Wyelands Bank

Pillar 3 disclosures

as at 30 April 2020

Contents

1. Overview

1.1 The purpose of this document

This document provides the Pillar 3 disclosures for Wyelands Bank Plc ("Wyelands" or "the Bank") covering capital and risk management as at 30 April 2020. It covers the Bank's approach to risk management, its assets and capital resources and the Board governance structure.

These Pillar 3 disclosures should be read in conjunction with the Annual Accounts for the year ended 30 April 2020, which can be found at www.wyelandsbank.co.uk.

1.2 Disclosure basis

The disclosures are presented in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014. In particular, it describes the Bank's capital adequacy, governance, its risk assessment methods and information on the management of the risks faced by the Bank. In line with best practice, the Bank has also sought to follow the disclosure guidelines provided by the European Banking Authority ('the EBA'). These were set out the EBA 'Final Report on the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 ('the EBA Guidelines').

Wyelands Bank Plc reports to the PRA on an individual basis and so these disclosures are made on behalf of the Bank as a solo entity. Where disclosed, comparative figures are for the consolidated group, reflecting the previous use of the provisions laid down in CRR Article 9 to report on a consolidated basis.

1.3 Business review

Full details of the Bank's financial results are reported in its annual report and accounts which are published on its website (www.wyelandsbank.co.uk). The Bank reported a pre-tax loss of £63 million for the year ended 30 April 2020. Having received indications that its shareholder will not provide the incremental capital necessary to take forward a new strategy, and following several enquiries from independent third parties, the Board has authorised CEO Stephen Rose to engage with potential new investors to assess the potential to take Wyelands forward under new ownership. Any sale to investors would be subject to approval by the Bank's regulators. In the absence of a sale to new investors, the board expects that the Bank will be wound up on a solvent basis.

1.3 Verification

External auditors are not required to audit the information contained in this Pillar 3 disclosure document, nor does it constitute any form of financial statement. The document has been prepared to comply with certain Pillar 3 disclosures relating to capital requirements and risk.

1.4 Approval

The Bank's Board has approved this document.

2. Risk management objectives and policies

2.1 Principal risks and uncertainties

The Board has ultimate responsibility for identifying and managing the Bank's principal risks in order to achieve its strategic objectives. The following section sets out the principal risks and uncertainties to which the Bank is exposed and how these risks are mitigated:

Credit risk and concentration risk

The Bank is primarily exposed to credit risk, such as default and concentration risk. Experience through previous downturns shows that the failure of a single borrower, a loss from poor decision making and being overly exposed to one counterparty or industry sector can lead to a significant write off or provision. These can therefore have a material effect on the Bank's profitability. The Bank reviews its exposures on a regular basis and is currently reducing credit risk following the decision to stop new lending.

Liquidity and funding risk

Liquidity risk is the risk that the Bank is not able to meet its liabilities as and when they fall due or is unable to obtain funding other than by paying a premium. This risk arises from mismatches in the timing of cashflows. Funding risk is the risk that the Bank does not have sufficient funding in the medium and longer term to fund customer lending and illiquid assets. The Bank reviewed liquidity data on a daily basis to monitor mismatches as deposits decreased following the decision to stop accepting new deposits. Deposits were repaid to customers (excluding related parties) on 17 March 2021, details of which can be found in the Bank's financial results reported in its Annual Report and Consolidated Financial Statements published on its website (www.wyelandsbank.co.uk).

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will impact the Bank's future cashflows or the fair value of its holdings of financial instruments. The Bank manages these risks within predefined limits including dynamic hedging of foreign exchange exposure within intra-day limits. Interest rate risk is managed principally through the use of exchange traded short term interest rate futures and over the counter interest rate swaps.

Operational risk

This is the risk that failures in internal procedures, people or systems, including cyber threats, cause the Bank monetary loss, reputational damage, service disruption or customer detriment. Furthermore, operational risk includes outsourcing risk and key man risk. The possibility of significant disruption to the Bank's services and customers because of a crystallised operational risk event is one reason why it is considered key. The Bank maintains a framework of internal controls to manage and report on operational risks. In addition, it undertakes compliance monitoring to manage its regulatory risks and internal audit to assess business risks.

Legal and Regulatory risk

Failure to comply with existing legal, regulatory and tax requirements, or to respond to changes in those requirements, will have negative consequences for the business. The Bank undertakes compliance monitoring to manage its legal and regulatory risks.

COVID-19

The impact of the COVID-19 pandemic and associated restrictions on movement has had a profound effect on global supply chains, many of which remain slow and challenging. Targeted action was taken to 'collect in' on what had become non-performing assets. A dedicated team was established to lead collection activities and external subject matter expert advice was sought where needed. The activity to collect in non-performing assets has continued post financial year end.

COVID-19 has also impacted the day-to-day operation of the business in many fundamental ways, the most notable of which being a swift transition to full remote working. Due to the IT functionality in place all of the Bank's staff have been able to continue carrying out their roles as before, with no discernible impact to stakeholders.

UK withdrawal from the EU

The withdrawal from the EU has had an immediate impact on some customers, notably where delays in the supply chain have impacted cashflow and therefore the ability to make timely repayments.

The Bank wound up its deposit taking from Germany, partly due to uncertainty around passporting.

2.2 Risk management framework

Risk Management Framework ('RMF')

The RMF governs the approach to management of all risks that the Bank is exposed to. These include, but are not limited to, risks arising from financial, economic, operational and behavioural factors. The RMF also supports the "three lines of defence" model and reinforces the need for first line management of risk with second and third line oversight.

The Board is responsible for articulating the risk vision and strategy. It approves the RMF as well as setting the tolerance and approach to risk- taking activities.

In order that the RMF can be applied to the day-to-day operation of the Bank, it is then translated into the Risk Appetite Statement.

Risk Appetite Statement ('RAS')

The RAS defines the limits and tolerances against which the Bank manages risk day-to-day across its operations within clearly defined limits and mandates.

Daily management information, along with the risk and compliance functions, provide the assurance that the Bank is being managed within and to the RAS.

2.3 Governance

The Board

The Board is the forum where all key strategic decisions are tabled and approved.

The Board's terms of reference define the powers of the Board and set out its primary responsibilities, along with its governance arrangements, control of affairs, standing agenda items, specific monitoring and its overall composition.

The Chairman is appointed to run the Board in a manner which supports and challenges the CEO whereas the CEO is appointed to run the business and deliver the agreed strategy. This separation of function is codified in the terms of reference, which state that the Chairman shall not be a member of the executive management team and shall not be the CEO, in accordance with CRD IV Art 88(1) (e).

Against the backdrop of delivering on the Bank's strategic objectives, the Board oversees the CEO's establishment of a robust organisation in terms of management experience, product expertise, operational system knowledge and human resource capabilities.

Collectively the Board has sufficient expertise. The composition of the Board is periodically reviewed to ensure that there is the right balance of competency to allow effective governance of the Bank and notably it undertakes such reviews at significant points in the business life cycle, for example a change in strategy. An example of a recent assessment of the Board was a Board effectiveness review, which was carried out in 2019.

2.4 Board Committees

There are three main Board committees, which operate directly under the delegated authority of the Board, the Audit Committee, the Risk Committee and the Remuneration and Nominations Committee. In addition, for a limited period from August 2019 to April 2020, the Board established an ad hoc sub-committee to cover matters between scheduled board and other committee meetings.

On a day-to-day basis, the Board delegates its risk management responsibilities to the CEO and through him to the Chief Risk Officer (CRO). The chair of each Board committee is charged with reporting to the Board on updates, findings and recommendations.

Audit Committee

The Audit Committee is comprised of the independent non-executive directors and all members have significant experience on matters relating to financial probity and internal control. The Board has determined that the Committee Chair, Ian Gomes, has the required recent and relevant financial experience.

The responsibilities of the Committee include:

- Monitoring the effectiveness of the Bank's internal control, risk management systems and internal audit without breaching its independence;
- The integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgements contained in them;
- Oversight of the internal and external audit processes;

- Recommendations concerning the appointment, re-appointment and removal of the external auditors and the periodic review of their performance and independence;
- The policy on the use of external auditors for non-audit work; and
- Reporting to the PRA on bank matters, as required

The Audit Committee meetings are attended by the members and, by standing invitation, the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer and the Chief Compliance Officer. The outsourced internal auditor, KPMG LLP, and the external auditor, Mazars LLP (from February 2020, PricewaterhouseCoopers prior to that), are also invited to each meeting. Following each committee meeting, the minutes of the meeting are distributed to all attendees and the Committee Chair provides a regular update to the Board on key matters discussed by the Committee. The Chair also meets the external audit partner and internal audit leader outside of the formal committee process during the year.

Remuneration and Nominations Committee (RNC)

The RNC is comprised of the independent non-executive directors and all members have significant experience on matters relating to appointment, assessment and remuneration of senior professionals. The Board has determined that the Committee Chair, Steve Reid, has the required recent and relevant financial experience.

The responsibilities of the Committee include:

- Appointments of directors and senior managers;
- Composition, skills and experience of the Board;
- Remuneration policy and compensation packages;
- Recommendations on rewards and remuneration;
- Oversight of the senior management performance appraisal process; and
- Advice on succession planning.

Risk Committee

The Risk Committee is comprised of the independent non-executive directors and all members have significant experience on matters relating to risk management. The Board has determined that the Committee Chair, David Smith, has the required recent and relevant financial experience.

The responsibilities of the Committee include:

- overseeing the Bank's overall risk management framework and its risk appetite, risk strategy, principles and policies;
- Reviewing the risk profile of the Bank through review and approval of the Risk Register;
- Ensuring that the risk management function has adequate resources;
- Monitoring adherence to liquidity risk tolerance parameters;
- Recommending for Board approval the Bank's ICAAP and ILAAP;
- Recommending for Board approval the Bank's Recovery and Resolution Plans and Liquidity Contingency Plan;
- Approving delegations of authority with regard to exercise of discretion and/or setting risk limits within the Bank's overall Risk Appetite;
- Approving on an annual basis the Bank's Risk Management Framework; and
- Reviewing on an annual basis the appropriateness of the Bank's risk measurement systems.

Ad-hoc Sub-Committee

A Board sub-committee was established to oversee matters as deemed necessary in between main Board meetings. Members of the Committee comprised the non-executive directors and the Chief Executive Officer. The committee was chaired by the Chairman, John Crompton, and met 13 times in the period August 2019 to April 2020.

The Committee's key deliberations during the period in which it met included:

- Capital management;
- Asset quality; and
- Prudential matters

2.5 Management Committees

Executive Committee (EXCO)

The Board appoints the CEO to manage the execution and delivery of the Board's strategy, along with day-to-day management of the Bank. The CEO maintains an EXCO to allocate responsibilities, liaise with and co-ordinate the leadership team, projects and delivery of the business strategy.

The frequency of meetings, membership and quorum are at the discretion of the CEO according to the business needs. In practice though, the Committee meets at least monthly.

In addition to receiving all recommendations from the respective ALCO, Risk and Operations and Credit Committees, the EXCO is also responsible for the final review and recommendation to the Board of any updates to the Bank's business plan and the annual update of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The EXCO is chaired by the CEO.

Assets and Liabilities Committee (ALCO)

The ALCO is responsible for the appropriate oversight and input into the risk measurement, monitoring and management of financial risks impacting assets, capital and liquidity.

Market risk and liquidity risk are monitored by the ALCO. The Committee makes regular assessments of the UK macroeconomic environment and the potential impacts of such risks.

The ALCO is also responsible for all the treasury-related policies inclusive of the Investment Policy and the Liquidity Contingency Plan.

The ALCO is chaired by the CFO.

Risk and Operations Committee (ROC)

The ROC is responsible for the oversight of risk related matters and the enterprise risks impacting the Bank.

The ROC manages risks arising from activities impacting on the business systems, process, operations and people. This includes assessments of the conduct, financial crime, project and legal risks and the potential impact on the business delivery, customer experience, business performance and operational loss exposure to the Bank's capital.

ROC reviews, oversights and challenges are central to the development of appropriate risk assessment, monitoring and management processes as well as deploying appropriate operational management approaches that are consistent with robust business delivery and operational performance.

The Credit Sanctioning Committee is a sub-Committee of the ROC and reports to ROC on all credit risk related matters, including credit sanctioning, credit reviews and loan impairment assessment.

The ROC is chaired by the Chief Compliance Officer.

3. Regulatory capital

3.1 Capital resources

Wyelands Bank holds CET1 capital resources to meet capital requirements. It consists of ordinary share capital and allowable reserves and is presented inclusive of transitional IFRS 9 adjustments and regulatory deductions for intangible assets.

3.2 Capital requirements

Pillar 1 capital is the minimum capital requirement that firms are required to hold for credit, market and operational risks, calculated as 8% of Risk Weighted Assets (RWAs). The Bank calculates risk weights using the following approaches:

Credit risk – standardised approach;

Market risk – own funds requirement for foreign exchange risk calculated using net foreign exchange position; and

Operational risk – basic indicator approach

The Pillar 2 requirement incorporates the Bank's own assessment of additional capital resources needed to cover specific risks that are not covered by the minimum regulatory capital resources requirements set out in Pillar 1. The amount of any additional requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Bank. To calculate its Pillar 2 requirements, the Board has performed a detailed assessment of the risks facing the Bank including the impact of a severe economic downturn. It has then calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process ('ICAAP'), which itself is reviewed as part of the PRA's SREP.

The Pillar 2A requirement is set by the PRA by setting a firm specific Total Capital Requirement (TCR). The Bank's prescribed TCR was updated in June 2020 to be 16.07% of RWAs.

3.3 Regulatory capital buffers

The following regulatory capital buffers apply to The Bank:

Capital conservation buffer (CCB)

The CCB, at 2.5% of RWAs, was introduced to ensure that banks have an additional layer of usable capital that can be drawn down when losses are incurred. It must be met with CET1 capital only.

Countercyclical capital buffer (CCyB)

The countercyclical buffer is a tool that enables the relevant authority (the Bank of England in the UK) to adjust the resilience of the banking system. The CCyB varies between 0 and 2.5% of RWA and must be met with CET1 capital. Each institution calculates its specific CCyB based on a weighted average of the CCyB rates for each jurisdiction in which it has an exposure. In March 2020 the UK CCyB rate decreased from 1% to 0%. A breakdown of the geographical exposures as prescribed by Regulation (EU) 2015/1555 is shown in appendix 4.

4. Key metrics

	30 April 2020	30 April 2019
Regulatory capital		
Common Equity Tier 1 (CET1) capital	52,831	123,582
Tier 1 capital	52,831	123,582
Total capital	52,831	123,582
Total risk weighted assets (RWAs)	277,058	523,385
CET1 ratio	19.1%	23.6%
Tier 1 capital ratio	19.1%	23.6%
Total capital ratio	19.1%	23.6%
Liquidity coverage ratio (LCR)	9,361%	7,924%
Leverage ratio	10.2%	14.2%

5. Own funds

The table below summarises the composition of the Bank's regulatory capital:

	30 April 2020	30 April 2019
CET1 capital		
Called up share capital	132,998	132,998
Accumulated losses	(80,628)	(11,210)
Other reserves recognised for CET1 capital	17	(70)
Regulatory adjustments to CET1 capital		
Intangible assets	(1,063)	(1,377)
IFRS 9 transitional arrangements	1,507	3,241
CET1 capital	52,831	123,582
Total regulatory capital	52,831	123,582

6. Risk weighted assets

6.1 Pillar 1 requirement

The Bank's Pillar 1 capital requirement is set out in the table below. The Pillar 1 requirement in respect of credit risk is based on 8% of the RWAs for each of the following standardised exposure classes.

	Credit risk exposure	Risk Weighted Assets	Pillar 1 Requirement	Average Exposure
Standardised Exposure Classes	£'000	£'000	£'000	£'000
Central governments or central banks	279,226	-	-	255,635
Regional governments	-	-	-	3,735
Multilateral development banks	17,050	-	-	17,841
Institutions	49,333	9,867	789	39,109
Corporates	43,571	44,898	3,592	334,507
Exposures in default	111,212	154,321	12,346	-
Items associated with particularly high risk	15,794	23,691	1,895	-
Other items	1,181	1,181	95	19,225
	517,367	233,958	18,717	670,052
Market risk – foreign currency		12,551	1,004	
Operational risk		29,944	2,396	
Credit valuation adjustment		605	48	
Total Pillar 1 / RWA		**277,058**	**22,165**	

6.2 Use of External Credit Assessments

The Bank uses external credit ratings published by Moody's, where available, to determine risk weights for wholesale exposures. These assessments are mapped to the prescribed credit quality step (CQS) and relevant Moody's rating:

	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated	Total
	CQS 1	CQS 2	CQS 3		
	£'000	£'000	£'000	£'000	£'000
Institutions	30,136	12,798	444	5,955	49,333

7. Credit risk

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its financial obligation to the Bank. For the types of business that the Bank has undertaken, this typically means taking payment risk on a counterparty.

For receivables financing, mitigation of this risk is generally achieved by exposures typically being of high credit quality and short duration, or by trading with counterparties with a well-established credit record.

The Bank uses the expected credit loss model ("ECL") as prescribed by IFRS 9 Financial Instruments for all loans and advances. The ECL model is not applied to its debt instruments at FVOCI as these are high quality investment products that have a very low risk of loss, hence the ECL is not material for recognition.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flow which the entity expects to receive.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. IFRS 9 includes a rebuttable presumption that a financial asset has suffered a significant increase in credit risk where it becomes over 30 days past due and impaired when it becomes over 90 days past due. The Bank follows this presumption unless there is strong supporting evidence to mitigate this assumption, an assessment of each facility and its credit risk profile then determines whether it is to be allocated to one of the three stages:

- Stage 1: When it is deemed that there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12 month ECL will be applied. (i.e., the expected losses resulting from possible default events within the next 12 months will be applied).

- Stage 2: When it is deemed that there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL (i.e. the lifetime expected loss resulting from all possible defaults throughout the residual life of a facility will be applied); and

- Stage 3: When the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Objective evidence of credit impairment is required.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment of credit risk and the estimation of ECL must be unbiased, probability weighted and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In considering whether a financial asset is credit impaired the Bank seeks to identify the following events:

- Significant financial difficulty of the borrower;
- Breach of contract, such as 90 days past due or default;
- It becoming probable that the borrower will enter into a financial reorganisation or bankruptcy; or

- Where the Bank has to grant concessions due to the borrower's financial difficulty that would not otherwise have been considered.

The Bank has developed a series of IFRS 9 models to address the different requirements of its loan portfolios. The models developed consider for each loan the probability of a default, its exposure at default and the possible loss given default that could arise. The assessment and development of the key variables have been through an extensive book by book review process based on available information and externally sourced data as required.

7.1 Non-performing and forborne exposures

For the financial year end 30 April 2020 stage 3 provisions of £64.5 million for impaired assets (2019: £533k) were recorded. There were no counterparties to whom the Bank had extended forbearance.

At 30 April 2020 the Bank had past due exposures of £213 million (2019: £72 million) of which £78 million was over 90 days past due and £191 million impaired. The Bank believes that these exposures remain collectible.

A breakdown of the movement in impaired loans and expected credit losses recognised during the year is shown in the tables below.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 30 April 2020				
Gross loans and advances at 1 May 2019	359,317	65,801	12,586	437,704
Originations and repayments	(141,630)	(54,538)	(7,827)	(203,995)
Transfer to stage 2	(22,330)	22,330	-	-
Transfer to stage 3	(175,314)	(11,263)	186,577	-
Gross loans and advances at 30 April 2020	20,043	22,330	191,336	233,709
Expected credit loss provision	(418)	(909)	(64,507)	(65,834)
Loans and advances to customers after provision	19,625	21,421	126,829	167,875

All loans and advances to customers are to non-financial corporations. A further breakdown of counterparty balances is given in Appendix 5.

	Stage 1 £'000	Stage 2	Stage 3 £'000	Total £'000
Opening provisions at 1 May 2019	2,542	870	533	3,945
Increase/(decrease) in expected loss provision	(2,133)	19	63,398	61,284
Foreign exchange differences	9	20	576	605
Closing provision at 30 April 2020	418	909	64,507	65,834

The table below shows a geographic distribution of defaulted exposures.

	Defaulted exposures £'000	Expected loss provision £'000	Net balance sheet position £'000
UK	96,286	30,310	65,976
East Asia and Pacific	44,673	6,818	37,856
Middle East and North Africa	50,377	27,379	22,998
Total	191,336	64,507	126,829

7.2 Geographic distribution of exposures

	UK £'000	Europe £'000	East Asia and Pacific £'000	Middle East & North Africa £'000	North America £'000	Total £'000
Central governments or central banks	252,647	26,579				279,226
Regional governments						
Multilateral development banks		13,747			3,303	17,050
Institutions	13,732	460			35,141	49,333
Corporates	28,514			15,057		43,571
Exposures in default	50,358		37,856	22,998		111,212
Items associated with particularly high risk	15,794					15,794
Other items	1,181					1,181
TOTAL	**362,226**	**40,786**	**37,856**	**38,055**	**38,444**	**517,367**

7.3 Distribution of exposures by industry or counterparty type

UNDERLYING GOODS & SERVICES	30 April 2020
Production of electricity	18.00%
Wholesale of metals and metal ores	36.00%
Sales of fuels, ores, metals and industrial chemicals	6.00%
Manufacture of iron and steel	5.00%
Non specified wholesale trade	14.00%
Aluminium production	4.00%
Sale of a variety of goods	14.00%
Manufacture of basic pharmaceutical products	3.00%

7.4 Maturity breakdown of exposures

	MONTHS			YEARS				
	<3	3-6	6-12	1-5	Past due but not impaired	Impaired	Undated	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS								
Cash and cash equivalents	282,783	—	—	—	—	—	—	282,783
Loans and advances to customers	5,977	—	—	3,611	21,421	136,866	—	167,875
Loans to subsidiary undertakings	—	—	—	—	—	—	2,703	2,703
Financial assets designated at fair value through other comprehensive income	41,375	216	6,144	14,585	—	—	—	62,320
Derivative financial assets	35	335	113	22	—	—	—	505
Other assets	363	—	—	—	—	—	—	363
TOTAL FINANCIAL ASSETS	330,533	551	6,257	18,218	21,421	136,866	2,703	516,549
TOTAL NON FINANCIAL ASSETS	722	—	—	—	—	—	1,159	1,881
TOTAL ASSETS	331,255	551	6,257	18,218	21,421	136,866	3,862	518,430
LIABILITIES								
Other liabilities	3,395	(4)	53	161	—	—	—	3,605
Customer deposits	73,197	255,627	59,398	70,986	—	—	—	459,208
Derivative financial liabilities	2,754	509	(33)	—	—	—	—	3,230
TOTAL FINANCIAL LIABILITIES	79,346	256,132	59,418	71,147	—	—	—	466,043

7.5 Credit quality of exposures

	Aaa to Aa2 £'000	A1 to A3 £'000	Baa1 to Baa3 £'000	UNRATED £'000	TOTAL £'000
ASSETS					
Cash and cash equivalents	264,091	12,798	445	5,449	282,783
Loans and advances to customers	—	—	—	167,875	167,875
Loans to subsidiary undertakings	—	—	—	2,703	2,703
Financial assets designated at fair value through other comprehensive income	46,521	—	15,799	—	62,320
Derivative financial assets	—	405	—	100	505
Other assets	—	—	—	363	363
TOTAL FINANCIAL ASSETS	310,612	13,203	16,244	176,490	516,549
TOTAL NON FINANCIAL ASSETS	—	—	—	722	722
TOTAL ASSETS	310,612	13,203	16,244	177,212	517,271

8. Liquidity and funding risk

8.1 Overview

Liquidity risk arises from the mismatch of the timing of cash flows relating to assets and liabilities.

Mitigation for this risk is to be found in the Bank's strategy of funding customer lending with deposits of greater maturities than the underlying assets thus mitigating any material liquidity risk.

8.2 Liquidity coverage ratio

	2020	2019
	£'000	£'000
Total high-quality liquid assets (HQLA)	296,275	301,310
Total net cash outflow	3,165	3,802
LCR	9,361%	7,924%

9. Interest rate risk in the banking book

In line with regulatory reporting requirements, as set by the EBA, the Bank considers a parallel 200 basis points (bps) movement to be appropriate for evaluating sensitivity to interest rate risk. The Bank estimates that a +/- 200bps movement in interest rates would have impacted the economic value of equity as follows:

+200 bps – £749,000 positive (2019: £1,301,000 positive)

-200 bps – £1,698,000 negative (2019: £1,364,000 negative)

In preparing the sensitivity analysis, the Bank has made certain assumptions consistent with expected and contractual re-pricing behaviour as well as behaviour repayment profiles of the underlying balance sheet items.

10. Leverage

Accounting assets vs leverage ratio exposure measure	2020
	£'000
Total assets as per published financial statements	518,430
Other adjustments	652
Leverage ratio exposure	519,082
Leverage ratio common disclosure	
On-balance sheet items (exc derivatives)	517,925
Asset amounts deducted in determining Tier 1 Capital	(1,063)
Total On-balance sheet exposures (exc derivatives)	516,862
Derivative exposures	
Replacement cost associated with all derivative transactions	505
Add-on amounts for Potential Future Exposures ("PFE")	1,715
Total derivative exposures	2,873
Capital and total exposures	
Tier 1 capital	52,831
Leverage ratio total exposure measure	519,082
Leverage Ratio	10.2%

Split of on-balance sheet exposures	2020
	£'000
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	517,925
Banking book exposures, of which:	517,925
Exposures treated as sovereigns	296,275
Institutions	48,827
Corporates	43,571
Exposures in default	111,212
Exposures associated with a particularly high risk	15,794
Other exposures	2,246

11. Asset encumbrance

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

The Pillar 3 asset encumbrance disclosure template, shown below, has been compiled in accordance with PRA and EBA regulatory reporting requirements, specifically the PRA's supervisory statement SS11/14 (CRD IV: Compliance with the EBA's Guidelines on the disclosure of the encumbered and unencumbered assets).

Template A: Encumbered and unencumbered assets

30 April 2020

	Carrying amount of encumbered assets	Of which HQLA	Carrying amount of unencumbered assets	Of which HQLA
	£'000	£'000	£'000	£'000
Assets of the reporting institution	15,046	-	580,489	303,662
Equity instruments	-	-	2	-
Debt securities	-	-	61,829	61,829
of which: issued by general governments	-	-	44,788	44,788
Other assets	15,046	-	518,659	241,833

12. Remuneration

This statement sets out the disclosures required under the requirements as they apply to the Bank. Relevant guidance is in the PRA rulebook, the FCA code, the Capital Requirements Regulations (Article 450) and from FCA guidance issued in 2015 on staff remuneration within the banking sector.

The Bank employed 45 members of staff as at 30 April 2020. The total staff costs of the Bank as disclosed in Note 6 of the Annual Report and Financial Statements were as follows:

	2020 £'000	2019 £'000
Wages and salaries including performance related pay	5,005	4,907
Social security	616	528
Pension	512	317
Other employment related costs	2,551	723
Staff costs	**8,684**	**6,475**

Meeting a minimum of three times a year, the minimum composition of the RNC is three members drawn from the independent non-executive directors who form the majority, and the non-executive directors.

Responsibilities of the RNC include appointments of directors and senior managers, composition, skills and experience of the board, remuneration policy and compensation package, recommendations on rewards and remuneration, oversight of the senior management performance appraisal process and advice on succession planning. The Bank has a performance award scheme for the benefit of its employees, which is classified as variable remuneration as defined by the code.

This is a discretionary scheme and awards are made based on individual and collective performance and based on the Bank's performance against its business plan as approved by the board.

The Bank has taken steps to assess the Material Risk Takers ('MRT') population. These are generally defined as staff who can have a material impact on the Bank's risk profile. Reference is made to a number of sources including a cross check to the SMR and certified population. An assessment is also made against qualitative and quantitative the criteria set out in the final Regulatory Technical Standard (RTS) published in the Official Journal of the European Union on 6th June 2014. The process includes a management assessment of the potentially in-scope population prior to confirming the MRT population. Excluded individuals are;

i. Managers who fall in scope by virtue of reporting into the head of a material business unit but who do not have any direct authority to make risk decisions:

ii. Individuals who do not have authority make risk related decisions and / or who advise on routes to reduce risk such as the Bank's General Counsel: and

iii. Non-executive Directors who are not either (a) a chair of a board committee or (b) are not a member of the Banks external credit committee.

For the year ended 30 April 2020, 18 staff were identified as MRT (2019: 13 staff). The Bank applies the exemption from disclosing MRT remuneration on the basis that disclosure of that remuneration at a lower level would result in the individuals' ready identification.

Appendix 1: EBA regulatory capital balance sheet reconciliation

Differences between Accounting and Regulatory Scopes of Consolidation and the mapping of financial statement categories with regulatory risk categories criteria.

	A	C	G
30 April 2020		Carrying values of items:	
Assets	Carrying values as reported in published financial statements	Subject to credit risk framework	Not subject to capital requirements or subject to deduction from
Cash and balances at central bank	233,955	233,955	
Loans and advances to banks	48,828	48,828	
Financial assets designated at fair value	—	—	
Financial assets designated at fair value through other comprehensive income	62,320	62,320	
Financial assets held at amortised cost	—	—	
Loans and advances to customers	170,578	170,587	
Derivative financial assets	505	505	
Tangible assets	96	96	
Intangible assets	1,063	—	1,063
Other assets	1,085	1,085	
TOTAL ASSETS	518,430	517,367	1,063
LIABILITIES			
Customer accounts	459,208		459,208
Derivative financial liabilities	3,230		3,230
Other liabilities	3,605		3,605
TOTAL LIABILITIES	466,043		466,043

Appendix 2: EBA IFRS 9 transitional arrangements disclosure

		30 April 2020 £'000	30 April 2019 £'000
Available capital			
1	CET1 capital	52,831	123,582
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	51,324	120,341
3	Tier 1 capital	52,831	123,582
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	51,324	120,341
5	Total capital	52,831	123,582
6	Total capital as if IFRS 9 transitional arrangements had not been applied	51,324	120,341
Risk-weighted assets			
7	Total risk-weighted assets	277,058	523,385
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	275,550	520,521
Capital ratios			
9	CET1 ratio	19.1%	23.6%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	18.6%	23.1%
11	Tier 1 ratio	19.1%	23.6%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	18.6%	23.1%
13	Total capital ratio	19.1%	23.6%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied	18.6%	23.1%
Leverage ratio			
15	Leverage ratio total exposure measure	519,082	854,665
16	Leverage ratio	10.2%	14.5%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	9.9%	14.1%

Appendix 3: EBA transitional own funds disclosure

		30 April 2020
		£'000
CET1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	132,998
2	Retained earnings	(80,628)
3	Accumulated other comprehensive income (and other reserves)	17
6	CET1 capital before regulatory adjustments	52,387
CET1 capital: regulatory adjustments		
8	Intangible assets	(1,063)
	IFRS 9 transitional arrangements	1,507
28	Total regulatory adjustments to CET1 capital	444
29	CET1 capital	52,831
45	Tier 1 capital	52,831
58	Tier 2 capital	-
59	Total capital	52,831
60	Total risk weighted assets	277,058
Capital ratios and buffers		
61	CET1 ratio	19.1%
62	Tier 1 ratio	19.1%
63	Total capital ratio	19.1%
64	Institution specific buffer requirement	2.64%
65	Of which: capital conservation buffer requirement	2.5%
66	Of which: countercyclical buffer requirement	0.14%
68	CET1 available to meet buffers	3.0%

Appendix 4: Countercyclical capital buffer

The table below shows the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer as at 30 April 2020:

	General credit exposures	Own funds requirements		
Breakdown by country	*Exposure Value*	*Of which: General credit exposures*	Own funds requirement	CCyB Rate
	£'000	£'000	weighting	%
United Kingdom	127,877	11,036	0.61	0.0%
United Arab Emirates	26,931	2,154	0.12	0.0%
Singapore	16,000	1,920	0.11	0.0%
Hong Kong	21,912	2,459	0.14	1.0%
India	5,258	631	0.02	0.0%
Total	197,978	18,200	1.00	

The table below shows the amount of institution-specific CCyB as at 30 April 2020:

	2020 £'000
Total risk exposure amount	277,058
Institution-specific CCyB rate (%)	0.135%
Institution-specific CCyB requirement	374

Appendix 5: Disclosure of non-performing and forborne exposures

a) Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1	Loans and advances	42,373	20,043	22,330	191,336	113,211	56,449	21,676	0	0	0	0	191,336
6	*Non-financial corporations*	42,373	20,043	22,330	191,336	113,211	56,449	21,676					191,336
9	Debt securities	62,320	62,320										
11	*General governments*	45,460	45,460										
12	*Credit institutions*	16,860	16,860										
22	***Total***	105,198	82,363	22,330	191,336	113,211	56,449	21,676	0	0	0	0	191,336

Note – rows with nil balances have been excluded

b) Performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	Loans and advances	42,373	20,043	22,330	191,336	0	191,336	1,327	418	909	64,507	0	64,507	0	0	0
6	*Non-financial corporations*	42,373	20,043	22,330	191,336		191,336	1,327	418	909	64,507	0	64,507			
9	Debt securities	62,320	62,320													
11	*General governments*	45,460	45,460													
12	*Credit institutions*	16,860	16,860													
22	***Total***	***104,693***	***82,363***	***22,330***	***191,336***	***0***	***191,336***	***1,327***	***418***	***909***	***64,507***	***0***	***64,507***	***0***	***0***	***0***

Note – rows with nil balances have been excluded