Hampden & Co.
BANKERS

Pillar 3 Disclosures

Year Ended 31st December 2018

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1 Overview

1.1 Introduction

2018 represents Hampden & Co plc's ("the Bank") third full year of trading.

The delivery of the Bank's strategy is through the adoption of a conservative private banking business model based on a high-quality service. The Bank provides a discreet, personal service delivered with care and courtesy by dedicated and experienced private bankers supplemented by digital channels. When combined with a thorough knowledge of the client and related family members, tailored services and continuity of personnel, the Directors of Hampden & Co. ('the Board') believe this is highly appealing to its high net worth target market – how banking should be.

The Board has determined that the core strategy is to continue to grow the Bank's deposit base and lending book in a prudent manner with a focus on client interest and fair client outcomes aligned with high quality service. Banking services are straightforward, centred on current account services, savings, mortgages and loans. The Bank offers debit card services but does not operate a credit card. In 2018 the Bank continued to add to the services offered, including fixed rate lending and, early in 2019, digital banking.

1.2 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 Capital Requirements Directive ("CRD IV") came into force on 1st January 2014 (implemented under the Basel III framework of the Basel Committee on Banking Supervision) and is enforced in the UK by the PRA. The aim of the legislation 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");
- Pillar 3 refers to market discipline and expanded disclosures that would 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) ("CRR").

1.3 Basis and frequency of disclosure

This Pillar 3 report is based upon the Bank's Annual Report and Financial Statements ("Financial Statements") for the year ended 31st December 2018.

Pillar 3 disclosures are issued on an annual basis and are published on the Bank's website (www.hampdenandco.com) as soon as practical after the publication of the Bank's Financial Statements. The Financial Statements include a range of risk factors and provide 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 Financial Statements.

These Pillar 3 disclosures were reviewed and approved by the Board on the 21 May 2019. These disclosures are not subject to external audit except where the information contained also appears in the Bank's Financial Statements.

2 Governance and Risk Management

2.1 Introduction

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

The Board is responsible for setting the risk appetite of the Bank. This is reviewed at least annually and adjusted in the light of strategic, commercial and economic aims and statutory/regulatory requirements. This is complemented by the Bank's culture of placing clients at the forefront of the business and the development and maintenance of long-term relationships with the clients.

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 UK private banking in order to build long term 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 has yet to achieve a self-sufficient business model, a principal risk that the Board seeks to address;
- developing the Bank's client acquisition capabilities and appeal through excellent client service and fair outcomes are essential to the Bank's success;
- 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.

The Bank is UK focused, does not undertake proprietary trading and manages capital and liquidity in a controlled manner. The Bank has a Tier 1 ratio of 41% (2017: 64%) as at 31 December 2018. Other key ratios are disclosed in the Bank's Financial Statements within the Strategic Report: Key Performance Indicators (page 3).

The Board has developed a comprehensive risk management framework and seeks to balance opportunities, risks and rewards by setting a risk appetite appropriate for building a highly respected

reputation necessary for the sound delivery of the Bank's strategic objectives and meeting stakeholders' expectations. As such there is vigilant monitoring of, and response to, any events which could potentially damage the Bank's reputation. The Board considers that its system of governance and risk management arrangements, including governance committees, risk management systems and controls, are appropriate and consistent with regard to the Bank's profile and strategy.

A key element of the Bank's risk management framework is the business culture. An important objective of the Board is to have:

- Board and Committee members that openly champion 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 interest 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;
- a performance appraisal process that takes achievement of risk management objectives into account for all staff;
- a remuneration and reward policy that is aligned with the risk culture and long term goals of the Bank;
- staff who are actively encouraged to identify and report threats and opportunities and take proactive steps to address weaknesses when they are discovered;
- a whistleblowing process in place should staff require to escalate an issue outside of the normal management reporting lines;
- adequate induction and continuing professional development training for all members of staff.

The Bank's risk management framework adopts a "three lines of defence" model which provides clear delineation of responsibilities between risk control by the business areas (first line), monitoring and challenge by the risk and compliance functions (second line) and independent assurance by internal audit (third line).

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 function who 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.

An enterprise wide risk report is considered by the Board at each meeting.

2.2 Key Governance Committees

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 approves the Bank's Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), Recovery Plan & Resolution Pack ("RRP") and policy principles. Members of the Board are deemed to have adequate collective knowledge, skills and experience to be able to understand the Bank's activities, including its main risks. Each member of the Board is able to commit sufficient time required by the Bank in line with the demands of a growing business. The Board met 11 times in the year to 31 December 2018.

2.2.2 Audit and Risk Committee ("ARC")

Supporting the Board's oversight of the Bank's risk management is the Board Risk Committee ("BRC") which was merged with the Audit Committee in November 2018 to form the Audit and Risk Committee ("ARC"), comprising Non-Executive Directors.

Chaired by an independent non-executive director, the ARC:

- Supports the Board's risk governance through assigned responsibilities which include recommending to the Board the business risk appetite and relevant monitoring measures, and approval and oversight of key policies adopted by the business. The committee provides oversight of the assessment and appropriate control of the key risks by management in line with the Board's risk appetite.
- Recommends to the Board the internal and external audit approach, recommends the Financial Statements of the business to the Board and approves and oversees the internal and external audit plans. The committee receives internal and external audit reports and oversees the relevant management responses.

The BRC and Audit Committee met 5 and 3 times respectively in the year to 31 December 2018. The newly formed ARC met once in the year to 31 December 2018.

2.2.3 Remuneration Committee

This is a Board sub-committee chaired by an independent non-executive director providing independent oversight and recommendations on remuneration policies, including independent reviews and assessments of any incentive schemes. It met 3 times in the year to 31 December 2018.

2.2.4 Nominations Committee

This Board sub-committee is chaired by the Chairman. The function of the committee is to periodically review the composition and succession of the Board and its committees to ensure the Board has a sufficient balance of knowledge, skills and experience for effective delivery of the Bank's strategy. Fundamental to the composition of the Board is equality of opportunity regardless of age, disability, ethnicity, gender, religion or belief or sexual orientation. Whilst the Board has not set a specific diversity target, it is satisfied with the current level of diversity. It met twice in the year to 31 December 2018.

2.2.5 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 CEO, who is supported by the Executive Management Committee ("EMC"). The EMC comprises the Bank's executive directors and senior management team. Chaired by the CEO, the 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.

2.2.6 Assets & Liabilities Committee ("ALCO")

This management committee which is chaired by the CEO 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. ALCO proposes market, capital and liquidity risk policies for approval.

2.2.7 Risk Management Committee ("RMC")

This management committee which is chaired by the CRO is responsible for maintaining, monitoring and reporting the Key Risk Indicators ("KRIs") of the business, as established by the ARC, and for overseeing implementation of any action plans required to enhance the risk control environment. The committee proposes policies for approval other than those under the remit of ALCO and Credit Committee. It also monitors compliance with key policies and assesses the impact of changes to the legal and regulatory environment.

2.2.8 Credit Committee

This management committee which is chaired by the CEO is responsible for monitoring credit performance, agreeing and monitoring individual Private Banker credit authorities, proposing credit risk policies and sanctioning credit facilities within Board approved limits.

2.3 Principal Risks

To varying degrees of significance the principal risks faced by the Bank are:

- Capital Risk;
- Strategic and Business Risk;
- Conduct Risk;
- Liquidity Risk;
- Market Risk including Interest Rate Risk;
- Operational Risk which the Bank has categorised into operational (including cyber), financial reporting and regulatory risks.

2.3.1 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 generates its own.

The Bank is required to hold capital that is permanent and meets the requirements of the regulator. The Board recognises that capital must be maintained at a level which is adequate, both as to amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due or its

strategy met. There is a low appetite for taking actions which may compromise either the quantum or quality of its capital to the extent that the Bank may fail to meet the strict regulation in place for capital adequacy of firms.

The Bank monitors and assesses optimal use of its capital and capital adequacy regularly to ensure its capital exceeds requirements with regular reporting to ALCO, RMC, ARC and Board. This is in line with the Bank's Capital Management policy for maintaining a strong capital base that is above the capital requirement level set for it by the regulator, the Prudential Regulation Authority ("PRA").

2.3.2 Strategic and Business Risk

Business risk is the risk to the Bank arising from failure to deliver its strategy and planned financial performance and to manage the risks as well as opportunities arising from any potential changes to strategy or the wider external business environment. Such risks would impair the ability to deliver the business plan in line with expectations. The Bank has yet to achieve a capital self-sufficient business model and so remains dependent on further capital investments to deliver its growth plans.

Other threats and opportunities to the business arise from the economic, political and regulatory arena and these are subject to ongoing monitoring and review.

Management of this risk is designed to keep the Bank safe and protect against earnings, growth and strategic shocks and demonstrate consideration of risks and rewards in short and longer term decision making.

2.3.3 Conduct Risk

Conduct risk refers broadly to practices that give rise to unfair outcomes for clients through poor design and delivery of client services, internal cultures or behaviours. The Bank manages this risk by putting clients' interests at the heart of the business and 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 heavily on its reputation to grow its business and sees the adherence to good conduct principles and delivery of fair outcomes as of paramount importance. High levels of client advocacy contribute to the Bank's success 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.

2.3.4 Credit Risk

Credit risk arises from lending to clients, a mix of private individuals, trusts, SME business lending and treasury counterparties. 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. 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 ensure 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 Credit Committee provide a challenge and review process by undertaking sample reviews of all credit exposures agreed in the authorisation matrix. The Credit Committee 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.

The Bank seeks to mitigate credit risk by setting and monitoring geographical, business sector and product type limits to avoid the emergence of concentration risk within the client base. Disclosure of credit risk by geographical location is included below and disclosure by exposure class is detailed in section 3.2.

Credit risk includes treasury counterparty risk, being the loss that might arise from wholesale counterparties of the Bank. The types of financial instruments used by Treasury which can give rise to counterparty risk are money market placements, liquidity funds and FX transactions. Treasury counterparties are required to meet a minimum credit rating as defined in the Bank's Counterparty policy principles approved by the Board. The use of treasury counterparties and counterparty limits are approved and monitored by the ALCO. Individual treasury counterparty limits, excluding the Bank of England, are set at a maximum of 50% of the Bank's capital to ensure the Bank is not at serious risk of counterparty failure.

The Bank uses external credit assessments provided by S&P and/or Fitch for calculating the credit risk requirements under the standardised approach for Treasury exposures. The table below shows the breakdown of the counterparty exposures, risk weights, risk weighted assets ("RWAs"), rating and Credit Quality Step.

31 December 2018	**Exposure value £'000**	**Risk weight %**	**RWAs £'000**	**Rating**	**Credit Quality Step**
Cash and balances with central banks	91,101	0%	-	AAA	1
Loans and advances to banks	48,363	0%	-	AAA	1
Loans and advances to banks	6,552	20%	1,310	A	2
Loans and advances to banks	9,457	20%	1,891	A-	2
Loans and advances to banks	19	20%	4	A+	2
Loans and advances to banks	3,008	20%	602	BBB+	3
Loans and advances to banks	10,153	50%	5,077	A	2
Loans and advances to banks	4,000	50%	2,000	BBB+	3
	172,653		**10,884**		

31 December 2017	Exposure value £'000	Risk weight %	RWAs £'000	Rating	Credit Quality Step
Cash and balances with central banks	83,256	0%	-	AAA	1
Loans and advances to banks	35,508	0%	-	AAA	1
Loans and advances to banks	245	20%	49	A-	2
Loans and advances to banks	21	20%	4	A	2
Loans and advances to banks	6,477	20%	1,295	BBB+	3
Loans and advances to banks	3,000	50%	1,500	A	2
Loans and advances to banks	5,800	50%	2,900	A-	3
Loans and advances to banks	7,500	50%	3,750	BBB+	3
	141,807		**9,498**		

The Bank adopted IFRS 9 with effect from 1 January 2018. IFRS 9 has been applied retrospectively by adjusting the opening balance sheet as at 1 January 2018 with no restatement to prior periods. The nature of the Bank's lending reduces the risk of default in the portfolio. For the year ended 31 December 2018 the expected credit loss was £31k (2017: £nil).

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

- A facilities' 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 security (if held).

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 as at 31 December 2018 that was greater than 90 days past due, and this has been classified within stage 3, credit impaired.

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

The table below shows analysis of the Bank's credit risk exposures by geographical area:

31 December 2018	United Kingdom £'000	North America £'000	Other £'000	Total £'000
Cash and balance with central banks	91,101	-	-	**91,101**
Loans and advances to banks	32,931	48,623	-	**81,554**
Loan and advances to clients	157,346	-	2,290	**159,636**
Other assets	4,337	-	-	**4,337**
Total	**285,716**	**48,623**	**2,290**	**336,628**

31 December 2017	United Kingdom £'000	North America £'000	Other £'000	Total £'000
Cash and balance with central banks	83,278	-	-	**83,278**
Loans and advances to banks	22,825	35,793	-	**58,618**
Loan and advances to clients	113,046	-	5,322	**118,368**
Other assets	4,102	-	-	**4,102**
Total	**223,251**	**35,793**	**5,322**	**264,366**

The following tables show residual maturity breakdown by exposures:

At 31 December 2018	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Financial Assets						
Cash and balances with central banks	91,101	-	-	-	-	91,101
Loans and advances to clients	41,941	1	5,054	74,510	38,130	159,636
Loans and advances to banks	64,392	3,008	14,153	0	0	81,553
Total	**197,434**	**3,009**	**19,207**	**74,510**	**38,130**	**332,290**

At 31 December 2017	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Financial Assets						
Cash and balances with central banks	83,278	-	-	-	-	83,278
Loans and advances to clients	8,394	2,291	5,433	47,171	30,909	94,198
Loans and advances to banks	42,292	-	16,327	-	-	58,619
Total	**133,964**	**2,291**	**21,760**	**47,171**	**30,909**	**236,095**

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.

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

At 31 December 2018	Amount Past Due £000s	Gross carrying value £000s
Past due less than a month	29	6,200
Past due more than a month less than three months	-	-
Past due more than three months	3	19
Total	**32**	**6,219**

The table below shows the credit quality of assets:

	Gross carrying values		Allowances/ Impairments	of which ECL accounting provisions for credit losses on SA exposures (regulatory specific)	Net Values
	Defaulted Exposures	Non-Defaulted Exposures			
	£000s	£000s	£000s	£000s	£000s
Loans	19	132,828	29	29	132,818
Off-balance sheet exposures	-	26,717	2	2	26,715
Total	**19**	**159,545**	**31**	**31**	**159,533**

2.3.5 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. Liquidity risk is inherent within the Bank's operating model as profit generation relies on short term contractual maturity of deposits versus long 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 seeks to minimise the risk on a forward-looking basis via the Treasury function which is responsible for managing liquidity risk within the Bank's risk appetite under the supervision of ALCO.

The Bank performs an Internal Liquidity Adequacy Assessment Process ("ILAAP"). The outcome is reported and includes a description of the governance and authority arrangements in the Bank and articulates the risk tolerance. When assessing this 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.

The Liquidity Coverage Ratio ("LCR") is a short-term funding ratio which aims to ensure the Bank maintains an adequate level of liquidity to meet its net cash requirements for a 30 day period under stressed conditions. As at the 31 December 2018 the liquidity buffer was £139.5m, net liquidity outflow £27.4m and LCR 509%. The Bank's LCR was above the regulatory requirements throughout the year.

2.3.6 Market Risk

Market risk is the risk that the value of the Bank's earnings and economic value will decrease due to changes in financial market prices. The Bank is cognisant of the risks associated with the prolonged ultra-low interest rate environment in which it operates. The Bank is exposed to two main types of market risk - interest rate and foreign currency risks - both are managed to reduce the impact of market movements.

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, ARC and Board. Although a significant proportion of client deposit accounts are denominated in US Dollars, currently, and for the foreseeable future, the balances are naturally hedged by US Dollar assets.

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

2.3.6.1 Interest Rate Risk

Interest rate risk is the risk that arises from volatility in interest rates. Where possible, the Bank seeks to match the interest rate structure of assets with liabilities, or deposits, creating a natural hedge. Where this is not possible, the Bank may enter into interest rate swap agreements to hedge any exposure. The Bank's exposure to interest rate changes and sensitivity is closely managed within set limits by the Treasury function and regularly reported to and reviewed by ALCO. One such internally reported measure is MV, or Economic Value of Equity, where Treasury calculate changes in the net present value of the balance sheet under a 2% yield curve shock. The results at both 31 December 2018 and 2017 did not show a material change in net present value. Basis risk arises where assets and

liabilities re-price with reference to differing short term interest rate benchmarks (e.g. Bank of England base rate and LIBOR). Basis risk is reported to ALCO on a monthly basis and the ALCO has set limits to manage this risk.

2.3.7 Operational Risk

Operational risk is the risk that the Bank sustains losses through inadequate or failed internal processes, people, systems or external events. The operational risks and policies (in their widest sense i.e regulatory, operational, financial reporting and business) are monitored and controlled through the RMC. Key risk appetite metrics are monitored, at a minimum, on a monthly basis and reported to the RMC, ARC and Board. Operational processes are closely monitored for evidence of avoidable operational risk factors and when identified, processes are amended to minimise the potential impact. New or amended processes are screened to ensure that operational risk has been considered and its impact managed in line with the Board's risk appetite.

The principal sources of other operational risks for the Bank stem from client account management, IT systems, information security and outsourcing. These risks 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 rate at which new cyberattack threats emerge and so there is considerable focus by the Board and ARC on maintaining an effective cyber control framework.

The Bank has a number of supplier outsourcing arrangements which are managed by ensuring appropriate oversight and governance, supplier assessment and monitoring and control procedures are in place. Robust contractual arrangements are agreed with each outsourced supplier, including detailed service level agreements at an appropriately granular level.

The Bank has a dependency on a number of key individuals and small teams. In addition to developing a succession plan, the Board recognises the importance of a positive and rewarding working environment to mitigate this risk.

As the Bank grows and enhances its client services and digital capabilities, it will have due regard to the evolving risks and develop its people, systems, processes and controls accordingly.

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

2.3.7.1 Financial Reporting Risk

This is the risk of failing to monitor and accurately report financial positions to the Board, Regulators and key stakeholders through management and annual accounts. This includes failing to manage the risks of changes in taxation legislation and rates or to disclose accurate and timely information in the accounts 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 ledger accounts.

2.3.7.2 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 to 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 EU and UK requirements is a key source of risk to successful implementation of regulatory change.

3 Capital Resources and Requirements

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 Board is required to manage the present and future activities within these parameters. At the 31st December 2018 the Bank's capital position was in excess of the minimum requirement set by the PRA.

3.1 Composition of regulatory capital and key ratios for the Bank

	Dec-18 £'000	Dec-17 £'000	Movement £'000
Common Equity Tier 1			
Paid up ordinary share capital	59,902	59,369	533
Share premium	15,066	14,812	254
Retained earnings & other reserves	(35,116)	(30,458)	(4,658)
Less: Deductions for intangible assets	(2,910)	(3,241)	331
Total Regulatory Capital	**36,942**	**40,482**	**(3,540)**
Capital Ratio	41%	64%	
Leverage Ratio	11%	16%	

The table below reconciles the shareholder's funds within the audited Financial Statements to the total regulatory capital as shown above.

	Dec-18 £'000	Dec-17 £'000
Total shareholder's funds per the balance sheet	39,852	43,723
Less: Intangible assets	(2,910)	(3,241)
Total Regulatory Capital	**36,942**	**40,482**

3.2 Pillar 1 Capital Resource Requirement

	Dec-18 £'000s	Dec-17 £'000
Total Capital Resource Requirements		
Market Risk (Note 1)	-	-
Credit Risk (Note 2)	7,010	4,811
Operational Risk (Note 3)	285	269
Pillar 1 capital requirement	**7,295**	**5,080**
Excess of Total Capital over Pillar 1 capital requirement	**29,647**	**35,402**

Notes:

1. As noted in Section 2.3.4 the Bank does not undertake propriety 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.
2. The Standardised Approach is used to calculate the credit risk requirements.
3. For Operational Risk requirements, the Bank uses the Basic Indicator Approach providing for 15% of the average net income.

The following table shows the Bank's capital requirements by asset class (credit risk requirements represent gross exposures after credit risk mitigations):

Pillar 1 Credit risk requirements by exposure class	**Dec-18**		**Dec-17**	
	RWAs	**Capital Requirement**	**RWAs**	**Capital Requirement**
	£'000	**£'000**	**£'000**	**£'000**
Institutions	10,884	871	9,500	760
Corporates	830	66	-	-
Retail	146	12	750	60
Secured by mortgages on immovable property	67,268	5,381	48,738	3,899
Items associated with particular high risk	7,051	564	-	-
Other items	1,451	116	1,150	92
	87,630	**7,010**	**60,138**	**4,811**

In addition to the above Pillar 1 minimum capital resource requirements the Bank is required to assess risks that are specific to its activities and, if appropriate, to hold additional capital over and above that required for Pillar 1. The assessment of the additional capital requirement, referred to as Pillar 2 capital, is achieved through the ICAAP. The objectives of the ICAAP 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;
- Allow business policies to address risks identified.

Whilst the ICAAP, and internal processes and systems supporting it, is 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.

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. The Bank's leverage ratio of 11% (2017: 16%) was in excess of the minimum requirements. The leverage ratio has reduced since the prior year end, because on and off-balance sheet exposures have increased in the past 12 months as the Bank continues to grow.

Pillar 2A capital requirements are supplementary to Pillar 1 and under Pillar 2A additional minimum requirements are currently set by the PRA through issuance of bank specific Total Capital Requirement ("TCR"). This is the minimum amount of capital that is required to cover risks that are not fully covered by Pillar 1. The Bank's TCR as at 31 December 2018 was 13.28% of RWAs.

The Bank is also required to hold 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 December 2018 the CCB was 1.875% and will increase to 2.5% in 2019.

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 as 1 January 2018 the UK CCyB was set to 0%. The CCyB rate increased to 0.5% of Banks' UK exposures with effect from 27 June 2018 and increased again to 1% as at 28 November 2018. As at 31 December 2018 the total CCyB was £890k.

4 Remuneration

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 whose professional activities may have a material impact on the Bank's risk profile. The principles and practice underlying the remuneration of Code Staff applies throughout the Bank however for the 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 Material Risk Takers and Significant Harm Functions who have the potential to impact materially on the Bank's risk profile.

Aggregate Remuneration paid to Code staff in the year ending 31 December 2018 is summarised below:-

Remuneration amount		**Board**	**Senior Managers**
Fixed Remuneration	Number of employees	11	6
	Total fixed remuneration (£)	**1,045,567**	**623,339**
	Of which: cash based (£)	*1,024,298*	*597,057*
	Of which: shares or other share-linked instruments (£)	-	-
	Of which: other forms (£)	*21,269*	*26,282*
Variable remuneration	**Number of employees**	11	6
	Total variable remuneration (£)	-	-
	Of which: cash based (£)	*59,000*	*36,186*
	Of which: shares options (£)	-	-
	Of which: other forms (£)	-	-

The Bank's Remuneration Committee is a sub-committee of the Board and reports to the Board on a regular basis. The Remuneration Committee convenes at a minimum of once per year and for the year

to 31 December 2018 the Committee met three times and was chaired by the Senior Independent Non-Executive Director.

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 Remuneration Consultants, AON Hewitt who were commissioned by the Committee. The Remuneration Committee, which is composed entirely of non-executive directors, reports to and is accountable to the Board. The Committee has responsibility for the approval and oversight of the Bank's Remuneration Policy and the implementation of it in line with the risk culture and long term goals of the Bank. The Remuneration Policy was reviewed in 2018 by the Committee and in turn by the Board and no substantive changes were made to the 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

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 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.

The Bank's remuneration policy does not extend to the provision of other benefits, save for those required by law or where it is more efficient for the Bank to provide such benefits, however fixed pay is supplemented with between 4% and 5% employer pension contribution (depending on individual personal contributions) and discretionary awards are made subject to individual, team and business-wide performance.

Performance is managed on an ongoing basis and formal appraisals take place twice a year in January and July. Performance management is aligned to the Bank's values and is evaluated against agreed financial and non-financial goals 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 & FCA and deferral, malus and clawback will be implemented in compliance with the Remuneration Code where appropriate. As at the end of 2018 no individual received remuneration in excess of €1 million.

The Bank launched a Company Share Option Plan "CSOP" for all eligible employees during the year. The options have a five year vesting period and, if the options remain unexercised for a period of 10 years from the grant date, the options expire. The share options are equity settled and only contain a service performance condition. In 2017 an executive management share option scheme was launched; no further options were granted to this scheme in the current year and no share options have been exercised at the end of the period. Further information is contained within the Annual Report & Financial Statements (www.hampdenandco.com).

There is no outstanding deferred remuneration and during the current and prior years 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.