PILLAR 3 DISCLOSURES

31 DECEMBER 2019

HTB

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1. Introduction

1.1. Overview

This document provides the Pillar 3 disclosures required of Hampshire Trust Bank Plc (referred to in this document as 'the Bank') as at 31st December 2019. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

1.2. Background

The Basel III framework, which was implemented in Europe through the Capital Requirements Directive IV ('CRD IV'), came into effect on 1 January 2014. CRD IV defines the level of capital that banks must hold, having regard to the risk profile of each bank. CRD IV also made changes on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

The Basel framework consists of three 'pillars':

- **Pillar 1:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.
- **Pillar 2:** this builds on Pillar 1 and requires each bank to perform an 'Internal Capital Adequacy Assessment Process' ('ICAAP') to assess its own risk profile and determine the level of additional capital required over and above Pillar 1 requirements, having regard to those risks. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Bank.
- **Pillar 3:** aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

1.3. Basis of disclosure

The purpose of these disclosures is to provide information on the management of risks faced by the Bank and the basis of calculating capital requirements under CRD IV.

The disclosures in this report have been prepared as at 31 December 2019. They should be read in conjunction with the Bank's 2019 Annual Report and Accounts ('the Annual Report and Accounts' or 'ARA'), approved by the Board on 22 April 2020.

The Bank uses the Standardised Approach for credit risk, capital management and market risk. This approach uses standard risk weighting percentages set by the PRA. The Basic Indicator Approach is used for operational risk.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Bank's financial statements.

1.4. Scope

The monitoring and controlling of risk is a fundamental part of the management process. All senior management are involved in the development of risk management policies and in monitoring their application. The Pillar 3 disclosures are prepared in line with CRD IV.

This document outlines the capital required under Pillar 1 and in accordance with Pillar 2, details specific risks which the Bank faces, and how these risks are managed.

This document is applicable only to Hampshire Trust Bank Plc, which is a subsidiary of Hoggant Limited, and excludes the Bank's subsidiary, Hampshire Bank Limited, which is dormant.

There are no current or foreseen material, practical or legal impediments to the transfer of capital resources or the repayment of liabilities among the parent undertaking and the Bank.

1.5. Summary of key ratios

The key ratios for the Bank under CRD IV are:

	2019	2018
Common Equity Tier 1 (CET1) Ratio	17%	16%
Total Capital Ratio	21%	20%
Risk weighted assets (£'000)	757,438	687,497
Leverage ratio	11%	12%
Liquidity Coverage Ratio	242%	335%

Further details on the capital ratios, risk weighted assets ("RWAs") and leverage ratio are presented in Section 5 of this document.

1.6. Regulatory developments affecting the Bank

1.6.1. Basel IV

On 7 December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision ("GHOS"), endorsed the proposed revisions to the standardised approach to credit and operational risk, in addition to a revised leverage ratio. This has collectively been termed "Basel IV". These revisions, which are due to be implemented on 1 January 2023, may have a significant impact on banks' risk weighted assets and hence capital requirements.

1.6.2. IBOR reform Phase 1 & Phase 2 amendments

The International Accounting Standard Board ("IASB") has a two-phase project and Phase 1 considers reliefs to hedge accounting in the period before the IBOR reform.

The 'Interest Rate Benchmark Reform' (amendments to IFRS 9, IAS 39 and IFRS 7) published by IASB provide temporary relief from applying hedge accounting requirements to hedging relationships directly affected by the IBOR reform as hedge accounting requires forward-looking analysis. Amendments are effective for annual periods beginning on or after 1 January 2020, however, the Bank has chosen to adopt these early. It is expected that an exposure draft for IBOR Phase 2 will be issued in the first half of 2020.

2. Governance

The Bank's policy is to issue a Pillar 3 disclosures document on an annual basis, unless circumstances necessitate additional disclosures. The document must be approved by the Audit Committee and the Board. Disclosures are prepared in conjunction with the preparation of the Annual Report and Accounts.

2.1. Disclosure level

Article 432 of the Capital Requirements Regulation ("CRR") allows firms to omit one or more of the disclosures listed in Title II (of the CRR) if the information provided by such disclosures is not regarded as material. In line with EBA guidance (EBAGL201414), any such information or set of requirements which are not disclosed due to immateriality, will clearly state this fact. The requirements similarly allow firms to omit items of information if it is regarded as proprietary or confidential. The Directors review such omissions as part of the overall approval process. The Bank regards information as proprietary or confidential as: if shared with competitors would undermine its competitive position; or there are obligations to customers/other counterparty relationships binding the Bank. In the event any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

2.2. Media and location

The Pillar 3 disclosures document will be posted on the Bank's website at the same time as the Annual Report and Accounts.

2.3. Verification

The Pillar 3 disclosure report is prepared in accordance with the policy describing internal controls and processes around preparation of this document.

These Pillar 3 disclosures have been prepared to explain the basis upon which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Bank.

3.
Risk Management

3.1. Overview

The Bank's approach to risk

Effective risk management plays a key role in the successful execution of the Bank's business strategy as encapsulated within our overarching Risk Appetite Statement – "To run a sustainable, safe and sound business that conducts its activities in a prudent and reputable manner taking into account the interests of our customers and key stakeholders".

Risk Culture

Embedding the right risk culture is fundamental to good risk management. The Board are instrumental in driving good risk management and are visible and actively involved in setting risk appetite. The Board and senior management drive values and behaviours where the customer is at the heart of decision making, and business leaders are held accountable for risk management. The importance of risk management and the need to adhere to risk appetite is built into job descriptions, the setting of objectives and staff performance reviews.

Risk Strategy

The development and implementation of the Bank's Risk Strategy is the responsibility of the Risk and Compliance team led by the Chief Risk Officer, the Executive Management team and ultimately subject to Board approval. Our risk management strategy:

- Identifies the Principal and Emerging Risks the Bank faces and how they are managed
- Defines Risk Appetite
- Confirms that business plans are consistent with Risk Appetite
- Requires the Bank's Risk Profile to be monitored and reported regularly
- Tests the Bank's vulnerabilities to risks under a range of stressed adverse conditions
- Includes a strong control environment
- Allows for robust oversight and assurance
- Encourages strong risk culture and behaviours through its linkage with the remuneration framework

3.2. Risk Management Framework

The Risk Management Framework ("RMF") sets parameters within which all the Bank's activities are executed. This ensures we identify, manage, monitor and report the risks to which the Bank is exposed. The RMF is supported by supplemental frameworks, policies, processes and procedures that, together, ensure that risks are managed in a manner appropriate to the size of the Bank and the complexity of its operations.

The RMF addresses the legal and regulatory risks the Bank is exposed to, together with the Principal and Emerging Risks. The design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee.

Risk Appetite Framework

The Risk Appetite Framework ("RAF") is the framework by which we clearly articulate, in a structured and systematic manner, the level and types of risk that we are willing to accept in meeting our business objectives. The RAF:

- Identifies, in both qualitative and quantitative terms, the type and level of risk that the Bank is willing to accept
- Describes the risks that the Bank is willing to take (and those that it will not) in pursuit of its corporate objectives
- Establishes a framework for decision making based on risk appetite statements and metrics
- Enables a view of risks across the whole business

The RAF is structured around the Principal Risks agreed by the Board from time to time with each Principal Risk being supplemented by a suite of more granular Supporting Risks. For each Supporting Risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics and Key Risk Indicators ("KRIs"). The Risk Appetite metrics are clearly measurable against the Corporate Plan, are actionable and have an assigned limit to monitor performance against the Risk Appetite. The KRIs are outcome driven with negative trends reported monthly to the relevant risk committees.

Performance against Risk Metrics is regularly reported to the Board and Board Risk Committee via appropriate sub committees.

Risk Governance and Oversight

Risk Governance describes the design of the allocation and delegation of primary accountability, authority and responsibility for risk management across the Bank by the Board. The Board reviews and approves the business strategy, ensuring it is consistent with risk appetite, and that the RMF is appropriate with sufficient governance, often through appropriate sub committees, to ensure risk appetite is being adhered to.

The governance framework is underpinned by a "three lines of defence" model. This ensures a clear delineation of responsibilities between the front line business units' day to day activities (1st line of defence), risk oversight (2nd line of defence) and independent assurance (3rd line of defence).

Front Line Business Units (1st line of defence)

The business lines and central functions have primary responsibility for the day to day management of Principal Risks, and the implementation of approved policies, frameworks, processes and procedures. They use the Bank's Risk & Control Self-Assessment ("RCSA") process to identify and measure risks and ensure that these are managed within agreed Risk Appetite. They will also test key controls, providing regular reporting of testing output.

Risk and Compliance Function (2nd line of defence)

The Risk and Compliance function is independent of the business units and other central functions, and maintains the RMF, supplemental frameworks and Risk Policies. It is deliberately not customer facing. The second line provides independent challenge, oversight and ongoing assurance of the adequacy and effectiveness of risk management within the business units including oversight of the RCSA process. The Risk and Compliance function monitors performance in relation to risk appetite; working with Finance and Treasury on the production of the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), and the Recovery Plan and Resolution Pack ("RRP").

Internal Audit (3rd line of defence)

Internal Audit operates under the direction of the Board Audit Committee and provides independent assurance to the Board that the first and second lines of defence are discharging their responsibilities effectively. The Bank currently outsources this function to PwC, an independent professional services firm.

Stress Testing

Stress testing is an important risk management tool for the Bank and is used to inform the setting of Risk Appetite limits. Stress testing is also used to inform the Bank's key annual assessments and determination of required buffers, the strategy for capital and liquidity management, and certain documents including the ICAAP, ILAAP, Recovery Plan and Resolution Pack.

The Bank undertakes stress testing to assist the Board in understanding its key risks, and the scenarios and sensitivities that may adversely impact on its financial and/or operational performance. Stress testing supports the setting of Risk Appetite and the Bank's business and capital plans. It does this by:

- Testing the adequacy of the Bank's capital, funding and liquidity to withstand the emergence of risks under both normal and stressed conditions
- Supporting the adequacy of the potential management actions available to mitigate the effect of adverse events
- Supporting the identification of any potential gaps in the Risk Management Framework, not readily apparent from the management of day to day risks

Further details on the Bank's approach to Stress Testing can be found in the Annual Report and Accounts.

Principal Risks and how we manage them

The Principal Risks the Bank faces are:

- Credit Risk
- Capital and Liquidity Risk
- Market Risk
- Operational Risk
- Conduct, Compliance and Financial Crime Risk

These should not be regarded as a comprehensive list of all the risk and uncertainties faced by the Bank but rather a summary of the primary risks which have the potential to significantly impact the achievement of strategic objectives. These risks are further detailed in sections 4 to 8.

Key risks

The key risk the Bank faces at the present time relates to the Covid-19 situation

Definition	How we mitigate the risk
The Covid-19 pandemic has very serious consequences for the world economy, and how this will play out is unknown The situation is fast moving and the Bank has mobilised its operational resilience plans	• We have stress tested our lending books, and substantially increased our capability and capacity to address the higher level of stress being seen within our customer base. • We will be flexible and nimble in supporting our customers in the times ahead. • We have reviewed our capital and liquidity plans to ensure we are prepared for an elongated period of disruption to the economy. • We continue to work closely with regulatory authorities and respond to the evolving regulatory environment. • We have continued to focus on integrity of data and invest in availability of systems.

4. Credit Risk

Definition	How we manage the risk
The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part	• We evidence affordability (ability to repay from cash flow) • We take security and where appropriate, guarantees, to support our lending • We maintain a diversified portfolio of loans by limiting concentrations by size, asset class, collateral types, geography and sector • We focus on sectors where we have specific expertise • We determine credit decisions using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process • We undertake regular reviews of our loan portfolios and ongoing assurance testing of our processes • We operate a Treasury policy that only allows for surplus liquidity and swaps to be placed with large banks or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings • We monitor lending performance against Risk Appetite regularly

The Bank focuses its lending on three business lines, with all exposures being asset backed.

Specialist Mortgages ('SM'), launched in Q2 2016, providing finance principally to experienced landlords secured on residential properties, short term finance to experienced property investors and loans on semi-commercial and commercial properties in England and Wales. Lending is focussed on experienced investors and owner operators in both residential and commercial sectors. Distribution is through a panel of high quality mortgage intermediary partners. SM lending mitigates risk by ensuring that borrowers have experience in managing property investments (or operating commercial assets if they are an owner operator), and that their financial conduct meets the Bank's strict criteria. Emphasis is placed on the track record of borrowers.

Development Finance ("DF"), provides development and bridging finance to well established UK house builders. Development Finance lending operates within conservative loan to value ratios, with a rigorous and cost focused approach to assessing development values. Lending is focused primarily in liquid residential markets and multi dwelling developments which offer granular security. An assessment is made of the quality of the developer, with a focus on clients with an established track record. There is also a robust monitoring process, which involves an external monitoring surveyor who visits client sites on a regular basis before further drawdowns of facilities. This is supplemented by regular site visits from the development finance team and surveyors.

Asset Finance ("AF") consists of SBF and WF

Specialist Business Finance ("SBF") comprises small to medium ticket leasing and hire purchase secured on vehicles and business assets. The lending is spread across a diverse customer base and secured against a range of asset types. A rigorous assessment of the resale value of assets are made, with deposits required, typically of between 10% and 20%. Loans are only made to established SMEs with a history of stable earnings and evidence of sufficient cash flow to meet repayments. Personal guarantees are often taken from the principals of the business, and their credit profile is also assessed. Lending to individuals requires the borrower to have a clean credit history and demonstrate that the payments are affordable.

Wholesale Finance ("WF") includes block discounting lending which is spread across non-bank small finance companies and secured against instalment credit agreements for a diverse range of asset types. The Bank may provide finance to the customer based on their credit standing, however there will also be a review carried out on the end user contracts to ensure that they provide good security. Other factors will also be considered to ensure that credit risk is reduced such as customer track record (management experience, profitability, arrears etc.), low risk concentrations through diversified portfolios, sufficient security levels and effective auditing to avoid fraud. All customers will have pre-audits carried out by the Bank's in-house audit team. These will be carried out prior to any approval of facilities and will continue to be undertaken regularly once a facility has been approved. This measure will ensure that the Bank is alerted to any change in business performance at an early stage.

4.1. Credit Risk Exposure

The table below highlights the Bank's credit risk by exposure class as at 31 December 2019.

	Exposures £'000	Average Exposures £'000
	2019	2019
Corporate	38,467	49,091
Secured by mortgages on immovable property	629,161	501,504
Items associated with particularly high risk	240,788	219,143
Retail	261,326	280,394
Exposures in default	6,885	12,838
Central governments or central banks	78,567	95,933
Institutions	8,913	12,766
Other	9,480	6,656
	1,273,587	
Concentration by Location:		
UK	**1,273,587**	

The Bank also monitors concentrations of credit risk by sector, size and by geographical location. However, as all lending exposures are to the UK, no further breakdown by geographic location has been disclosed.
The Bank predominately lends to SMEs. Of the exposures in the table above, as at 31 December 2019, £695,316k is lending to SMEs.

Credit Risk Exposure by Industry

The table below represents the total amount of exposures, as at 31 December 2019, by industry.

£'000	Corporate	Secured by mortgages on immovable property	Items associated with particularly high risk	Retail	Exposures in default	Central governments or central banks	Institutions	Other	Total
Financial	–	–	–	–	–	78,567	8,913	–	**87,480**
Agriculture, forestry and fishing	–	–	–	2,744	1	–	–	–	**2,745**
Mining and quarrying	–	–	–	503	–	–	–	–	**503**
Manufacturing	–	–	–	12,950	191	–	–	–	**13,141**
Electricity, gas, steam and air conditioning supply	–	–	–	1,251	3	–	–	–	**1,254**
Water supply	–	–	–	3,452	22	–	–	–	**3,474**
Construction	12,817	3,119	240,788	21,269	1,329	–	–	–	**279,322**
Wholesale and retail trade	5,956	–	–	18,088	98	–	–	–	**24,142**
Transport and storage	–	–	–	18,248	83	–	–	–	**18,331**
Accommodation and food service activities	–	–	–	3,362	79	–	–	–	**3,441**
Information and communication	6,711	–	–	4,180	28	–	–	–	**10,919**
Real estate activities	–	626,042	–	2,526	3,183	–	–	–	**631,751**
Professional, scientific and technical activities	4,591	–	–	5,781	124	–	–	–	**10,496**
Administrative and support service activities	4,018	–	–	21,440	475	–	–	–	**25,933**
Public administration and defence, social security	–	–	–	168	–	–	–	–	**168**
Education	–	–	–	781	–	–	–	–	**781**
Human health services and social work activities	–	–	–	10,914	25	–	–	–	**10,939**
Arts, entertainment and recreation	–	–	–	3,321	–	–	–	–	**3,321**
Other	4,374	–	–	130,348	1,244	–	–	9,480	**145,446**
Total	**38,467**	**629,161**	**240,788**	**261,326**	**6,885**	**78,567**	**8,913**	**9,480**	**1,273,587**

4.2. Credit Risk Exposure by Residual Maturity

The table below represents the total amount of exposures, as at 31 December 2019, by remaining contractual maturity.

2019 £'000	Within 1 Year	After 1 Year but within 5 Years	More than 5 Years	Non-interest bearing	Total
Loan and advances to customers	338,620	340,159	497,848	-	**1,176,627**
Central governments or central banks	78,567	-	-	-	**78,567**
Institutions	6,437	990	1,486	-	**8,913**
Other	-	-	-	9,480	**9,480**
Total	**423,624**	**341,149**	**499,334**	**9,480**	**1,273,587**

4.3. Non-Performing Loans and Provisioning

A consistent approach to provisioning applies to all lending activities within the Bank. With the implementation of IFRS 9, the calculation of specific credit risk adjustments is carried out with a forward looking expected credit loss ("ECL") approach for financial assets measured at amortised cost.

Loans are defined as "past due" when any contractually due payment of interest or capital, has not been received by the due date. A financial asset is considered to be credit impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- Initiation of bankruptcy proceedings
- Notification of bereavement
- Initiation of repossession proceedings
- The borrower is over 90 days past due

The Bank maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products. As at 31 December 2019, 33 accounts amounting to £26.1m (2018: £38.1m) had forbearance arrangements in place.

The following tables summarise the impairments for 2019 by material industry class and highlights the impaired and past due exposures. All credit risk adjustments are assumed to be specific.

2019	Construction	Real Estate Activities	Financial	Other	Total
	£'000	£'000	£'000	£'000	£'000
Neither past due nor impaired	**279,184**	**615,301**	**87,480**	**272,046**	**1,254,011**
Past due but not impaired:					
Up to 30 days	87	12,015	-	1,324	**13,426**
30-60 days	11	2,000	-	155	**2,166**
60-90 days	11	-	-	79	**90**
Over 90 days	-	-	-	-	**-**
Total Past due but not impaired	**109**	**14,015**	**-**	**1,558**	**15,682**
Impaired Assets	**435**	**3,515**	**-**	**4,414**	**8,364**
Less: specific credit risk adjustment	(404)	(1,080)	-	(2,986)	**(4,470)**
Net Loans and Advances	**279,324**	**631,751**	**87,480**	**275,032**	**1,273,587**

Specific Credit Risk Adjustment	Construction	Real Estate Activities	Financial	Other	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	**(375)**	**(270)**	**-**	**(1,227)**	**(1,872)**
Charge for the year	(29)	(810)	-	(2,797)	(3,636)
Write-offs	-	-	-	1,038	1,038
Balance at 31 December	**(404)**	**(1,080)**	**-**	**(2,986)**	**(4,470)**

Further information on IFRS 9 provisioning can be found in the Annual Report and Accounts.

4.4. Treasury Counterparty Risk

Credit risk management: Treasury

Credit risk exists where the Bank has invested in eligible securities to be held as part of its liquid asset buffer, or placed cash deposits with other financial institutions. The Bank also enters into interest rate swaps with financial institutions for the purpose of hedging interest rate risk. The Bank considers the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Treasury credit risk is mitigated via counterparty limit setting and monitoring, as well as derivative collateralisation where appropriate.

The table below, presents an analysis of the credit quality of treasury financial assets, by rating agency designation as at 31 December 2019, based on Moody's long-term ratings.

Exposure Category	Under 3 Months £'000	3 Months to 1 Year £'000	1 year to 5 years £'000	Greater than 5 years £'000	Total £'000
Aa3 Rated UK Banks	254	-	-	-	254
A2 Rated UK Banks	4,479	-	890	1,486	6,855
Total [1,2,3]	**4,733**	**-**	**890**	**1,486**	**7,109**

The above relates to the Institutions exposure class. Credit agencies are not used for any other exposure classes.

Cash Placements

Counterparty credit limits are established for all authorised counterparties, or groups of connected counterparties. These are updated on a regular basis to take account of any ratings changes and the Bank's assessment of the credit risk for the institution. Any exposure to central banks, the Bank of England, which carry zero per cent risk weighting as per the Standardised Approach, are exempt from the counterparty and exposure limits. The exposure limit for each institution is maintained in an Authorised Counterparties List which is reviewed at least annually or more frequently should a change in ratings occur.

Eligible Securities

As part of its liquidity buffer, the Bank occasionally invests in AAA rated UK government bonds with a maximum term of 6 months.

Derivatives

The Bank transacts derivatives with other financial institutions for the purpose of hedging interest rate risk. However, this introduces credit risk to those institutions with which the Bank has transacted. Credit risk on derivatives is controlled through the receipt/payment of cash collateral. Daily margin calls can be made to cover the mark to market value of the contract. In general, under master netting agreements, the amounts owed by each counterparty that are due on a single day in respect of all outstanding transactions are aggregated into a single net amount, being payable by one party to the other.

As at 31st December 2019, the Bank had no public credit rating and no exposure to credit derivatives.

Wrong Way Risk

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty (i.e. the size of the exposure increases at the same time as the risk of the counterparty being unable to meet that obligation increases). As the Bank only enters into interest rate swaps contracts, the Bank is not exposed to the wrong way risk, as the exposures are cash collateralised and the credit quality of the counterparties is not directly correlated to a change in interest rates.

1. Excludes exposures for swap counterparties and accrued interest receivable totalling £1,803k
2. The Bank complies with the standard association published by the EBA
3. No treasury bonds held as at 31 December 2019

Credit Valuation adjustment

Within Pillar 1 credit risk, the Bank holds regulatory capital in order to cover potential losses which could arise if the counterparties to its derivative contracts fail to meet their financial obligations before the maturity date. This is known as the counterparty credit risk. This assessment places a valuation on the risk that the counterparty will default on its obligations before the maturity of the contract. In addition to this CRD IV requires additional regulatory capital to be held to protect the Bank from exposure to potential mark to market losses that could arise if the creditworthiness of those same counterparties were to deteriorate. This is known as a credit valuation adjustment charge.

Hedge accounting and hedge effectiveness

Where possible, the Bank seeks to account for the derivatives used within hedges which meet the qualification requirements of IAS 39 as fair value portfolio hedges (see accounting policy note 6.13 and note 19 of the 2019 ARA). All hedges are included in the interest rate risk reports and are reviewed on a monthly basis by ALCO. The effectiveness of hedging relationships is reviewed on a monthly basis by the Finance function.

5.
Capital and Liquidity Risk

Definition	How we manage the risk
Capital – The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans **Liquidity –** The risk that the Bank is unable to: meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence	• We operate a Capital Planning Framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios • We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually • We monitor current and forecast levels of capital and liquidity against our risk appetite and report to Asset and Liability Committee (ALCO) and the Board regularly • We forecast capital which forms an integral part of the budgeting process • We maintain liquidity buffers based on various stressed liquidity scenarios • We monitor our liquidity position on a daily basis • We meet, as a minimum, all regulatory prescribed coverage and liquidity ratios

5.1. Capital Adequacy

At 31 December 2019 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and UK legislation, and enforced by the PRA.

Capital Resources

The Bank's capital resources as at 31 December 2019, including the 2019 audited profits approved by the Board on on 22 April 2020, are broken down as follows:

	2019 £'000	2018 £'000
Common Equity Tier 1 (CET1)		
Share Capital	126,288	111,288
Share Premium	196	196
Retained Earnings	24,991	14,316
Accumulated other comprehensive income	–	(50)
	151,475	**125,750**
Regulatory adjustments to CET1:		
Prudential Valuation Adjustments	(128)	(2)
Intangible Assets	(5,976)	(4,058)
Securitisation positions (see Section 12)	(7,875)	–
Total Common Equity Tier 1 (CET1) capital	**137,496**	**121,690**
Tier 2		
Subordinated Liabilities	30,000	30,000
Collective impairment allowance	–	–
Total regulatory capital	**167,496**	**151,690**

On 28 June 2019, 15m ordinary shares of £1 each were issued for cash at par value (2018: nil).
The table in Appendix 1 summarise the own funds disclosures, as required by CRD IV, as at 31 December 2019. The table in Appendix 2 provides the capital instruments main features as per CRR.

EBA Guidelines 2018/01 details the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. On implementing IFRS 9, the Bank opted to take advantage of the transitional capital rules in respect of ECLs (as specified in CRR Article 473a) but is not applying these transitional arrangements because the IFRS 9 ECLs were lower than the original IAS 39 loss impairments. This is because most Development Finance loans are measured at fair value and not amortised cost under IFRS 9. The Bank's own funds, capital and leverage ratios therefore already reflect the full impact of IFRS 9. As such Template IFRS 9-FL required by the EBA Guidelines 2018/01 is not required as it is limited to those institutions that apply the transitional arrangements.

During 2018, the Bank raised £30m of subordinated loan notes bearing interest at 7.25% payable semi-annually and is callable at the Bank's option from 10 May 2023, with a final redemption date of 10 May 2028. As at 31 December 2019, £22 million was eligible for Tier 2.

5.2. Minimum capital requirement

The Bank uses the Standardised Approach in determining the level of capital necessary for regulatory purposes. Under the Standardised Approach the level of capital required against a given level of exposure to credit risk is calculated as:

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

The table below shows the total exposure and capital resource requirements for credit risk by regulatory exposure class as at 31 December 2019.

£'000	Exposures	RWAs	Pillar 1 Capital
	2019	2,019	2019
Corporate	38,467	35,716	2,857
Secured by mortgages on immovable property	629,161	259,166	20,733
Items associated with particularly high risk	240,788	287,235	22,979
Retail	261,326	156,633	12,531
Exposures in default	6,885	6,885	551
Central governments or central banks	78,567	-	-
Institutions	8,913	2,324	186
Other	9,480	9,480	758
	1,273,587	**757,439**	**60,595**

The Board has adopted a "Pillar I plus" approach to determine the level of capital the Bank needs to hold. This method takes the Pillar I capital formula calculations (standardised approach for credit and market risk, and basic indicator approach for operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequate to cover management's anticipated risks. Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied, as per the Bank's Total Capital Requirement issued by the PRA.
At all times the Bank's capital position must be aligned with the capital adequacy limits approved by the Board

* The risk weighting applied will vary depending on whether the asset is retail or wholesale. For retail assets, variables such as loan to value and security will impact the risk weighting. Wholesale assets are dependent on counterparty, duration and credit rating.

in the risk appetite statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means maintaining a level of capital greater than the minimum that is set by the PRA.

The Bank's Pillar 1 capital resources requirement is calculated by adding the capital resources requirements for credit risk, and operational risk.

The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2019.

	2019 £'000	2018 £'000
Capital resources requirement – Pillar 1		
Credit risk	60,595	55,000
Operational risk	5,882	4,677
Capital resources Pillar 1 requirement	66,477	59,677
Capital resources (see table in 5.1)	167,496	151,690
Capital resources surplus over Pillar 1 requirement	**101,019**	**92,013**

Throughout the year the Bank has benefited from surplus capital resources over its Pillar 1 and Total Capital Requirement. The Bank's total capital ratio as at 31 December 2019 was 20% (2018: 20%).

5.3. Capital Buffers

The Bank is also required to hold additional capital in the form of capital buffers. 100% of the regulatory buffers must be met by CET1 capital.

The Capital Conservation Buffer ('CCB') is currently set at 2.5% of RWA.

The Countercyclical Capital Buffer ('CCyB') is currently set at 1% of RWA for the Bank's UK exposures as a result of the UK Financial Policy Committee ('FPC') decision in November 2017. This is further disclosed below:

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Breakdown by country	General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements requirement weights				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
United Kingdom	1,224,289	-	-	-	49,298	-	107,480	-	-	107,480	100%	1.00%

Amount of institution specific countercyclical capital buffer

Total risk exposure amount	831,229
Institution specific countercyclical buffer rate	1%
Institution specific countercyclical buffer requirement	8,312

As per the Financial Stability Report issued in December 2019, the Financial Policy Committee ("FPC") was proposing to raise the level of the UK CCyB rate from 1% to 2% to reflect the current risk environment. However, on 11th March 2020, the FPC reduced the CCyB to 0% for at least 12 months, so that any subsequent increase would not take effect until March 2022.

Excluding these capital buffers, the Bank's Total Capital Requirement is 10.69%.

5.4. Leverage Ratio

The leverage ratio, introduced by CRD IV, is a non-risk-based measure that is designed to act as a supplement to risk based capital requirements. The ratio measures the relationship between the capital resources of the organisation and its total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage.

The Bank's leverage ratio at 31 December 2019 was 11%. As at this date, the Bank had no minimum leverage requirement as it is currently not in scope of the UK Leverage Framework Regime. However the Bank monitors its leverage through its capital risk management and is well above the minimum requirement of 3% expected. The management of excessive leverage is monitored through monthly Risk Metrics reported to the appropriate levels of management, to ensure that appropriate actions are taken if internal limits and triggers are breached.

The Bank's leverage ratio has decreased 1% from 2018 due to the leverage exposure increasing 23% (as a result of increased lending), while Tier 1 has only increased 13% (primarily due to the inclusion of profit after tax for the period and an increase in Share Capital of £15m).

The table in Appendix 3 summarise the leverage ratio disclosures, as required by CRD IV, as at 31 December 2019.

5.5. Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR") aims to improve the resilience of banks to liquidity risks over a 30 day period. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The LCR is calculated by dividing the level of the Bank's liquid assets by the total expected net cash outflows over the next 30 days in a stressed environment.

$$\text{LCR} = \frac{\text{Stock of High-Quality Liquid Assets}}{\text{Net Outflows over a 30-day period}}$$

The detailed rules and definitions for the calculation of the LCR are set out in the European Commission Delegated Act, of 10th October 2014.

All banks within the European Economic Area were required to have a minimum LCR of 60% by 1st October 2015, although UK banks were required by the PRA to have a minimum LCR of 80% by this date, rising to 90% by 1st January 2017, then to 100% by 1st January 2018.

As at 31st December 2019 the Bank's Liquidity Coverage Ratio was 242%.

New guidelines were issued by the EBA in March 2017 to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013. This is disclosed below.

Quantitative LCR Information

		Total weighted value (£'000)			
		31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
21	Liquidity Buffer	77,534	87,844	164,610	51,994
22	Total Net Cash Outflows	32,097	53,085	36,635	26,554
23	Liquidity Coverage Ratio %	242%	165%	449%	196%

6. Market Risk

Definition	How we manage the risk
The risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments	• We match, wherever possible, the interest rate structure of assets with liabilities or deposits to create a natural hedge • We enter into swap agreements where required to minimise basis and repricing risks within appetite • We capture pipeline risk (where actual movements in assets and liabilities do not match expectations) and Optionality risk (where early terminations can worsen mismatch positions) and report via ALCO

6.1. Interest Rate Sensitivity

The Bank considers a 200-basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The change in equity as a result, based on the present value of future cash flows discounted using the London Interbank Offered Rate ("LIBOR"), would be as follows:

	2019	2018
	£'000	£'000
+200 basis points	(779)	(1,117)
- 200 basis points	906	1,273

LIBOR is being discontinued and alternative reference rates are being developed. The Bank of England's working group on Sterling Risk-free Interest rates recommended SONIA as that alternative, however, there remains significant uncertainty as to how the transition from LIBOR to alternative benchmarks will be managed across the Banking Industry.

The Bank manages and controls interest rate risk through its hedging strategy. Interest rate exposure is managed by ALCO on a monthly basis and it operates within pre-agreed limits.

Interest rate risk management involves the assessment of early repayments on all long-term fixed rate lending, based upon historical behavioural analysis. Similarly for deposits, early withdrawals are also factored in, but are extremely limited given the Bank's early withdrawal policy.

7. Operational Risk

Definition	How we manage the risk
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment ("RCSA") process • We have a defined Operational Resilience Policy and Framework • We have defined our recovery time objectives for our critical business services where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives • We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and operational resilience needs which are regularly reviewed • We seek to ensure our systems continue to deliver a secure and reliable service to our customers and staff by identifying cyber security threats and putting in place measures to address those threats • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Investment Committee to ensure that major change programmes are delivered on time and on budget • We monitor the operational risk profile alongside proactive recording and management of events, losses and incidents • We make use of independent expert legal advice where appropriate • New and emerging legislation driven changes are overseen through our horizon scanning process • We seek to maintain an engaged and diverse workforce with the right mix of skills to be able to deliver our strategy • We set a very low risk appetite for breaches of information security whether from internal leakage or external attack • We closely monitor Climate Change policy, regulatory guidance and industry advances relating to climate change, considering both transition and physical risks. We assess the impact of these changes/advances on our Business model and risk profile and consider possible impacts on our reporting obligations and our reputation

The Bank has adopted the Pillar 1 Basic Indicator Approach to operational risk, and thus will hold, as a minimum, capital against the risk equal to 15% of the last three years' average net operating income (net interest income plus fees and commissions). As at December 2019 this was £5.9m.

8.
Conduct, Compliance and Financial Crime Risk

<table>
<tr><th>Definition</th><th>How we manage the risk</th></tr>
<tr><td>Conduct – The risk that the business strategy, the culture, and the manner in which the business is run, creates unfair customer outcomes or detriment to customers, clients and counterparties and/or undermines market integrity

Compliance – The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable regulations, codes of conduct or standards of good practice

Financial crime – The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to obtain or launder funds through illegal means and/or for illegal purposes</td><td>• We operate a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how we manage these risks and the minimum standards that we expect.
• Our Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function
• Senior Management identify and assess conduct, compliance and financial crime risks across their businesses and assess the effectiveness of controls that mitigate those risks using a RCSA process
• New and emerging regulatory driven changes are overseen through our horizon scanning process
• We design our products and services so that they consistently deliver fair outcomes for our customers
• We complete regular assurance testing of our activities to check that we are operating within our Board approved risk appetite
• We operate a programme of staff training and awareness via our regulatory training schedule.
• We complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle
• The Senior Managers and Certification Regime is fully implemented to drive adherence to the Conduct Rules and a culture of accountability and diligence.</td></tr>
</table>

No specific capital is held for this risk. The capital required for this risk is considered as part of the Operational Risk capital requirement.

9.
Emerging Risks

The Bank has a continuous process for identifying and managing its emerging risks which could have a significant negative impact on its ability to operate or meet its strategic objectives.

9.1. Brexit Transition

The Bank acknowledges the continued heightened economic and political risks relating to Brexit transition. As a UK focused Bank however, we are sheltered from the more direct impacts of the transition, such as access to European markets, but we are exposed to the wider economic impacts. Potential impact could also be increased changes to regulation as the UK regulators work to determine their approach to EU driven policies, as well as through any changes to regulations by the UK government.

9.2. Cyber Threat

The frequency of cyberattacks continues to grow and is a global threat particularly within the financial services sector and remains a key area of focus for the Bank. There is an increasing level of sophistication in both criminal and nation state hacking for the purpose of financial crime, destroying or manipulating data, including customer data, and/or disrupting operations. Threats can materialise through malicious emails, distributed denial of service (DDoS) attacks, supply chain and exploitation of system vulnerabilities.

The Bank continues to strengthen the Bank's cyber defences and invest in a multi-layered approach to cyber security.

9.3. Climate Change

The Bank recognises that Climate Change is a significant risk and a major challenge for the global economy and society. Extreme weather events and the impacts of transitioning to a low-carbon economy have the potential to disrupt business activities, damage property, and otherwise affect the value of assets, and affect our suppliers and our customers' ability to repay loans.

There has been an increased focus on climate change from the media and our regulators over the last 12 months. As regulatory guidance and expectation on climate change evolves, The Bank will further embed climate risk in its existing risk management framework and support its customers with the transition to a low carbon economy.

9.4. Competition

The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products/software solutions potentially affecting both lending and deposit taking activities. The effect of this could result in lower lending and deposit volumes, higher customer attrition and/or lower net interest margins. This has increased particularly in the savings space with the launch of savings platforms allowing access to multiple banks.
The Bank continues to monitor the external competitive environment and the impact this has on pricing. The Bank's businesses continue to take a disciplined approach to pricing with the aim of maintaining stable margins and an appropriate risk profile.

9.5. LIBOR

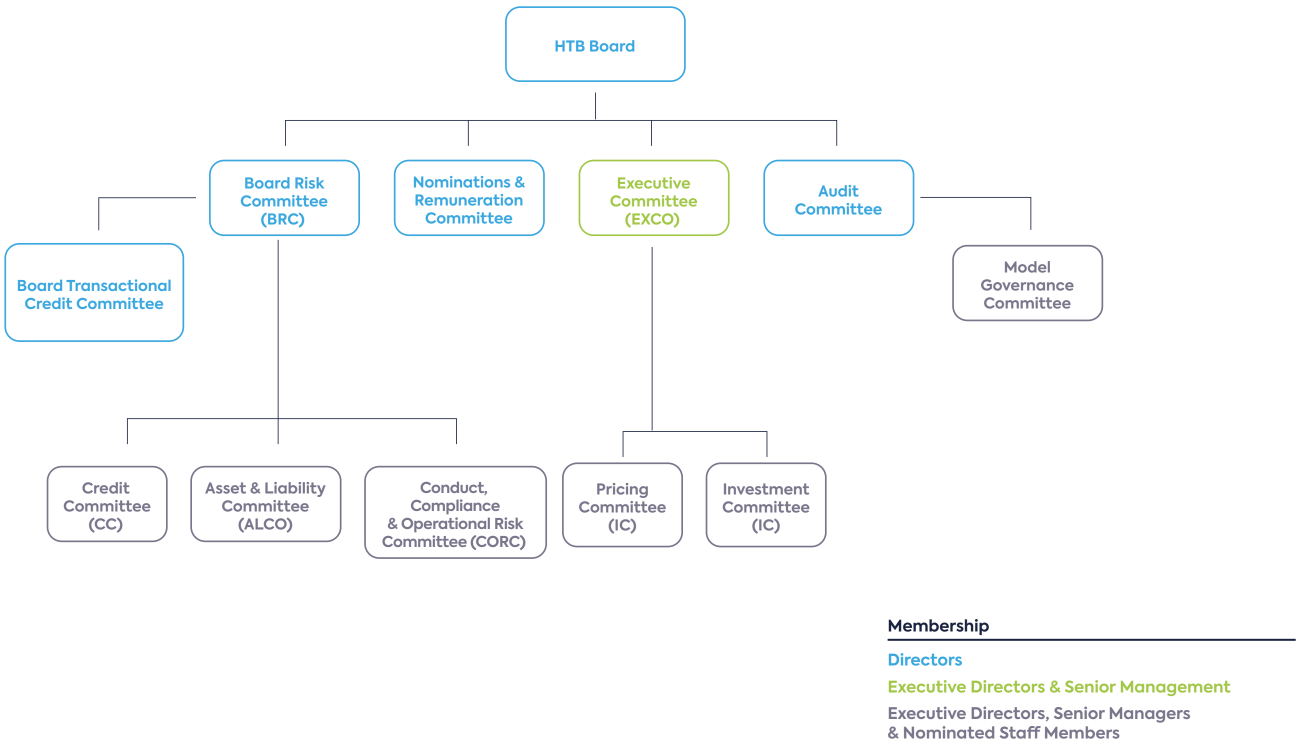
A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform LIBOR with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank has exposure to LIBOR through variable rate lending and through derivatives that have been transacted to mitigate the interest rate risk generated by fixed rate products. There is significant uncertainty over the timing and the methods of how LIBOR will be replaced or reformed as part of this market-wide initiative. It is anticipated that this transition will present significant operational, risk management and accounting impacts across all of its business lines.

The Bank has established a LIBOR transition working group to manage this project. The working group is chaired by the Chief Financial Officer and is a sub-committee of the Asset and Liability Committee ("ALCO"). The objective of the working group is to manage communication with customers and counterparts about LIBOR reform and to mitigate the operational, conduct, financial and interest rate risk generated by the transition.

10. Corporate Governance

10.1. Committee Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors. The Bank's committee structure as at 31 December 2019 with regard to risk management is outlined below:



Set out below are the details of the Board and principal committees which enable high level controls to be exercised over the Bank's activities.

10.2. The Board

The Bank's governance structure is designed to ensure the proper running of the Bank in accordance with the legal and regulatory obligations and in line with established principles of good conduct and practice. The Bank is led by a Board comprising an independent Non-Executive Chairman, Non-Executive (Shareholder) Directors, independent Non-Executive Directors and Executive Directors. The Board approves the strategy and direction of the business, sets the policies and risk appetite, monitors risk management, financial performance and reporting, and ensures that appropriate and effective succession-planning arrangements and remuneration policies are in place. Directors are appointed by the Board. Non-Executive Director appointments can be terminated at any time, without notice or payment of compensation.

Board meetings are held normally eleven times a year. This enables Directors to regularly review corporate strategy, the operations and the results of the business, and to discharge their duties within a framework of prudent and effective controls.

The Board is supported by its Committees, which make recommendations to the Board on those matters delegated to them. These Committees (with the exception of the Executive Committee) comprise only Non-Executive Directors and each is chaired by an independent Non-Executive Director. Matters such as internal and external audit, risk, financial reporting, governance and remuneration policies are delegated to these Committees, in order that the Board can spend a greater proportion of its time on strategic items. The Committee Chairs report to the Board at the Board meeting following each Committee meeting on the activities of their respective Committees. The Board Chairman undertakes an annual review of performance of each Director.

The Board Chairman's performance is evaluated by the Non-Executive Directors taking account of the views of the Executive Directors.

10.2.1. Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2019, in addition to their roles within the Bank, are detailed below.

Name	Position	Positions held at 31 December 2019
Robert Sharpe	Chairman	2
Matthew Wyles	CEO/Executive Director	0
Tim Blackwell	CFO/Executive Director	0
Robert East	Non-Executive Director	4
James Drummond-Smith	Non-Executive Director	12
Astrid Grey	Non-Executive Director	1
Richard Price	Non-Executive Director	3
Dominic Slade	Non-Executive Director	3

The number of directorships shown excludes the Company and its subsidiaries, and also counts external directorships held within the same group of companies as a single directorship in line with CRD IV. Directorships of non-commercial organisations are not included.

10.2.2. Board Diversity

The Bank recognises and values the diversity of the personal attributes of its Board and Board Committee members, such as intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust. The Bank also recognises the importance of maintaining diversity of psychological type, background and gender and the importance that this affords in ensuring that a particular Board or Board Committee is not composed solely of likeminded people. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

As part of the Terms of Reference of the Nominations Committee, it is stipulated that the Committee will consider all Board and Senior Management appointments and take responsibility that the Bank complies with diversity and equality laws and regulations and best practice under CRD IV. The Committee undertakes to consider specific matters relating to market and business knowledge, experience, qualifications and technical skills and competencies in determining whether a candidate is a sufficient match for the requirements of the role. The Committee will also ensure that any perceived weaknesses or deficiencies in any candidate are addressed on a timely basis after appointment through an appropriate tailored training plan.

10.3. Audit Committee

The Audit Committee oversees the effectiveness of the Bank's internal control environment, monitors the integrity of the financial statements and risk management systems, involving internal and external auditors in that process, and considers compliance monitoring programmes. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal control is maintained. The Committee recommends the appointment of both internal and external auditors and approves the annual internal and external audit plans. The Committee also oversees the Model Governance Committee which operates under its own terms of reference.

The Committee is chaired by an independent Non-Executive director and comprises solely Non-Executive directors. The Audit Committee meets at least quarterly. During 2019, the Committee recommended approval to the Board of the 2018 Statutory accounts. It also approved the changes to the Bank's loan loss and impairment policy following the adoption of IFRS 9.

10.3.1. Model Governance Committee

The purpose of this Committee is to manage the development and adherence to model governance principles, policies, standards and practices, ensuring there is a robust ongoing monitoring, challenge and assessment of key financial models, such as the expected credit loss model under IFRS 9.

10.4. Board Risk Committee ('BRC')

The Board has delegated responsibility for oversight of the Bank's principal risks to the Board Risk Committee. This involves reviewing, challenging and recommending to the Board, the aggregate risk profile of the Bank, including performance against risk appetite for all risk types and ensuring both the risk profile and the risk appetite remain appropriate. This Committee oversees the development, implementation and maintenance of the Bank's Risk Management Framework, compliance with relevant regulations and law, and whistleblowing and proper functioning of controls over the prevention of money laundering, bribery and fraud. It considers and recommends to the Board the ILAAP, ICAAP, Funding Plan, Recovery Plan, Resolution Pack and Capital Management Plan. The Committee also oversee ALCO, Credit Committee and Conduct, Compliance & Operational Risk Committee which operate under their own terms of reference. The Committee is chaired by an independent Non-Executive director and comprises solely non-executive directors. During 2019, the Committee reviewed and challenged the ICAAP and ILAAP processes.

10.4.1. Board Transactional Credit Committee

The Board Transactional Credit Committee is the body charged with the transactional credit responsibility for the Bank. These include credit proposals falling outside Board approved policy, credit proposals if advanced resulting in a large exposure above Board approved credit committee mandate and where the Board requests the Board Transactional Credit Committee to review or oversee a material loan in default. The Committee is chaired by the Chairman of the Risk Committee and comprises of Non-Executive directors.

10.4.2. Credit Committee ('CC')

The Credit Committee ensures there is robust ongoing monitoring, challenge, assessment and management of the Bank's Credit Risk.

10.4.3. Asset and Liability Committee ('ALCO')

The Asset & Liability Committee ("ALCO") is a sub-committee of BRC and has detailed terms of reference. The ALCO meets monthly or more frequently as required. The Committee's key responsibility is to ensure that there is robust ongoing monitoring, challenge, assessment and management of the capital, liquidity and market risks inherent within the Bank's business. It ensures the Bank adheres to its Liquidity and Interest Rate Policy and reviews the Bank's exposure to liquidity and interest rate risks. It also has responsibility for review of certain frameworks and policies and making recommendations to the Board Risk Committee.

10.4.4. Conduct, Compliance and Operational Risk Committee ('CORC')

This Committee is focused on the operational environment of the Bank. The aim of the Committee is to ensure there is a robust ongoing monitoring, challenge, assessment and management of the Conduct, Compliance, Financial Crime and Operational Risks inherent within the Bank's business.

10.5. Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits, performance related pay structures for the Bank and leads the process for identifying and making nomination recommendations to the Board. It is also responsible for considering all senior appointments at Executive levels (including Non-Executive directors).

It reviews and approves succession plans for all Board and Board Committee positions; makes appointments of Committee Approved staff under recommendation from the CEO; sets remuneration & benefits entitlements of Committee-Approved staff; and agrees bonus awards for the Company and Committee-Approved staff. The Committee is chaired by the Chairman of the Bank and comprises solely non-executive directors. During 2019, the Committee approved the bonus awards and made key appointments at executive levels.

10.6. Executive Committee ('ExCo')

The Executive Committee takes day-to-day responsibility for the running of the business. The Executive Committee implements the strategy and financial plan which is approved by the Board and ensures the performance of the business is conducted in accordance with the Board's approved policies and oversight. It also reviews prudential and regulatory matters of the Bank.

10.6.1. Pricing Committee ('PC')

The purpose of the LPC is to guide Treasury in the ongoing management of liquidity and the setting and co-ordinating of pricing for all of the Bank's savings products.

10.6.2. Investment Committee ('IC')

The Change Steering Committee is specifically responsible for overseeing the efficient and effective design and implementation of operational projects. It is the forum for setting priorities, resolving issues and ensuring operational projects are properly supporting business needs.

11.
Asset Encumbrance

The Bank primarily encumbers assets through positioning loans as collateral against drawings under the Bank of England's Sterling Monetary Framework facilities. The Bank has used these assets to access funding through the 'Term Funding Scheme' (TFS) and through Indexed Long-Term Repo operations ("ILTR"). As at 31 December 2019, the Bank had £135m of drawings under the TFS and £38m ILTR drawings.

The Bank's only other source of encumbrance is cash posted with swap counterparties, in respect of out of the money positions on our swap portfolio.

The Bank has an asset encumbrance risk appetite limit of 35% of total assets but aims to operate below 30% on a business as usual basis. This limit has been set to ensure that the Bank is able to utilise central bank facilities as much as possible, in order to facilitate lending to the economy, whilst ensuring sufficient availability of 'free' assets, (assets that are unencumbered but that may be encumbered).

This limit was considered to be appropriate, as the Board deemed this level to be essential for the Bank's competitive position. The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits.

The Pillar 3 asset disclosure templates, shown below, are prescriptive and have been compiled in accordance with PRA and EBA regulatory reporting requirements. This highlights the level of encumbered and unencumbered assets held by the Bank as at the 31 December 2019.

Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
£'000		010	040	060	090
010	**Assets of the reporting institution**	363,721		914,089	
030	Equity instruments				
040	Debt securities				
120	Other assets				

Template B: Collateral received

None of the collateral received by the Bank entails encumbrance.

Template C: Encumbered assets/collateral received and associated liabilities

£'000		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered
010	**Carrying amount of selected financial liabilities**	173,000	363,721

12.
Securitisation

During the year the Bank's Enable Guarantee with the British Business Bank became effective. The British Business Bank is a state-owned economic development bank established by the UK Government. Its aim is to increase the supply of credit to small and medium size enterprises as well as providing business advice services. The Enable Guarantee provides unfunded credit protection for qualifying loans within the Bank's development finance loan book. Its effect is to partially offset the Bank's exposure to qualifying loans; the Bank remains exposed to the unguaranteed portion and to a 'first loss' element of the guaranteed portion. This latter exposure constitutes a synthetic securitisation position under the CRR. The guarantee improves the Bank's capital efficiency and increases the Bank's capacity to fund SME housebuilders in the UK.

The guarantee covers loans originated by the Bank which meet certain criteria including: the risk profile, loan size, purpose of the loan and the nature of the borrower. The guarantee was entered into in May 2018 and became effective when certain size and diversification criteria had been reached. The Guarantee protects 75% of the exposure. Qualifying newly originated loans are added to the guarantee portfolio up to a maximum aggregate facility amount of £150m.

New loans can be added over a 24-month replenishment period, after which the guarantee continues for those loans already covered by it, until they have been repaid. Further drawdowns on these loans are also covered post the end of the replenishment period, up to each loan's facility limit. The guarantee contains provisions that mean that new qualifying loans may not be added in the event of defaults occurring within the guaranteed portfolio. The guarantee can be terminated via a clean-up call, once the aggregate value of the remaining facilities falls below 10% of the maximum facility limit.

Loans covered by the guarantee are monitored in the same way as unguaranteed loans provided by the Bank, and in the event of a default, the Bank would undertake the same recovery procedures for guaranteed loans as for unguaranteed loans.

The guarantor under the guarantee is the UK Government. As a consequence the risk weighting of the guarantee exposure is 0% under Article 114(4) of the CRR which is applied to the value of guaranteed facility of each loan, including undrawn amounts. The synthetic securitisation position is deducted from own funds in accordance with Article 244(2) (b) of the CRR. The amount deducted at year end was £7.9m.

The accounting for the guarantee protection is off balance sheet and the full originated loan exposure remains on balance sheet. The fees paid for the guarantee are included within operating expenses within the income statement. The total amount of outstanding drawn exposures under the guarantee at year end (being the guaranteed portion of the qualifying loans) was £49m.

At the year end, no loans covered by the guarantee were impaired. No losses were recognised in respect of these loans.

13. Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR. The following references the Bank's remuneration policies and practices for categories of staff whose professional activities have a material impact on the company's risk profile (Material Risk Takers ("MRTs")). MRTs include staff who hold Significant Management Functions ("SFs") as designated by the regulatory authorities.

13.1. Decision making process

The Nomination and Remuneration Committee (the 'Nom/RemCo'), annually review and (where applicable) update the Bank's Remuneration Policy and submit this to the Board for approval. An external consultant, McLagan, was also formally contracted to review the Bank's Remuneration Policy. Nom/RemCo also has oversight of the remuneration of the senior management team.

The Bank maintains a record of staff whose activities have a material impact on the Bank's risk profile and takes reasonable steps to ensure they understand the implications of this responsibility under the existing regulatory environment.

The NomCo/RemCo meets at a minimum 4 times per year, to review and approve the annual salary (fixed pay) proposals for relevant staff, to review and approve the bonus pool allowable for the payment of the variable remuneration of all staff (based on Bank performance), to review and approve the proposed variable remuneration proposals for relevant staff and the Bank overall, taking into consideration additional factors such as the findings of the Risk Review undertaken by the Director of Human Resources and the Director of Compliance, and to approve any relevant proposed hires of individuals into the Bank or adjustments to the remuneration of current relevant employees on an ad hoc basis.

The Nom/RemCo recognises the need to be competitive within the UK banking employment market, however the Nom/RemCo's policy is to set remuneration levels which are aligned within the overall Bank stated risk appetite. The Committee seeks to ensure that the executive directors, senior management and employees are fairly and responsibly rewarded in return for high levels of individual and business performance within an appropriate risk management framework.

13.2. Remuneration structure

Fixed Pay

Employees are paid fixed base salaries, and benefits such as holiday allowance, pension scheme, life assurance, private medical insurance, and permanent health insurance and may access staff loans. These elements are set at a level to minimise the risk of there being an excessive dependence on variable remuneration across the Bank.

Annual bonus

The annual cash bonus is performance based and designed to drive and reward medium term results. It considers financial results and non-financial metrics at Bank and individual level. Nomco/Remco approves the bonus amount, and any proposed payment.

Allocation of bonus awards to individuals are reviewed against individual performance to ensure they appropriately reflect performance not only relative to financial and delivery-based objectives, but also to behaviours, alignment to the Bank's values and risk culture, customer focus and conduct standards.

In advance of any bonus award being made, a thorough review of conduct is carried out jointly by the Director of Human Resources and Director of Compliance, and recommendations for any required action are reviewed as part of the approval process by NomCo/RemCo. There is currently no deferred element applied to cash bonus payments and therefore no criteria to be applied in this regard.

Long term incentive plans ("LTIP")

Some senior staff from time to time may be offered "B" Shares in the Bank's parent company, Hoggant Ltd. These are issued at par and granted over a variable vesting period.

13.3. Link between pay and performance

Nomco/Remco has approved remuneration principles which support a clear link between pay and performance. The principles include:

- striking an appropriate balance between risk taking and reward.
- rewarding the achievement of the overall business objectives and values of the Bank.
- encouraging and supporting the Bank's culture of excellent customer service.
- guarding against risk taking over and above the Bank's risk appetite.

13.4. Remuneration statistics

In relation to 2019 the Bank paid the following remuneration:-
Broken down by business area, aggregate remuneration in respect of MRTs as at the 31 December 2019 was:

Total value of remuneration awards for the current fiscal year (£'000)	Lending	Treasury & Central Services	Total
Number of MRTs	5	17	22
Total remuneration	**812**	**2,714**	**3,526**

The table below shows total fixed and variable remuneration awarded to MRTs in respect of the financial year ended 31 December 2019.

	Amount £'000
Fixed remuneration	3,163
Cash variable remuneration	319
Variable remuneration in the form of "B" shares	(7)
Severance pay	51
Total remuneration	**3,526**

There were no individuals being remunerated more than EUR 1 million for 2019.

14. Appendix 1: Own Funds Disclosure Template

	Own funds disclosure template	2019 £'000	Regulation (EU) No 575/2013 article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	126,484	26 (1), 27, 28, 29
	of which: ordinary share capital	126,288	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	24,991	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**151,475**	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(128)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(5,976)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (I), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)

	Own funds disclosure template	2019 £'000	Regulation (EU) No 575/2013 article reference
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	(7,875)	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(13,979)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**137,496**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79

Own funds disclosure template		2019 £'000	Regulation (EU) No 575/2013 article reference
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**137,496**	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	30,000	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)
50	Credit risk adjustments	-	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**30,000**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**30,000**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**167,496**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**757,438**	

Own funds disclosure template		2019 £'000	Regulation (EU) No 575/2013 article reference
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.54%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	16.54%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	20.15%	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 a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) 1)	8.00%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	1.00%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.53%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 48
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)

Own funds disclosure template		2019 £'000	Regulation (EU) No 575/2013 article reference
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

15. Appendix 2: Capital instruments' main features Template

Capital instruments' main features template [1]			
1	Issuer	Hampshire Trust Bank Plc	Hampshire Trust Bank Plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£126m	£30m
9	Nominal amount of instrument	£126m	£30m
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	N/A	10-May-18
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	29-Sep-20
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	10-May-23
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	7.25%
19	Existence of a dividend stopper	N/A	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A

1. 'N/A' inserted if the question is not applicable

Capital instruments' main features template [1]			
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Senior debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Note: Terms and Conditions of the Bank's capital instruments can be obtained on request

1. 'N/A' inserted if the question is not applicable

16. Appendix 3: Leverage ratio Template

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

£'000		CRR Leverage Ratio Exposure 31 December 2019	CRR Leverage Ratio Exposure 31 December 2018
1	Total Assets as per published financial statements	1,283,904	1,024,173
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) NO 575/2013)	-	-
4	Adjustment for derivative financial instruments	1,803	2,750
5	Adjustment for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	20,309	22,025
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(20,423)	(9,670)
8	**Leverage ratio total exposure measure**	**1,285,893**	**1,039,278**

Table LRCom: Leverage ratio common disclosure

£'000		CRR Leverage Ratio Exposure 31 December 2019	CRR Leverage Ratio Exposure 31 December 2018
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	1,291,739	1,022,623
2	(Asset amounts deducted in determining Tier 1 capital)	(13,979)	(4,060)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**1,277,760**	**1,018,563**
Derivative Exposures			
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	11	872
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1,792	1,878
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**1,803**	**2,750**

£'000		CRR Leverage Ratio Exposure 31 December 2019	CRR Leverage Ratio Exposure 31 December 2018
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**-**	**-**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	203,090	220,248
18	(Adjustments for conversion to credit equivalent amounts)	(182,781)	(198,223)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	20,309	22,025
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off-balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-	-
Capital and total exposures			
20	Tier 1 Capital	137,496	121,690
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	1,285,893	1,039,278
Leverage Ratio			
22	Leverage Ratio	11%	12%

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)			
£'000		CRR Leverage Ratio Exposure 31 December 2019	CRR Leverage Ratio Exposure 31 December 2018
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**1,277,760**	**1,018,563**
EU-2	Trading book exposures	-	-
EU-3	**Banking book exposures, of which:**	**1,277,760**	**1,018,563**
EU-4	Covered Bonds	-	-
EU-5	Exposures treated as sovereigns	-	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	78,567	106,458
EU-7	Institutions	7,110	7,681
EU-8	Secured by mortgages of immovable property	629,161	319,251
EU-9	Retail exposures	261,326	316,428
EU-10	Corporate	38,467	62,417
EU-11	Exposures in default	6,885	7,317
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	256,244	199,011

17. Glossary

17. Glossary

Set out below are the definitions of terms used within Pillar 3 disclosures to assist the reader to facilitate comparison with other financial institutions

CET 1	Common Equity Tier 1 (CET 1) capital primarily comprises internally generated capital from retained profits. An adjustment is made to deduct intangible assets.
CRD IV	CRD IV is made up of the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and the Capital Requirements Directive (CRD), which must be implemented through national law. IV became effective in the UK from 1 January 2014.
CRR	Capital Requirements Regulation, which is directly applicable to firms across the EU.
EIR	The method used to measure the carrying value of a financial asset or a liability measured at amortised cost and to allocate associated interest income or expense over the relevant period.
ICAAP	The Bank's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.
ILAAP	The Bank's own assessment that current and projected levels of liquidity are sufficient and appropriate for the Bank's plans, under a variety of stress scenarios. It also details the Group's compliance with the PRA's regulatory BIPRU 12 requirements.
ILTR	Indexed Long-Term Repo Scheme
Leverage ratio	The ratio of Tier 1 capital divided by total exposure, which includes on and off-balance sheet assets, after netting derivatives.
Liquidity coverage ratio	Measure designed to ensure that financial institutions have sufficient high-quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario.
LTV	A ratio which expresses the balance of a mortgage as a percentage of the value of the property. The Bank calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index).
Loans past due	Loans on which payments are overdue including those on which partial payments are being made.
MRT	A group of employees to which the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile.
RWA	The value of assets, after adjustment, under CRD IV rules to reflect the degree of risk they represent.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment using quantitative and qualitative factors identifies that the credit risk has increased significantly since the asset was originally recognised.
Stage 1	Stage 1 assets are assets which have not experienced a significant increase in credit risk since origination. 12-month ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 2	Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the gross carrying amount.
Stage 3	Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECLs are recognised and interest revenue is determined by the EIR on the net carrying amount.
Tier 1 capital	Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits
Tier 2 capital	Tier 2 capital comprises regulated subordinated liabilities
TFS	Term Funding Scheme

PILLAR 3 DISCLOSURES 2019

HTB

Hampshire Trust Bank Plc
55 Bishopsgate
London
EC2N 3AS

Company number: 1311315