Hampden & Co.
BANKERS

2022

Pillar 3 Disclosures

For the year ended 31 December 2022

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For more information on Hampden & Co, please visit our website at **hampdenandco.com/investors**

1 Overview

1.1 Introduction

Hampden & Co's (the Bank) purpose is to help high-net-worth clients, their families and associated businesses to achieve their aspirations by providing an exceptional banking service that is personalised to their needs, delivered by experts and enhanced by digital capabilities.

The Bank offers day-to-day banking services, deposits and lending. For current accounts and deposits, the Bank's niche is in offering a high-service, high-convenience proposition superior to that of alternative banks, at a competitive price level. For lending, it is in being able, in terms both of time and skills, to understand and underwrite lending business too complex to fit with the business models of the high street banks and many of the more established private banks, again at a competitive price.

1.2 Background

The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and PRA (Financial Services Register number 606934).

This document has been prepared in accordance with the Disclosure (Capital Requirements Regulation (CRR)) part of the PRA Rulebook, which includes revised disclosure requirements following the UK's implementation of CRR II, applicable from 1 January 2022. These changes incorporate varying levels of disclosure, tailored to the size and type of firm, with simpler requirements for smaller and non-listed institutions.

The Pillar 3 disclosure requirements set out in the Disclosure (CRR) part of the PRA Rulebook aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and to encourage market discipline through expanded disclosures that enable investors and market participants to understand a firm's capital resources, key risk exposures and risk management processes.

1.3 Scope of disclosure

The disclosures contained within this document are for the single legal entity Hampden & Co plc (company registration number SC386922) for the year ended 31 December 2022.

This Pillar 3 report provides additional information over and above that contained in the Bank's Annual Report and Financial Statements for the year ended 31 December 2022 (the Financial Statements). It should be read in conjunction with the Financial Statements.

1.4 Disclosure policy

Pillar 3 disclosures are issued annually in accordance with the frequency requirements of the PRA Rulebook. They are published on the Bank's website (www.hampdenandco.com/investors) as soon as is practical after the publication of the Bank's Financial Statements.

The Bank is a non-listed 'other institution' and is subject to proportional disclosure requirements in accordance with Article 433(c) of the CRR. As such the Pillar 3 disclosures comprise the following items as required by the Disclosure (CRR) part of the PRA Rulebook:

- **Disclosure of Key Metrics:** Article 447;
- **Risk Management Objectives and Policies:** points (a), (e) and (f) of Article 435(1) and points (a), (b) and (c) of Article 435(2);
- **Disclosure of Own Funds:** point (a) of Article 437;
- **Disclosure of Own Funds Requirements and Risk Weighted Exposure Amounts:** points (c) and (d) of Article 438; and
- **Remuneration Policy:** points (a) to (d) and (h) to (k) of Article 450(1).

Disclosures are presented using the prescribed disclosure templates in the PRA Rulebook.

The Bank's Pillar 3 disclosures are subject to internal review procedures. They are not subject to external audit, although some of the information presented also appears in the Bank's Financial Statements which are subject to external audit.

These Pillar 3 disclosures were reviewed and approved by the Bank's Board of Directors (the Board) on 23 June 2023.

1.5 Attestation

The Bank's Chief Financial Officer attests that the Bank has made the Pillar 3 disclosures required by the Disclosure (CRR) part of the PRA Rulebook in accordance with the Disclosure Policy, as above, and the Bank's internal processes, systems and controls.

1.6 Regulatory developments

Basel 3.1

CP16/22*: Implementation of the Basel 3.1 standards* was published by the PRA in November 2022. It covers the UK's implementation of the remaining Basel 3.1 standards and proposes a revised standardised approach for credit risk, which is the approach used by the Bank. The revised standardised approach would apply from 1 January 2025 and incorporates significant changes to the calculation of risk weighted assets.

Strong and simple

The PRA is also consulting on a new 'strong and simple' regime, the aim of which is to simplify the prudential reporting framework for small, domestic banks and building societies, while maintaining their resilience and reducing barriers to growth.

The development of the simpler-regime is split into two phases:

- Phase 1 considers the liquidity and disclosure requirements for simpler-regime firms. CP4/23*: The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms* was published in February 2023 and the PRA has proposed an implementation during H2 2024.
- Phase 2 will focus on the capital framework and the PRA intends to consult on this in H1 2024. The PRA is making the planning assumption that the Basel 3.1 Pillar 1 approach to credit risk would be the starting point for designing the simpler-regime risk-based capital framework.

Within CP16/22*: Implementation of the Basel 3.1 standards* the PRA sets out a proposal that firms that meet the simpler-regime criteria would not have to apply the proposed implementation of the Basel 3.1 standards. Instead, the PRA proposes that these firms could choose to enter a transitional regime based on current CRR provisions (the 'Transitional Capital Regime') during the interim period between the proposed implementation date for the Basel 3.1 standards and the future implementation date for a permanent risk-based capital regime for simpler-regime firms. As such, simpler-regime firms would not be required to implement Basel 3.1 on 1 January 2025 but could instead remain on rules substantially the same as the current CRR on a temporary basis until the simpler-regime framework is finalised. The PRA has also proposed that simpler-regime firms would be able to choose to be subject, without delay, to the proposed implementation of the Basel 3.1 standards should they prefer to do so.

The Bank continues to monitor regulatory developments to ensure that it continues to meet all regulatory requirements.

2 Key metrics

The following table (UK KM1), provides a summary of the Bank's main prudential regulatory ratios and measures, disclosed in accordance with points (a) to (g) of Article 447 of the Disclosure (CRR) part of the PRA Rulebook. Point (h) of Article 447 requires the reporting of own funds and eligible liabilities ratios as calculated in accordance with CRR Articles 92a and 92b and broken down at the level of each resolution group, where applicable. Both these CRR Articles only apply to G-SIIs and so are not applicable to the Bank.

The ratios are reviewed on at least a monthly basis to ensure that external requirements are adhered to. During 2022 and 2021 the Bank complied with all its capital and liquidity requirements.

		a	e
		Dec-22	**Dec-21**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital (£'000)	65,731	55,264
2	Tier 1 capital (£'000)	65,731	55,264
3	Total capital (£'000)	65,731	55,264
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount (£'000)	316,422	285,422
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	20.77%	19.36%
6	Tier 1 ratio (%)	20.77%	19.36%
7	Total capital ratio (%)	20.77%	19.36%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	2.26%	2.51%
UK 7b	Additional AT1 SREP requirements (%)	0.76%	0.84%
UK 7c	Additional T2 SREP requirements (%)	1.00%	1.11%
UK 7d	Total SREP own funds requirements (%)	12.02%	12.46%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	–	–
9	Institution specific countercyclical capital buffer (%)	0.98%	0.00%
UK 9a	Systemic risk buffer (%)	–	–
10	Global Systemically Important Institution buffer (%)	–	–
UK 10a	Other Systemically Important Institution buffer	–	–
11	Combined buffer requirement (%)	3.48%	2.50%
UK 11a	Overall capital requirements (%)	15.50%	14.96%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.75%	10.01%

		a	e
		Dec-22	**Dec-21**
	Leverage ratio [1]		
13	Total exposure measure excluding claims on central banks (£'000)	753,996	N/A
14	Leverage ratio excluding claims on central banks (%)	8.72%	N/A
	Additional leverage ratio disclosure requirements[2]		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	N/A	N/A
14b	Leverage ratio including claims on central banks (%)	N/A	N/A
14c	Average leverage ratio excluding claims on central banks (%)	N/A	N/A
14d	Average leverage ratio including claims on central banks (%)	N/A	N/A
14e	Countercyclical leverage ratio buffer (%)	N/A	N/A
	Liquidity Coverage Ratio[3]		
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£'000)	214,700	166,719
UK 16a	Cash outflows - Total weighted value (£'000)	165,723	114,255
UK 16b	Cash inflows - Total weighted value (£'000)	64,805	43,120
16	Total net cash outflows (adjusted value) (£'000)	100,918	71,135
17	Liquidity coverage ratio (%)	213%	234%
	Net Stable Funding Ratio[4]		
18	Total available stable funding (£'000)	602,633	N/A
19	Total required stable funding (£'000)	324,684	N/A
20	NSFR ratio (%)	186%	N/A

[1] Leverage ratio rules which exclude claims on central banks were effective from 1 January 2022. Disclosure of data for previous periods is not required when data is disclosed for the first time.
[2] Only LREQ firms shall disclose values in rows UK KM1:14a to UK KM1:14e.
[3] The LCR balances are calculated as the simple averages of month end positions over the 12 months preceding the end of the reporting period.
[4] The NSFR ratio is calculated as an average of the preceding four quarters reflecting PRA requirements effective 1 January 2022. Disclosure of data for previous periods is not required when data is disclosed for the first time.

3 Risk management objectives and policies

3.1 Risk statement

Ultimate responsibility for governance and risk management rests with the Board.

The Bank's risk strategy is to operate within its risk capacity by maintaining a cautious approach to risk-taking in line with the traditional nature of UK private banking in order to build long term shareholder value.

The risk strategy recognises that:

- the Bank reported its first full year of profit for 2022 and, with its ability to generate internal capital now proven, the risk of relying on investors to raise additional capital to fund planned growth has been significantly reduced;
- developing the Bank's client acquisition capabilities and appeal through excellent client service and fair outcomes are essential to the Bank's success; and
- in terms of financial soundness and reputation, it is paramount that the Bank is operationally resilient, compliant and sustainable throughout economic cycles and other severe stresses with limited profit/loss volatility.

Risk management capabilities and the Bank's control environment are expected to remain appropriate to, and develop in line with, the nature and size of the business. Risk-taking appetite will be matched by risk mitigation capabilities to deliver the low-risk outcomes desired by the Board and avoid risk-taking beyond the Bank's capacity.

The Board reviews the Bank's risk profile, measured against its risk appetite. This consists of a forward-looking view, the risk outlook, and a backward-looking view where performance is reported against agreed risk appetite and risk tolerance metrics.

Key ratios/metrics used to monitor performance and risk outlook are disclosed in section 2 (Key Metrics). The Bank does not disclose key ratios, limits and figures relating to its risk appetite, as they are considered to be proprietary information under Article 432 of the Disclosure (CRR) part of the PRA Rulebook.

Related party transactions are disclosed in note 27 to the Financial Statements. There are no related party transactions that have a material impact on the Bank.

3.2 Principal risks

The Board has identified the principal risks and uncertainties that could threaten the Bank's business and successful delivery of the Bank's strategy and business plan. These risks are monitored and assessed for their impact on the Bank's finances and reputation by executive governance committees that report to the Board Risk Committee (BRC) and which are ultimately accountable to the Board. Further information on the Bank's governance committees is provided in section 3.3.2.

Principal risk	Definition	Approach	Governance committee	Escalation Pathway
Strategic & business risk	The risk that the Bank fails to execute its strategy or fails to execute elements of its business plan effectively.	Monitoring of performance trends; overseeing progress of strategic change; required actions are discussed by both management and the Board.	Risk Management Committee	Board Risk Committee

Principal risk	Definition	Approach	Governance committee	Escalation Pathway
Capital risk	The risk of not having sufficient capital to meet the requirements of the business including under stressed conditions.	The Bank's capital risk framework includes the setting of capital risk appetite, capital planning and stress testing. Capital, capital adequacy and early warning indicators are monitored to identify emerging capital concerns, so that mitigating actions can be taken if required.	Assets & Liabilities Committee	Board Risk Committee
Conduct risk	The risk of practices that give rise to poor or unfair client outcomes.	Monitoring of client outcomes and other conduct risk indicators, adherence to internal Code of Conduct and regulatory conduct rules.	Compliance & Conduct Committee	Risk Management Committee
Credit risk	The risk that a counterparty or client will default on its contractual obligations resulting in financial loss to the Bank.	Client lending is undertaken within prescribed limits and risk appetite measures which are reviewed regularly and approved by the Board.	Credit Committee	Board Risk Committee
		Treasury counterparties must meet a minimum credit rating and are subject to approval and internal monitoring.	Assets & Liabilities Committee	Board Risk Committee
Funding and liquidity risk	Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding. Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due or can only secure the necessary resources at excessive cost.	The Board accepts a limited level of risk to achieve the Bank's strategic goals and sets its risk appetite and liquidity requirement measures accordingly. The Treasury function seeks to minimise liquidity risk on a forward-looking basis. Liquidity and funding positions are reviewed and analysed daily, and a monthly review of the liquidity position and the composition of the balance sheet is undertaken	Assets & Liabilities Committee	Board Risk Committee
Market risk	The risk that the Bank's earnings and economic value will decrease due to changes in the value of financial market prices. The Bank is exposed to two main types of market risk – interest rate risk and foreign exchange risk. Market risk arises only from banking activity as the Bank does not have a trading book.	Interest rate risk arising on fixed rate assets and liabilities is hedged by entering into interest rate swaps as required. Sensitivity to interest rate changes is managed within set limits. Foreign exchange risk is managed through adherence to agreed exposure limits and risk appetite metrics. Natural hedges and forward contracts are used to leave no material open currency positions.	Assets & Liabilities Committee	Board Risk Committee

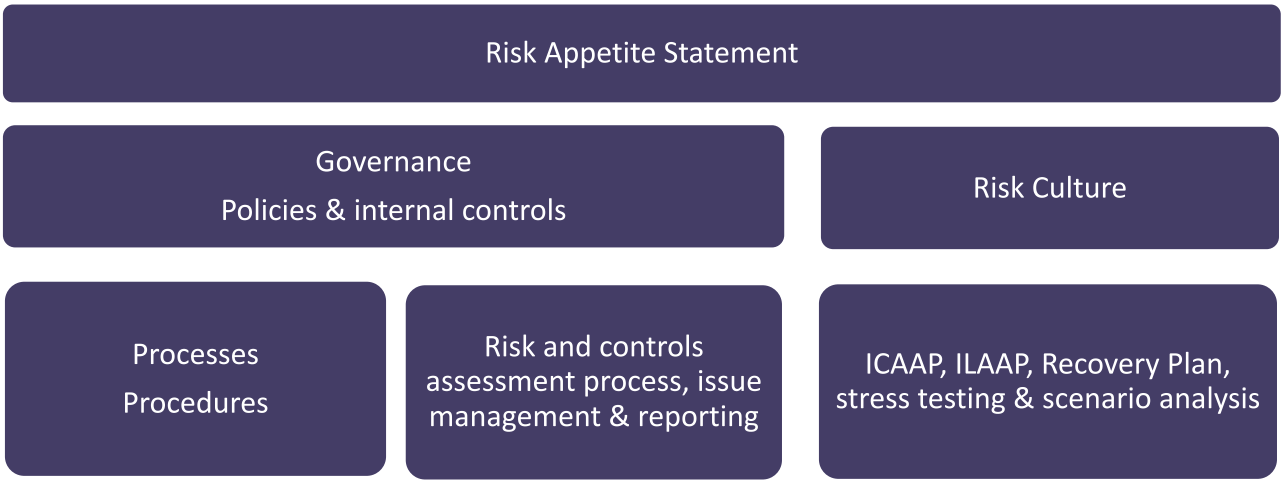
Principal risk	Definition	Approach	Governance committee	Escalation Pathway
Operational risk	The risk of loss resulting from failed or inadequate internal processes, systems, people or from external events.	Maintenance of an effective control framework across all areas of Operational Risk. The Operational Risk Committee oversees the Bank's arrangements and key risk appetite metrics are monitored and reported regularly. The Bank's insurance coverage is reviewed annually	Operational Risk Committee	Risk Management Committee
Regulatory risk	Regulatory risk is the risk of financial loss, reputational damage, legal/regulatory sanctions caused by a failure to comply with applicable banking laws, regulations rules, related regulatory organisation standards and codes of conduct, in relation to banking activity.	Monitoring of regulatory compliance, horizon scanning for regulatory developments and implementation of controls for key regulatory processes and reporting.	Compliance & Conduct Committee	Risk Management Committee

Climate change represents an emerging risk and the Bank continues to monitor industry developments and to develop its measurement, monitoring and management capabilities. Climate-related risks manifest through the principal risks captured above and are considered at the relevant governance committees:

- Credit risks arising from climate change are considered and monitored at Credit Committee;
- Balance sheet risks arising from climate change are considered and monitored at Assets & Liabilities Committee; and
- Operational risks from climate change fall within the remit of the Operational Risk Committee.

3.3 Risk Management Framework

The Bank has established a comprehensive Risk Management Framework (RMF) as an integral part of delivering the Bank's aims and meeting client, shareholder and regulatory expectations.



The RMF exists to support commercial risk-taking by ensuring appropriate controls are established and maintained to build a sustainable business that is profitable and delivers good client outcomes on a consistent basis.

The Board considers that the risk management systems are adequate with regard to the Bank's risk profile and strategy, acknowledging that the RMF requires ongoing development and improvement as the business matures and grows.

3.3.1 Risk appetite

The Board has responsibility for setting the Risk Appetite of the Bank. Changes may be proposed by Senior Management for review at BRC prior to seeking approval of the Board. The Risk Appetite is reviewed at least annually and when necessary in light of business, market and regulatory developments.

The Risk Appetite Statement (RAS) articulates the amount and type of risk that the Bank is willing to accept, take, or to avoid, within stipulated boundaries, in order to deliver its strategy and business plan. It includes qualitative statements as well as quantitative measures.

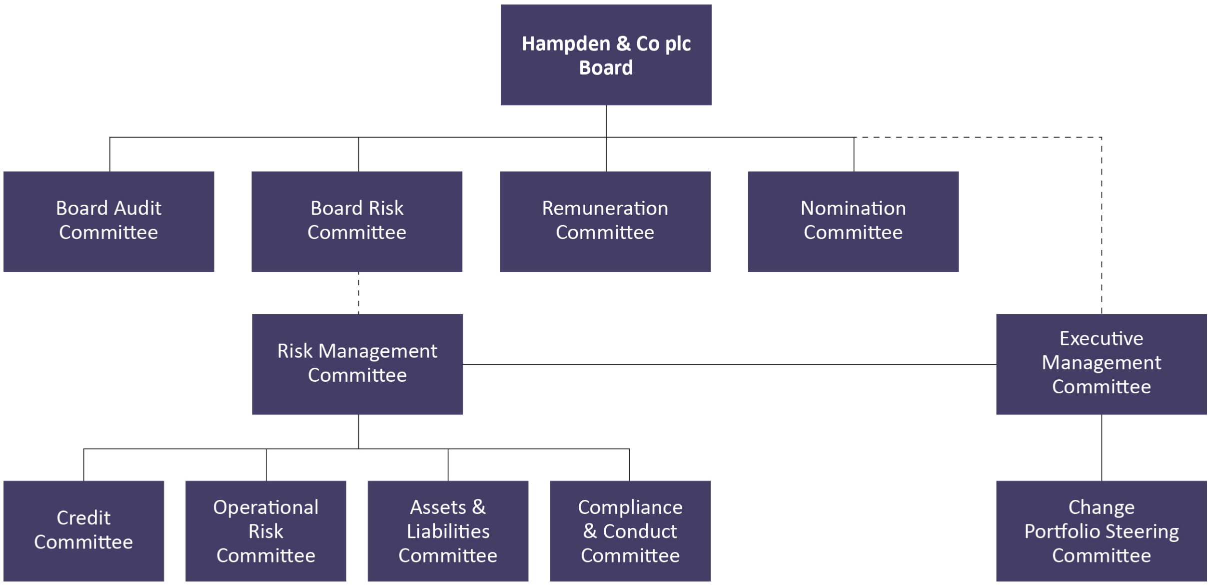
The RAS is aligned with the business plan, capital planning and remuneration policy. It helps the Board communicate and assess the types and levels of risk that it is willing to accept and explicitly defines the boundaries within which Senior Management is expected to operate when pursuing the growth plan. The RAS also helps to embed a risk aware culture throughout the Bank by documenting the approach to risk management and metrics that monitor performance against the approved Risk Appetite.

Once approved, key Risk Appetite metrics are monitored, at a minimum, on a monthly basis and reported to the relevant sub-committee as appropriate and to Risk Management Committee (RMC), BRC and the Board. The RMC is the main forum through which Senior Management review risks against the Bank's Risk Appetite.

The RAS also describes the risk strategy, which considers the Bank's approach to managing risks giving due regard to its Risk Appetite, capacity and mitigation capabilities.

3.3.2 Governance

The Board and its committees, supported by the executive committees, together with the three lines of defence model (described later in this section) form the Bank's governance structure:



The Board

The Board is the main decision-making forum of the Bank and is collectively responsible for its long-term, sustainable success in the interests of shareholders and other stakeholders. It provides entrepreneurial leadership, sets purpose, goals and strategy and oversees their implementation. The Board ensures that the Bank manages risk effectively as well as assessing strategic opportunities and threats. The Board sets the 'tone from the top' by exemplifying and overseeing the Bank's desired culture.

Directorships held by members of the Board

The skills and experience of Board members together with details of other directorships are set out on pages 20 and 21 of the Financial Statements.

Board recruitment and diversity policies

The Bank recognises the importance of developing an inclusive and diverse Board with the appropriate balance of skills, professional knowledge and experience, gender, ethnicity, and diversity of thought. It will continue to make appointments based on merit and the ability to perform the role whilst having regard to the benefits of diversity, and the skills, experience, and knowledge of the current Board members.

Board committees

The Board has four standing committees to support proper discharge of its responsibilities.

Committee	Responsibility
Audit Committee	Recommends to the Board the internal and external audit approach. It also recommends approval of the financial statements, provides independent approval and oversight of internal and external audit policies and procedures and presents an annual Whistleblowing Report to the Board.

Committee	Responsibility
Risk Committee	Provides the Board with focused support and advice on risk governance, to develop a forward-looking, resilient and sustainably successful organisation. The committee oversees financial crime and related matters and advises on the appropriateness of the Bank's risk strategy and risk appetite in light of the Bank's purpose, goals, strategy and risk culture expectations
Remuneration Committee	Provides independent oversight and recommendations on executive remuneration policies, including an independent review and assessment of any reward schemes.
Nomination Committee	Reviews the structure, size and composition required of the Board and makes recommendations with regard to any changes, taking into account the skills and expertise needed.

Details of the membership of the Board's standing committees is provided in the Governance section of the Bank's Financial Statements.

Executive committees

Committee	Responsibility
Executive Management Committee *Chaired by: Chief Executive Officer*	Operates under delegated authority from the Board to manage the day-to-day operations of the Bank. Its purpose is to assist the Chief Executive Officer in the performance of his duties.
Risk Management Committee *Chaired by: Chief Risk Officer*	Development, maintenance and effectiveness of the risk management framework, and for overseeing implementation of any action required to enhance the control environment.
Credit Committee *Chaired by: Chief Executive Officer*	Approving new (and renewing existing) credit facilities, agreeing and monitoring individual personal banker and credit team delegated sanctioning authorities, proposing credit risk policies, monitoring the credit risk appetite metrics and quality of the loan portfolio.
Operational Risk Committee *Chaired by: Chief Operating Officer*	Managing the Bank's operational risk profile within risk appetite, including operational resilience.
Assets & Liabilities Committee *Chaired by: Chief Financial Officer*	Managing balance sheet risk (capital, liquidity & market) within the limits set by the Board, establishing and reviewing the measurement, pricing and performance of the Bank's assets and liabilities.
Compliance & Conduct Committee *Chaired by: Managing Director (Banking)*	Developing, implementing and maintaining oversight of the compliance and conduct frameworks.
Change Portfolio Steering Committee *Chaired by: Chief Financial Officer*	Managing the Bank's change framework and managing change in line with direction from the Executive Management Committee.

Three lines of defence model

The Bank adopts the 'three lines of defence' model as a core component of its system of risk management and internal control:

- **First line of defence (1LoD):** Line management and operational business functions such as Treasury, Finance, Operations and Banking. They are responsible for identifying and managing, within a defined risk appetite, the risks that exist in their business area. The 1LoD will own the majority of the risks in the Bank. Key to managing risk will be compliance with Bank policies and external regulation. This includes owning, developing, and operating controls, carrying out testing of key controls and assessment and attestation of controls and risks.
- **Second line of defence (2LoD):** The 2LoD consists of the Risk and Compliance function. The remit of 2LoD includes proposing Risk Appetite, co-ordination of stress testing and scenario analysis, limit monitoring, and oversight and challenge of 1LoD approach to managing their risks. 2LoD is responsible for owning and developing the RMF. The Risk and Compliance function is managed by the Chief Risk Officer (CRO) who is independent of the business areas in 1LoD.
- **Third line of defence (3LoD):** Internal Audit provides independent assurance to the Board on the appropriateness and effectiveness of the internal controls, processes, and procedures across the control framework. The Bank currently outsources the Internal Audit function to Grant Thornton UK LLP. The Bank may also commission other external expertise to provide assurance when required.

3.3.3 Policies and internal controls

Policy Principles are owned by the Board and provide the basis for managing the business consistently with the Bank's Risk Appetite. The Policy Principles are therefore reviewed in line with any changes in the business and Risk Appetite.

There is a comprehensive policy approval structure in place which consists of:

- Policy Principles and high-level Policies which are approved by the Board and BRC, respectively; and
- detailed policies, which are approved by the relevant management risk committee.

Any potential breach or non-compliance with a policy must be approved by the appropriate committee, as detailed in the policy, before the exception is applied. No exceptions are permitted to compliance with regulatory or legal requirements. Material policy breaches are reported to RMC, as appropriate, and also to BRC and the Board. Actions to rectify material policy breaches are tracked by RMC and reported to the Board. If required, notification is also made to the PRA and FCA.

The Bank has implemented a proportionate system of internal controls to mitigate the impact and reduce the likelihood of risks crystallising through significant fraud, error, poor decision making, malpractice, corruption and/or any other illegal activity, which may impact upon direct costs, reputation, ethics and/or client care.

Controls are, in the main, owned and operated by 1LoD however some exceptions to this exist where deemed appropriate (e.g. 2LoD have the SME knowledge and are best placed to own and calibrate Sanction screening rules). All controls are important however, some are defined as key as they are fundamental to the mitigation of a risk and reducing the impact exposure to the Bank if the control is not performed. Controls are either preventative, detective, or directive and are either automated/system generated or performed manually.

Control owners are responsible for regularly assessing the effectiveness of key controls. The output from those assessments is overseen by the 2LoD. The 3LoD conduct an annual programme of testing over the Bank's key controls to deliver assurance to management that the controls are both designed and operating effectively, or to recommend improvements.

Insurance is arranged, where appropriate, to transfer the risk of significant operational financial loss.

3.3.4 Culture and training

A key element of an effective RMF is the culture and 'tone from the top'.

A positive culture in risk management, which balances prudent risk taking with commerciality, is promoted and valued so that employees are motivated to support the long-term success of the business.

It is an important objective of the Board to have:

- Board and Committee members who openly champion client needs and fair outcomes for clients, voice the views of the business areas they represent and challenge each other in an open and constructive manner thus demonstrating an appropriate "tone from the top" to others within the organisation;
- a Board that promotes a robust governance, risk and compliance culture, ensuring appropriate segregation of duties and avoiding conflicts of interest;
- colleagues who act in the interests of their clients and treat them fairly;
- colleagues who act within the limits of their delegated authorities and accountabilities with integrity and honesty;
- colleagues who think about the commercial benefits as well as understanding and managing the risks they take on behalf of the Bank;
- colleagues who actively identify and report threats and opportunities and take proactive steps to address weaknesses when they are discovered;
- a whistleblowing process in place should staff need to escalate an issue outside of the normal management reporting lines;
- a remuneration and reward policy that is aligned with the risk culture and long-term goals of the Bank;
- a performance appraisal process that takes achievement of risk management objectives into account for all colleagues; and
- adequate induction and continuing professional development training for all colleagues.

An annual risk training programme covering mandatory electronic learning modules and bespoke training (where required) is in place to help deliver the above outcomes.

3.3.5 Processes and procedures

The Bank maintains a Responsibilities Map and Business Operating Model document which sets out the responsibilities of senior managers and key processes across the business.

Detailed procedure manuals are maintained by each department, and it is the responsibility of each member of the Executive Management Committee to ensure that these are consistent with approved policy and deliver appropriate segregation of duties.

3.3.6 Risk and controls assessment process, issue management and reporting

Risk and Control Assessments (RACA) are used across the Bank to support the identification, assessment and control of key risks. The RACA is maintained in conjunction with the Bank's Risk and Compliance function which provides challenge and oversight of the process.

An events reporting process is in place to inform management of issues and to ensure appropriate and prompt remedial action and client remediation is taken where necessary. Stress testing and scenario analysis are performed as part of capital and liquidity adequacy planning.

Comprehensive risk reporting is delivered to each regular meeting of the sub-committees. In addition, a monthly risk profile of the whole business is collated by Risk and Compliance for RMC members showing the residual risk RAG status of key risks impacting the Bank.

Monthly performance against risk appetite metrics is reported to RMC and BRC and the CRO's report includes a view on the emerging and residual key risks and any material remedial action required to address issues.

The top inherent risks and strategic/horizon risks are reported to RMC and BRC each quarter for oversight and challenge, leading to consensus over the risk mitigation priorities.

The forward-looking risk profile together with relevant commentary is reported directly to each regular meeting of the Board by the CRO.

Any issues arising from statutory and regulatory reports that measure risk appetite are tabled at the Board for noting.

3.3.7 ICAAP, ILAAP, Recovery Plan, resilience, stress testing and scenario analysis

The Board is required to manage the present and future activities of the Bank within regulatory capital and liquidity parameters. This is evaluated annually through the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) which consider:

- the Bank's strategies, processes, systems and controls;
- material risks to the Bank's ability to meet its liabilities as they fall due; and
- the amounts and types of capital and liquidity resources available and whether they are adequate to cover the nature and level of risks to which the Bank is exposed.

An integral part of the ICAAP and ILAAP is the performance of stress testing and scenario analysis appropriate to the nature and scale of the business. The Bank considers a range of adverse circumstances of varying degrees of severity and duration to understand how much capital or liquidity could be absorbed under such circumstances. Outcomes are used as a forward-looking analysis tool to consider longer term capital and liquidity requirements in light of business plans and expected economic cycles and other market conditions.

The Recovery Plan assesses when mitigating actions would need to be taken to avoid a severe financial stress and sets out the preparations in place to enable the Bank to restore the business to a stable and sustainable financial condition should such an event occur. It comprises a menu of recovery options available to address a range of severe financial stresses caused by idiosyncratic events, market-wide stress or both. The indicators and triggers that might lead to the activation of the Bank's Recovery Plan are derived from the risk framework and are monitored as part of the regular suite of management information.

The ICAAP, ILAAP and Recovery Plan are prepared by the Finance, Risk and Treasury teams and submitted through risk committee governance channels to the Board.

The Bank takes a holistic view of operational resilience by creating systems, processes and controls that build resilience from design through to delivery. Business continuity plans are maintained as part of the Bank's approach to managing operational resilience, ensuring business-critical processes are identified and plans to maintain services following operational events are in place.

4 Capital resources

The Bank is subject to the CRR, which forms part of retained EU legislation, and the PRA Rulebook for CRR firms. It requires banks to hold sufficient capital to be able to absorb unexpected losses and remain financially resilient, in order to protect financial markets and customers.

The Board is required to manage the present and future activities of the Bank within the parameters described. Throughout 2022 and 2021 the Bank's capital position was in excess of the minimum requirement set by the PRA.

Table UK CC1 below provides a breakdown of the Bank's regulatory capital resources:

Template UK CC1 - Composition of regulatory own funds		**Dec-22**	**Dec-21**	**Source based on reference numbers / letters of the balance sheet (see Template UK-CC2)**
		£'000	**£'000**	
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	28,624	20,778	c
2	Retained earnings	44,228	36,524	d
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**72,852**	**57,302**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	(2,302)	(2,038)	b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(4,819)	–	a
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(7,121)**	**(2,038)**	
29	**Common Equity Tier 1 (CET1) capital**	**65,731**	**55,264**	
44	**Additional Tier 1 (AT1) capital**	**–**	**–**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**65,731**	**55,264**	
58	**Tier 2 (T2) capital**	**–**	**–**	
59	**Total capital (TC = T1 + T2)**	**65,731**	**55,264**	

Table UK CC2 below provides a reconciliation of regulatory own funds to the balance sheet in the audited financial statements:

Template UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements	a / b		c
	Balance sheet as in published financial statements and under regulatory scope of consolidation		**Reference**
	Dec-22	**Dec-21**	
	£'000	**£'000**	
Assets			
Cash and balances at central banks	172,477	139,948	
Loans and advances to banks	241,254	189,686	
Loans and advances to clients	447,675	422,160	
Fair value adjustment for hedged risk on loans and advances to clients	(256)	–	
Derivative financial instruments	1,867	–	
Deferred tax asset	4,819	–	a
Prepayments and accrued income	1,118	913	
Other assets	2,372	212	
Property, plant and equipment	143	85	
Right-of-use assets	714	1,139	
Intangible assets	2,302	2,038	b
Total assets	**874,485**	**756,181**	
Liabilities			
Deposits from clients	796,049	695,590	
Derivative financial instruments	838	–	
Accruals and deferred income	3,440	2,014	
Lease liabilities	756	1,134	
Other liabilities	174	18	
Provisions	376	123	
Total liabilities	**801,633**	**698,879**	
Shareholders' Equity			
Share capital	4,623	4,223	c
Share premium account	24,001	16,555	
Retained earnings	44,228	36,524	d
Total shareholders' equity	**72,852**	**57,302**	
Total liabilities and equity	**874,485**	**756,181**	

5 Capital requirements

5.1 Pillar 1 capital requirements

The minimum capital requirement is defined under Pillar 1 and is 8% of the risk weighted exposure amount.

The Bank calculates its Pillar 1 capital requirement as follows:

- Credit risk – standardised approach
- Market risk (FX) – net foreign exchange position risk requirement
- Operational risk – basic indicator approach
- Counterparty credit risk – original exposure method
- Credit valuation adjustment – standardised method

Table UK OV1 below shows the Bank's risk weighted exposure amounts and own funds requirements:

Template UK OV1 – Overview of risk weighted exposure amounts		**Risk weighted exposure amounts (RWEAs) (£'000)**		**Total own funds requirements (£'000)**
		a	**b**	**c**
		Dec-22	**Dec-21**	**Dec-22**
1	Credit risk (excluding CCR)	284,658	269,622	22,773
2	Of which the standardised approach	284,658	269,622	22,773
6	Counterparty credit risk - CCR	2,826	–	226
UK 8b	Of which credit valuation adjustment - CVA	1,750	–	140
9	Of which other CCR	1,076	–	86
23	Operational risk	28,938	15,800	2,315
UK 23a	Of which basic indicator approach	28,938	15,800	2,315
29	**Total**	**316,422**	**285,422**	**25,314**

5.1.1 Pillar 1: credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank and arises from lending to clients (a mix of private individuals, trusts and SME business lending) and treasury counterparties.

The Bank has adopted the standardised approach to credit risk and uses an agent to source external credit assessment institution (ECAI) ratings provided by Moody's for treasury exposures.

Table UK CR4 provides an analysis of credit risk exposures and risk weighted assets (RWA) by CRR exposure class, excluding counterparty credit risk.

Template UK CR4 – standardised approach – Credit risk exposure and CRM effects

31 December 2022

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures (£'000)	Off-balance-sheet exposures (£'000)	On-balance-sheet exposures (£'000)	Off-balance-sheet amount (£'000)	RWAs (£'000)	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	172,473	–	172,473	–	–	0%
2	Regional government or local authorities	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–
4	Multilateral development banks	–	–	–	–	–	–
5	International organisations	–	–	–	–	–	–
6	Institutions	146,294	–	146,294	–	38,783	27%
7	Corporates	32,222	15,347	30,477	–	30,217	99%
8	Retail	243	13,835	243	–	173	71%
9	Secured by mortgages on immovable property	414,941	50,212	414,337	10,222	208,110	49%
10	Exposures in default	103	–	103	–	103	100%
11	Exposures associated with particularly high risk	617	–	617	–	925	150%
12	Covered bonds	–	–	–	–	–	–
13	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings	94,135	–	94,135	–	–	0%
15	Equity	–	–	–	–	–	–
16	Other items	6,350	–	6,350	–	6,347	100%
17	**TOTAL**	**867,378**	**79,394**	**865,029**	**10,222**	**284,658**	**33%**

31 December 2021

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures (£'000)	Off-balance-sheet exposures (£'000)	On-balance-sheet exposures (£'000)	Off-balance-sheet amount (£'000)	RWAs (£'000)	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	139,943	–	139,943	–	–	0%
2	Regional government or local authorities	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–
4	Multilateral development banks	–	–	–	–	–	–
5	International organisations	–	–	–	–	–	–
6	Institutions	124,795	–	124,795	–	29,614	24%
7	Corporates	29,871	17,013	27,750	320	27,926	99%
8	Retail	253	13,499	253	–	180	71%
9	Secured by mortgages on immovable property	390,776	55,747	389,426	11,084	205,640	51%
10	Exposures in default	115	–	115	–	115	100%
11	Exposures associated with particularly high risk	2,060	–	2,060	–	3,090	150%
12	Covered bonds	–	–	–	–	–	–
13	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings	64,858	–	94,135	–	–	0%
15	Equity	–	–	–	–	–	–
16	Other items	3,062	–	3,062	–	3,057	100%
17	**TOTAL**	**755,733**	**86,259**	**781,539**	**11,404**	**269,622**	**34%**

5.2 Pillar 2 capital requirements

5.2.1 Pillar 2A

Additional bank-specific minimum requirements under Pillar 2A are supplementary to Pillar 1 and are set by the PRA through the issuance of a Total Capital Requirement (TCR). The TCR includes an additional minimum amount of capital over and above the 8% Pillar 1 requirement to cover risks that are not fully covered by Pillar 1. The Bank's TCR at 31 December 2022 was 12.02% of RWA (2021: 12.46%).

The assessment of the additional Pillar 2 capital requirement is achieved through the ICAAP, the objectives of which are to:

- identify and embed a robust understanding throughout the Board and Senior Management of the risks faced by the business and the subsequent capital requirements;
- detail the risk management processes which control and mitigate these risks;
- outline the regulatory capital planning process followed;
- provide an internal assessment on the adequacy of current and future capital held;
- detail key stress tests run by management; and
- ensure business policies address the risks identified.

The ICAAP is the responsibility of the Board and it is used as an integral part of the Bank's capital management process and decision making.

5.2.2 Combined Buffer

In addition to the TCR the Bank is also required to hold Common Equity Tier 1 (CET1) capital to meet other regulatory capital buffers, together called the Combined Buffer. These are:

Capital conservation buffer

The capital conservation buffer (CCB) is a standard buffer designed to ensure sufficient capital buffers are built up to provide for losses in times of stress. At 31 December 2022 the CCB was 2.50% (2021: 2.50%).

Countercyclical capital buffer

The countercyclical capital buffer (CCyB) requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit future credit growth.

Each institution's specific CCyB rate is a weighted average of the countercyclical capital buffers that apply to the jurisdiction where the relevant credit exposures are located. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate and, at its December 2021 meeting, the FPC increased the UK CCyB rate from 0% to 1.00%. This rate came into effect from 13 December 2022, in line with the 12-month implementation period.

In July 2022 the FPC increased the UK CCyB rate from 1.00% to 2.00%, effective from 5 July 2023.

5.2.3 Pillar 2B

Pillar 2B (PRA Buffer) is an additional amount of capital that banks are required to hold over and above their TCR and the Combined Buffer.

The PRA Buffer absorbs losses that may arise under a severe but plausible stress scenario, while avoiding duplication with the Combined Buffer. It is set by the PRA based on the results of stress testing included in the ICAAP. The PRA requires all information relating to the PRA Buffer to remain confidential.

6 Leverage and liquidity

6.1 Leverage ratio

The leverage ratio is a non-risk-based measure to supplement the risk-based capital requirements. It is calculated by dividing Tier 1 capital by total on and off-balance sheet exposures, subject to credit conversion factors. Under the UK leverage ratio framework, the leverage ratio exposure measure excludes assets constituting claims on central banks, where they are matched by liabilities denominated in the same currency and of identical or longer maturity.

Currently the Bank has no minimum UK leverage requirement as it is exempt from the UK leverage ratio framework, which only applies to institutions with retail deposits equal to or greater than £50 billion or foreign assets equal to or greater than £10 billion.

For firms in scope of the Leverage Ratio – Capital Requirements and Buffers part of the PRA Rulebook there is a minimum leverage ratio requirement of 3.25%.

In accordance with PRA SS45/15: *The UK leverage ratio framework* (effective 1 January 2022), firms that are not in scope of the leverage ratio requirement are nevertheless expected to manage their leverage risk so that their leverage ratio (to be calculated based on the same rules as the in-scope firms) does not ordinarily fall below 3.25%. The Bank monitors its leverage ratio and adheres to this PRA expectation.

The Bank's leverage ratio is disclosed within the Key Metrics template.

6.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due or can only secure the necessary resources at excessive cost.

Throughout the year the Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were above minimum regulatory requirements.

The Bank's LCR and NSFR are disclosed within the Key Metrics template.

7 Remuneration

7.1 Remuneration of Code Staff

The Bank is required to make disclosures regarding the remuneration of Material Risk Takers (MRTs), also known as Code Staff, whose professional activities may have a material impact on the Bank's risk profile. The following have been identified as MRTs:

(a) all Executive and Non-Executive Directors of the Bank;

(b) all members of the Executive Management Committee;

(c) all other employees of the Bank who hold a Senior Management Function; and

(d) all other MRTs not caught under (a) to (c) above, as per the criteria defined under 3.1, 3.2A and 3.3A of the Remuneration part of the PRA Rulebook.

The number of MRTs identified includes individuals who were MRTs for only part of the year.

Table UK REM1 below provides an analysis of the remuneration paid to Code Staff during the year ended 31 December 2022:

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5	3	5.46	4.00
2		Total fixed remuneration	£389,574	£573,202	£916,108	£388,916
3		Of which: cash-based	£389,574	£548,417	£859,131	£348,485
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests	–	–	–	–
5		Of which: share-linked instruments or equivalent non-cash instruments	–	–	–	–
UK-5x		Of which: other instruments	–	–	–	–
6		(Not applicable in the UK)				
7		Of which: other forms	–	£24,785	£56,977	£40,431
8		(Not applicable in the UK)				
9	Variable remuneration	Number of identified staff	–	3	5.46	4.00
10		Total variable remuneration	–	£111,600	£181,861	£36,956
11		Of which: cash-based	–	£111,600	£181,861	£36,956
12		Of which: deferred	–	–	–	–
UK-13a		Of which: shares or equivalent ownership interests	–	–	–	–
UK-14a		Of which: deferred	–	–	–	–
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	–	–	–	–
UK-14b		Of which: deferred	–	–	–	–
UK-14x		Of which: other instruments	–	–	–	–
UK-14y		Of which: deferred	–	–	–	–
15		Of which: other forms	–	–	–	–
16		Of which: deferred	–	–	–	–
17	Total remuneration (2 + 10)		£389,574	£684,802	£1,097,969	£425,872

In line with the requirements of the Disclosure (CRR) part of the PRA Rulebook, the number of MRTs represents FTE (full time equivalent) for identified staff other than members of the MB (management body) where the number is disclosed as headcount.

No individual received remuneration of €1 million or more during the year.

There is no outstanding deferred remuneration, and no severance payments were made to MRTs during 2022.

7.2 Information on whether the Bank benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR

The Bank benefits from the derogation laid down in Article 94(3)(a) of CRD as it meets the definition of a 'small CRR firm'. It applies the derogation to points (l) and (m) of Article 94(1) of CRD.

All staff members benefit from the derogation. Their numbers and total remuneration are set out in note 10 to the Financial Statements. During the year ended 31 December 2022, £728,577 was paid in respect of variable remuneration.

7.3 Decision making process for determining the Remuneration Policy

The Bank's Remuneration Committee operates under delegated authority from the Board to provide independent oversight and recommendation on the Remuneration Policy and principles of the Bank, including any independent review undertaken and any assessment of incentive schemes.

7.4 Remuneration Committee

During 2022 the Remuneration Committee met five times. It is comprised entirely of non-executive directors as follows:

- Caroline Taylor: Non-Executive Director and Chair of the Committee
- Simon Miller: Non-Executive Chairman
- Peter Sparkes: Non-Executive Director (to 19 January 2022)
- Angus Macpherson: Non-Executive Director (from 20 January 2022)

Other individuals, internal or external to the Bank, may be invited to attend all or any part of any Remuneration Committee meeting as and when appropriate and necessary. The Chief Executive Officer and the HR Director are standing attendees but exclude themselves from discussions relating to their respective positions.

The responsibilities, procedures and duties of the Remuneration Committee, its membership and its procedures are set out in its Terms of Reference and professional advice is sought, as required, from QQPM.

The main responsibilities of the Remuneration Committee, on behalf of the Board and the shareholders of the Bank, are to:

- ensure that the Remuneration Policy is aligned to the Bank's business strategy, objectives, values and long-term interests and includes measures to avoid conflicts of interest;
- determine and approve the remuneration arrangements of the Chairman, the executive directors and other senior managers and Code Staff (as defined by the PRA and FCA Remuneration Code);
- ensure that executive directors and other members of the executive management of the Bank are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the long-term success of the Bank;

- structure the Remuneration Policy to ensure that it promotes sound and effective risk management, which discourages risk-taking that exceeds the Bank's tolerated risk levels and embraces the principles of remuneration recommended by the Committee and laid down by the Board;
- approve the design of any performance related pay schemes operated by the Bank and approve the total annual payments made under such schemes, subject to performance and to the views of BRC;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, and the performance targets to be used. In doing this, to receive, and take into account the opinion of BRC regarding adherence to Board risk appetites, and adequate operation of the Control and Risk frameworks of the Bank; and
- ensure that the Bank complies with its obligations arising from the Remuneration Code in a proportionate way that is appropriate to its size and internal organisation and the scope and complexity of its activities.

7.5 Remuneration Policy

The Bank's Remuneration Policy is aligned to the Bank's objectives of good corporate governance, a culture of low risk and future sustainability and reflects the long-term strategy adopted by the Bank with regard to share plans, fixed pay and variable pay awards.

The principles adopted by the Remuneration Committee aim to ensure that the interests of shareholders, employees, clients and other stakeholders are aligned and are appropriate to the remuneration of the Bank's employees. The following overarching remuneration principles are applied to the policy:

- the Bank will remain competitive in the financial services market and provide fair rewards, benefits and conditions that attract, recognise, motivate and retain talent and high performers;
- commitment to equal and fair pay which does not discriminate, and which meets statutory requirements in terms of equal pay;
- compliance with the details and the spirit of the PRA's Remuneration Code and the FCA's principles and requirements;
- alignment of the interests of colleagues and shareholders through colleague share ownership;
- malus adjustments and claw back will be applied to all variable pay where required;
- remuneration reflects achievements which are aligned to the strategic goals and culture of the Bank and the awards to individual team members are varied to reflect individual contribution;
- reward will promote delivery of longer-term sustainable returns reflecting individual and business performance; and
- remuneration structures will be straightforward and simple for everyone to understand.

The Bank's Remuneration Policy was reviewed in 2022 by the Remuneration Committee, and in turn by the Board, and no substantive changes were made.

7.6 Link between pay and performance

In support of the Bank's objectives, fixed pay is based on the Remuneration Committee's assessment of the worth and contribution that each individual is making to the business. Advice on external market comparisons is sought from the Bank's external remuneration consultant where appropriate. The Remuneration Committee considers the performance and remuneration package of Code Staff once a year and adjustments to remuneration are based on an assessment of each individual's contribution to the business, conduct and risk management responsibilities.

Performance is managed on an ongoing basis and formal performance reviews take place in Q1 each year. In addition to the annual performance review meetings, line managers and colleagues meet to review performance and progress against objectives twice a year. Performance management is aligned to the Bank's values and is evaluated against agreed financial and non-financial goals and objectives, risk management responsibilities and appropriate conduct.

A variable pay pool is determined by the Remuneration Committee annually in consultation with the Board. Individual payments are distributed according to individual, team and business-wide performance and adjusting factors are applied to reflect the performance and conduct of each individual. All variable pay is subject to the principles of the Remuneration Code laid down by the PRA and FCA and deferral, malus and clawback will be implemented in compliance with the Remuneration Code where appropriate.

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