Hampden & Co.
BANKERS

2021

Pillar 3 Disclosures
For the year ended 31 December 2021

Contents

1 Overview

1.1 Introduction

2021 represents Hampden & Co plc's (the Bank) sixth full year of trading.

Our purpose is to help clients achieve their aspirations. We aim to achieve this by providing bespoke banking to high net worth clients, their families and associated businesses, delivered through personal service by expert bankers. The Bank aims to be a forward-thinking and socially responsible private bank which earns the loyalty of its stakeholders every day.

The Bank seeks to attract business by occupying specific niches in the UK private banking market by undertaking current account, deposit and lending business, which together command margins which we believe will be sufficient for the Bank to meet its business plan. For current accounts and deposits, this 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. The Bank is also open to growth via selective acquisitions, should suitable opportunities arise.

Scope of disclosure

The disclosures contained within this document are for the single legal entity Hampden & Co plc (company registration number SC386922). 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). The Bank is regulated for prudential capital purposes under the Basel III regime, implemented through the Capital Requirements Regulation and Capital Requirements Directive (together CRD IV), as amended by revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020, enforced in the UK by the PRA.

Under UK law, EU capital rules that existed on 31 December 2020 continue to apply to the Bank following the end of the transition period for the UK's withdrawal from the EU, subject to the temporary transitional powers granted to the PRA which extend until 31 March 2022.

The aim of CRD IV is to improve financial stability through strengthening the regulation, supervision and risk management of the banking sector in order to provide security for depositors.

The Basel III framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements for credit, operational and market risk;
- Pillar 2 sets out requirements for banks to assess risks that are specific to them and, if appropriate, to hold additional capital over and above that required for Pillar 1. This is achieved through the Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar 3 complements the capital requirement and supervisory review process by encouraging 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.

This document sets out the Pillar 3 disclosures and has been prepared in accordance with Part Eight of the Capital Requirements Regulation (575/2013) and associated guidelines and technical standards.

1.2 Basis and frequency of disclosure

This Pillar 3 report is based upon the Bank's Annual Report and Financial Statements for the year ended 31 December 2021.

Pillar 3 disclosures are issued on an annual basis and are published on the Bank's website (www.hampdenandco.com/investors) as soon as is practical after the publication of the Bank's Annual Report and Financial Statements. The Annual Report and Financial Statements includes a range of risk factors and provides details on the specific risks to which the Bank is exposed. These Pillar 3 disclosures provide additional information over and above that contained in the Annual Report and Financial Statements.

These Pillar 3 disclosures were reviewed and approved by the Board on 27 June 2022. They are not subject to external audit except where the information contained also appears in the Bank's Annual Report and Financial Statements.

1.3 Regulatory developments

With effect from 1 January 2022, UK Pillar 3 disclosure requirements are included in the new Disclosure part of the PRA Rulebook. This includes revised disclosure requirements which apply from that date and reflect the UK implementation of the remaining provisions of CRR II.

2 Governance and Risk Management

2.1 Introduction

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

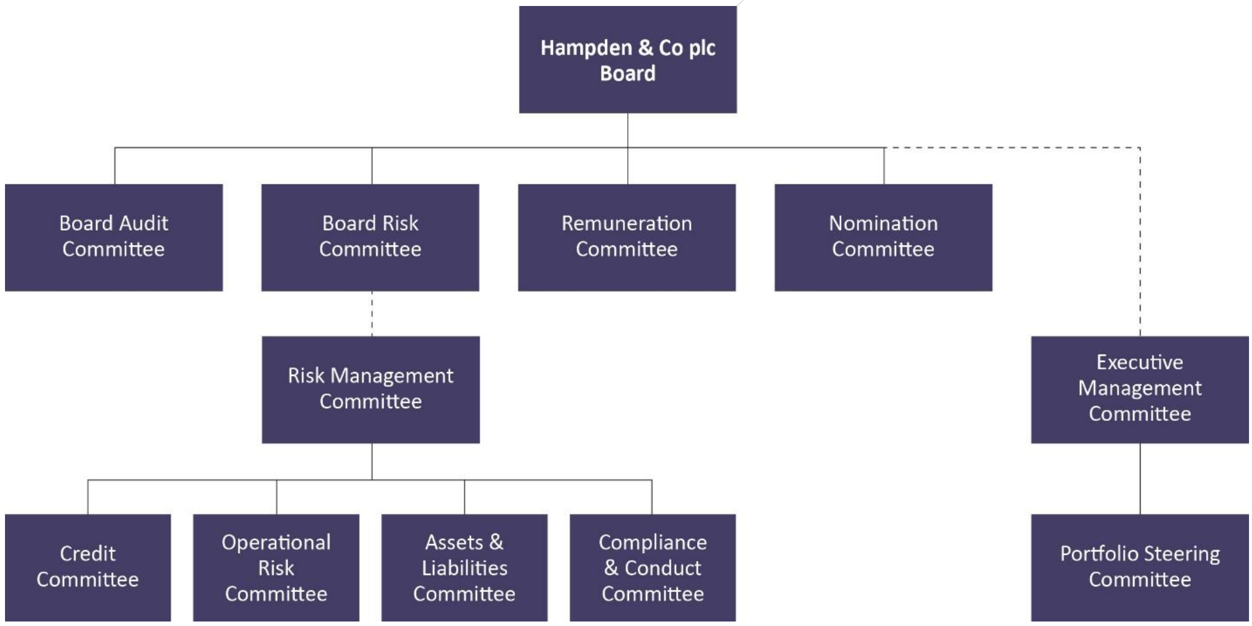
The Board sets and regularly reviews the Bank's risk appetite in light of strategic, commercial and economic aims together with statutory and regulatory requirements. This is complemented by the Bank's culture of putting clients' interests at the heart of the business and the development and maintenance of long-term relationships with clients.

Strong risk management that is strategic in its outlook and underpinned by an overall cautious approach to risk taking is fundamental to building the Bank in line with the traditional nature of private banking on a long term, sustainable basis. This means, amongst other things, that the Bank will remain predominantly UK-focused, does not undertake proprietary trading and manages capital and liquidity in a controlled manner. As at 31 December 2021 the Bank had a Tier 1 capital ratio of 19% (2020: 20%). Other key ratios are disclosed in the Bank's Annual Report and Financial Statements within the Strategic Report: Key Performance Indicators (page 9).

2.2 Governance structure

The Board of Directors (the Board) and its committees, supported by the management committees, together with the three lines of defence model (described in section 2.2.4) form the Bank's governance structure:

Table 1: Governance structure



2.2.1 The Board

The Board is the main decision-making forum on strategic issues and for setting key policies. It ensures the Bank manages risk effectively through approving and monitoring the Board's policy principles and risk appetite, considering stress scenarios and agreed mitigants, and identifying longer term strategic threats to the Bank's business operations. The Board also approves the Bank's ICAAP, Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan & Resolution Pack. Members of the Board are required to have adequate collective knowledge, skills and experience to be able to understand the Bank's activities, including its main risks, which is monitored via annual assessment. Each member of the Board is able to commit sufficient time as required by the Bank in line with the demands of a growing business. The Board met 13 times in the year to 31 December 2021.

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 25 to 26 of the Annual Report and 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.

2.2.2 Board Committees

Board Audit Committee

Supporting the Board's oversight of the Bank's risk management are the Board Audit Committee (BAC) and Board Risk Committee (BRC), both comprised of Non-Executive Directors.

Chaired by an Independent Non-Executive Director, BAC recommends the internal and external audit approaches and the Annual Report and Financial Statements to the Board. It provides independent oversight of internal and external audit policies and procedures, receives internal and external audit reports and oversees the relevant management responses. BAC also presents an annual whistleblowing report to the Board. During 2021 BAC met four times.

Board Risk Committee

Also chaired by an Independent Non-Executive Director, BRC supports the Board's risk governance through assigned responsibilities which include recommending to the Board the risk appetite and relevant monitoring measures, and approval and oversight of key policies adopted by the business. BRC provides oversight of the assessment and appropriate control of the key risks by management in line with the Board's risk appetite. During 2021 BRC met ten times.

Remuneration Committee

This Board sub-committee is chaired by an Independent Non-Executive Director. The Remuneration Committee provides independent oversight and recommendations on executive remuneration policies, including independent reviews and assessments of any reward schemes. During 2021 the Remuneration Committee met six times.

Nomination Committee

This Board sub-committee is chaired by the Chairman. The function of the Nomination Committee is to periodically review the structure, size, composition and succession of the Board and its committees and to ensure the Board has a sufficient balance of knowledge, skills and experience for effective delivery of the Bank's strategy. During 2021 the Nomination Committee met six times.

2.2.3 Management committees

Executive Management Committee

The Board has delegated responsibility of the implementation of the strategy and day-to-day management of the Bank's activities to the Chief Executive Officer (CEO), who is supported by the Executive Management Committee (EMC). EMC comprises the Bank's Executive Directors and Senior Management team. Chaired by the CEO, EMC meets regularly to oversee and ensure the efficient implementation of the Bank's strategy, operational plans and budgets, the monitoring of business risks, operating and financial performance, and the prioritisation and allocation of resources.

Risk Management Committee

This management committee is chaired by the Chief Risk Officer (CRO). The Risk Management Committee (RMC) is responsible for maintaining, monitoring and reporting the Key Risk Indicators of the business, as established by BRC, and for overseeing the implementation of any action plans required to enhance the risk control environment. It proposes policies for approval, other than those under the remit of the sub-committees. RMC also monitors compliance with key policies and assesses the impact of changes to the legal and regulatory environment. Collectively RMC and its sub-committees (listed below) are referred to as the Risk Committees.

Credit Committee

Reporting into RMC, this management committee is chaired by the CEO and is responsible for monitoring credit performance, agreeing and monitoring individual delegated credit authorities, proposing credit risk policies and sanctioning credit facilities within Board approved limits.

Operational Risk Committee

Reporting into RMC, this management committee is chaired by the Chief Operating Officer and is responsible for monitoring operational risk management and control including developing, monitoring and testing the operational resilience of the Bank. It proposes the operational risk policy for approval.

Assets & Liabilities Committee

Reporting into RMC, this management committee is chaired by the Chief Financial Officer (CFO) and is responsible for managing balance sheet risk within the limits set by the Board, together with establishing and reviewing the measurement, pricing and performance of the Bank's assets and liabilities. The Assets & Liabilities Committee (ALCO) proposes market, capital and liquidity risk policies for approval.

Compliance & Conduct Committee

Reporting into RMC, this management committee is chaired by the Managing Director (Banking) and is responsible for developing and implementing the compliance and conduct frameworks of the Bank. It proposes the compliance and conduct policies for approval.

Portfolio Steering Committee

Reporting into EMC, this committee is chaired by the CFO and is responsible for managing the Bank's change framework and managing change in line with direction from EMC.

2.2.4 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: Line management and operational business functions such as Commercial, Finance, Operations and Treasury. They are accountable for owning and managing, within a defined risk appetite, the risks that exist in their business area and complying with the Bank's policies;
- Second line of defence: The second line consists of Compliance and Risk Management functions and the Risk Committees. The Compliance and Risk Management function is responsible for owning and developing the risk framework within the Bank and is managed by the CRO who is independent of the business areas in the first line of defence. The Risk Committees have an integral role within their stated Terms of Reference; and
- Third line of defence: Internal Audit provides independent assurance to the Board on the appropriateness and effectiveness of the internal controls, processes and procedures across the control framework. This is outsourced, providing additional independence.

2.3 Risk management framework

The Bank has established a comprehensive risk management and governance framework as an integral part of delivering the Bank's aims and meeting client, shareholder and regulatory expectations.

Table 2: Risk management framework

Risk appetite statements set by Board (in line with business plan)

Governance
Policies & internal controls

Culture and training

Processes
Procedures

Risk and controls assessment process, issue management & reporting

ICAAP, ILAAP, Recovery Plan, stress testing & scenario analysis

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

2.4 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 appetite is reviewed at least annually and when necessary in light of business, market and regulatory developments.

The risk appetite statement 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 and includes qualitative statements as well as quantitative measures.

It is aligned with the business plan, capital planning and compensation schemes. The statement 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 business plan. The statement also helps to embed a culture of risk awareness throughout the Bank by documenting the approach to risk management and metrics which monitor performance against the approved 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 RMC, BRC and the Board. RMC is the main forum through which senior management reviews risks against the Bank's risk appetite. Based on the underlying risk profiles the CRO and CFO will determine whether to recommend any changes to the ICAAP or ILAAP.

The risk appetite statement also describes the risk strategy which considers the Bank's approach to managing risks giving due regard to its appetite, capacity and control capabilities.

CRD IV requires a concise risk statement approved by the management body describing the institution's overall risk profile associated with the business strategy. The Bank's risk strategy is to maintain a cautious approach to risk taking in line with the traditional nature of private banking in order to build long term, sustainable shareholder value. 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.

The risk strategy recognises that:

- the Bank is particularly exposed to business and capital risks in its early years until it is capital accretive;
- 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, socially and environmentally responsible and sustainable throughout economic cycles and other severe stresses.

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 backwards looking view where performance is reported against agreed risk appetite and risk tolerance metrics.

Key ratios/metrics used to monitor performance and risk outlook include:

	December 2021	December 2020
Total Capital Ratio	19%	20%
Leverage Ratio	7%	8%
Liquidity Coverage Ratio	180%	286%
Lending Growth	29%	60%
Deposit Growth	39%	22%
Expected Credit Losses	£168k	£171k

2.5 Culture and training

A key element of an effective risk management framework is the culture and leadership.

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;
- staff who act in the interests of their clients and treat them fairly;
- staff who act within the limits of their delegated authorities and accountabilities with integrity and honesty;
- staff who think about the commercial benefits as well as understanding and managing the risks they take on behalf of the Bank;
- staff 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 staff; and
- adequate induction and continuing professional development training for all members of staff.

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

2.6 Policies and internal controls

Policy principles are owned by the Board and provide the basis for managing the business consistently with the Board'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 its committees, respectively; and
- detailed policies, which are approved by the relevant management risk committee.

Policies are reviewed by the relevant business areas in line with the agreed timetable, and policy updates are proposed for approval at the appropriate risk management committee prior to submission, if required, to the appropriate Board committee or Board for approval.

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.

The approach is operated by the first line of defence and overseen by the second line. It comprises preventative, detective and directive controls which are either automated/system generated or performed manually. The first, second and third lines of defence conduct an annual programme of testing the Bank's key controls to deliver assurance that the controls are working effectively, or to recommend improvements.

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

2.7 Processes and procedures

The Bank maintains a Responsibilities Map and Business Operating Model document which set 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 EMC member to ensure that these are consistent with approved policy and deliver appropriate segregation of duties.

2.8 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 & Compliance for RMC members showing the residual risk RAG status against each high level risk category.

Monthly performance against appetite metrics is reported to RMC and BRC and the CRO's report includes the residual risk RAG status against each high level risk category together with remedial actions 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.

2.9 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 ICAAP and ILAAP which assess:

- 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 by such circumstances. The 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.

The Recovery Plan assesses when mitigating actions would need to be taken to avoid a severe financial stress arising 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 monitored regularly.

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.

2.10 Principal Risks

The Board has identified the principal risks and uncertainties which could threaten the Bank's business and successful delivery of the Bank's strategy and business plan. These risks, which are monitored and assessed for their impact on the Bank's reputation, are noted below and are covered in detail in subsequent sections.

The Bank is particularly exposed to business and capital risks in its early years until it has reached profitable scale. During this growth period the availability of sufficient additional capital, raised at points in time that meet both investor and regulatory expectations, is uncertain. The success of capital raising depends upon the Bank achieving its planned growth safely and investors' appetites at the time.

Table 3: Principal risks

Principal risk	Definition	Refer to
Capital risk	The risk of not having sufficient capital to meet the requirements of the business including under stressed conditions	Section 3.3
Credit risk	The risk that a counterparty or client will default on its contractual obligations resulting in financial loss to the Bank	Section 4
Liquidity risk	The risk that the Bank is unable to meet its obligations as they fall due	Section 5
Market risk	The risk that the Bank's earnings and economic value will decrease due to changes in financial market prices	Section 6
Operational risk	The risk of loss resulting from failed or inadequate internal processes, systems, people or from external events	Section 7
Business/strategic risk	The risk that the Bank fails to execute its strategy or fails to execute elements of its business plan effectively	Section 8.1
Conduct risk	The risk of practices that give rise to poor or unfair client outcomes	Section 8.2

3 Capital

3.1 Capital resources

The Bank is required to hold capital resources in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for capital resources.

The minimum capital requirement is defined under Pillar 1 and is 8% of risk weighted assets (RWA). 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 as at 31 December 2021 was 12.46% of RWA (2020: 13.06%).

The assessment of the additional Pillar 2 capital requirement is achieved through the ICAAP. Its objectives 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.

Whilst the ICAAP, and internal processes and systems supporting it, are proportionate to the nature, scale and complexity of the Bank, the internal capabilities in this regard are continually being improved. 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.

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 which is designed to ensure sufficient capital buffers are built up to provide for losses in times of stress. At 31 December 2021 the CCB was 2.5% (2020: 2.5%).

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 which, at 31 December 2021, was 0% (2020: 0%). The UK CCyB rate was reduced from 1% to 0% of banks' UK exposures with effect from 11 March 2020, as part of a package of measures to support the ability of banks to supply credit during the Covid-19 pandemic. At 31 December 2021 the Bank's total CCyB was £3k (2020: £2k). A small CCyB arises despite the 0% rate in the UK due to a limited number of credit exposures in non-UK jurisdictions with a positive CCyB rate. On 13 December 2021 the FPC announced that the UK CCyB rate will increase from 0% to 1% with effect from 13 December 2022.

The Board is required to manage the present and future activities of the Bank within the parameters described. At 31 December 2021 and 2020 the Bank's capital position was in excess of the minimum requirement set by the PRA.

The Bank's regulatory capital, RWA and capital ratios at 31 December were as follows:

Table 4: Capital resources

At 31 December	2021 £'000	2020 £'000	Movement £'000
Common Equity Tier 1			
Paid up ordinary share capital	4,223	3,823	400
Share premium	16,555	9,064	7,491
Retained earnings & other reserves	36,524	38,452	(1,928)
Less: deductions for intangible assets	(2,038)	(1,752)	(286)
Total Regulatory Capital	**55,264**	**49,587**	**5,677**
Total Risk Weighted Assets	285,422	245,595	39,827
Capital Ratio	19%	20%	
Leverage Ratio (Section 3.4)	7%	8%	

The table below provides a reconciliation of the shareholders' funds in the Annual Report and Financial Statements to the total regulatory capital shown in Table 4.

Table 5: Reconciliation of regulatory capital to shareholders' funds as reported in the financial statements

At 31 December	2021 £'000	2020 £'000
Total shareholders' funds per the balance sheet	57,302	51,339
Less: intangible assets	(2,038)	(1,752)
Total Regulatory Capital (Table 4)	**55,264**	**49,587**

Own Funds Disclosures

In accordance with the requirements of the European Banking Authority's (EBA) technical standard on Own Funds Disclosures published in July 2013, the own funds template is included at Appendix 1.

3.2 Capital requirements

The Bank calculates its Pillar 1 capital requirement using the standardised approach to credit risk, the foreign exchange position risk requirement for market risk and the basic indicator approach to operational risk.

Table 6: Pillar 1 capital requirement

At 31 December	2021 £'000	2020 £'000
Total Capital Resources Requirement		
Market Risk (Note 1)	-	-
Credit Risk (Note 2)	21,570	18,700
Operational Risk (Note 3)	1,264	948
Pillar 1 capital requirement	**22,834**	**19,648**
Excess of Total Regulatory Capital over Pillar 1 capital requirement	**32,430**	**29,939**

Notes:

1. As noted in Section 2.1 the Bank does not undertake proprietary trading activities and has no material exposure to Market Risk. The amount of capital required to cover possible losses on foreign exchange positions due to movements in foreign exchange rates is defined by the Foreign Exchange Position Risk Requirement which, for the Bank, is nil.
2. For Credit Risk requirements, under the standardised approach a standard set of risk weights is applied to credit risk exposures, dependent on a number of factors including the asset class and underlying credit quality.
3. For Operational Risk requirements, the Bank uses the basic indicator approach providing for 15% of its average annual income over three years.

The table below shows the Bank's credit risk capital requirement by asset class.

Table 7: Risk weighted assets and Pillar 1 credit risk capital requirement by exposure class

At 31 December	2021		2020	
	RWA £'000	Capital Requirement £'000	RWA £'000	Capital Requirement £'000
Pillar 1 credit risk capital requirement by exposure class				
Central governments or central banks	-	-	-	-
Institutions	29,614	2,369	33,739	2,704
Corporates	27,926	2,234	27,531	2,203
Retail	180	15	216	17
Secured by mortgages on immovable property	205,640	16,451	163,462	13,077
Exposures in default	115	9	-	-
Items associated with particularly high risk	3,090	247	5,379	430
Collective investment undertakings	-	-	-	-
Other items	3,057	245	3,364	269
	269,622	**21,570**	**233,745**	**18,700**

The increase in RWA and associated capital requirement during 2021 reflects growth in loans and advances to clients, both direct from private banking clients and via mortgage intermediaries. The Bank continues to develop its lending proposition and in 2021 launched a self-build mortgage service including finance for Passivhaus developments.

3.3 Capital risk

Capital risk is the risk that the Bank does not have sufficient capital to meet the requirements of the business including under stressed conditions. The Bank is, and will continue to be, dependent on new capital investment until the Bank becomes profitable and generates sufficient capital to support continued growth.

The Bank's capital risk framework is monitored by ALCO. It monitors and assesses optimal use of the Bank's capital and capital adequacy regularly to ensure its capital exceeds regulatory requirements with regular reporting to the Risk Committees and the Board. This is in line with the Bank's Capital Risk Policy for maintaining a strong capital base that meets the capital requirement level set for it by the PRA.

Capital planning and management, including the quantum and timing of further capital raising, is an iterative process designed to reflect the Bank's regulatory capital requirements and actual and forecast performance. With help from professional advisers, the Bank's capital plan evaluates the requirements, the sources and the appetite of investors to provide fresh capital and the timing thereof.

3.4 Leverage ratio

CRD IV requires firms to calculate and disclose a non-risk based leverage ratio to supplement the risk based capital requirements. The leverage ratio is calculated by dividing Tier 1 capital by total on and off-balance sheet exposures, subject to credit conversion factors.

Currently the Bank has no minimum UK leverage requirement as it is exempt from the UK Leverage Framework Regime, which only applies to institutions with retail deposits of £50 billion or more.

The Bank's leverage ratio was 7% at 31 December 2021 (2020: 8%). It has reduced since the prior year end due to an increase in on and off-balance sheet exposures as the Bank continues to grow.

The Bank's leverage ratio is monitored monthly by ALCO and the Board and is included in the capital forecasts.

The leverage ratio disclosure templates required by the EU Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016, are presented in Appendix 2.

4 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. Safe growth and a prudent lending policy remain central to the Bank's risk appetite. Management is cognisant of the need to balance this with growth.

The Bank seeks to mitigate credit risk by setting and monitoring geographical, business sector and product type limits to manage concentration risk within the client base. Credit risk information is reported to CC, ALCO, RMC, BRC and the Board.

4.1 Credit risk exposures

Analysis of credit risk exposures by exposure class, geographical location, sector and residual maturity is set out below.

Table 8: Credit risk exposures by exposure class

	2021		2020	
	31 December	Average	31 December	Average
Central governments or central banks	139,933	126,045	117,052	102,120
Institutions	124,795	107,242	89,262	77,133
Corporates	47,044	48,975	50,859	52,958
Retail	13,732	13,612	13,974	13,696
Secured by mortgages on immovable property	446,372	392,916	344,315	270,978
Exposures in default	115	218	-	98
Items associated with particularly high risk	2,060	3,323	3,586	6,343
Collective investment undertakings	64,857	36,903	19,003	38,468
Other items	3,532	3,430	3,869	4,026
Total	**842,440**	**732,664**	**641,920**	**565,820**

Table 9: Credit risk exposures by geographical distribution

31 December 2021	United Kingdom £'000	Australia £'000	Europe (excl. UK) £'000	Other geographical areas £'000	Total £'000
Central governments or central banks	139,933	-	-	-	**139,933**
Institutions	63,127	61,421	-	247	**124,795**
Corporates	45,844	-	1,200	-	**47,044**
Retail	13,475	55	69	133	**13,732**
Secured by mortgages on immovable property	436,845	3,450	2,455	3,622	**446,372**
Exposures in default	115	-	-	-	**115**
Items associated with particularly high risk	2,060	-	-	-	**2,060**
Collective investment undertakings	-	-	64,857	-	**64,857**
Other items	3,532	-	-	-	**3,532**
Total	**704,931**	**64,926**	**68,581**	**4,002**	**842,440**

31 December 2020	**United Kingdom £'000**	**Australia £'000**	**Europe (excl. UK) £'000**	**Other geographical areas £'000**	**Total £'000**
Central governments or central banks	117,052	-	-	-	**117,052**
Institutions	54,941	34,077	-	244	**89,262**
Corporates	48,543	-	1,596	720	**50,859**
Retail	13,779	33	67	95	**13,974**
Secured by mortgages on immovable property	338,283	3,762	1,805	465	**344,315**
Exposures in default	-	-	-	-	**-**
Items associated with particularly high risk	3,586	-	-	-	**3,586**
Collective investment undertakings	-	-	19,003	-	**19,003**
Other items	3,869	-	-	-	**3,869**
Total	**580,053**	**37,872**	**22,471**	**1,524**	**641,920**

Table 10: Credit risk exposures by sector / counterparty type

31 December 2021	**Sovereign £'000**	**Financial Institutions £'000**	**Individuals £'000**	**Corporates £'000**	**Total £'000**
Central governments or central banks	139,933	-	-	-	**139,933**
Institutions	-	124,795	-	-	**124,795**
Corporates	-	-	36,804	10,240	**47,044**
Retail	-	-	6,915	6,817	**13,732**
Secured by mortgages on immovable property	-	-	275,493	170,879	**446,372**
Exposures in default	-	-	115	-	**115**
Items associated with particularly high risk	-	-	-	2,060	**2,060**
Collective investment undertakings	-	-	-	64,857	**64,857**
Total	**139,933**	**124,795**	**319,327**	**254,853**	**838,908**
Other items	-	-	-	-	**3,532**
Total credit risk	**139,933**	**124,794**	**319,328**	**254,853**	**842,440**

31 December 2020	**Sovereign £'000**	**Financial Institutions £'000**	**Individuals £'000**	**Corporates £'000**	**Total £'000**
Central governments or central banks	117,052	-	-	-	**117,052**
Institutions	-	89,262	-	-	**89,262**
Corporates	-	-	32,439	18,420	**50,859**
Retail	-	-	6,806	7,168	**13,974**
Secured by mortgages on immovable property	-	-	216,550	127,765	**344,315**
Exposures in default	-	-	-	-	**-**
Items associated with particularly high risk	-	-	-	3,586	**3,586**
Collective investment undertakings	-	-	-	19,003	**19,003**
Total	**117,052**	**89,262**	**255,795**	**175,942**	**638,051**
Other items	-	-	-	-	**3,869**
Total credit risk	**117,052**	**89,262**	**255,795**	**175,942**	**641,920**

Table 11: Credit risk exposures by residual contractual maturity

31 December 2021	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Undated £'000**	**Total £'000**
Central governments or central banks	139,933	-	-	-	-	-	139,933
Institutions	44,503	50,459	29,833	-	-	-	124,795
Corporates	39,663	-	1,534	5,640	207	-	47,044
Retail	13,732	-	-	-	-	-	13,732
Secured by mortgages on immovable property	17,132	7,511	22,795	217,376	181,558	-	446,372
Exposures in default	-	-	115	-	-	-	115
Items associated with particularly high risk	60	-	-	2,000	-	-	2,060
Collective investment undertakings	64,857	-	-	-	-	-	64,857
Other items	-	-	-	-	-	3,532	3,532
Total	**319,880**	**57,970**	**54,277**	**225,016**	**181,765**	**3,532**	**842,440**

31 December 2020	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Central governments or central banks	117,052	-	-	-	-	-	117,052
Institutions	25,144	10,984	53,134	-	-	-	89,262
Corporates	47,178	-	31	3,552	97	-	50,859
Retail	13,959	-	15	-	-	-	13,974
Secured by mortgages on immovable property	15,355	4,009	15,671	183,227	126,053	-	344,315
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	586	-	-	3,000	-	-	3,586
Collective investment undertakings	19,003	-	-	-	-	-	19,003
Other items	-	-	-	-	-	3,869	3,869
Total	**238,277**	**14,993**	**68,851**	**189,779**	**126,151**	**3,869**	**641,920**

4.2 Client credit risk

Credit policies, principles and risk appetite metrics are designed to protect the business throughout economic cycles by ensuring the credit portfolio is of high quality, with a low overall percentage of unsecured lending and relatively low monetary limits for individual unsecured lending cases. Client lending is undertaken within prescribed limits and risk appetite measures, which are reviewed regularly by the Credit Committee (CC), RMC, BRC and approved by the Board.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining collateral where appropriate to mitigate credit risk. For lending to clients, collateral is primarily in the form of residential or commercial property based in the UK or UK-managed share portfolios. All collateral is subject to initial valuation and periodic revaluation. Where security is held over property the value is monitored at least every three years for residential property and every year for commercial property. Share portfolios are revalued on a daily basis.

Lending propositions are subject to thorough credit assessment, including affordability and stress testing at increased rates at a percentage over the prevailing rate at loan origination. The Board attaches significant importance to ensuring that, in addition to adhering to all regulatory requirements and imbuing an aspirational culture amongst its staff, the highest levels of integrity are employed in all its dealings with clients. In particular, the Bank has established a separate Responsible Lending Policy to which all staff involved in lending and the decision-making process must adhere. In order to mitigate risk in the lending book the Bank has in place formal procedures to set authority limits and assess borrowing applications. Credit approval follows a hierarchical approach where the key differentiator between each approval category is the maximum credit exposure each group can authorise. The Credit Risk team and CC provide a challenge and review process by undertaking sample reviews of all credit exposures agreed in the authorisation matrix. CC is also responsible for the approval of large exposures in line with the Board approved Credit Risk Policy and limits, which are subject to periodic review.

Under the standardised approach, client lending exposures are reduced through credit risk mitigation techniques prior to applying risk weightings and calculating capital requirements. The Bank recognises cash deposits held by the Bank as eligible collateral for credit risk mitigation. At 31 December 2021, £1,350k of exposures secured by mortgages on immovable property (2020: £938k) and £2,121k of exposures to corporates (2020: £1,730k) were covered by cash deposits and, consequently, a risk weight of 0% was applied to these exposures.

4.3 Treasury credit risk

Credit risk includes treasury counterparty risk, being the loss that might arise from counterparties of the Bank with whom it places its surplus funds. The types of financial instruments used by the Bank which can give rise to counterparty risk are balances with central banks, money market placements, liquidity funds and foreign exchange transactions. Treasury counterparties are required to meet a minimum credit rating as defined in the Bank's Counterparty Policy approved by the Board. The use of treasury counterparties and counterparty limits are approved and monitored by ALCO.

The Bank uses an agent to source external credit assessment ratings provided by Moody's for calculating the credit risk requirements under the standardised approach for treasury exposures. During 2021 the Bank changed from Fitch to Moody's, recognising that Moody's makes a distinction between bank deposit ratings and issuer ratings for specific banks. The tables below show the breakdown of counterparty exposures, risk weights, RWA, credit assessment rating and credit quality step.

Table 12: Treasury counterparty exposures

31 December 2021	Exposure value £'000	Risk weight %	RWA £'000	Rating	Credit Quality Step
Central governments or central banks	139,933	0%	-	Aa3	1
Institutions	61,420	20%	12,284	Aa3	1
Institutions	43,913	20%	8,783	A1	2
Institutions	3,945	20%	789	Baa1	3
Institutions	15,517	50%	7,758	A1	2
Collective investment undertakings	64,857	0%	-	Aaa	1
	329,585		**29,614**		

31 December 2020	Exposure value £'000	Risk weight %	RWA £'000	Rating	Credit Quality Step
Central governments or central banks	117,052	0%	-	AA-	1
Institutions	32,222	20%	6,444	A+	2
Institutions	3,661	20%	732	A-	2
Institutions	245	20%	49	BBB+	3
Institutions	50,205	50%	25,103	A+	2
Institutions	2,929	50%	1,465	A-	2
Collective investment undertakings	19,003	0%	-	AAA	1
	225,317		**33,793**		

The reduction in RWA relative to exposure value reflects a higher proportion of funds in collective investment undertakings, which attract a 0% risk weight.

4.4 Exposures in default

The nature of the Bank's lending reduces the risk of default in the portfolio.

A position is defined as in default when it meets one of the following criteria:

- A facility's contractual payments are more than 90 days past due;
- It is considered that the client is unlikely to pay their credit obligation to the Bank in full, without recourse actions such as the realisation of any security held. Evidence that a financial asset is credit impaired may include events such as:
  - bankruptcy;
  - forbearance;
  - bereavement, divorce or separation; or
  - a material covenant breach.

An instrument is considered to be no longer in default when it no longer meets the above default criteria and has returned to being up to date on its contractual repayments. There was one exposure at 31 December 2021 which was greater than 90 days past due (2020: none).

Further details can be found in note 2.8 to the Annual Report and Financial Statements.

The impact of the Covid-19 pandemic, rising interest rates and higher inflation on lending clients is uncertain and continues to be closely monitored. The Bank aims to support its clients through this challenging period and it is recognised that clients may require forbearance as the economy recovers and government support unwinds. The expected credit losses at 31 December 2021 (total provisions £176k) recognises the uncertainty in the economic outlook.

The table below details the Bank's age analysis of accounting past due exposures:

Table 13: Analysis of loans and advances to clients by payment status

At 31 December	**2021 £'000**	**2020 £'000**
Neither past due nor in default	422,204	325,115
Past due but not in default: past due less than one month	-	1,310
In default: past due more than three months	124	-
Total loans and advances to clients (gross carrying amount)	422,328	326,425
Impairment allowances	(168)	(171)
Loans and advances to clients (net carrying amount)	**422,160**	**326,254**

All past due exposures are in the UK (2020 all UK).

4.5 Impairment

In accordance with IFRS 9, impairment allowances are evaluated on an expected credit loss (ECL) basis.

Calculation of ECL

ECL is determined by assessing the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor for each individual exposure. The four components are multiplied together to derive expected ECLs for the relevant period. The Bank assesses ECLs associated with its financial assets, including the exposures arising from loan commitments, on a case-by-case basis.

PDs are estimated using data provided by an external consultant which has been profiled against the Bank's lending book, adjusted to reflect the potential impact of differing future economic scenarios. As the Bank historically has limited instances of default it is not possible to use internally collected data to derive PD rates.

LGD for each account is based on collateral recovery value, which is the market value less a haircut. The haircuts typically vary between 20-50% and are assessed on a case-by-case basis depending on the type, location, size and nature of the collateral. They include assumptions to reflect the cost of liquidating collateral in a forced sale, legal costs and the time value of money. Haircuts may be increased or decreased to reflect market movements or forward-looking macro-dependencies of LGD.

EAD is the expected principal balance outstanding plus three months interest at the time of default.

Forward-looking macroeconomic scenarios

IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. The Bank has addressed these requirements using a number of probability-weighted forward-looking macroeconomic scenarios. These scenarios have been used to model impacts on ECLs based on the estimated effect of economic variables on key risk inputs, assessed using long term historical data and expert judgement.

The five economic scenarios comprise a base case, which carries the highest probability weighting, an upside case, a severe downside case, a very severe downside case and the Bank of England's 2021 solvency stress test scenario. Each scenario represents a different pace and extent of recovery or otherwise from the Covid-19 pandemic and therefore a different economic impact. The economic scenarios are described in note 12 to the Annual Report and Financial Statements, which also sets out their impact on the measurement of ECLs.

Significant increase in credit risk since origination

ECLs are measured on a 12 month or lifetime basis depending on whether or not a significant increase in credit risk (SICR) has occurred since initial recognition.

The Bank uses a credit scorecard methodology for assessing SICR based on a number of quantitative, qualitative and backstop measures.

Quantitative criteria:

For each financial asset, if the credit score, determined by the credit scorecard methodology, has increased by more than a predetermined threshold relative to the origination score.

Qualitative criteria:

A number of qualitative criteria are also used to assess significant increase in credit risk:

- bankruptcy;
- forbearance;
- borrowers who are placed on watch list; and
- pre-delinquency information.

Backstops:

As defined within IFRS 9, the following backstops have been factored into the Bank's credit scorecard:

1. The Bank considers that if an asset's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place;
2. If a position is greater than 90 days past due it is considered to be in default.

IFRS 9 staging

The Bank uses a three-stage impairment model as follows.

- Stage 1: For assets that are not credit impaired and have not had a SICR since initial recognition, 12 months ECLs are recognised.
- Stage 2: For assets that have experienced a SICR since initial recognition but are not credit impaired at the reporting date, lifetime ECLs are recognised.
- Stage 3: For financial assets that are credit impaired at the reporting date, lifetime ECLs are recognised. The Bank's definition of credit impaired is aligned with the definition of default (see section 4.4).

An analysis of stage 2 and stage 3 loans is set out in note 12.1 to the Annual Report and Financial Statements.

Impairment allowances

The table below shows the reconciliation of movements in impairment allowances on loans and advances to clients:

Table 14: Movements in impairment allowances on loans and advances to clients

Year ended 31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2021	94	77	-	**171**
Charge to the income statement	12	(21)	6	**(3)**
Write-offs	-	-	-	**-**
Balance at 31 December 2021	**106**	**56**	**6**	**168**

Year ended 31 December 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2020	7	-	-	**7**
Charge to the income statement	87	77	-	**164**
Write-offs	-	-	-	**-**
Balance at 31 December 2020	**94**	**77**	**-**	**171**

Further information

Further information on the Bank's impairment allowances and the credit risk profile of loans and advances to clients is provided in the Annual Report and Financial Statements in notes 2.8, 12 and 19.

5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due. Liquidity is the ongoing ability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet contractual obligations through unconstrained access to funding at reasonable market rates. The risk is inherent within the Bank's operating model as profit generation relies on short term contractual maturity of deposits versus longer term lending to generate revenues.

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 Bank recognises that in the early stages of development, there is a concentration of depositors and so seeks to establish a loyal, diverse and stable client base. The Treasury function seeks to minimise liquidity risk on a forward-looking basis under the supervision of ALCO. 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 by ALCO. Liquidity risk information is reported to RMC, BRC and the Board.

The Bank maintains an ILAAP, which is approved annually by the Board. It includes a description of the governance and authority arrangements in the Bank and articulates the risk tolerance. When assessing liquidity risk, the Bank considers the amount of assets held as eligible buffer assets being highly liquid, marketable forms that are available should unexpected cash flows lead to a liquidity requirement.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is a regulatory short-term funding ratio which aims to ensure that banks maintain an adequate level of liquidity to meet their net cash requirements for a 30 day period under stressed conditions. The LCR has a regulatory minimum of 100%.

The table below shows the Bank's LCR as at 31 December.

Table 15: Liquidity coverage ratio

At 31 December	2021 £'000	2020 £'000
Liquidity buffer	204,790	136,055
Net liquidity outflow	113,572	47,627
LCR	**180%**	**286%**

The reduction in the Bank's LCR from 2020 to 2021 reflects a higher proportion of deposits available within the 30 day window. The Bank's LCR was above the minimum regulatory requirement and internal risk appetite throughout 2021.

Asset encumbrance

An asset is encumbered if it has been pledged as collateral against an existing liability.

The Bank's encumbered assets as at 31 December 2021 were £247k (2020: £244k). This represents 0.03% of total assets (2020: 0.04%) and is therefore considered immaterial.

6 Market risk

Market risk is the risk that the value of 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 and foreign currency risks - both of which are managed to reduce the impact of market movements.

The Bank does not have a trading book and does not undertake proprietary trading activities.

Interest rate risk

Interest rate risk is the risk that arises from volatility in interest rates. As the Bank does not operate a trading book, all exposure to interest rate risk arises from banking activities. Where possible, the Bank seeks to match the interest rate structure of assets with liabilities (mainly deposits), creating a natural hedge. Where this is not possible, the Bank may enter into interest rate swap agreements to hedge any exposure. Sensitivity to interest rate changes is managed within set limits by the Treasury function and regularly reported to, and reviewed by, ALCO, RMC, BRC and the Board. One such internally reported measure is Economic Value of Equity, where the Treasury function calculates changes in the net present value of the balance sheet under a 2% yield curve shock. The results at both 31 December 2021 and 2020 do not show a material change in net present value.

Basis risk arises where assets and liabilities reprice with reference to differing short term interest rate benchmarks (e.g. Bank of England bank rate and Sterling Overnight Index Average). Basis risk is reported to ALCO on a monthly basis and ALCO has set limits to manage this risk.

Foreign exchange risk

The Treasury function manages the risk of failing to control the effects of material movements in foreign exchange markets through adherence to agreed limits and risk appetite metrics, overviewed by members of ALCO, and reported to RMC, BRC and the Board. Client deposit accounts denominated in foreign currencies are currently naturally hedged on the balance sheet.

7 Operational risk

Operational risk is defined as the risk of loss resulting from failed or inadequate internal processes, systems, people or from external events.

The principal sources of operational risks for the Bank stem from client account management, IT systems, information security, outsourcing, financial reporting and regulatory risk including financial crime and market abuse. The regulatory framework is monitored by the Compliance & Conduct Committee.

These risk sources include “cyber” risks, principally in relation to information security and financial crime. Availability, resilience and security of IT systems are core objectives which are fundamental to meeting clients’ needs and maintaining their confidence in the Bank’s services. As the pace of technological development increases, so does the threat of new cyberattacks. Accordingly, the Board and the Risk Committees focus on maintaining an effective cyber threat identification and control framework. The Operational Risk Committee oversees the Bank’s arrangements and key risk appetite metrics are monitored regularly and reported to RMC, BRC and the Board. The Bank’s insurance coverage is reviewed annually.

Inherent in any growth plan are volume related risks arising from increased transactions, client numbers, new products and distribution methods. These are managed through a matched or proportionate increase in operational capability and capacity as well as internal control.

As the Bank grows and enhances its client services and digital capabilities, it will have due regard to emerging and evolving risks and will develop its people, systems and processes accordingly. The Bank is undertaking a material upgrade to its core banking system with implementation expected during 2022. The risks associated with this change will be monitored through the risk and project steering committees.

Other threats and opportunities to the business arise from the economic, political and regulatory arena, not least Covid-19, the UK’s departure from the EU and the geopolitical impact of the conflict in Ukraine and these are subject to ongoing monitoring and review. Material events are escalated in line with policy to the Board and/or the most appropriate risk committee(s).

Business continuity plans, which include actions required in response to a cyber incident, are in place and are updated and tested regularly. The Bank uses external disaster recovery sites as back up locations for its IT systems and certain operational activities.

Financial Reporting Risk

This is the risk of failing to monitor and accurately report financial positions to the Board, regulators and key stakeholders through monthly management accounts and the Annual Report and Financial Statements. It includes failing to manage the risks of changes in taxation legislation and rates or to disclose accurate and timely information in the Annual Report and Financial Statements and to HMRC. Systems and controls are designed to ensure that accounting and tax policies meet the letter and spirit of legislation and prevent high value unresolved differences in general ledger accounts.

Regulatory Risk

The principal sources of regulatory risk relate to the failure to prevent breaches of regulatory or legal requirements, including financial crime. It is important for the Bank to adhere to the letter and spirit of all relevant laws, regulations and codes of practice and to adopt an open and transparent relationship with regulators. The Bank recognises that the volume and complexity of regulatory requirements is a key source of risk to successful implementation of regulatory change.

8 Other principal risks

8.1 Business/strategic risk

Business risk is the risk that the Bank fails to execute its strategy or fails to execute elements of its business plan effectively. This includes failing to build capabilities, or the inability to meet goals due to changes in the economic or political environment. Management monitors performance trends on a weekly basis with actual and forecast management information and any required action discussed by both EMC and the Board.

The Bank recognises that climate change is a global issue which has significant implications for its clients, suppliers, partners and employees. To date no material exposure to financial risks from climate change has been identified. The onus on companies to demonstrate their commitment to tackling climate change is expected to increase and the Bank is taking steps to reduce its impact on the environment and the causes of global climate change, including enhancing the measurement of the Bank's exposure to physical and transition risks that may arise. The Bank's Sustainability Steering Group will keep the Bank's plans under review to ensure they remain appropriate and in line with evolving regulatory requirements. Further information on the Bank's sustainability strategy is provided in the Sustainability Report on pages 11 to 13 of the Annual Report and Financial Statements, and Climate-related Financial Disclosures are set out on pages 21 to 24 of the Annual Report and Financial Statements.

The Bank's response to the Covid-19 outbreak is being closely managed by EMC, supported by the Bank's operational resilience framework. At times of high virus prevalence office attendance has been restricted to a small number of staff and only for essential tasks which cannot be undertaken remotely. More generally as the virus prevalence reduces, the Bank is intending to adopt a hybrid working model. Disruption to service levels has been minimal with clients still able to contact their nominated banker via normal channels and to access the full range of transactional services. Regular contact has been maintained with key suppliers who continue to deliver their contracted services and payments to suppliers have not been affected. The Bank is committed to supporting its employees and clients and to maintaining the quality of its service throughout the Covid-19 outbreak. The Board recognises, however, that the full extent of the economic impact of Covid-19 remains uncertain and this may adversely impact the Bank's growth, at least in the short to medium-term.

Brexit has had little direct impact on the Bank, although there is continued uncertainty about its longer-term effects on the economy and trade. The conflict in Ukraine has delivered a shock to the geopolitical landscape. While the Bank has no direct exposure to Russia or Ukraine, the outlook for the economy and the property market has become less certain. Political and economic developments continue to be monitored as part of business-as-usual activities.

8.2 Conduct risk

Conduct risk refers to practices that give rise to poor or unfair client outcomes. The Bank manages this risk by putting clients' interests at the heart of the business, seeking to develop and maintain long-term relationships with its clients and by being focused on providing products and services relevant to their needs. The Bank relies on its reputation to build its business and sees the adherence to good conduct principles and delivery of fair outcomes as of paramount importance. The conduct risk framework is monitored by the Compliance & Conduct Committee and results from the monitoring of client outcomes and other conduct risk indicators are reported to the appropriate Risk Committees and the Board. High levels of client advocacy contribute to the Bank's growth and help promote shareholder confidence. All staff are required to adhere to an internal Code of Conduct and regulatory conduct rules, which require attainment of the highest levels of integrity and ethical behaviour towards the business, colleagues, clients, suppliers and regulators.

9 Remuneration

9.1 Remuneration of Code Staff

In compliance with financial services regulatory requirements, the Bank is required to make disclosures regarding the remuneration of Directors, Senior Management and Material Risk Takers (MRTs) whose professional activities may have a material impact on the Bank's risk profile. The principles and practice underlying the remuneration of Code Staff apply throughout the Bank. However, for disclosure purposes, individuals defined as Code Staff by the PRA and FCA include all Directors, Senior Managers who have FCA or PRA Senior Manager Function responsibilities and MRTs who have the potential to impact materially on the Bank's risk profile.

Aggregate Remuneration paid to Code Staff during the year ended 31 December 2021 is summarised below:

Table 16: Remuneration information – Code Staff

Year ended 31 December 2021	Directors	Senior Managers and MRTs	Total
Number of identified Code Staff	*6*	*13*	*19*
Fixed remuneration			
Cash £'000	802	945	1,747
Other forms £'000	15	68	83
Total fixed remuneration	**817**	**1,013**	**1,830**
Variable remuneration			
Cash £'000	43	106	149
Total variable remuneration	**43**	**106**	**149**

9.2 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.

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.

9.3 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 our policy, which is intended to:

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

The Bank's Remuneration Policy was reviewed in 2021 by the Remuneration Committee, and in turn by the Board, and no substantive changes were made.

9.4 Remuneration Committee

The Remuneration Committee convenes at least once a year and during the year to 31 December 2021 it met six times. It is comprised entirely of non-executive directors and the current members are:

- Caroline Taylor: Non-Executive Director and Chairman of the Committee (from 11 March 2021)
- Simon Miller: Non-Executive Chairman (Chairman of the Committee until 11 March 2021)
- 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 CEO 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.

9.5 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 and 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 January each year. In addition to the annual performance review meetings, line managers and colleagues meet to review performance and progress against objectives in May and September. 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. As at the end of 2021 no individual received remuneration in excess of €1 million.

The Bank operates a share option scheme with two parts: a tax advantaged Company Share Option Plan for all employees and a non-tax advantaged Share Option Plan for the executive management team. Share options were granted under both parts during 2021 but no options were exercised under either part during 2021. Further information is contained in note 11 to the Annual Report and Financial Statements (www.hampdenandco.com).

There is no outstanding deferred remuneration and during the current and prior year no inducement offers or severance payments were made to members of staff whose professional activities have a material impact on the risk profile of the Bank.

Appendix 1: Own funds disclosure template

Own Funds Disclosure Template		**2021 £'000**	**2020 £'000**	**Regulation (EU) No 575/2013 Article Reference**
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	20,778	12,887	26 (1), 27, 28, 29
	Of which: ordinary shares	20,778	12,887	EBA list 26 (3)
2	Retained earnings	39,494	42,530	26 (1) (c)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**60,272**	**55,417**	**Sum**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	(2,038)	(1,752)	36 (1) (b), 37
25a	Losses for the current financial year (negative amount)	(2,970)	(4,078)	36 (1) (a)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(5,008)	(5,830)	Sum
29	**Common Equity Tier 1 (CET1) capital**	**55,264**	**49,587**	**Row 6 minus row 28**
45	**Tier 1 capital (T1 = CET1)**	**55,264**	**49,587**	**Sum**
59	**Total capital (TC = T1)**	**55,264**	**49,587**	**Sum**
60	**Total risk weighted assets**	**285,422**	**245,595**	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	19.4%	20.2%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	19.4%	20.2%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	19.4%	20.2%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7%	7%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	0%	0%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.9%	15.7%	CRD 128

Appendix 2: Leverage Ratio

The leverage ratio disclosure templates required by the EU Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016, are presented in the following tables. The row numbers identify the lines prescribed in the EBA template. Lines represented are those lines which are applicable and where there is a value.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		2021 £'000	2020 £'000
1	Total assets per published financial statements	756,181	556,125
6	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	62,050	52,196
7	Other adjustments	(449)	(498)
8	**Leverage ratio total exposure measure**	**817,782**	**607,823**

LRCom: Leverage ratio common disclosure

		2021 £'000	2020 £'000
	On balance sheet exposures (excluding derivatives and SFTs)		
1	On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	757,770	557,379
2	(Asset amounts deducted in determining Tier 1 capital)	(2,038)	(1,752)
3	**Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**755,732**	**555,627**
	Other off balance sheet exposures		
17	Off balance sheet exposures at gross notional amount	88,290	85,805
18	(Adjustments for conversion to credit equivalent amounts)	(26,240)	(33,609)
19	**Other off balance sheet exposures (sum of lines 17 and 18)**	62,050	52,196
	Capital and total exposure measure		
20	Tier 1 capital	55,264	49,587
21	Leverage ratio total exposure measure (sum of lines 3 and 19)	817,782	607,823
22	**Leverage ratio**	**6.8%**	**8.2%**

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

		2021 £'000	2020 £'000
EU-1	**Total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	755,732	555,627
EU-3	Banking book exposures, of which:		
EU-5	Exposures treated as sovereigns	204,801	136,055
EU-7	Institutions	124,795	89,262
EU-8	Secured by mortgages of immovable properties	390,776	293,498
EU-9	Retail exposures	253	315
EU-10	Corporate	29,871	29,541
EU-11	Exposures in default	115	-
EU-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	5,121	6,956

LR Qua: Free format text boxes for disclosure on qualitative items

1	**Description of the process used to manage the risk of excessive leverage** The Bank's leverage ratio is monitored monthly by ALCO and the Board and is included in the capital forecasts and stress tests which are part of the ICAAP.
2	**Description of the factors that had an impact on the leverage ratio during the period to which the disclosure refers** The leverage ratio was 6.8% as at 31 December 2021 (2020: 8.2%).

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