, review the process for communicating the Code of Conduct. ▪ Ensuring that effective whistle-blowing arrangements are in place ▪ Internal control - review of the scope and effectiveness of the Banks internal control systems including I.T. security and control, establishing the scope and frequency of Internal and External Audit reviews relating to the internal control environment.
Frequency	5 meetings throughout the year

Group Risk Committee	
Committee members	Group Risk Chair, Two Non Executive Directors
Summary Terms of reference	▪ Overseeing the Bank's risk management and governance framework and the Bank's overall risk profile. ▪ Oversight of overall risk appetite, risk management strategy and framework, including oversight of both prudential and conduct risk appetites. ▪ Oversight of compliance against risk policies. ▪ Review and assessment of the adequacy of risk management information to monitor and control risks. ▪ Approval of risk management of new initiatives and projects, and in particular the risks those initiatives and projects expose the Bank to. ▪ Sign off of the Banks Annual ILAAP and ICAAP ▪ Consideration and approval of the of stress testing and scenario testing.
Frequency	5 meetings throughout the year

Executive Management Committee (EXCO)	
Committee members	Chief Executive Officer [Chair], Group Finance Director, Managing Director, Chief Risk Officer, Arkle Chief Executive Officer
Summary Terms of reference	Reporting to the Group Board: ▪ EXCO is accountable for the operational management of the Group and the delivery of objectives set by the Board. ▪ It identifies and mitigates emerging strategic risks and compliance issues as reported by various sub-committees reporting into EXCO. ▪ EXCO is supported by management sub-committees to provide effective governance across the whole of the Group's activities.
Frequency	Monthly

Board Remuneration & Nomination Committee	
Committee members	Group Chairman, Two Non Executive Directors
Summary Terms of reference	The purpose of the Remuneration & Nomination Committee: ▪ approving the Bank's remuneration policy. ▪ approving the percentage of any inflationary salary increases each year. ▪ approving the quantum of any annual bonus pool. ▪ agree and approve awards under a Long-Term Incentive Plan or similar scheme for key members of staff. ▪ agree the remuneration of the Executive Directors. ▪ agree the remuneration of the Non-Executive Directors. ▪ oversee the remuneration policy of Arkle Finance.
Frequency	5 meetings throughout the year

3.2 Risk appetite

The longevity of the Group remains a central objective for the shareholders, accordingly a conservative approach to risk has been adopted. Weatherbys risk appetite is designed to build a platform for long term sustained growth rather than seeking to meet short term profit objectives.

To achieve the strategic objectives referred to above, the Board has approved a risk appetite statement and limit for each principal risk category.

The risk appetites are set by the Board and implemented by the EXCo.

The Group's 2LoD risk management function is responsible for risk oversight to ensure the Group operates within its stated risk appetites.

The Board's stated risk appetite is to maintain Capital to exceed Total Capital Ratio plus Capital Buffers at all times. This allows the bank to absorb severe combined stresses without breaching regulatory levels.

The risk appetite framework includes the following:

- Risk appetite statement: This is the articulation of the type and significance of the risks which the Group is willing to accept to meet its business objectives.
- Risk Appetite Trigger and Limits: These are the quantitative measures that disaggregate the risk appetite statement to specific metrics.
- Risk profile: the point in time assessment of the risk exposure.
- Ownership: Ownership of the framework rests with the Board. All changes to the framework and the governance principles must be approved by the Board.
- Accountability and responsibility: All functions are required to operate within the risk appetite. The 2LoD is responsible for monitoring risk and ensuring appropriate action plans are in place if defined risk limits are exceeded.
- Escalation: If a limit is breached or expected to be breached there is a defined escalation process in place.
- Reporting: The Board receives regular reports on the risk profile for the Group, which provide risk status reports with comment and analyses as needed to understand changes or trends.
- Annual review: The risk appetite framework and limits are reviewed at least once a year.

3.3 Enterprise-wide Risk Framework

The Group has adopted an enterprise-wide risk framework (EWRF) which documents the approach to risk management as well as setting out its risk strategy and agreed risk appetite parameters.
All strategic discussion, business planning and budgeting are assessed against these pillars.
The EWRF aims to strengthen the Bank's ability to anticipate, identity and assess risks thereby developing solutions for their mitigation and control.
The framework seeks to strengthen the Group's Bank's ability to:

- Anticipate, identify, and assess key risks associated with its strategic plans.
- Define how much risk is acceptable through a risk appetite.
- Adopting a three lines of defence model.
- Develop solutions for mitigating, controlling, and monitoring risk

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.

3.4 Retail Credit Risk

Retail credit risk is the risk of losses arising from a borrower or counterparty failure to meets its obligations as they fall due.

A firm's capital requirements for credit risk are determined in accordance with Pillar 1 of the Capital Requirements Regulations (CRR). However, the PRA believes that there are asset classes for which the standardised approach (SA) underestimates the risk (e.g., zero risk-weighted sovereigns).
The PRA therefore assess credit risk as part of its Pillar 2 review of the firms' capital adequacy.
The methodology used to inform the setting of firms' Pillar 2A capital requirement for credit risk is based on a comparison of firms' SA risk weights at a portfolio level to an Internal Ratings Benchmarking (IRB) risk weight benchmark.

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 89% 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.

3.5 Market Risk

Market risk is defined as the risk of losses arising from movements in market prices. Market risk includes but is not limited to:

- Default risk, interest rate risk, credit spread risk, equity risk, foreign exchange risk and commodities risk for trading book instruments; and
- Foreign exchange risk and commodities risk for banking book instruments.

All foreign currency client deposits are held in currency bank accounts by the Bank. This removes any FX exposures on these balances.

In determining its market risk for regulatory capital requirements, a bank may choose between two broad methodologies: the standardised approach and internal models approach for market risk subject to the approval of the Regulatory bodies.

The Bank does not have a trading book so its exposure to market risk is very limited.

3.6 Operational Risk

The risks of losses stemming from inadequate or failed internal processes, people and systems or external events. Basel II gives 7 official event types that the Bank internally assesses through its ICAAP process:

- Internal Fraud
- External Fraud
- Employment Practices & Workplace Safety
- Clients, Products and Business Practice
- Damage to Physical Assets
- Business Disruption and Systems Failures
- Execution, Delivery and Process Management

In addition to these prescribed risks, the Bank has identified the following risks through its ICAAP process that have a material impact on the Banks Pillar 2A risks:

- Systems Risk
- Cybercrime Risk
- Staff Risk
- Data Compliance Risk
- Outsourcing and Third-Party Risk

An incident in operational risk can be described as a situation that has caused or has the potential to cause harm to the organization, its employees, clients, or stakeholders. It can be an event or series of events that has led to an interruption of business operations, a breach of security, a financial loss, or a reputational damage.

These are risk events such as fraud, the failure of internal systems (e.g., for payment and settlement) or external factors such as cybercrime or terrorism, which have the potential to impact on the institution's ability to carry out its business.

3.7 Pension Risk

Pension risk is the risk that the market value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to meet the projected liabilities of the scheme. Pension risk can adversely impact the bank's capital resources.

It relates to defined benefit pension schemes and defined contribution schemes offering guaranteed returns that are not fully matched by underlying investments. This includes hybrid schemes and overseas pension schemes.

The Bank is part of the Weatherbys group defined benefit pension scheme.

The Weatherbys group of companies closed its final salary scheme to new members in 2002. In April 2016 it also closed the scheme to future benefit accrual and all payments by continuing staff into the final salary scheme ceased. Employer and employee contributions for such staff were instead made into the company's defined contribution scheme. The defined contribution scheme is open to all new employees.

As with other such schemes the Group has a recovery plan in place to meet the 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 2022. 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.

3.8 Concentration Risk

Represents the risk to the Bank of its combined exposures to specific industry sectors or groups of business.

- Bank – regional limits monitored at ALCO.
- Arkle – sector limits monitored by Arkle Risk Committee

The Boards of both WBL and Arkle have set limits on the maximum exposure to any individual business sector. Within WBL the exposure to sectors is analysed and reviewed at the monthly ALCo meeting.

Board limits are monitored closely within the Credit committee and presented to ALCo.

The limits are annually approved by the Group Risk Committee and are aligned to the Strategic Plan process.

The majority of secured lending (93%) 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	199,781	35.53%
South East	101,086	17.98%
Scotland	74,924	13.32%
South West	71,006	12.63%
East of England	43,887	7.80%
East Midlands	25,458	4.53%
North West	13,794	2.45%
West Midlands	12,658	2.25%
North East	9,923	1.76%
Wales	9,339	1.66%
Northern Ireland	532	0.09%
Total	562,388	100.00%

3.9 Interest Rate Risk

Interest Rate Risk refers to the current or future risk to capital and earnings arising from adverse movements in interest rates. Weatherbys Bank is exposed to the following types of interest rate risk:

- Gap Risk – arising from the term structure of banking book instruments, describing the risk arising from the timing of instrument's rate changes.
- Basis Risk – assessing the impact of relative changes in interest rates for financial instruments of similar term, but with different interest rate pricing indices.

Interest Rate Gap Risk

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.

In order to assess these risks, WBL has undertaken the 6 EBA Outlier Tests to assess their impact on the Banks Tier 1 capital.

The 6 EBA tests assess any potential decline in economic value based on a maximum threshold of 15% of own funds. Economic value movements above this threshold require notification to the supervisory body. The tests are based on the following unexpected movements to interest rates:

- Parallel shift upwards +2.5%
- Parallel shift downwards -2.5%
- Shock flattener
- Shock steepener
- Short up
- Short down

The bank monitors its Interest Rate gap and net present value sensitivity based on +/- 200 bps movement in the yield curve.

The table below shows the interest rate sensitivity as at 31st December 2022

Table 9 : Interest Rate Sensitivity

Net Present Value (NPV) Sensitivity	2022 £000	2021 £000
Positive Shift (+2%)	(769)	(914)
Negative Shift (-2%)	923	1,055

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 2022 (the last return prior to the year end), the following applied:

- Of the £364m administered assets, £334m represented client lending
- Of this, 99% by value and 99% 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 Climate Related Financial Risk

Climate change risks include the financial, operational, and reputational risks arising due to climate and weather-related events and the political and social response to this threat.

The possible effects of climate related financial risks have been discussed at Group Risk Committee and at Board level. The Bank has allocated SMF climate change responsibility to its Chief Executive.

Environmental, Social and Governance

As a company, the Bank has always been aware of its impact on the environment and has embraced new technology where available e.g., solar panels on the property in Wellingborough. It has also hosted three 'Creating the Future' conferences that have included debate on climate changes issues.

The Bank has undertaken a number of key strategic changes and decisions during the 2022 financial year and into 2023. These include:

- Recruiting a full time "Sustainability Lead" who will dedicate their time to developing and progressing our responsible business strategy.
- Continuing to showcase innovation in the sustainability space through our Future Forum and Creating the Future talks/conferences
- Continued to support and encourage hybrid working practices post-pandemic, keeping travel emissions low.
- Installation of electric car charging ports at our Wellingborough office.
- Invested in two innovative carbon removal projects – planting seagrass in Scottish lochs and regenerative farming that sequesters carbon into the soil

During 2021 we met our initial goal to become carbon neutral and laid out our commitment to becoming net zero, with an ambition to meet this goal before 2030 if possible. 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 offset the total 920 tonnes of CO^2 for 2020, 2021 and 2022 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 status.

3.11 Business Risk

Business risk is the exposure a company or organization has to factors that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a business risk. There are many factors that can converge to create business risk. Some of the business risks to the Bank are:

- Strategic Risk
- 'Smaller Bank' Risk
- Legislative/Political Risk
- Competitive Risk
- Bank Counterparty Risk
- Horseracing Sector Exposure Risk
- Wholesale Risk
- UK Economy.

The Bank prides itself on the reputation it has with its clients. Reputation risk is the risk that the Bank's reputation is damaged by an event, internal or external, leading to a financial loss.

The Bank's reputation is one of its most important assets. Efforts are made at every level to ensure that the Bank's reputation in the external marketplace is not compromised.

3.12 Model Risk

Model risk is the risk that an ineffective model or calculator, or an incorrect interpretation of the output from one of these, leads to a loss, opportunity cost, accounting restatement, reputational damage, or regulatory censure.

The Group recognises the benefits from the use of models and calculators and therefore has some appetite for model risk; in part acknowledging that by their nature not all the risks from a model can be removed.

However, the Group has no tolerance for critical models or calculators which are non- compliant with good practice and appropriate standards that would remove unnecessary risks.

3.13 Liquidity Risk

Liquidity risk is the potential that a Bank will be unable to meet its obligations as they are due because of 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").

At all times the Bank should maintain liquidity resources which are both adequate, both as to amount and quality, to ensure that there is no significant risk that liabilities cannot be met as they fall due. The banking group should be able to withstand the prescribed stress tests for 90 days without resorting the Recovery Plan

The Bank is now required to document its procedures in a separate format (Individual Liquidity Adequacy Assessment Process) which includes a detailed risk analysis and several stress tests. An overview of liquidity risk has been retained within the ICAAP but full details on this area are documented in the ILAAP.

WBL's loan portfolio is entirely funded by retail deposits. WBL has maintained most of its own funds in qualifying buffer assets or instant access overnight accounts with suitable counterparties thus maximising its flexibility and short-term liquidity.

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 2022:

Table 10 : Liquidity Coverage Ratio

	2022	2021	2022 Average
Liquidity buffer (£m)	737.8	665.1	657.8
Total net outflows (£m)	113.5	125.3	111.7
Liquidity coverage ratio	650%	531%	589%

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 2022 was 259.7% (2021 268.2%).

3.14 Residual Risk

Residual risk is a risk that remains after Risk Management options have been identified and action plans have been implemented. It also includes all initially unidentified risks as well as all risks previously identified and evaluated but not designated for treatment at that time.

3.15 Securitisation Risk

Securitisation is the process of pooling various exposures to form a financial instrument that can be marketed to investors.
The securities are 'tranched', which means that they carry different levels of risks and return to suit the appetite of different investors.
The Bank does not trade in financial instruments, so it is not required to hold any capital against this risk.

3.16 Group Risk

Group risk covers both the risk to a firm arising from its relationships with other entities in the same group and risks arising from subsidiaries that may affect the financial position of the whole group, including reputational contagion.

The other companies within the group are either well-integrated but separate legal entities that carry out similar business operations, or structures set up to meet a specific and closely defined legal purpose within the Groups framework. The group is managed on a group basis, with a common approach to risk management, internal control, and accounting.

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 variable 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 2022 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 2022 in relation to the year ended 31 December 2021.

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	50,889	26 (1) c)
3	Accumulated other comprehensive income (and other reserves)	952	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	62,501	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)	(4,977)	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)	(4,977)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	57,524	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	1,584	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	11,584	

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	11,584	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	69,108	Sum of row 45 and row 58
60	Total risk weighted assets	476,472	

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)	12.07%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	12.07%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	14.50%	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)	11.5%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	1%	
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)