Pillar 3

Disclosures Document

31 December 2018

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1. Introduction

1.1 Purpose

This document provides background information on the approach used by Wesleyan Bank Limited (the Bank) to manage risk and maintain its capital resources. It sets out the Bank's:

- Approach to risk management
- Governance structure
- Asset information and capital resources; and
- Compliance with EU capital requirements regulations

1.2 Background

Wesleyan Bank Limited is subject to European Union Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) implemented on 1 January 2014. The CRR and CRD, commonly known as CRDIV, provide consistent capital adequacy standards for banks and building societies and an associated supervisory framework across the European Union and are enforced in the UK, together with the local implementing rules and guidance, by the Prudential Regulation Authority (PRA). CRDIV sets out the rules that determine the amount of capital such firms must hold to provide security to their depositors.

The framework categorises the capital and prudential requirements under three 3 pillars:

Pillar 1 Minimum regulatory capital requirements, relating to credit, market and operational risks. The Bank meets the minimum capital requirements by applying the Standardised Approach to credit and market risk and the Basic Indicator Approach to operational risk.

Pillar 2 builds on Pillar 1 and incorporates the Bank's own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. For operational risk the Bank calculates its total capital requirement using the outputs of scenario analyses and deducts Pillar 1 to provide an assessment of the Pillar 2A requirement. The amount of any additional capital 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 Group.

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Pillar 3 Disclosure of information relating to the risk assessment process and resulting capital adequacy.

The Pillar 3 disclosures promote market discipline by requiring external disclosure of a firm's risk management framework and key risk exposures.

CRD IV requires a concise risk statement approved by the Executive Committee succinctly describing the institution's overall risk profile associated with the business strategy. The Bank has a low risk appetite. This is evidenced in its Common Equity Tier 1 capital ratio of 18.8% as at 31 December 2018 (2017: 19.2%) and low level of arrears on core commercial lending.

Total loss absorbing capital (TLAC) and minimum requirement for eligible liabilities (MREL) regulations became effective from 1 January 2019. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements also known as the Total Capital Requirement (TCR).

Additional information on the Bank's management of risk and its risk profile is included in the remaining sections of this document, and the Annual Report & Accounts.

Future regulatory developments

The Basel Committee published their final reforms to the Basel III framework in December 2017. The rules are subject to a lengthy transitional period from 2022 to 2027. The amendments include changes to the standardised approaches for credit and operational risks.

1.2 Scope of application

This document contains the Pillar 3 disclosures of the Bank. On 4 January 2016 the Bank acquired 100% of the issued equity capital of Syscap Holdings Limited from the Wesleyan Assurance Society (the Society). There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources between the Bank and its subsidiary undertaking. In 2018 following the capital restructuring of the subsidiaries and a realisation of the investment in them, the Bank has reassessed the value of its remaining investments in subsidiaries and took an impairment charge of £11,500k to state them at net asset value, being the amount the directors estimate is the remaining recoverable amount of these entities. Subsequent to this restructuring, the Bank intends to wind up the two subsidiary holding companies as they no longer serve any purpose and this will simplify the corporate structure.

Share issue

During the year the Bank issued an additional £13m of share capital to its parent entity in order to support its balance sheet growth. This was issued in two tranches; £5m on 25 May 2018 and £8m on 28 September 2018. All the shares issued were fully paid ordinary shares of £1 each.

1.3 Basis and frequency of disclosures

This document addresses the requirements for Pillar 3 (disclosure) and the information provided in this document is in accordance with the rules and guidance contained in CRDIV.

Unless stated otherwise, all data is as at 31 December 2018.

The European Banking Authority (EBA) has issued guidelines on disclosure frequency and the Bank considers that, given its size and complexity, summary Pillar 3 disclosures do not need to be made more frequently than annually in the absence of a material change in circumstances.
The Pillar 3 document is published on the Society's website https://www.wesleyan.co.uk/about-us/corporategovernance].

1.4 Verification

The Bank's Pillar 3 disclosures have been reviewed and approved by the (Audit/Risk) Committee on behalf of the Board. The disclosures provided in this document have not been subject to external audit except where they are equivalent to those prepared under accounting standards for inclusion in the Bank's audited financial statements.

1.5 Relevant Changes

Regulatory changes

CRD IV introduced disclosure requirements relating to risk management, corporate governance, capital resources, unencumbered assets and leverage. The Bank has allocated specific resources to identify future regulatory change and to develop the Bank's regulatory compliance framework to meet this change.
The Countercyclical Buffer (CCyB) increased for the UK from 0.5% to 1% in November 2018. No further increases have been confirmed by the FPC.

Disclosure of encumbered and unencumbered assets

The European Banking Authority ("EBA") issued draft regulatory technical standards on the disclosure of encumbered and unencumbered assets under Article 443 of the CRR in March 2017. These standards were subsequently endorsed by the EU in December 2017. The proposed templates have already been disclosed by Wesleyan. However, the instructions for completion have been amended to reflect the requirement to present the median value based on the prior four quarterly observations (previously this was based on the period end value only).

Liquidity Coverage Ratio ("LCR")

In March 2017, the EBA also issued guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013. It requires the inclusion of the following information:

- liquidity risk management;
- LCR disclosure template; and
- qualitative information on the LCR template.

Reduced disclosures are allowable for institutions that do not classify as Global Systemically Important Institutions; as such Wesleyan has prepared its disclosures on this basis.

Future regulatory changes

On 11th December 2018, the Basel Committee on Banking Supervision (BCBS) published its final standards on an updated framework for Pillar 3 disclosure requirements (referred to as BCBS455). The BCBS455 relate to new disclosure requirements on encumbered and unencumbered assets, and information on the capital ratio of a bank that would result in national supervisors imposing constraints on capital distributions. In addition, BCBS455 also includes revisions to Pillar 3 framework which arise from the final Basel III standards published in December 2017. These include revised disclosure requirements for credit risk, operational risk, the leverage ratio, credit valuation adjustments and overview templates on risk management, as well as revised risk weightings for exposures under the standardised approach, including a phased implementation of revised minimum capital floors that will increase capital requirements. The rules are subject to a lengthy transitional period from 2022 to 2027.

2. Risk Management Approach

This section sets out the Bank's approach to managing risk.

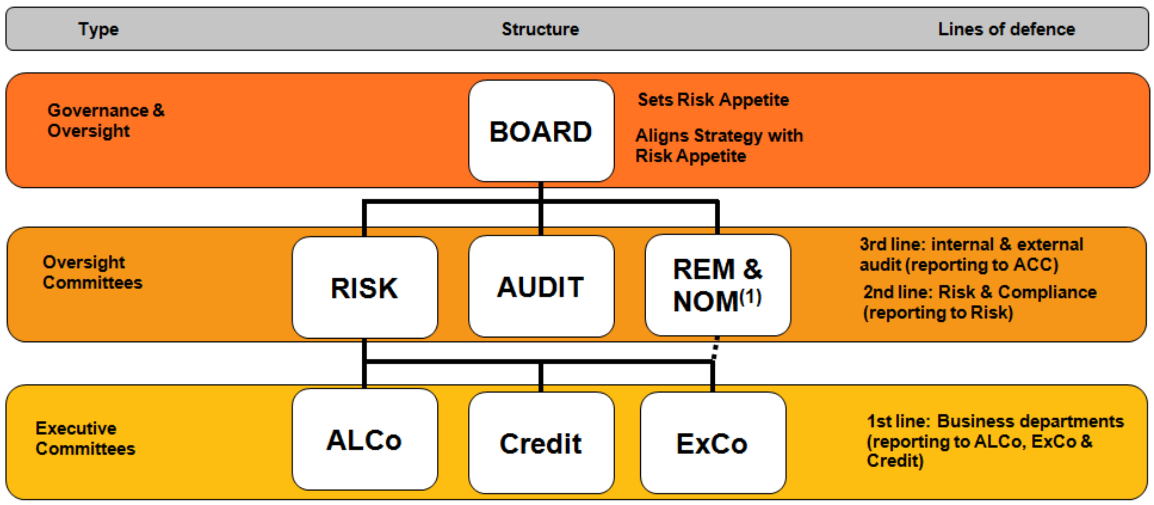
2.1 Risk management framework

The Bank has a clearly defined Risk Strategy that sets out the framework that has been established to ensure that risks are appropriately managed. The key elements of the framework are described below and have been designed to take into consideration the Systems and Controls (SYSC) requirements contained in the PRA / FCA Rulebooks and current industry best practice. These include:

- a risk focussed governance structure;
- a risk appetite framework, risk policies and risk limits;
- a risk identification, monitoring and reporting process; and
- an effective internal controls framework.

2.2 Governance structure

The Bank has established an appropriate Board and Committee structure to underpin its management of risks across the business.



(1) The Society's Remuneration Committee and Nomination Committee consider Bank related matters on behalf of the Bank Board

The Bank has developed a proportionate Board and Committee structure to manage risks across the business. Key features of this structure are set out below:

Board of Directors (Board)

The Board has overall responsibility for the Bank's risk management framework. It sets the Bank's strategy, risk appetite and ensures that risk management policies and process are appropriate and functioning effectively. In taking this responsibility the Board brings together the risk management framework and the financial disciplines of business planning and capital management to determine:

- the significant risks to which the Bank is exposed;
- required management information, including early warning indicators that enable management to take mitigating action;
- the adequacy of the Bank's risk assessment and risk management policies and procedures; and
- the capital resources that the Bank needs to deliver its strategy and manage its risk exposures across its planning horizon

The Board has established sub-committees to assist in implementation and monitoring of risk management across the Bank. These Committees have their own terms of reference the details of which are set out below:

Risk Committee (Risk)

The Risk Committee, which is a non-executive sub-committee of the Board, is responsible for the oversight of risk management for the Bank. The Committee's overarching purpose is to ensure the overall approach to the identification and management of risk is appropriate and managed effectively in an integrated manner. Its responsibilities include ensuring:

- that key risks and controls are monitored adequately;
- at a high level the effective operation of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP);
- the monitoring of the Bank's risk profile and comparing this with risk appetite
- ensuring that appropriate and effective stress and scenario testing is performed;
- the Bank's risk function is operating effectively; and
- the Bank's Risk Management Framework is operating effectively.

Audit Committee

The Audit Committee, a non-executive sub-committee of the Board, has responsibility for ensuring that the Bank's accounting and reporting systems provide accurate information including the internal controls over the production of management information to evidence the Bank's current risk profile. It will also monitor the effectiveness and adequacy of the internal audit services provided by the Society's internal audit function.

Remuneration Committee

The Society's Remuneration Committee has responsibility for determining remuneration policy across the Wesleyan Group and it discharges this responsibility on behalf of the Bank Board for Bank related remuneration matters taking feedback where required from Bank Board members. Delivery of effective risk management practices are a critical component in the Committee's determination of the remuneration of the Bank's Executive Board members and information on this aspect of performance is provided by the Bank's CRO on performance on the Bank's Executive Directors to the Remuneration Committee.

Nomination Committee

The Bank utilises the Society's Nomination Committee to ensure that its directors have the appropriate skills, experience and competencies to perform their roles. It also ensures appropriate succession planning is in place for key roles and for making recommendations to the Board, notably the recruitment and replacement of the Chairman and CEO. The Bank's Non-Executive Directors provide feedback to Society's Nomination Committee on matters pertaining to the Bank including ensuring that appropriate succession planning is in place.

Asset & Liabilities Committee (ALCO)

The ALCO is an executive committee that is primarily responsible for monitoring liquidity risk, interest rate risk, basis risk and credit risk as it relates to treasury counterparties. This includes monitoring the composition of the Bank's balance sheet, determining strategies for maintaining appropriate levels of liquidity and funding, monitoring the results of liquidity stress tests and ensuring appropriate financial risk management controls are in place. Any non-executive director can attend any ALCO meeting should they so choose.

Credit Committee

The Bank's Credit Committee is an Executive committee that is primarily responsible for monitoring credit risk. This includes assessing the quality of the Bank's lending portfolios, monitoring customer arrears levels and sanctioning deals as required by the authority delegated to it in the Bank's credit policies.

Executive Committee

The ExCo is an executive committee that is primarily responsible for monitoring operational, conduct and business risk across the Bank. This includes reviewing material risk events, near misses and other business incidents and, where necessary, ensuring that control activities are amended to prevent recurrence. The committee also monitors the delivery of internal audit, risk and compliance monitoring activity.

Other responsibilities

While the Board is ultimately accountable for the risk management framework all staff within the Bank have responsibility for risk management:

The Bank operates a three lines of defence model:

- **First line of defence:** All staff within each business area are responsible for the identification, measurement and management of risks within the Bank's risk appetite, ensuring that appropriate controls are in place and that these operate effectively. ALCO, Credit Committee and ExCo oversee risk management at this level.

- **Second line of defence:** The Bank's risk function provides risk management expertise, challenge and support to the Board, management and other members of staff. It presents an independent view to Risk Committee and Audit Committee making uses of management information from across the business. It also undertakes bespoke assurance activity where a business need is identified.

- **Third line of defence:** The Bank utilises the Society's internal audit function to provide internal audit services. This function is responsible for independently reviewing the effectiveness of the Bank's internal control environment. The Audit Committee approves the programme of work that the internal audit function performs. External audit also reports into the Audit Committee providing independent assurance of financial statement risks and controls.

  The Board sits above the three lines of defence and provides oversight to all three. It sets the risk appetite for the Bank and receives reports from Risk Committee and Audit Committee enabling it to determine an overall view of the Bank's risk management framework.

2.3 Risk Appetite, policy statements and limits

The Board has approved a risk appetite for each key risk category to which the Bank is exposed.

The key policies that that have been implemented to manage the risks faced by the Bank include a Risk Strategy, a Risk Management Framework, a clearly defined Risk Appetite Statement, Commercial and Retail Credit Policies, a Financial Risk Management Policy, a Strategic Risk Policy, an Operational Risk Policy and a Conduct Risk Policy. These contain detailed risk criteria and limits within which the Bank's business is managed. These are reviewed by the Risk Committee and amendments approved by the Board on a regular basis to ensure they remain relevant and appropriate.

2.4 Risk identification, monitoring and reporting

The Bank operates a formal process to identify, monitor and report on risks to which it is exposed:

- **Risk identification:** The Bank maintains a risk and controls register covering all the key risks to which the Bank is exposed. This register is formally reviewed by the Bank's risk function and each Executive risk owner on a six-monthly basis and is updated with new or emerging risks, changes to controls or control effectiveness assessments. The risks identified on the register are prioritised according to their probability of occurrence and the magnitude of the impact of the risk both before and after the effect of internal controls.

- **Risk monitoring:** ALCO, ExCo and Credit Committee monitor risk metrics relating to their respective areas of responsibility. Operational incidents are reported to ExCo via the Chief Risk Officer's report and, if appropriate are escalated to the Risk Committee and Board.

- **Risk reporting:** The Chief Risk Officer monitors risk metrics and reports on trends and emerging risks to the Risk Committee. The Risk Committee reviews this risk information on a regular basis and escalates risk matters to the Board as required. The Board also monitors key risk information through receipt of the Chief Risk Officer's Report.

2.5 Internal control framework

The Bank has in place an Internal Control Framework covering all key functions and processes. Internal controls are implemented to mitigate risks identified within each process to an acceptable level. The controls are operated by staff and management working in the first line of defence. All the Bank's key controls are documented in its Risk Register. In addition to these control activities the framework incorporates risk assessment, monitoring and communication stages to ensure that the Bank's controls are designed appropriately and operating effectively.

The Risk and Internal Audit functions undertake risk based programmes of work following agreement of such activity by the Risk and Audit Committees respectively. This includes an independent assessment of the effectiveness of internal controls with the results of this work being reported to the Audit Committee.

2.6 Alignment of Risk Appetite with Strategy

During 2018, the Board developed and approved its Strategic Plan for 2018 – 2022. This process included an assessment of the key strategic risks to which the Bank is exposed and the activities that act to mitigate these risks. This was achieved by ensuring that activities included within the Strategic Plan are aligned with the Bank's Risk Appetite for all risk categories.

This Strategic Plan included the delivery of a more sustainable business model for the Bank due to:

- The building of longer term, higher quality (secured) loan books providing added resilience to the business to withstand stress events
- Consideration of internal and external factors that may impact on the successful delivery of the Plan

The Board undertakes an annual review of the Strategic Plan to consider progress, ensure that the agreed activities remain appropriate and to identify any new initiatives or amendments required due to the internal and external environment. This includes the identification and mitigation of any new strategic risks.

2.7 Embeddedness of the Risk Management Framework

The Risk Committee periodically, but at least annually considers the embeddedness of the Bank's Risk Management Framework. This assessment includes consideration of matters from the first, second and third lines of defence.

The Society's internal audit function (the third line) specifically reviews elements of the Bank's Risk Management Framework and its embeddedness over its planning horizon (currently 3 years). The results of these reviews, initially reported to Audit Committee, also inform the Risk Committee assessment.

2.8 Management information

The Bank continuously assesses and looks to improve management information to assist Committees and Board in discharging their terms of reference and improving risk management.

As noted above, the ExCo and the ALCO monitor risks relating to their respective areas of responsibility. The Risk function monitors risk indicators, trends, external information and emerging risks and produces an independent analysis of risk within the Bank to the Risk Committee. The Risk Committee reviews this information on a quarterly basis.

3 Risk management policies and objectives

The Bank is primarily a retailer of financial products comprising unsecured personal loans, unsecured and secured commercial loans and asset finance deals, within its chosen markets and savings products which are offered to retail customers. It invests surplus liquidity with a range of market counterparties.

The Bank identifies, assesses and controls risks that arise through the above activities through the risk management framework described in section 2. Whilst the Bank's reputation and the management of reputational risk are fundamental to delivery of its strategy, the most significant risks to which the Bank is exposed are:

- commercial credit risk;
- retail credit risk;
- treasury credit risk;
- conduct risk;
- operational risk;
- strategic risk;
- interest rate risk (including basis risk); and
- concentration risk.

Details of each of these risks are set out below. The Bank is exposed to market risk through interest rate risk as described below however, it does not operate a trading book and all assets and liabilities are denominated in Sterling.

3.1 Commercial credit risk

Commercial credit risk is the risk of loss if a commercial borrower fails to make loan or other credit commitments as they fall due.

The Bank's Board have designed its Commercial credit risk appetite to minimise losses by targeting origination of a balanced portfolio of commercial loans that match the expertise and experience of its underwriters.

The Bank's Credit Committee is responsible for monitoring credit risk associated with commercial credit risk through reviewing:

- credit portfolio analysis reports
- arrears monitoring information
- forbearance and provisioning schedules
- concentration risk reports

Credit Committee reports into Executive Committee which receives reports relating to key decisions made at Credit Committee along with minutes and actions arising from this meeting.

Executive Committee also receives an independent view of each risk category from the Chief Risk Officer and has access to all Credit Committee papers on request.

The Bank has documented its principles for commercial lending and its detailed systems and controls for mitigating credit risk within its Credit Policy. These Systems and Controls include:

- the setting and monitoring of applicable limits on lending activity, including borrower and loan related metrics;
- the setting of underwriting criteria for each commercial market in which the Bank operates designed to ensure the creditworthiness of borrowers, the affordability of loan repayments and, where applicable, the adequacy of security;
- the majority of commercial lending by value is subject to manual credit assessment by underwriters who are experienced in commercial lending to the Bank's chosen markets. All loans are approved by staff with specific, documented underwriting mandates that are approved by the Board and documented within the Commercial Credit Policy;
- Where applicable, the use of appropriately qualified and experienced surveyors to ensure that the valuation of any security package is appropriate; and
- The pricing of all new commercial products using a model that incorporates an expected probability of default (PD) and loss given default (LGD) to ensure that the margin achieved by the Bank is commensurate with the risks involved.

The Bank has a separate Arrears and Provisioning policy covering the systems and controls relating to the processes used for dealing with arrears and forbearance. The Bank will use forbearance measures to help borrowers including the agreement of temporary payment concessions or a temporary transfer of the loan to interest only payments to reduce the borrowers' financial pressures. The Bank expects borrowers to resume normal payments once they are able.

Material changes to the Bank's Credit Policy or Arrears and Provisions Policy are submitted to its Risk Committee for consideration and recommendation to the Board for approval. Any minor changes to Policy that do not require Board approval are advised to Risk Committee to ensure that a series of minor changes does not result in a material change in overall risk appetite.

A detailed quantitative analysis of the Bank's commercial loan book is set out in section 6 of this report.

3.2 Retail credit risk

Retail credit risk is the risk of loss if a consumer fails to make loan or other credit commitments as they fall due.

The Bank's Board have designed its Retail credit risk appetite to minimise losses by targeting origination of a portfolio of unsecured personal loans within its chosen professional markets through statistically based lending decisions. When the automated lending decision results in a referral the loan is manually underwritten by a member of the Bank's underwriting team with expertise and experience in this market.

The Bank's Credit Committee is responsible for monitoring credit risk associated with retail credit risk through reviewing:

- credit portfolio analysis reports
- arrears monitoring information
- forbearance and provisioning schedules
- concentration risk reports.

Risk Committee also receives an independent view of each risk category from the Chief Risk Officer and has access to all Credit Committee papers on request.

The Bank has documented its principles for retail lending and its detailed systems and controls for mitigating credit risk within its Credit Policy. These Systems and Controls include:

- the setting and monitoring of applicable limits on lending activity, including borrower metrics e.g. minimum credit score and satisfaction of affordability metrics;
- all retail lending opportunities are credit scored with those that result in a refer decision being subject to additional manual credit assessment by underwriters who are experienced in such lending. All loans are approved by staff with specific, documented underwriting mandates that are approved by the Board and documented within the Credit Policy;
- The pricing of all new retail products using a model that incorporates an expected probability of default (PD) and loss given default (LGD) to ensure that the margin achieved by the Bank is commensurate with the risks involved.

The Bank has a separate Arrears and Provisioning policy covering the systems and controls relating to the processes used for dealing with arrears and forbearance. The Bank will use forbearance measures to help borrowers including the agreement of temporary payment concessions or a temporary transfer of the loan to interest only payments to reduce the borrowers' financial pressures. The Bank expects borrowers to resume normal payments once they are able.

The Bank has a documented vulnerable customer policy in place and training on the use of this policy has been provided to all customer facing members of staff.

Material changes to the Bank's Credit Policy or Arrears and Provisions Policy are submitted to its Risk Committee for consideration and recommendation to the Board for approval. Any minor changes to Policy that do not require Board approval are advised to Risk Committee to ensure that a series of minor changes does not result in a material change in overall risk appetite.

A detailed quantitative analysis of the Bank's retail loan book is set out in section 6 of this report.

3.3 Treasury credit risk

Treasury credit risk is the risk of loss if a treasury counterparty fails to make timely repayment of a loan or other credit commitment.

The Board has set the Bank's credit risk appetite for liquid assets by defining within the Financial Risk Management Policy the financial instruments that can be used. The Board also approve, at least annually, an approved counterparty listing which details the maximum exposure to each counterparty that the Bank can hold.

Daily the Bank's finance department monitors the actual counterparty exposures against the limits reporting the same to ALCO monthly. New counterparties or changes to existing counterparty limits are approved by the Board.

ALCO reports into the Executive Committee with the Board also receiving the minutes and key decisions made at ALCO. All Board members have access to all ALCO papers on request. An independent review of each risk category is provided to Risk Committee by the Bank's Chief Risk Officer.

3.4 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, the actions of people, the Bank's IT systems and fraud or other financial crime.

The Board has set a risk appetite for each category of operational risk and has defined policies and procedures for all key internal processes. The ExCo is the Bank's principal monitoring forum for operational risk. Through the review of management information, and reports or other explanations received from management and staff, the ExCo ensures that appropriate actions are taken and internal controls implemented or enhanced across the business to manage operational risk within the stated risk appetite.

Two key areas of operational risk are detailed below:

3.4.1 People risk

The most important asset of the Bank is its people. The Board aims to have sufficient people resources of the right calibre to meet business needs and to ensure risks are appropriately managed.

To mitigate these people risks the Bank has in place succession plans for its key personnel, undertakes resource planning, identifies professional development opportunities for staff and supports these with training, and rewards staff at market tested rates.

3.4.2 Cyber risk

Cyber security has, and continues to be an area of focus for the Bank. The Bank has implemented controls to mitigate cyber related risks including anti-virus software, real time email and internet filtering, regular back-ups, physical and logical access controls, internal segregation of duties, and internal and external firewalls with appropriate monitoring systems. Regular internal and external penetration testing is carried out by third parties to identify areas for improvement.

Given the importance of cyber risk, the Bank will continue to invest in appropriate controls, resource and systems capability to ensure it always takes appropriate and proportionate steps to protect the integrity of its operations.

The Bank's minimum (Pillar 1) capital for operational risk at 31 December 2018 was £0.8m.

3.5 Conduct risk

Conduct risk is the risk of loss arising through interaction with the customer throughout the product lifecycle that causes some form of customer detriment.

The Bank's aim in relation to all conduct matters is to ensure that good customer outcomes arise from all customer interactions and avoiding customer detriment. Where this does not occur, the Bank will endeavour to rectify the outcome as appropriate.

The Bank's Conduct Risk Policy sets out the high-level values and behaviours that staff are expected to demonstrate in all their dealings with consumers and the metrics that are monitored, which may indicate customer detriment, to ensure that appropriate and timely actions can be taken.

As with operational risk, ExCo is the principal forum for monitoring conduct risk, ensuring that there are adequate controls implemented and that these are operating effectively in managing conduct risk and delivering good customer outcomes.

3.6 Strategic risk

Strategic risk (or business risk) is the risk of loss or a reduction in profitability due to failure in achieving business objectives.

The Bank's Strategic Plan, approved by the Board, sets out the Bank's key strategic objectives and how the key risks to delivering those objectives will be managed. The Bank manages this risk by ensuring that it offers a diverse range of products and services, setting of detailed departmental plans and the monitoring of actual performance against plan by the Board. The Board and its sub-committees mitigate strategic risk through:

- Approval of the Bank's Strategic Plan by the Board
- Monitoring performed by the Risk Committee to ensure all key business risks are identified, assessed and monitored;
- Approval of the Bank's annual budget, including assumptions on new business volumes, margins, impairments and other income and expenditure. Key sensitivities to the achievement of the plan are also included and monitored on an ongoing basis;
- Approval of the Board for material new business initiatives including acquisition activity following a rigorous assessment of the risks involved;
- New products or amendments to existing products are agreed by ExCo and reported to the Board;
- Review by the Board of financial and other reports and commentary, including key risk indicators and other economic data;
- Monitoring of financial markets and competitors by ALCO; and
- Review and approval of all key policies and changes to existing policies as necessary by the Board.

At management level, ALCO, ExCo and Credit Committee each monitor specific areas of business risk. Risk Committee receives an independent assessment of each risk category from the Bank's Chief Risk Officer and has access to all supporting committee papers on request.

3.7 Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its liabilities as they fall due.

The Bank's policy is to hold a significant amount of its total assets in the form of readily realisable assets to:

- Maintain liquid resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due in both business-as-usual and stressed scenarios;
- Smooth out the effect of maturity mismatches between assets and liabilities; and
- Maintain the highest level of confidence in the Bank.

The Bank's risk appetite, policies, systems and controls relating to the management of liquidity risk are set out in the Financial Risk Management Policy which is approved by the Board and reviewed at least annual to ensure that it remains appropriate and adequate.

The key aspects of the control framework to mitigate liquidity risk are as follows:

- The Internal Liquidity Adequacy Assessment Process (ILAAP) determines the quality and quantity of liquid assets that the Bank is required to hold to achieve its policy objectives set out above. The ILAAP incorporates severe stress testing linked with the Board's formal assessment of the liquidity risks to which the Bank is exposed. The ILAAP is reviewed by the Risk Committee and approved by the Bank Board on an annual basis
- The holding of a high-quality Liquid Assets Buffer, the size of which is determined by the ILAAP. In accordance with the PRA ILAA Rulebook, and to meet the Bank's Policy, the Bank holds a Liquid Assets Buffer of high quality, unencumbered liquid assets. Assets meeting the requirements of the Liquid Asset Buffer include UK Government Treasury Bills and Gilts, and supranational debt securities
- The setting and regular monitoring of applicable liquidity limits, including those covering the amount, type and maturity of liquid assets held;
- The monitoring of both short-term and long-term liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio and ensure that these are maintained above minimum levels;
- Segregated treasury front and back offices. The front office is responsible for executing treasury related transactions. The Bank's liquidity position against all key liquidity limits is calculated and monitored daily by the Bank's Finance department;
- Monthly liquidity stress testing, to ensure that the level of the Liquid Assets Buffer and total overall liquidity are sufficient to meet anticipated liabilities under severe but plausible stressed market conditions; and
- A Contingency Funding Plan is maintained that sets out the governance processes and actions that would be taken in the event the Bank experienced a liquidity stress event. The plan includes a range of options that could be undertaken dependent on the nature and severity of the event.

The ALCO monitors management information relating to liquidity risk monthly which includes:

- The Bank's Compliance with limits detailed in the Financial Risk Management Policy (including liquidity and funding limits)
- Liquidity stress testing results
- Liquid asset buffer composition
- Cash flow forecasts
- The maturity profile of maturing liquid asset investments
- Intra-group borrowing requirements

ALCO reports to the Executive Committee, which receives reports relating to key decisions made at ALCO, an independent view of each risk category from the Chief Risk Officer and has access to all ACLO papers on request. There is an open invitation for any Bank Non-Executive Director to attend any ALCO meeting.

3.8 Interest rate risk

Interest rate risk is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to:

- Mismatches between the dates on which interest receivable on assets and interest payable on liabilities are rest to market rates (re-pricing or mismatch risk); and
- The re-pricing of assets and liabilities according to different interest bases (basis risk)

3.8.1 Re-pricing date mismatch risk

This risk arises from mismatches of the re-pricing or maturity of assets and liabilities as interest rates change, with the main cause being the imperfect matching of fixed rate personal and commercial loans and savings products. While the Bank matches fixed rate assets and liabilities where possible, it is not possible to achieve exact matches due to the need to estimate initial demand and early repayment of such products.

To manage interest rate risk an interest rate gap report is prepared monthly showing how assets and liabilities re-price or mature over time. The Bank's ALCO monitors historic gap analysis and stress tests which assess the impact of a shift in interest rates as a percentage of capital monthly in order that actions can be taken to manage this risk.

The Board has set the risk appetite for exposure to this risk as "the overall impact of a 2% shift in rates on the economic value of the Bank must not be greater than 5% of total available capital resources".

The Bank's structural interest rate risk profile is currently such that a decrease in interest rates results in a decrease in earnings, while an increase in rates improves financial performance. The impact of a 2% increase in interest rates on the Bank's economic value at 31 December 2018 was a decrease of £0.2m, representing 0.5% of total capital resources of £36.9m (see section 4).

3.8.2 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 linked to different interest rate types including:

- Bank of England base rate (BBR) – BBR tracker commercial and partnership equity loans and borrowing from the Society which pays a fixed margin over BBR;

- LIBOR – from time to time the Bank may hold supranational debt instruments as part of its high-quality liquid asset buffer. These have an interest rate that is a fixed margin either above or below 3-month LIBOR;
- Fixed rates – fixed rate gilts, treasury bills, personal and commercial loans and savings products
- Managed rates – c£50m of the Bank's deposit accounts are on managed (or administered) rates i.e. a rate that is set at the discretion of the Bank.

For the Bank basis risk primarily arises from using managed rate deposits to fund fixed rate loans and accordingly the Board has set its risk appetite to manage this exposure. Specifically, the impact of a 1% increase in managed rate deposits cannot be more than £1m (as at 31 December 2018 the actual impact of this basis risk stress test was £0.5m).

This metric is prepared monthly and is reviewed by ALCO to ensure that the limit is adhered to. New products and treasury activities are assessed by ALCO considering their impact on the Bank's net basis risk exposures.

3.9 Concentration risk

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

The Board has set limits for its maximum exposure to an individual or group of connected counterparties. These concentrations are reviewed monthly by the Bank's Credit Committee.

4 Capital resources and Adequacy

As at 31 December 2018 the Bank's capital resources were as follows:

Tier 1 capital (all Common Equity Tier 1 capital)	**31 December 2018 £m's**
Issued Ordinary Share Capital	57.9
Profit & Loss account	(20.8)
Deductions from core equity tier 1 capital	(0.6)
Core Equity Tier one capital (CET1)	**36.5**
Tier two capital	0.4
Total Capital after deductions	**36.9**

4.1 Assessment process

The Bank has adopted the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk since 1 January 2008 to calculate the Bank's minimum Pillar 1 capital requirement.

In addition to the risks covered under Pillar 1 (credit, market and operational risks), all other material risks to which the Bank is exposed were assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared covering a five-year period incorporating all current and planned strategic projects, products and services, enabling the Board to assess the levels of capital required to support both current and planned future activities.

The ICAAP is undertaken at least annually and more frequently if required due to material changes in the Bank's plans, forecasts or risk profile. The results of the ICAAP indicate the minimum capital required by the Bank. The results are documented and approved by the Board and are also periodically assessed by the PRA as part of their supervisory review of the Bank.

The ICAAP is integrated into normal business activities. The impact on capital requirements of new or changed processes, products and services are assessed for any impact they may have on the Bank's capital requirements. Strategic decisions are made following an assessment of their impact on capital and in ensuring that adequate capital is always maintained. The cost of holding an appropriate level of capital is considered when determining new or re-pricing existing products.

Capital adequacy is monitored against the minimum capital requirements by ALCO, with oversight of this monitoring performed by the Bank's Risk Committee.

4.2 Pillar 1 capital requirement

The Bank has adopted the Standardised Approach for credit risk to calculate its minimum capital requirement. Under this approach the level of capital required to be held against a given level of exposure to credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting x 8%

Risk weightings for each exposure class are provided by the EBA via CRDIV. Retail and commercial asset risk weightings considering arrears and impairment provision levels. Wholesale liquid asset risk weightings are dependent on the counterparty credit weighting and the duration of deposit held.

The Bank has adopted the Basic Indicator Approach to operational risk to calculate its minimum capital requirement. Under this approach the level of capital required is set at 15% of the Bank's average net income over the previous three years.

The resulting Pillar 1 capital requirement is shown in the following table, analysed into its credit risk and operational risk components. For credit risk, the table shows the gross credit risk exposure at 31 December 2018, the average credit risk exposure for the year ended 31 December 2018 and the minimum credit risk capital requirement at 31 December 2018 by exposure class.

Exposure class	**Gross credit risk exposure 31-Dec-18 £m**	**Average credit risk exposure Year ended 31-Dec-18 £m**	**Risk weighted assets 31-Dec-18 £m**	**Capital requirement 31-Dec-18 £m**
Central governments or central banks	22.2	41.4	-	-
Institutions	37.6	27.1	7.5	0.6
Liquid assets	**59.8**	**68.5**	**7.5**	**0.6**
Corporates	159.6	131.4	133.6	10.7
Intra-group exposures	2.0	2.8	2.0	0.2
Secured by mortgages on immovable property				-
Retail	19.8	24.1	14.9	1.2
Exposures in default	2.9	3.9	3.2	0.3
Loan assets	**184.3**	**162.2**	**153.7**	**12.3**
Investment in subsidiary	0.5	11.0	1.3	0.1
Off-balance sheet commitments - retail	-	-	-	-
Off-balance sheet commitments - coporate	11.8	11.8	4.5	0.4
Other assets	16.1	3.8	16.5	1.3
Total: Credit risk	**272.5**	**257.3**	**183.4**	**14.7**
Total: Operational risk				**0.8**
Total Pillar 1 capital requirement				**15.5**
Total capital resources (section 4)				**36.9**
Surplus of capital resources over Pillar 1 capital requirement				**21.4**

Notes:

- Loans are classified as past due if they are 90 or more days in arrears
- Off-balance sheet commitments relate to loan offers to borrowers that have yet to drawdown

The difference between total gross credit risk exposures shown above of £272.5m and total assets per the Bank's Statutory Accounts of £260.8m for the year ended 31 December 2018 is shown below.

Reconciliation of Gross Credit Risk Exposure to Total Assets per Balance Sheet	**31-Dec-18 £m**
Total gross credit risk exposures (as shown in table above)	272.5
Less: off-balance sheet commitments	(11.8)
Add: amounts deducted from exposure value for investment in subsidiary	0.0
Total assets per statutory balance sheet	**260.8**

4.3 Capital and Leverage ratios

At 31 December 2018 the Bank's Individual Capital Guidance set by the Prudential Regulation Authority was £25.6m (13.18% of its total risk weighted exposures) with £15.5m relating to Pillar 1 (8.00% of total risk weighted exposures, as shown in section 5.2) and £10.1m relating to Pillar 2A (5.18% of total risk weighted exposures). Regulatory capital held by the Bank at 31 December 2018 was £36.9m, representing 20.1% of the total risk weighted exposures and well in excess of the minimum Individual Capital Guidance.

Further details of the Bank's capital and leverage ratios at 31 December 2018 are shown below, along with minimum requirements for the quality of regulatory capital set out in the Capital Requirements Regulations.

Capital ratios	Regulatory Minimum %	**31-Dec-18 %**
Core Equity Tier 1 (CET1) capital ratio (CET1 capital resources as % of total risk weighted exposures)	4.5	**18.8%**
Tier 1 capital ratio (Tier 1 capital resources as % of total risk weighted exposures)	6.0	**18.8%**
Total capital ratio (Total capital resources as % of total risk weighted exposures)	8.0	**19.0%**

Leverage ratio	Regulatory Minimum %	**31-Dec-18 %**
Total Tier 1 capital		**36.5**
Exposures		
Balance sheet exposures		260.7
Off balance sheet commitments		11.8
On and off balance sheet exposures		272.5
Leverage ratio	3%	**13.4%**

5 Credit risk reporting

As at 31 December 2018 all the Bank's credit risk exposures were in the United Kingdom.

The residual maturity of the exposures at 31 December 2018 was as follows:

Exposure class	Less than 3 months £m	3 months - 1 year £m	1 - 5 years £m	More than 5 years £m	Total £m
Central governments & central banks	10.5	11.7	-	-	22.2
Institutions	37.6	-	-	-	37.6
Corporates	10.6	26.6	46.8	77.7	161.6
Retail	4.7	4.1	8.9	2.2	19.8
Exposures in default	1.2	0.4	1.3	0.0	2.9
Total	**64.6**	**42.7**	**57.0**	**79.8**	**244.1**

5.1 Liquid assets

The primary source for obtaining information on the creditworthiness of institutions is Fitch, an external credit assessment agency. Fitch ratings are applied to the Bank's liquid asset exposures to determine their risk weighted value for capital adequacy purposes, in accordance with the Standardised Approach using credit quality steps as set out in the EU Capital Requirements Regulations.

The credit ratings of liquid asset exposures at 31 December 2018 were as follows:

Credit quality step	Risk weighting	Fitch rating	Exposure value £m
1	0% / 20%	AAA to AA-	22.2
2	20% / 50%	A+ to A-	37.6
3	20% / 50%	BBB+ to BBB-	-
4	50% / 100%	BB+ to BB-	-
Unrated	20%	N/A	-
Total			**59.8**

5.2 Impairment provisions

At each balance sheet date, the Bank assesses whether there is objective evidence that assets are impaired. Assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

Objective evidence that assets are impaired includes default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to the asset such as adverse changes in the payment status of counterparties.

The Bank uses analysis of historical trends to identify the probability of default and the amount of loss likely to be incurred which may be adjusted for management's judgement as to whether economic conditions are such that actual losses are likely to be greater or less than those suggested by historical analysis. Default and loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Specific impairment provisions are made against those assets that are impaired and are recorded as the amount needed to reduce the book value of the asset to their expected realisable value. Collective impairment provisions are made to cover losses which, although not yet specifically identified, are anticipated from experience to exist within the Bank's portfolio of loans.

The following table details the past due exposures of the Bank at 31 December 2018.

	Liquid assets £m	**Corporate assets £m**	**Retail assets £m**	**Total £m**
Not impaired				
Neither past due nor impaired	59.8	154.3	22.1	236.2
Past due up to 3 months	-	2.8	-	2.8
Past due over 3 months	-	1.8	-	1.8
Impaired				
Not past due	-	-	-	-
Past due up to 3 months	-	0.2	0.9	1.1
Past due over 3 months	-	0.7	9.2	9.9
Total exposures	59.8	159.8	32.2	251.8

The amounts shown as past due represent the total amount of the outstanding exposure and not just the amount that is overdue.

The movement in impairment provisions for the year ended 31 December 2018 is as follows:

	Corporate assets £m	Retail assets £m	Total £m
Individual impairment provision			
Balance at 1 January 2018	0.7	5.8	6.5
Impairment charge for the year	0.7	1.1	1.8
Write-offs	(0.8)	(1.5)	(2.3)
Balance at 31 December 2018	0.6	5.4	6.0
Collective impairment charge			
Balance at 1 January 2018	0.1	0.1	0.2
Impairment charge / (release) for the year	0.1	0.1	0.2
Write-offs	0.0	-	0.0
Balance at 31 December 2018	0.2	0.2	0.4
Total impairment provision at 31 December 2018	0.8	5.6	6.4

6 Remuneration disclosures

6.1 Remuneration Policy and practices

Wesleyan Bank follows the PRA Remuneration Code and SYSC sections 19 A & 19D. This statement also sets out the disclosures required under the Code as they apply to Wesleyan. The financial services regulator issued its Supervisory Statement SS2/17 “Remuneration” (“the Code”) in April 2017, which set out their requirements in this regard. The Remuneration Code is set out in SYSC 19A and D of the FCA Handbook.

Wesleyan Bank qualifies as a Tier 3 firm under the Code. Part eight disclosure requirements include certain qualitative items and quantitative remuneration items.

The Society’s Remuneration Committee acts on behalf of the Bank Board with regards to Remuneration of the Bank’s Executive and Non-Executive Directors and Senior Management team.

The Committee’s objectives in setting remuneration policy are to ensure that:

- The Society (and Bank) attracts and retains directors and senior management possessing the skills and experience to lead the Society (and Bank) and develop it for the long-term advantage of members;
- Remuneration decisions are consistent with the Society’s (and Bank’s) strategic objectives, business strategy and risk appetite;
- Staff are provided with fair and reasonable reward for their contribution to the business; and
- The Society (and Bank) maintains a sustainable business model and a strong capital base.

In setting remuneration, the Committee considers salaries, fees and benefits offered for comparable positions within similar financial services organisations.

Non-Executive directors are remunerated solely by fees. They do not receive any salary, performance incentives or pension.

Remuneration of the Bank’s Chief Executive comprises a number of elements: a base salary, a discretionary bonus scheme, a long-term incentive plan, membership of a pension scheme and other benefits.

Remuneration of the Bank’s senior management team comprises the same components except for the long-term incentive plan.

The discretionary bonus scheme is in place to provide appropriate incentive for individuals to meet the objectives of the business.

The long-term incentive plan is in place to ensure that the remuneration package of the Bank’s Chief Executive reflects the long-term performance of the Society and members’ and other customers’ interests. Any pay-out under this element of remuneration will be subject to adjustment following an evaluation of risk, compliance or other concerns.

Further information on the role of the Society's Remuneration Committee in determining remuneration policy and practice is set out in the Directors Remuneration Policy section of the Society's Annual Report and Accounts.

6.2 Remuneration Code Staff

The Code requires that banks identify senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile and designate them as "Code Staff".

The Board has determined that for the year ended 31 December 2018, 4 Non-Executive Directors, 3 Executive Directors (including 1 that held office for part of the year) and 4 other members of senior management, including those involved in controlled functions, are designated as being subject to the Remuneration Code, as set out in SYSC Chapter 19A. The Board considers those staff, referred to as Remuneration Code Staff, are those whose professional activities have a material impact on the Bank's risk profile.

6.3 Remuneration Paid

Aggregate information on the remuneration of Code Staff for the year end 31 December 2018 is provided below.

Category	Number	Fixed Remuneration (£)	Variable Remuneration (£)	Total Remuneration (£)
Non-Executive Directors	4	102,060	0	102,060
Material Risk Takers (including Executive Directors)	7	1,356,903	150,693	1,507,597
Total	**11**	**1,458,963**	**150,693**	**1,609,657**

The Bank has in place a discretionary bonus scheme and whether any awards will be payable will be linked to whether the Bank has met its overall business objectives and on affordability based on the end of year financial results. Bonus awards under the schemes qualify as "variable remuneration" as defined in the Code. The Bank's performance year runs from 1 January to 31 December. This bonus scheme is in place to reward staff for performance during the current performance year. The purpose of the scheme is to recognise and reward staff for their individual contribution towards the Bank achieving its business objectives.

At the beginning of each performance year, objectives are agreed for each individual based on the Bank's corporate objectives and how these link to their specific job role. Performance towards the achievement of these objectives is reviewed periodically throughout the performance year as part of the Bank's performance management process and at the end of the year an assessment is made of each individual's overall performance against the objectives agreed. Whether any awards will be payable at the end of the performance year will depend on whether the Bank has met its overall business objectives and on the end of year financial results. Any awards that are payable to individuals will be paid as a one-off cash payment where the Code permits. Bonus payments may be deferred and are subject to claw back. The amount of any such awards will depend on each employee's overall performance. Guaranteed bonuses are not offered as part of Wesleyan Bank's current performance award arrangements.

Variable remuneration shown above was earned in 2018 and will be paid in 2019. No Code staff had either variable or total remuneration in excess of €1,000,000.

7 Governance

Additional disclosures required under CRD IV in relation to governance arrangements are presented in this section.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2018, in addition to their roles within the Bank, are detailed below.

Directorships held by members of the Board

Name	Position	Directorships
M Bryant	Chairman	2
W Gray	Non-Executive Director	3
C Tucker	Non-Executive Director	0
J Brettell	Non-Executive Director	4
S Deutsch[1]	Executive Director	-
L O' Loingsigh[2]	Executive Director	-

The number of Directorships shown excludes the Company and its subsidiaries, and also counts external Directorships held within the same group of companies as a single Directorship in line with CRD IV. Directorships of non-commercial organisations are not included. [1]Steve Deutsch stood down as an Executive Director of the Bank on 31 December 2018 and was replaced by Andrew D'Arcy from 1 January 2019. 2L O'Loingsish stood down as an Executive Director of the Bank on 28 February 2018

7.1 Board recruitment

7.1.1 Appointment of Executive Directors

A new Executive Director would be recruited on terms in accordance with the approved Directors' Remuneration Policy (the "Remuneration Policy") at that time. The Bank's Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the Bank. With this in mind, the starting point for the Remuneration Committee (RemCom) in setting a remuneration package for a new Executive Director will be to structure a package in accordance with the Remuneration Policy, based on the individual's knowledge and experience.

Remcom recognises that, when recruiting externally in particular, it may be necessary to compensate an individual to ensure that they are remunerated effectively. The areas where Remcom may exercise its discretion in order to achieve this are set out in the Remuneration Policy. This may arise in particular in relation to bonus and incentive plans given that variable performance-related pay is widely used in the financial services industry to incentivise senior management.

7.1.2 Appointment of Non-Executive Directors

A new Non-Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time. The Board has delegated specific powers and authority to the Society's Nominations Committee to lead the appointments process for nominations to fill Board vacancies, but with specific input from Board members, in particular the Chair. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Bank is to establish its own Nominations Committee in 2019.

The Nominations Committee also formulates succession plans for the Chair, Non-Executive Directors, and the senior Executives. Before an appointment is made by the Board, the Nominations Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates,

Nominations Committee will:

- engage an executive search firm that is a signatory to the Executive Search Firms' Voluntary Code of Conduct on gender diversity and best practice;
- provide a search brief that places emphasis on diversity of skills and background and considers candidate from a wider pool;

- engage a search firm to help develop 'long lists' which include a diverse range of candidates of appropriate merit;
- assisting the development of a pipeline of high-calibre candidates by encouraging a diverse range of high performing senior individuals within the business to take on activities to gain board experience.

Responsibility for determining the individual remuneration and benefits package of each of the Bank's Executive Directors and the Chair lies with the Remcom.

The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

7.2 Board diversity

The Wesleyan Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense.

We recognise that in addition to skills and experience; race, age, gender, educational and professional background and other relevant personal attributes are important in providing a range of perspectives and the insights and challenge needed to support good decision making and integral to achieving our strategic objectives.

The Society's Nomination Committee regularly reviews and assesses Board composition on behalf of the Board and recommends appointments of new Board and Executive level positions as and when they arise.

The Board oversees the regular evaluation of performance and effectiveness of the Board which will consider the balance of skills, experience, independence and knowledge of the Board and its diverse composition.

An Inclusion and Diversity Policy is in place to support and promote diversity across all levels within the Society. This, with the combined authority of our Inclusion and Diversity Steering Committee and networks, underpin and set out our progressive approach to promoting diversity throughout the Society.

The Bank actively considers diversity when attracting talented individuals, particularly at the most senior management and leadership levels.

Wesleyan as a whole focuses on greater female representation within our Senior Management population which includes our Executive and Board, and the signing of the Women in Finance Charter, demonstrates our commitment to seeing change in this area.

The Society overall has set a gender target of achieving 33% representation in our senior management population, which includes our Executive Board, by 2023. Success will be determined by a number of initiatives we are developing that will focus on attraction, development, promotion and retention strategies.

8. Conclusion

This Pillar 3 disclosures document has been prepared in accordance with the requirements of the PRA, as appropriate to the size and complexity of the Wesleyan Bank.

If a user of this disclosures document requires further information, an application should be made in writing to Company Secretary, Wesleyan Bank Limited, Colmore Circus, Birmingham, B4 6AE.

Country by Country Reporting

In common with other banks and building societies in the UK, Wesleyan Bank is subject to the requirements of Article 89 of the capital Requirements Directive 4 (CRD4) relating to country-by-country reporting. Specifically, the regulations require each institution to publish information annually on a consolidated basis, by country where they have an establishment.

The following information meets the requirements of CRD4 Article 89 for Wesleyan Bank Limited.

Year end:	31/12/2018
Nature of activities:	Retail and commercial banking
Geographic location:	United Kingdom
Number of employees:	117
Turnover (£000s):	5,009
Loss before tax (£000s):	(10,295)
Tax credit on loss (£000s):	946

Annex I

EBA Own Funds disclosure template

Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013

		2018 (£m)	2017 (£m)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	57.9	44.9	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Paid up capital	57.9	44.9	EBA list 26 (3)
	of which: Share premium	-	-	EBA list 26 (3)
2	Retained earnings	(20.8)	(10.8)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-	-	26 (1)
6	***Common Equity Tier 1 (CET1) capital before regulatory adjustments***	37.1	34.1	

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	(0.6)	-	36 (1) (b), 37, 472 (4)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 472 (5)
23	direct and indirect holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities	-	(8.6)	
28	***Total regulatory adjustments to Common Equity Tier 1 (CET1)***	(0.6)	(8.6)	
29	***Common Equity Tier 1 (CET1) capital***	36.5	25.5	
45	***Tier 1 capital (T1 = CET1 + AT1)***	36.5	25.5	

Tier 2 (T2) capital: instruments and provisions				
50	Credit risk adjustments	0.4	0.3	62 (c) & (d)
51	***Tier 2 (T2) capital before regulatory adjustment***	0.4	0.3	

Tier 2 (T2) capital: instruments and provisions				
58	***Tier 2 (T2) capital***	0.4	0.3	
59	***Total capital (TC = T1 + T2)***	36.9	25.8	
60	***Total risk-weighted assets***	194.1	120.6	

Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.8	21.1	92 (2) (a), 465

62	Tier 1 (as a percentage of total risk exposure amount)	18.8	21.1	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	19.0	21.4	92 (2) (c)
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.6	7.9	CRD 128

Applicable caps on the inclusion of provisions in Tier 2 (T2)				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0.4	0.3	62

Annex II

Leverage Ratio – Disclosure Template
Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2018

		2018 (£m)	2017 (£m)
LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, applicable amounts			
1	Total assets as per published financial statements	260.8	202.3
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	11.8	2.3
7	Other adjustments	-	-
8	Total leverage ratio exposure	272.6	204.6

LRCom: Leverage ratio common disclosure, CRR leverage ratio exposures			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	260.8	202.3
2	(Asset amounts deducted in determining Tier 1 capital)	(0.6)	(8.6)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	260.2	193.7
17	Off-balance sheet exposures at gross notional amount	11.8	2.3
18	(Adjustments for conversion to credit equivalent amounts)	(7.3)	(0.9)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	4.5	1.4
20	Tier 1 capital	36.5	25.5
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	264.7	195.1
22	Leverage ratio	13.8%	13.1%

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures), CRR leverage ratio exposures			
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	260.8	202.3
EU-3	Banking book exposures, of which:	260.8	202.3
EU-5	Exposures treated as sovereigns	22.2	35.4
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	37.6	18.9
EU-8	Secured by mortgages of immovable properties	-	-
EU-10	Corporate	161.6	98.2
EU-11	Exposures in default	2.9	7.8
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	36.5	42.0

Annex III

Disclosure on asset encumbrance as at 31 December 2018

Template A-Assets (£m)				
	Carrying amount of encumbered assets	Fair value of encumbered asset	Carrying amount of Unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	36.4		148.7	
Equity instruments	-	-	-	-
Asset securities	16.5	16.5	5.7	5.7
Treasury placement and cash advances to banks, repayable on demand	-	-	37.6	37.6
Financing Assets	52.9		192.0	
Other assets	-		15.9	