Restricted

C. Hoare & Co.

PRIVATE BANKERS SINCE 1672

Capital and Risk Management
Pillar 3 Disclosures
Year ended 31 March 2021

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1. Introduction

This document presents the consolidated Pillar 3 disclosures of C. Hoare & Co. and its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoare's Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited ("the Group"), as at 31 March 2021.

C. Hoare & Co. ("the bank") is an unlimited company with share capital, which is incorporated and domiciled in the United Kingdom and has its registered office and principal place of business at 37 Fleet Street, London, EC4P 4DQ. The bank's principal activity, together with its subsidiaries, is the provision of banking and ancillary services to a predominantly high net worth customer base.

2. Disclosure Policy

The following sets out a summary of the policy applied to the Pillar 3 disclosures, including the basis of disclosure, frequency, media, location and verification.

2.1 Basis of Disclosure

This document sets out the consolidated Pillar 3 disclosures of the Group as at 31 March 2021 and has been prepared in accordance with the requirements of Part Eight of the Capital Requirements Regulation (575/2013) ('CRR'). The purpose of these disclosures is to provide information on the basis used to calculate the Basel III capital requirements and on the management of risks faced by the bank.

The bank provides certain disclosures as part of the bank's Annual Report and Consolidated Financial Statements. The principal risks affecting the bank are presented in the Strategic Report. Further detail is provided in Note 30 'Financial Risk Management'. Risk management and governance structure is disclosed in the Directors' Report.

The Pillar 3 Disclosures are prepared annually based upon the financial information prepared for the Financial Statements to the 31 March of each year, and is available on the bank's website:

www.hoaresbank.co.uk.

2.2 Verification

The Pillar 3 disclosures were reviewed and approved by the Board on 15 July 2021. These disclosures have not been externally audited; however, some of the information contained within the disclosures also appears in the bank's Annual Report and Consolidated Financial Statements.

3. Scope of Consolidation

The bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Prudential Regulation Authority and the Financial Conduct Authority (FCA). The bank continues to solo consolidate under Article 9 of the CRR (individual consolidation method). Solo consolidation enables the reserves of the solo subsidiaries to be aggregated to the parent when calculating capital resources. Messrs Hoare Trustees is included under solo consolidation and is subject to PRA approval. There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or the repayment of liabilities within the Group.

4. The Regulatory Capital Framework

The bank's regulatory capital framework is defined by the Capital Requirements Directive (2013/36/EU) (CRD) and CRR (together referred to as CRD IV) as implemented in the United Kingdom by the PRA, under Policy Statement PS7/13 Strengthening capital standards: implementing CRD IV, feedback and final rules in December 2013. The bank is supervised and authorised in the United Kingdom by the Regulators and submits quarterly capital adequacy returns to the Regulator.

The regulatory capital framework is categorised under three pillars.

- Pillar 1 sets out the minimum regulatory capital requirements for credit, market and operational risk. As of 1 January 2015, banks are required to meet a minimum Common Equity Tier 1 (CET 1) ratio of 4.5% of risk weighted assets (RWAs), a minimum Tier 1 ratio of 5.5% of RWAs and a total capital ratio of 8% of RWAs.
- Pillar 2 requires an assessment by firms as set out below:
  - Pillar 2A sets out the additional regulatory capital as determined by the PRA, through the issuance of a firm specific Total Capital Requirement (TCR), following a review of the ICAAP, as part of the Supervisory

Review and Evaluation Process (SREP). Pillar 2A was previously met by total regulatory capital, but since 1 January 2015, in accordance with the PRA Supervisory Statement SS5/13, this must now be met with at least 56% CET 1.

- Pillar 2B is the PRA Buffer where the PRA may impose a firm specific buffer incremental to Pillar 1, Pillar 2A and the CRD IV buffers and replaces the Capital Planning Buffer. This PRA buffer became effective on 1 January 2016 and will be held by firms in the form of CET 1, to absorb losses that may arise under a severe, but plausible stress, in line with CRD IV rules. The PRA buffer will be set taking account of the CRD IV buffers.

  CRD IV introduced a number of capital buffers, which are required to be met from CET 1 capital:

- Capital Conservation Buffer (CCoB) is a standard buffer and is calculated as 2.5% of RWAs, designed to provide for losses in the event of a severe but plausible stress and has been phased in since 2016 at the rate of 0.625% each year to reach its final level of 2.5% at 1 January 2019.

- Countercyclical buffer (CCyB) is designed to require banks to hold additional capital to capture system wide cyclical risk. The CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions to which banks have a credit exposure. The Financial Policy Committee is responsible for setting the UK countercyclical capital buffer rate, which for the UK is currently set at 0%.

- Systemic buffer is an additional buffer of up to 3% of RWAs for certain banks which are deemed to be 'systemically important', either globally or domestically. This is not applicable to the Group.

- Pillar 3 complements Pillar 1 and Pillar 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess the scope of application of Basel III, capital, risk exposures and risk assessment processes, and hence the capital adequacy of the firm. The disclosures are to be produced in accordance with Part Eight of the CRR within CRD IV which was directly applicable in the UK from 1 January 2014.

5. Regulatory Developments

The Bank of England's Financial Policy Committee (FPC) announced on 11 March 2020, that the UK's CCyB would decrease from 1% to 0% for a period of at least 12 months. The Bank of England acknowledged in their Financial Stability Report in December 2020 that any subsequent increase in the CCyB is not expected to take effect until Q4 2022 at the earliest, due to the usual 12-month implementation lag.

In October 2020, the European Banking Authority (EBA) issued the final draft Regulatory Technical Standard (RTS) on the prudential treatment of software assets, permitting Firms to partially deduct software from CET1. This became binding on UK firms from December 2020. The PRA issued a statement on the EU requirements, indicating its concern around exempting software assets from full CET1 capital deduction treatment. Following this, the PRA issued a consultation paper in February 2021, the results of which will inform the final UK treatment. During the year there was a change in the bank's accounting policy for software assets, changing their treatment from tangible assets to intangible assets. The bank currently partially deducts intangible software assets from CET1, in line with the current requirements, and is monitoring the outcome of the PRA's consultation.

The PRA published Policy Statement 29/20 Capital Requirements Directive V (CRD V) at the end of December 2020, containing 33 final PRA Rulebook instruments, Statements of Policy (SoP), Supervisory Statements (SS), and templates.

In February 2021, the PRA published a consultation paper setting out its proposed rules in respect of the implementation of international standards through a new PRA Capital Requirements Regulation (CRR) rule instrument. Key items of relevance to the bank include treatment of software assets, Collective Investment Undertakings, simplified standardised approach for counterparty credit risk exposures, net stable funding ratio, UK COREP and FINREP updates, Pillar 3 disclosure and operational risk calculation clarification. Implementation of various changes expected from 1 Jan 2022.

The Bank of England, FCA and PRA published a plan for transforming data collection from the UK financial sector. The regulator recognises that data collection represents a significant challenge for the regulator and the regulated. The transformation plan is a long-term, phased programme to fundamentally change data collections over the next decade, based around three key areas of reforms: (i) integrating reporting; (ii) modernising reporting instructions; (iii) defining and adopting common data standards.

The bank monitors and assesses the potential impacts of ongoing regulatory developments.

6. Risk Management

The Group's business is stable and concentrates on the supply of banking and ancillary services to generations of customers. Regular patterns of income and expenditure emerge and are well understood by the bank. This stability enables the Board and management to monitor risks closely and to detect and manage any emerging changes at an early stage.

6.1 Risk Management Framework and Board declaration on the Adequacy of Risk Management Arrangements

The Board is ultimately responsible for the bank's systems and controls and for reviewing the effectiveness of those arrangements. However, such arrangements are designed to mitigate, not eliminate, risk and therefore can provide only reasonable, but not absolute, assurance against fraud, material losses or financial misstatements.

The bank has developed a Risk Management Framework (RMF), which is reviewed and approved at least annually by the Board, to provide guidance to the business on how risks should be managed and to ensure that the bank's risk management systems and controls are adequate.

Board declaration on the Adequacy of Risk Management Arrangements: The Board considers that its risk management arrangements, including its risk management systems and controls, are adequate with regards to the bank's profile and strategy.

The objective of the RMF is to provide a principles-based structure for managing the bank's risks in line with its risk appetite to enable it to achieve its strategic objectives.

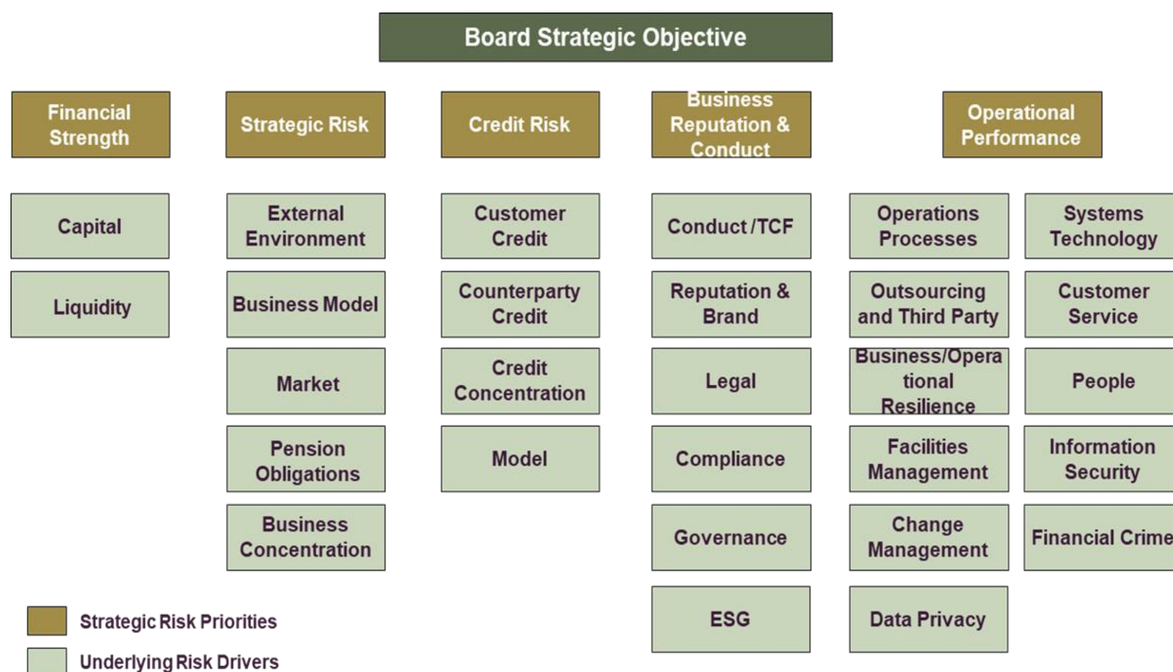
The bank's RMF comprises the risk governance structures, risk appetite and policies and procedures to achieve the bank's risk management objectives as follows:

1. Articulate and communicate the Board's risk appetite and ensure the bank's risk profile operates within the defined parameters;
2. Ensure significant risks are identified, measured, mitigated, monitored and reported in a consistent and effective manner across the bank;
3. Regularly re-assess the capital requirements and liquidity impacts implied by these risk exposures;
4. Integrate and consolidate all components of risk information to provide a comprehensive view of the bank's risk exposure to the Board and its Committees to evaluate risk adjusted performance against strategic objectives; and
5. Ensure a robust risk governance structure and risk culture is maintained.

6.2 Risk Appetite

Board Strategic Objective: The Hoare Family's vision is to "perpetuate a profitable family business". With this in mind, the bank's strategic objective is to build profitable long-term relationships with its customers and to offer an exceptional and personalised service.

Board Approved Risk Appetite Statement and Risk Appetite Metrics: In order to meet the bank's strategic objective, the bank is willing to take risks if they are consistent with the bank's values and if they do not threaten the bank's reputation or its sustainability. The Board articulates the level of risk that the bank is willing to accept overall and for each risk category in pursuit of its strategic objectives via the Risk Appetite Statement which is reviewed and updated at least annually. The Bank also articulates the level of risk the bank is willing to take, both quantitatively and qualitatively, through the use of risk appetite key risk indicators and early warning indicators.



6.3 Risk Taxonomy

To support the translation of the bank's RAS to lower level risk appetite statements, the bank has introduced Strategic Risk Priorities (SRPs). Each SRP is supported by a set of lower-level, underlying risk drivers. The SRPs form the high-level framework against which the bank's appetite is monitored.

A description of each SRP is set out below:

Strategic Risk Priority (SRP)	Description
Financial Strength	This SRP concerns risk events which could result in the bank being under capitalised relative to minimum regulatory and/or economic capital requirements; and risk events that impact the bank's ability to maintain an appropriate level of liquidity and contingency liquidity to support ongoing operations.
Strategic Risk	This SRP addresses risks that the bank fails to achieve its strategic goals and risks that could cause volatility in earnings, impacting the bank's long-term levels and sustainability.
Credit Risk	This SRP relates to the level of credit risk that the bank is willing to accept in pursuit of its core business activity of lending.
Business, Reputation & Conduct	This SRP relates to how business is conducted at the bank and covers legal, regulatory risks as well as principles relating to Treating Customers Fairly. Poor conduct can result in legal penalties, financial forfeiture, material loss and/or damage to the bank's reputation.
Operational Performance	This SRP looks to minimise risks arising from operational errors that could result in financial loss.

6.4 Risk Policies

To support the embedding of the RMF and the RAF, the bank has established policies, procedures and limits that must be adhered to. The bank has policies and procedures to manage each risk type, for example:

- Capital Risk Framework and Policy supported by the Internal Capital Adequacy Assessment Process (ICAAP)
- Liquidity Risk Framework & Policy supported by the Internal Liquidity Adequacy Assessment Process (ILAAP)
- Liquidity Contingency Plan
- Recovery & Resolution Plan

- Credit risk policies for customers and treasury counterparties
- Policies to manage market risk, in particular interest rate risks
- Policies to manage the bank's operational risks

6.5 Overview of Risk Governance Structure

The Board of Directors ("the Board"), its committees and sub-committees together with the three lines of defence model form the bank's risk management governance structure.

The governance structure is summarised below. Please refer to the Annual Accounts Section 3.2 for more information.

Table 1: Governance Structure

Board of Directors

The Board is the key governance body and is responsible for the overall strategy, business performance and risk management of the bank. The Board has established the following committees to provide support in discharging its responsibilities:

- Audit, Risk & Compliance Committee (ARCCo);
- Management Team (MT) and
- Remuneration & Nominations Committee (RemCo)

The Board sets the bank's risk appetite and reviews the effectiveness of the systems and controls to manage risks against the risk appetite on an annual basis.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors on the Board, in addition to their roles within the bank are detailed below:

Table 2: Directorships

		Commercial directorships	
Name	**Position**	**Total positions**	**No. separate groups**
Mr A. S. Hoare*	Executive Director	1	1
Miss V. E. Hoare*	Executive Director	0	0
Mr S. M. Hoare*	Executive Director	0	0
Miss A. S. Hoare*	Executive Director	2	2
Mr A.R.Q. Hoare*	Executive Director	2	2
The Rt. Hon. Lord Macpherson of Earl's Court GCB	Executive Chairman	3	3
Mr A. J. McIntyre	Non-Executive Director	2	2
Ms J.E.M Waterous	Non-Executive Director	4	4
Ms. D.S. Brightmore-Armour	Non-Executive Director	3	3

[1]

At 31 March 2021, the Board of Directors included five Directors (those marked with an asterisk in the list above) who are descendants of the bank's founder. They, and one other Hoare family member, are the bank's only shareholders and each has unlimited liability. They are known as Partners and all work in the business to ensure the continuation of the bank's long-held culture, values and approach to business.

Remuneration & Nominations Committee (RemCo)

The Remuneration & Nominations Committee has two main purposes. The first, in consultation with the partners, is to oversee the appointment of new Directors to the Board and members of the MT. This includes succession planning, with the aim of achieving an appropriate balance of skills and experience; ensuring that there is a formal, transparent and rigorous process for selection; and overseeing the balance of partners/Directors and Non-Executive Directors. The second is to set the principles, parameters and governance of the remuneration policy across the bank and to consider and approve the remuneration Identified Staff. Identified Staff include Senior Management (including the Partners, staff performing a Senior Management Function (as defined by the Regulators) and Non-Executive Directors) and Material Risk Takers (staff whose actions are deemed to have a material impact on the bank's risk profile).

Board Recruitment and Diversity Policies

The RemCo periodically reviews the composition of the Board and its Committees in order to identify and recommend for approval candidates to fill Board vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the Board. The Committee may also recommend a target for the representation of the underrepresented gender in the Board and prepare a policy on how to increase the number, taking into account the bank's strategy.

While the Board has not set a specific diversity target, it is satisfied with the current level of gender diversity as at 31 March 2021:

- 67% of three Non-Executive Directors are female
- 33% of six family related Shareholders (partners) are female
- 40% of five family related Directors are female
- 40% of the ten MT members are female

Audit, Risk & Compliance Committee (ARCCo)

A key responsibility of the ARCCo is to assist the Board with its oversight of the bank's RMF. This includes challenging and advising the Board on:

i. the risk appetite statement and metrics for monitoring the effectiveness of the bank's risk management framework to ensure that the bank is operating within its risk appetite;

[1] Table shows the total number of commercial board positions and the number of separate unrelated groups to which those positions relate (see SYSC 4.3A.7 at https://www.handbook.fca.org.uk/handbook/SYSC/4/3A.html)

ii. current risk exposures and future risk strategy; and
iii. the ICAAP, ILAAP, and associated stress testing and scenario analysis.

The ARCCo also reviews reports on any material breaches of risk limits and the adequacy of proposed actions:

i. to bring to the attention of the Board and the MT matters of concern, arising either internally or externally; and
ii. to recommend actions to mitigate the bank's risks.

Management Team

The Board has delegated day-to-day executive management of the bank to the Executive Chairman and has established a MT to assist in the management of the business and delivery against its strategy.

The MT has in turn established the following sub-committees to support its responsibilities:

- Asset & Liability Committee ("ALCo");
- Credit Committee;
- Product Governance Committee;
- Legal and Regulatory Committee;
- Operational Risk Committee ("ORC"); and
- Reputation Management Committee.

Three Lines of Defence model

A Three Lines of Defence model has been adopted by the bank to embed the RMF. The model is illustrated below:

	BOARD		
	FIRST LINE OF DEFENCE (1LoD)	SECOND LINE OF DEFENCE (2LoD)	THIRD LINE OF DEFENCE (3LoD)
Activity	RISK MANAGEMENT	RISK OVERSIGHT	RISK ASSURANCE
Responsible Personnel	CUSTOMER FACING SERVICES SHARED SERVICES	CONTROL FUNCTIONS	INTERNAL AUDIT

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating (where appropriate), monitoring and reporting risks.

The 2LoD is responsible for establishing risk policies, facilitating the implementation of effective risk management practices by the1LoD, providing oversight over the 1LoD and assisting the 1LoD in reporting adequate risk related information through the bank's risk governance structure.

The Internal Audit function is responsible for providing independent assurance on the design and operating effectiveness of the RMF, including providing assurance on the bank's internal control framework. Internal Audit is also responsible for validating the RAS and the bank's adherence to the risk appetite statement approved by the Board.

6.6 Risk Culture

Core to being Good bankers and Good Citizens is not just what you do but also how you do it. The bank has defined a series of behaviours that underpin its culture and values.

The bank uses the Institute of Risk Management ("IRM") Risk Culture Aspects Model as a means to provide assurance over its risk culture which prescribes 'Tone at the Top', 'Governance', 'Competency' and 'Decision Making' as the key 'themes' or factors as being indicative of a healthy risk culture.

6.7 Risk Assessment, Monitoring and Reporting

Financial strength

In compliance with the Bank's Capital Risk Framework and Policy the Bank conducts an ICAAP on at least an annual basis. In addition, the Bank actively monitors its capital position in both normal and stressed conditions against established capital adequacy risk appetite metrics.

In compliance with the Bank's Liquidity Framework & Policy, the bank operates a suite of liquidity monitoring controls to ensure that it stays within appetite against established risk appetite metrics. The bank also conducts a series of liquidity stress tests as part of its ILAAP and simulates a liquidity stress event to ensure key stakeholders have working knowledge of the Liquidity Contingency Plan (LCP). If liquidity risk appetite metrics were breached there is a recovery plan and liquidity contingency funding plan which set out the type and range of management actions available to the bank to boost liquidity.

Refer 6.7 for more detail on the bank's ICAAP and ILAAP.

Strategic Risk

The bank has established a suite of policies, assessment processes, controls and risk appetite metrics to actively manage the following strategic risks:

- Business model risk
- External environment risk
- Market risk; and
- Business concentration risk

The Board and supporting Committees regularly receive the outputs of these processes to review whether the Bank remains within its stated risk appetite.

Credit Risk

Customer credit risk – The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of the framework, the bank has established risk appetite metrics which are aligned to its lending policy, credit risk monitoring processes and conducts stress tests to ensure that the bank remains within appetite. The bank's credit risk exposures and performance against appetite are monitored and reported at: the Credit Committee; MT; ARCCo; and Board.

Credit risk to Treasury lending is governed by risk appetite limits that are aligned to counterparty policies, to ensure that lending is only made with high quality counterparties with the levels of permitted exposures set in accordance with the strength of their respective credit ratings. In addition, there is a maximum exposure limit for all institutions, in line with the bank's regulatory reporting requirements on large exposures.

Business Reputation and Conduct Risk

The bank has established a suite of policies, assessment processes, controls, and risk appetite metrics to actively manage its Business Reputation and Conduct risks.

The Board and supporting Committees regularly receive the outputs of these processes to review whether the Bank remains within its stated risk appetite.

ESG risk (including climate change)

The board, via a specially constituted internal taskforce focusses on each of its ESG high priority areas. The description below sets out the bank's approach to Climate Change specifically.

Governance

The Board has ultimate oversight of the bank's climate-related risks and opportunities. As well as ensuring that the bank is making progress with implementing the regulatory requirements around climate risk, it seeks to adopt best practice in the way the bank operates. In the last year, climate-related issues have been a regular topic on the Board's agenda. It has received a number of updates on the work to implement the PRA's requirements for climate risk, and it invited a subject matter expert to share their perspectives on the risks and opportunities ahead.

The bank has begun the process of integrating climate risk responsibilities into its key governance committees. Both the MT and the ARCCo have provided review and challenge of the plans for implementing PRA requirements for climate risk and reviewing the climate risk framework. As the Board's assessment of its climate related risks and opportunities matures, it will look to further embed these issues in its key decision making, and to develop clear goals and targets to evaluate its progress.

Under the Senior Managers Regime, responsibility for climate-related issues sits with the Head of Risk and Compliance. Other individuals across the organisation support the Head of Risk and Compliance in this role. The General Counsel is responsible for ensuring the bank complies with Streamlined Energy & Carbon Reporting Regulations, and Risk is responsible for implementing the PRA's requirements on climate change. The bank recently established a climate risk working group, which consists of a team of senior individuals across the bank. This working group is tasked with, and has been providing, review and challenge of the detailed methodology, assumptions and limitations underpinning the climate risk framework.

More informally, the bank has also established a climate action taskforce. Its remit is to raise awareness of climate-related issues across the colleague base and support the bank in its work to reduce its carbon footprint.

Streamlined Energy & Carbon Reporting Regulations

The bank continues to monitor and take action to reduce the bank's own carbon footprint: the bank has been monitoring its tier one and tier two emissions in line with the Streamlined Energy & Carbon Reporting Regulations for two years. We seek to operate our business in a long-term, sustainable manner. Effectively managing our carbon footprint is a core part of this strategy and we are committed to becoming net carbon neutral by 2025. We are currently developing our own carbon reduction strategy and we continue to seek to address the underlying operational sources producing carbon.

See section 7 of the Directors' report for more detail.

Climate Risk Management Framework

Climate change has the potential to impact the bank directly (company related risks) and indirectly (predominantly via the lending book). These climate risks are anticipated to arise through two primary channels: physical effects from climate change and transitory risks and / or opportunities created as global economies aim to transition towards net zero emissions.

The bank has developed a methodology to assess its key risks from climate change, which leverage both internal and external sources of data. The logic of the methodology has been built with reference to publications from the Task-Force for Climate related Financial Disclosures (TCFD) and evolving industry practices. The bank has adopted the risk taxonomy outlined within the TCFD guidelines.

Our risk assessments on the bank's customers consider both physical and transitional climate change aspects. Given the geographic concentration of the bank's customers in the UK, physical risk assessments are currently focussed towards flooding (river, coastal and urban), landslides and subsidence risks. Transitional factor assessments consider existing and emerging climate driven regulatory and policy changes, changing customer preferences and structural changes driven by technology and / or energy opportunities. Specific risks relevant to different sub-sectors of the bank's lending book have been identified for each risk category of the TCFD taxonomy. Assessments of these risks are being performed bottom-up, considering each customer's specific circumstances. These assessments are informing sector-wide and bank-wide assessments of key exposures.

The bank will continue monitoring the outputs and developments on Climate Change in order to inform its thinking and actions.

Operational Risk

The Operational Risk Management Framework (ORMF) sets out the structure in place to manage operational risk. The ORMF is designed to ensure that the bank's operating model is capable of delivering the Board's strategic objectives within its risk appetite. The ORMF sets out the requirements in relation to:

- Risk and Control Self Assessments (RCSA);
- Control Testing;
- Incident Management; and
- Operational Risk Scenario Assessment.

The bank has established risk appetite metrics both at SRP and underlying risk driver level and these are regularly monitored and reported to the ORC, ARCCo and Board.

Risk Reporting

Regular reports are submitted to the Board, ARCCo, MT, and its sub-committees on:

- The overall risk profile relative to risk appetite (including any breaches to risk appetite)
- Emerging risk issues
- New or significantly changed key risk exposures and key trends
- Control weaknesses and actions to address these
- Details of operational risk incidents and root causes

Any breaches of risk appetite are escalated to senior management and actions are established and tracked to resolve issues identified.

6.8 Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP & ILAAP)

The bank's evaluation of capital and liquidity adequacy is primarily made through the ICAAP and the ILAAP which are the processes by which the firm oversees and regularly assesses:

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

The ICAAP and ILAAP processes are owned on behalf of the business by the Finance department. Risk Management facilitates and challenges certain aspects of these processes, in particular the development of the bank's key risks and the scenarios which underpin the capital and liquidity calculations.

The ICAAP and ILAAP documents are additionally challenged in turn by the ALCo, the MT and the ARCCo, eventually leading to challenge and approval by the Board at least once annually or more frequently if circumstances warrant. The ICAAP and ILAAP are subject to regular review by Internal Audit to confirm that the bank is compliant with the regulatory requirements.

The ICAAP/ILAAP processes are integrated elements of the bank's Risk Appetite Framework and as such are embedded in many aspects of the bank's business, risk management and corporate governance activities. The ICAAP and ILAAP lead to an internal assessment of the capital and liquidity that the bank believes appropriate for it to hold to protect it and its customers' deposits from the impact of stress events.

6.9 Group subsidiary companies and boards

Each of the Group's subsidiary companies has its own board of directors. Hoare's Bank Pension Trustees Limited (HBPT) acts as trustee over the Group's defined benefit pension scheme and, in addition to two partner directors, has three non-partner directors: two directors nominated by the members of the pension scheme and an external professional pension trustee director.

Most of the Group's subsidiary companies do not undertake any material commercial activities or are dormant. The exception is Messrs Hoare Trustees (MHT) which carries on the business of acting as Executor or Trustee or both Executor and Trustee. MHT's board meets quarterly and the minutes of its meetings are reviewed by the Group board.

7. Capital position and leverage ratio

7.1 Capital Resources

The bank's policy is to have a strong capital base to provide resilience, maintain customer, creditor and market confidence and to sustain future development of the business. There have been no material changes to the bank's management of capital during the year. The primary source of new capital for the bank is retained profits. The Board is conscious of the need for retained profits to be sufficient to grow capital in line with business growth and to meet regulatory driven expectations of higher capital ratios across the industry.

The Board is ultimately responsible for capital management. The Board, the MT and the ALCo receive regular reports on the current and forecast level of capital.

The bank measures the amount of capital it holds using the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) which took effect from 1 January 2014 and was implemented in the UK by the Prudential Regulation Authority (PRA).

Under CRD IV, the bank's regulatory capital is comprised of two tiers:

- Common Equity Tier 1 capital is the highest form of regulatory capital under CRD IV, which includes the share capital; reserve fund; audited retained profits and losses from previous years; property and heritage asset revaluation reserves; plus any regulatory adjustments.
- Tier 2 capital, which comprises the bank's collective allowance for impairment.

The bank does not have any Tier 1 capital that is not Common Equity Tier 1.

The bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of CRD IV and the PRA. The bank is subject to capital requirements as defined under Pillar 1 (minimum

capital requirements) supplemented by additional minimum requirements under Pillar 2A, the aggregate of which is referred to as the TCR. Further to this, the bank is subject to CRD IV capital buffers. The CCoB is a standard buffer of 2.5% of risk weighted assets designed to provide for losses in the event of a severe but plausible stress and has been phased in since 2016 at the rate of 0.625% each year to reach its final level of 2.5% at 1 January 2019.

The CCyB is designed to require banks to hold additional capital to capture system wide cyclical risk. The amount of the buffer is determined by reference to buffer rates set by The Financial Policy Committee, whereby it was announced on the 11 March 2020, a reduction to the UK's CCyB to 0% for a period of at least 12 months. The Bank of England acknowledged in their Financial Stability Report in December 2020 that any subsequent increase in the CCyB is not expected to take effect until Q4 2022 at the earliest, due to the usual 12 month implementation lag.

The minimum capital requirement is determined as 8% of total risk weighted assets. The additional minimum requirements are set by the PRA through the issuance of firm specific TCR following the ICAAP, as part of the supervisory review. The bank assesses the adequacy of its capital through the annual update of the ICAAP, and more frequently in the event of a material change in capital. The bank has put in place processes and controls to monitor and manage capital adequacy and throughout the year, the bank's regulatory capital remained in excess of the minimum requirements determined by the TCR and CRD IV buffers.

The bank continues to monitor developments and to incorporate the impact of forthcoming regulatory changes to the capital forecasts to ensure the bank is able to maintain a strong capital base that exceeds the minimum regulatory requirements.

The bank's regulatory capital, risk-weighted assets and capital ratios at 31 March 2021 were as follows:

Table 3: Capital Resources

Group	**2021** **£000**	*2020* *£000* *Restated*
Common Equity Tier 1 capital		
Ordinary share capital	**120**	*120*
Reserve fund	**22,598**	*22,598*
Profit and loss account	**340,230**	*333,472*
Property revaluation reserve	**27,386**	*29,950*
Heritage assets revaluation reserve	**7,398**	*7,581*
Intangible assets adjustment for CRR II treatment	**(13,091)**	*(9,523)*
Net defined benefit obligation	**(3,200)**	*(8,482)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**381,441**	*375,716*
Tier 2 capital		
Collective Impairment Allowance	**4,323**	*4,160*
Total Tier 2 capital	**4,323**	*4,160*
Total regulatory capital	**385,764**	*379,876*
Risk weighted assets (unaudited)	**1,764,829**	*1,779,927*
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.86%**	*21.34%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**21.61%**	*21.11%*

In the prior year, software assets were presented as a separate category within tangible fixed assets. During the year there was a change in accounting policy and it was determined that these assets should be presented separately from tangible fixed assets. There was neither an impact on opening equity nor on profits from this change, however capital was adjusted by reducing both RWA & CET1 by £13,091 *(2020*: £9,523).

The bank's total regulatory capital ratio increased year on year from 21.34% (restated) to 21.86%, while the Common Equity Tier 1 ratio increased from 21.11% (restated) to 21.61%. The capital ratios remain above the regulatory requirements. The increase in total regulatory capital during the year was due to retained profits.

The bank's total capital requirement, being the aggregate of Pillar 1 and Pillar 2A requirements, as at 31 March 2021 was 11.52*% (2020: 11.85% restated). Prior year numbers have been restated to show impact of software asset reclassification.*

The table below provides a full reconciliation of the shareholders' funds shown within the Annual Report and Consolidated Financial Statements to the total regulatory capital shown in Table 3, as required under Article 437 (1) (a) of the CRR.

Table 4: Reconciliation of regulatory capital to the shareholders' funds as reported in the audited financial statements.

	2021	*2020*
	£'000	*£'000*
		Restated
Total shareholders' funds per consolidated balance sheet	**397,732**	*393,721*
Add: Collective Impairment Allowance	**4,323**	*4,160*
Less: Intangible assets adjustment for CRR II treatment	**(13,091)**	*(9,523)*
Less: Net defined benefit obligation	**(3,200)**	*(8,482)*

Own Funds Disclosures

In accordance with the requirements of the EBA's technical standard on Own Funds Disclosures published in July 2013, see Appendix 1 for the disclosure of the own funds template.

7.2 Capital Requirements

The bank calculates its capital at a consolidated level using the standardised approach to credit risk, market risk and operational risk from the Basel III framework.

Credit risk is the risk of financial loss arising from a borrower or a counterparty failing to meet their contractual financial obligations. The risk arises from loans and advances to customers and banks and from treasury investments. Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the bank's future cash flows or the fair value of its holdings of financial instruments. The Foreign Exchange Position Risk Requirement (FX PRR) is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions due to movements in foreign exchange rates. The FX PRR is calculated using the standardised approach.

Under CRD IV, the standardised approach applies a standard set of risk weights to credit risk exposures, dependent on a number of factors including the asset class and underlying credit quality.

In accordance with the requirements of Article 317 of the CRR, the standardised calculation of operational risk applies risk percentages to the average annual income over three years by business line. As at 31 March 2021, the capital requirement for operational risk under the standardised approach was £15.4m *(2020: £15.6m)*. The capital charge is included in Table 5.

The regulatory minimum of total capital is calculated at the standard rate of 8% of the risk weighted assets.

The table below shows as at 31 March 2021 the Pillar 1 minimum capital requirement and risk weighted assets by exposure class as per Article 112 of the CRR.

Other market risks are not included as a Pillar 1 requirement, since the bank does not hold a trading book for capital purposes under CRD IV. Interest Rate Risk in the banking book is covered as a capital add-on as part of Pillar 2A.

Table 5: Risk weighted assets and Pillar 1 capital requirements by exposure class

Exposure Class	**Risk weighted assets 2021 £'000**	**Capital requirement 2021 £'000**	*Risk weighted assets 2020 £'000 Restated*	*Capital requirement 2020 £'000 Restated*
Central governments or central banks	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	**66,031**	**5,282**	*148,148*	*11,852*
Corporates	**139,936**	**11,195**	*76,760*	*6,141*
Retail	**22,667**	**1,813**	*20,936*	*1,675*
Secured by mortgages on immovable property	**749,416**	**59,953**	*802,993*	*64,239*
Exposures in default	**114,437**	**9,155**	*103,721*	*8,298*
Items associated with particularly high risk	**50,392**	**4,031**	*126,877*	*10,150*
Covered bonds	**96,282**	**7,703**	*96,428*	*7,714*
Claims on Institutions and corporates with short-term credit assessment	**70,016**	**5,601**	*100,307*	*8,025*
Claims in the form of Collective Investment Undertakings (CIU)[1]	**129,997**	**10,400**	-	-
Equity exposures	**10,583**	**847**	*5,928*	*474*
Other Items[2]	**91,239**	**7,299**	*93,629*	*7,490*
Securitisations	**31,338**	**2,507**	*8,707*	*697*
Total credit risk	**1,572,334**	**125,786**	*1,584,434*	*126,755*
Total market risk (FX PRR)	**-**	**-**	*350*	*28*
Total operational risk	**192,495**	**15,400**	*195,143*	*15,611*
Total Pillar 1 capital requirement	**1,764,829**	**141,186**	*1,779,927*	*142,394*

At 31 March 2021, the bank held excess capital over the Pillar 1 minimum capital requirement of £237m *(2020: £211m restated).*

7.3 Leverage Ratio

CRD IV requires firms to calculate and disclose a non-risk based leverage ratio to supplement the risk based capital requirements. The leverage ratio is intended to limit the build up of excessive leverage, in the banking sector, which was considered to be an underlying cause of the global financial crisis.

The leverage ratio is calculated by dividing the Tier 1 capital by the total on and off balance sheet exposures (subject to credit conversion factors).

The Basel Committee has set a minimum leverage ratio of 3% for banks.

The bank's leverage ratio at 31 March 2021 was 6.32% *(2020: 7.18% restated)* and in excess of the minimum requirement.

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

[1] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

2 Other items include fixed assets, cash and items in the course of collection, sundry debtors and prepayments.

Table 6a: Summary reconciliation of accounting assets and leverage ratio exposures[3456]

	2021	2020
	£'000	*£'000*
Total assets per published financial statements	**5,995,348**	*5,196,747*
Adjustments for derivative financial instruments	**80**	*292*
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**52,482**	*56,374*
Other adjustments	**(16,291)**	*(18,005)*
Leverage Ratio Exposure	**6,031,619**	*5,235,408*

Table 6b: Leverage ratio common disclosure

		2021	2020
		£'000	*£'000*
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**5,995,348**	*5,196,747*
2	(Asset amounts deducted in determining Tier 1 capital)	**(16,291)**	*(18,005)*
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**5,979,057**	*5,178,742*
	Derivatives exposures		
4	Replacement cost associated with derivatives transactions	**29,394**	*31*
5	Add-on amounts for Potential Future Exposure (PFE) associated with derivatives transactions	**11,498**	*6,807*
8	(Exempted central counterparty (CCP) leg of client cleared trade exposures)	**(40,813)**	*(6,546)*
11	**Total derivative exposures**	**80**	*292*
	Off-balance sheet exposures		
17	Off-Balance sheet exposures at gross notional amount	**422,149**	*406,392*
18	Adjustments for conversion to credit equivalent amounts	**(369,667)**	*(350,018)*
19	**Total Off-balance sheet exposures**	**52,482**	*56,374*
	Capital and total exposures		
20	**Tier 1 Capital**	**381,441**	*375,716*
21	**Total leverage ratio exposure**	**6,031,619**	*5,235,408*
22	**Leverage Ratio**	**6.32%**	*7.18%*

[3] Total assets as per the balance sheet, less mark to market on derivatives.

[4] The derivatives exposure adjustment is the difference in value between the accounting value of the derivatives recognised as assets and the leverage ratio exposure value as determined by the application of the mark to market method.

[5] The leverage exposure value for off-balance sheet items is determined by applying set credit conversion factors to the nominal value of the items, thereby reducing the exposure measure.

[6] Net defined benefit obligation (pension fund asset) – deducted in determining Tier 1 capital.

Table 6c: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		2021 **£'000**	*2020* *£'000*
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**5,979,057**	*5,186,528*
EU-3	**Banking book exposures, of which:**		
EU-4	Covered bonds	**962,821**	*956,895*
EU-5	Exposures treated as sovereigns	**2,093,845**	*1,241,344*
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**-**	*-*
EU-7	Institutions	**130,427**	*452,517*
EU-8	Secured by mortgages of immovable properties	**1,598,113**	*1,531,511*
EU-9	Retail exposures	**30,652**	*28,774*
EU-10	Corporate	**106,653**	*51,726*
EU-11	Exposures in default	**106,862**	*97,973*
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**949,686**	*825,788*

Table 6d: Disclosure on leverage ratio qualitative items

1 Description of the process used to manage the risk of excessive leverage:
The bank's leverage ratio is calculated and reported on a monthly basis to the ALCo. In addition, a forecast of the leverage ratio is included in the capital forecasts and the macroeconomic scenarios which are included as part of the annual update of the ICAAP. The bank does not seek to maximise the leverage of its balance sheet and instead seeks to ensure that capital ratios remain in excess of minimum capital requirements in normal circumstances and in stress.

2 Description of the factors that had an impact on the leverage ratio during the period to which the disclosed ratio refers:
The leverage ratio was 6.3% as at 31 March 2021.

8. Asset Encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is unencumbered if it has not been pledged against an existing liability. The bank's policy is to restrict the encumbrance of its assets. The following exceptions are as follows:

Interest rate swaps are used to hedge the interest rate risk arising on the Bank's fixed interest rate assets. Cash collateral is pledged against the bank's derivative liabilities. As at 31 March 2021, the value of the cash collateral was £29m *(2020: £56.1m)*.

During the year £0.5m *(2020: £0.5m)* of assets were charged in favour of Hoare's Bank Pension Trustees Limited, for the benefit of the Hoare's Bank Pension Scheme. These assets would become available to the Pension Scheme in the event of C. Hoare & Co.'s insolvency.

A cash ratio deposit of £10.3m *(2020: £8.8m)* was held at the Bank of England on 31 March 2021.

The total encumbered assets as at 31 March 2021 was £39.9m *(2020: £65.4m)* and represents 0.7% *(2020:1.3%)* of the balance sheet assets.

The disclosure templates for asset encumbrance are shown in Appendix 2.

9. Credit Risk

Credit risk is the risk of financial loss arising from a borrower or a counterparty failing to meet their contractual financial obligations. The risk arises from loans and advances to customers and banks and from treasury investments.

The credit risk framework was strengthened last year, and many new components have been added over the course of the last twelve months to enhance the bank's management through the credit risk life cycle. A credit risk rating methodology for personal loans was implemented as well as the establishment of the Credit Committee which meets regularly to assess specific loan proposals, management of problem loans, review and approve credit risk policies and procedures. Additionally, credit risk expertise has been consolidated into one credit risk team within the second line of defence, bringing efficiency, consistency of approach, and greater independence in credit oversight and sanctioning.

The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of the framework, the bank has established risk appetite metrics which are aligned to its lending policy, credit risk monitoring processes and conducts stress tests to ensure that the bank remains within appetite. The bank's credit risk exposures and performance against appetite are monitored and reported at the Credit Committee; MT, ARCCo and Board.

Application of the Standardised Approach

Under CRD IV, the standardised approach applies a standard set of risk weights to credit risk exposures, dependent on a number of factors such as the exposure asset class and the credit quality. The standardised approach permits the use of credit risk mitigation against an exposure before the relevant risk weight is applied to the adjusted exposure amount. Where applicable, further reductions to risk weighted assets are made for eligible Small Medium Enterprises (SMEs), for exposure classes secured by mortgages on immovable property, retail and corporates.

9.1 Treasury Credit Risk

Credit risk arises in the treasury portfolio where the bank has invested in securities or placed cash deposits with other financial institutions. The bank is entirely funded from customer deposits. Surplus deposits not required to meet customer lending and managed by the Treasury team to optimise yield, liquidity and capital usage. The Treasury portfolio also comprises derivatives used for the purposes of hedging.

The bank has policies in place and sets exposure limits for approved counterparties, taking into consideration the large exposure requirements and, where appropriate, the use of external credit assessments supplemented with the bank's internal assessment of credit risk. The bank uses market information, such as credit default swap spreads, capital ratios and loan to deposit ratios to monitor the counterparty's credit risk. Limits are also in place for by country, instrument type and residual maturity to mitigate concentration risk within the treasury portfolio.

ALCo reviews the authorised list of bank counterparties at least annually and authorises any amendments to the approved list of counterparties and related credit limits. The committee also provides ongoing consideration to changes in external credit ratings and amends counterparty limits as appropriate.

The bank uses the external credit assessments provided by Moody's for calculating the credit risk requirements under the standardised approach to rated counterparties. The risk weight is dependent on the credit rating. The bank uses external credit assessments as part of the determination of risk weightings for exposure classes: institutions, claims on institutions and corporates with short term credit assessment and covered bonds. The bank's general policy is to deal with highly rated counterparties in Credit Quality Steps 1 and 2.

The bank subscribes to Moody's and immediately receives notification of any changes to credit rating which is on the approved counterparty list. Where the counterparty is downgraded below the bank's risk appetite, this is escalated to the ALCo for review and decision. The counterparty and the related limit is removed from the approved counterparty list or escalated to the ARCCo and the Board for an exemption approval.

The Treasury department is responsible for ensuring compliance with the counterparty credit risk limits with the Finance department, providing independent oversight that these limits are maintained. Daily monitoring of exposures is undertaken by the Finance department and in the event of a limit breach, an escalation process is in place to report to the ALCo and to the Board.

Securitisations

The bank invests in securitised assets as part of its overall investment strategy to maintain a diverse and liquid portfolio. The bank's holdings are in residential mortgage back securities ('RMBS'). RMBS is a category of asset backed security that represent interests in a group of residential mortgages. As an investor, the bank has the right to cash received from future mortgage payments (interest and/or principal). The bank uses the standardised approach to calculate the applicable RWA.

The following tables sets out the disclosure requirements by exposure class, geographic distribution, industrial analysis and residual maturity.

Table 7: Credit Risk Exposure by Exposure Class

Exposure Class	**Exposure Value 2021 £'000**	**Average Exposure Value 2021 £'000**	*Exposure Value 2020 £'000 Restated*	*Average Exposure Value 2020 £'000 Restated*
Central governments or central banks	**2,093,845**	**1,913,978**	*1,241,344*	*1,606,014*
Multilateral development banks	**-**	**-**	*-*	*-*
Institutions	**171,241**	**210,373**	*459,246*	*503,259*
Corporates	**229,769**	**152,415**	*139,601*	*123,738*
Retail	**125,325**	**129,014**	*114,472*	*114,002*
Secured by mortgages on immovable property	**1,783,693**	**1,813,547**	*1,749,875*	*1,699,301*
Exposures in default	**106,945**	**97,667**	*98,118*	*104,831*
Items associated with particularly high risk	**39,478**	**68,385**	*92,272*	*112,101*
Covered bonds	**962,821**	**968,330**	*956,895*	*762,913*
Claims on Institutions and Corporates with short-term credit assessment	**377,152**	**406,013**	*551,212*	*473,204*
Claims in the form of CIU[7]	**129,997**	**32,499**	*-*	*-*
Equity exposures	**10,583**	**10,010**	*5,928*	*5,499*
Other Items	**93,566**	**104,824**	*92,532*	*95,211*
Securitisations	**313,385**	**224,707**	*87,068*	*21,767*
Total credit risk	**6,437,800**	**6,131,762**	*5,588,564*	*5,621,840*

[7] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

Table 8: Credit Risk Exposure by Geographic distribution

31-Mar-21	UK	Rest of Europe	The Americas	Other	Total
Exposure Class	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Central governments or central banks	**1,985,094**	**-**	**108,751**	**-**	**2,093,845**
Multilateral development banks	**-**	**-**	**-**	**-**	**-**
Institutions	**71,027**	**100,214**	**-**	**-**	**171,241**
Corporates	**228,356**	**256**	**1,125**	**32**	**229,769**
Retail	**117,111**	**4,235**	**1,813**	**2,166**	**125,325**
Secured by mortgages on immovable property	**1,652,505**	**79,673**	**26,368**	**25,147**	**1,783,693**
Exposures in default	**87,141**	**56**	**18,977**	**771**	**106,945**
Items associated with particularly high risk	**39,178**	**300**	**-**		**39,478**
Covered bonds	**962,821**	**-**	**-**	**-**	**962,821**
Claims on Institutions and Corporates with short-term credit assessment	**127,547**	**69,626**	**138,794**	**41,185**	**377,152**
Claims in the form of CIU[8]		**129,997**			**129,997**
Equity exposures	**10,583**	**-**	**-**	**-**	**10,583**
Other Items	**93,566**	**-**	**-**	**-**	**93,566**
Securitisations	**313,385**	**-**	**-**	**-**	**313,385**
Total credit risk	**5,688,314**	**384,357**	**295,828**	**69,301**	**6,437,800**

31-Mar-20	*UK*	*Rest of Europe*	*The Americas*	*Other*	*Total*
Exposure Class	*£'000 Restated*	*£'000*	*£'000*	*£'000*	*£'000 Restated*
Central governments or central banks	*1,160,803*	*0*	*80,541*	*0*	*1,241,344*
Multilateral development banks	*0*	*0*	*0*	*0*	*0*
Institutions	*57,284*	*206,265*	*150,475*	*45,222*	*459,246*
Corporates	*137,178*	*1233*	*1,125*	*65*	*139,601*
Retail	*107,504*	*2,970*	*1,817*	*2,181*	*114,472*
Secured by mortgages on immovable property	*1,608,385*	*96,368*	*26,946*	*18,177*	*1,749,876*
Exposures in default	*78,039*	*275*	*19,804*	*0*	*98,118*
Items associated with particularly high risk	*81,500*	*300*	*4,000*	*6,472*	*92,272*
Covered bonds	*956,895*	*0*	*0*	*0*	*956,895*
Claims on Institutions and Corporates with short-term credit assessment	*176,419*	*151,023*	*91,281*	*132,489*	*551,212*
Equity exposures	*5,928*				*5,928*
Other Items	*92,532*			*0*	*92,532*
Securitisations	*87,068*				*87,068*
Total credit risk	**4,549,535**	**458,434**	**375,989**	**204,606**	**5,588,564**

[8] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

Table 9: Credit Risk Exposure by Industrial Sector

31-Mar-21	Sovereign	Financial Institutions	Individuals	Corporates	Total
Exposure Class	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Central governments or central banks	**2,093,845**	**-**	**-**	**-**	**2,093,845**
Multilateral development banks	**-**	**-**	**-**	**-**	**-**
Institutions	**-**	**170,351**	**890**	**-**	**171,241**
Corporates	**-**	**40,228**	**54,878**	**134,663**	**229,769**
Retail	**-**	**105**	**69,812**	**55,408**	**125,325**
Secured by mortgages on immovable property	**-**	**4,265**	**913,659**	**865,769**	**1,783,693**
Exposures in default	**-**	**438**	**56,404**	**50,103**	**106,945**
Items associated with particularly high risk	**-**	**-**	**7,250**	**32,228**	**39,478**
Covered bonds	**-**	**962,821**	**-**	**-**	**962,821**
Claims on Institutions and corporates with short-term credit assessment	**-**	**377,152**	**-**	**-**	**377,152**
Claims in the form of CIU[9]				**129,997**	**129,997**
Equity exposures	**-**	**-**	**-**	**10,583**	**10,583**
Securitisations	**-**	**313,385**	**-**	**-**	**313,385**
Total	**2,093,845**	**1,868,745**	**1,102,893**	**1,278,751**	**6,344,234**
Other Items	**-**	**-**	**-**	**-**	**93,566**
Total credit risk	**2,093,845**	**1,868,745**	**1,102,893**	**1,278,751**	**6,437,800**

31-Mar-20	*Sovereign*	*Financial Institutions*	*Individuals*	*Corporates*	*Total*
Exposure Class	*£'000*	*£'000*	*£'000*	*£'000*	*£'000 Restated*
Central governments or central banks	*1,241,344*	*-*	*-*	*-*	*1,241,344*
Multilateral development banks	*-*	*-*	*-*	*-*	*-*
Institutions	*-*	*459,246*	*-*	*-*	*459,246*
Corporates	*-*	*31,119*	*46,728*	*61,754*	*139,601*
Retail	*-*	*105*	*94,692*	*19,675*	*114,472*
Secured by mortgages on immovable property	*-*	*4,075*	*930,730*	*815,071*	*1,749,876*
Exposures in default	*-*	*-*	*48,670*	*49,448*	*98,118*
Items associated with particularly high risk	*-*	*-*	*32,905*	*59,367*	*92,272*
Covered bonds	*-*	*956,895*	*-*	*-*	*956,895*
Claims on Institutions and corporates with short-term credit assessment	*-*	*551,212*	*-*	*-*	*551,212*
Equity exposures	*-*	*-*	*-*	*5,928*	*5,928*
Securitisations	*-*	*87,068*	*-*	*-*	*87,068*
Total	*1,241,344*	*2,089,720*	*1,153,725*	*1,011,243*	*5,496,032*
Other Items	*-*	*-*	*-*	*-*	*92,532*
Total credit risk	***1,241,344***	***2,089,720***	***1,153,725***	***1,011,243***	***5,588,564***

[9] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

Table 10: Credit Risk Exposure by Residual Maturity

31-Mar-21	On demand	Less than 3 months	3 months to 1 Year	1 to 5 years	over 5 years	Undated	Total
Exposure Class	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
Central governments or central banks	**1,699,000**	**108,751**	**500**	**-**	**275,245**	**10,349**	**2,093,845**
Multilateral development banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Institutions	**890**	**100**	**129,733**	**38,100**	**2,418**	**-**	**171,241**
Corporates	**160,612**	**647**	**7,317**	**33,900**	**27,293**	**-**	**229,769**
Retail	**116,823**	**1,765**	**-**	**4,914**	**1,823**	**-**	**125,325**
Secured by mortgages on immovable property	**498,749**	**11,006**	**-**	**948,404**	**325,534**	**-**	**1,783,693**
Exposures in default	**91,972**	**1,723**	**6,973**	**4,239**	**2,038**	**-**	**106,945**
Items associated with particularly high risk	**31,352**	**-**	**2,250**	**5,876**	**-**	**-**	**39,478**
Covered bonds	**-**	**-**	**30,184**	**897,045**	**35,592**	**-**	**962,821**
Claims on Institutions and corporates with short-term credit assessment	**167,440**	**159,532**	**50,180**	**-**	**-**	**-**	**377,152**
Claims in the form of CIU[10]						**129,997**	**129,997**
Equity exposures	**-**	**-**	**-**	**-**	**-**	**10,583**	**10,583**
Other Items	**-**	**-**	**-**	**-**	**-**	**93,566**	**93,566**
Securitisations	**-**	**-**	**-**	**313,385**	**-**	**-**	**313,385**
Total credit risk	**2,766,838**	**283,524**	**227,137**	**2,245,863**	**669,943**	**244,495**	**6,437,800**

31-Mar-20	*On demand*	*an 3 months*	*s to 1 Year*	*1 to 5 years*	*over 5 years*	*Undated*	*Total*
Exposure Class	*£'000*	*£'000*	*£'000*		*£'000*	*£'000*	*£'000*
						Restated	*Restated*
Central governments or central banks	*1,152,000*	*80,541*	*-*	*-*	*-*	*8,803*	*1,241,344*
Multilateral development banks	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Institutions	*-*	*-*	*452,436*	*3,782*	*3,028*	*-*	*459,246*
Corporates	*110,421*	*-*	*-*	*15,884*	*13,296*	*-*	*139,601*
Retail	*111,757*	*-*	*1,496*	*1,219*	*-*	*-*	*114,472*
Secured by mortgages on immovable property	*608,667*	*42,513*	*153,569*	*786,809*	*158,318*	*-*	*1,749,876*
Exposures in default	*81,859*	*1,974*	*2,000*	*10,014*	*2,271*	*-*	*98,118*
Items associated with particularly high risk	*69,469*	*-*		*16,331*	*-*	*6,472*	*92,272*
Covered bonds	*-*	*1,702*	*11,690*	*907,905*	*35,598*	*-*	*956,895*
Claims on Institutions and corporates with short-term credit assessment	*203,656*	*347,555*	*1*	*-*	*-*	*-*	*551,212*
Equity exposures	*-*	*-*	*-*	*-*	*-*	*5,928*	*5,928*
Other Items	*-*	*-*	*-*	*-*	*-*	*92,532*	*92,532*
Securitisations	*-*	*-*	*-*	*87,068*	*-*	*-*	*87,068*
Total credit risk	***2,337,829***	***474,285***	***621,192***	***1,829,012***	***212,511***	***113,735***	***5,588,564***

[10] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

Use of External Credit Assessment Institutions ('ECAI')

The bank uses the external credit assessments provided by Moody's for calculating the credit risk requirements under the standardised approach to rated counterparties. External credit assessments have been applied to exposures to rated institutions to determine the relevant "Credit Quality Step" and consequent risk weight. The table below shows the credit risk exposures by Credit Quality Step. For completeness, other exposures, where risk weightings are defined in the CRR without reference to an ECAI rating, have been included in the table. These exposures are to central governments and banks, multilateral development banks, collective investment undertakings, fixed and other assets and exposures within the lending book.

Table 11: Credit Risk Exposure by Credit Quality Step

31-Mar-21	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Steps 4-6	Unrated or risk weight defined in CRR	Total
Exposure Class	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Central governments or central banks	-	-	-	-	**2,093,845**	**2,093,845**
Multilateral development banks	-	-	-	-	-	-
Institutions	**170,351**	-	-	-	**890**	**171,241**
Corporates	-	-	-	-	**229,769**	**229,769**
Retail	-	-	-	-	**125,325**	**125,325**
Secured by mortgages on immovable property	-	-	-	-	**1,783,693**	**1,783,693**
Exposures in default	-	-	-	-	**106,945**	**106,945**
Items associated with particularly high risk	-	-	-	-	**39,478**	**39,478**
Covered bonds	**962,821**	-	-	-	-	**962,821**
Claims on institutions and Corporates with short-term credit assessment	**310,084**	**67,068**	-	-	-	**377,152**
Claims in the form of CIU[11]					**129,997**	**129,997**
Equity exposures	-	-	-	-	**10,583**	**10,583**
Other Items	-	-	-	-	**93,566**	**93,566**
Securitisations	**313,385**	-	-	-	-	**313,385**
Total credit risk	**1,756,641**	**67,068**	-	-	**4,614,091**	**6,437,800**

31-Mar-20	*Credit Quality Step 1*	*Credit Quality Step 2*	*Credit Quality Step 3*	*Credit Quality Steps 4-6*	*Unrated or risk weight defined in CRR*	*Total*
Exposure Class	*£'000*	*£'000*	*£'000*	*£'000*	*£'000 Restated*	*£'000 Restated*
Central governments or central banks	-	-	-	-	*1,241,344*	*1,241,344*
Multilateral development banks	-	-	-	-	-	-
Institutions	*261,567*	*197,679*	-	-	-	*459,246*
Corporates	-	-	-	-	*139,601*	*139,601*
Retail	-	-	-	-	*114,472*	*114,472*
Secured by mortgages on immovable property	-	-	-	-	*1,749,876*	*1,749,876*
Exposures in default	-	-	-	-	*98,118*	*98,118*
Items associated with particularly high risk	-	-	-	-	*92,272*	*92,272*
Covered bonds	*956,895*	-	-	-	-	*956,895*
Claims on institutions and Corporates with short-term credit assessment	*334,704*	*216,508*	-	-	-	*551,212*
Equity exposures	-	-	-	-	*5,928*	*5,928*
Other Items	-	-	-	-	*92,532*	*92,532*
Securitisations	*87,068*	-	-	-	-	*87,068*
Total credit risk	***1,640,234***	***414,187***	-	-	***3,534,143***	***5,588,564***

[11] CIU exposures represents shares or units in undertakings for collective investment in transferable securities, as defined in CRR Article 4.

9.2 Customer Credit Risk

Credit risk arising from loans and advances to customers is managed in accordance with lending policies and procedures aligned to the bank's risk appetite. The bank seeks to mitigate credit risk by focusing on sectors where the bank has specialist expertise. The bank's general policy is to lend to customers with security provided as collateral and primarily includes charges over residential and commercial properties. Unsecured lending is only entered into where the customer's specific circumstances make it prudent to do so. Limits are placed on the aggregate lending to any one customer in accordance with both internal and regulatory guidelines. Lending is monitored closely against credit limits. All significant exposures are subject to an annual review.

The bank seeks to build strong relationships with customers and endeavours to assist customers when in financial difficulty.

The bank takes into consideration the customer's ability to service the debt, however, the unique nature of the bank's customer base and their financial affairs can occasionally result in irregular or late payments which do not necessarily indicate an increase in credit risk. The bank manages these situations through regular communication with customers and obtains strong levels of high-quality security cover on the majority of its lending facilities in accordance with the bank's risk appetite.

9.3 Exposures in Default

The bank's exposure in default is defined as lending balances in excess of agreed limits for more than 90 days. This is disclosed under exposure class, exposures in default.

Exposures in default as at 31 March 2021 were £106.9m (5.8%) *(2020: £98.1m (5.4%))* of the total gross customer lending book of £1,857m *(2020: £1,833m).*

The associated risk weightings range from 100% for real estate property to 150% for wholesale and retail items.

The nature of the bank's lending means that few of the conventional events of default are relevant to the portfolio. The bank reviews extended breaches of advised overdrafts and actual non-performing bad debts. Breaches of overdraft limits are rarely of concern as usually there is more than sufficient collateral to cover the excess. The bank's monitoring and classification policy on non-performing debt is explained in Note 30 of the Financial Statements.

Impaired provisions (also referred to as impairment allowances) are provisions held in the balance sheet as a result of raising a charge against profit for the incurred loss inherent in the lending book. An impairment provision may either be individually or collectively assessed.

The bank regularly assesses whether there is objective evidence that loans or securities are impaired. Loans and securities are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to identified exposures and a collective loan impairment allowance in respect of losses that have been incurred but have not been identified at the reporting date. In assessing collective impairment, the bank uses historical trends of the losses incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the historical trends suggest.

Impairment losses on loans to banks and the securities portfolio are established when there has been a sustained decrease in value over an extended period or if it is expected that a fixed income investment will not meet its future cash flow obligations.

Restricted

The table below shows the reconciliation of changes in provisions for loans and advances to customers.

Table 12: Movements in impaired provisions for loans and advances to customers

	2021	*2020*
	£000	*£000*
Specific allowances for impairment		
Balance at 1 April	**22,682**	*8,474*
Impairment loss for the year		
- Charge for the year	**3,326**	*16,713*
- Recoveries for the year	**(2,759)**	*(2,302)*
Net charge	**567**	*14,411*
Release of discount	**1,588**	
Write-offs	**(113)**	*(203)*
Balance at 31 March	**24,724**	*22,682*
Collective allowance for impairment		
Balance at 1 April	**4,160**	*3,137*
Impairment loss for the year		
- charge for the year	**163**	*1,023*
Balance at 31 March	**4,323**	*4,160*
Total specific and collective impairment allowances	**29,047**	*26,842*

The above table shows that the levels of impaired provisions increased during the year due to specific circumstances of individual loans and in particular the uncertainty around property values and time to realise that has been generated by the COVID-19 virus.

Credit quality of assets

The development and introduction of a comprehensive credit risk framework has supported the enhancement of credit risk management information. The disclosures below have been presented on a new basis to reflect the monitoring of non-performing loans by the risk department and the Credit Committee.

A loan is considered to be non-performing if any payment relating to the loan is outstanding beyond its contractually due date. Past due amounts will arise through the borrower failing to make a payment when contractually due. For the purposes of reporting, past due but not impaired relates to loans that are in arrears but do not meet the criteria of an impaired asset as the expected recoverable amounts exceed the carrying amounts.

The table below is an analysis of the credit quality of the loan book.

Table 13: Analysis of the bank's customer lending by payment status.

Loan Book Analysis	**2021**	*2020*
	£000	*£000*
Performing		
Neither past due nor impaired	**1,713,653**	*1,572,309*
Non-performing		
Past due but not impaired		
Past due up to 3 months	**43,820**	*111,451*
Past due 3 to 6 months	**12,884**	*13,435*
Past due 6 to 12 months	**14,860**	*16,606*
Past due over 12 months	**33,272**	*29,463*
Impaired	**67,573**	*89,572*
Total non-performing loans	**172,409**	*260,527*
Total loans and advances to customers	**1,886,062**	*1,832,836*
Impairment		
Specific allowances for impairment	**24,724**	*22,682*
Collective allowance for impairment	**4,323**	*4,160*
Total impairment	**29,047**	*26,842*
Total loans and advances to customers	**1,857,015**	*1,805,994*
Non-performing loans to gross loans and advances	**9.1%**	*14.2%*
Specific impairment to gross loans and advances	**1.3%**	*1.2%*
Collective impairment to gross loans and advances	**0.2%**	*0.2%*
Specific impairment to non-performing loans	**14.3%**	*8.7%*
Collateral*		
Against loans past due but not impaired	**197,853**	*332,711*
Against impaired loans	**53,497**	*66,895*
Total collateral against non-performing loans	**251,350**	*399,606*

*The collateral represents the direct security linked to the non-performing loan, however, in almost all cases the borrower would have provided additional security to support its total borrowings.

At 31 March 2021, the bank had impaired loans of £16.9m *(2020: £16.7m)* which were provided forbearance, and specific provisions of £4.1 million *(2020: £2.8 million).* The estimated value of collateral against these loans were £14.5m *(2020: £15.0m).*

9.4 Credit Risk Mitigation

Under the standardised approach the bank is permitted to reduce its exposure balances through credit risk mitigation prior to applying risk weightings and calculating capital requirements. Such mitigation may take the form of liens over cash deposits or charges over investment management portfolios. The bank recognises cash deposits held by the bank as eligible collateral for credit risk mitigation. At 31 March 2021, £4.3m *(2020: £10.3m)* of exposure was covered by cash deposits and, consequently, a risk weight of 0% was applied to these exposures.

9.5 Counterparty Credit Risk (CCR)

The relevant counterparty credit risk for the bank is the risk of loss arising from the default of a counterparty to a derivatives trade. The bank uses derivative instruments to hedge its exposure to interest rate risk and foreign exchange risk. Derivatives are not used for trading or speculative purposes.

The bank uses interest rate swaps to hedge fixed rate loans or investments. Following the introduction of the European Market and Infrastructure Regulation (EMIR) the bank clears most of its derivatives through the central clearer (London Clearing House). These positions are subject to daily collateral deposit to or from the clearing house. The few swaps which are not eligible for clearing are traded bilaterally and collateralised daily with the counterparty. In each case the placing of collateral renders any associated credit risk immaterial.

The bank trades forward foreign currency deals to match customer requirements.

The CCR mark to market method is used to calculate the exposure value and is determined by the market value plus an add-on for potential future exposure, prior to being risk weighted under the standardised approach. As at 31 March 2021, the bank's total CCR exposure for derivative contracts was £40.9m *(2020: £6.8m)*. The bank does not include any netting benefits and there is no use of collateral in calculating net derivatives credit exposure. The gross positive fair value of derivative contracts as at 31 March 2021 was £20.4m *(2020: £0.03m)*. Counterparty credit risk represents a small proportion of the bank's total risk weighted assets.

10. Market Risk

Market risk is the risk that changes in market prices such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the bank's future cash flows or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the residual risk taken.

Market risk is principally a concern in the banking book, since the bank does not operate a significant trading book, generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments for the long term. Only a small component of the banking book is recorded at fair value and the majority of fixed rate loans are hedged such that their main exposure is interest rate risk, both basis and yield curve risk.

The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements. All investments depend on Board approval and are subject to limits and controls monitored by the ALCo.

There is a Pillar 1 requirement for calculating the position risk requirement on foreign currency positions in the banking book, however this is below the de minimis level and is therefore not required. Interest rate risk in the banking book is treated as a capital add-on as part of Pillar 2A.

10.1 Management of Interest Rate Risks

Basis risk arises where assets and liabilities re-price with reference to differing short term interest rate benchmarks. The ALCo has set limits to manage basis risk. Basis risk is calculated monthly and reported to the ALCo. At certain interest rate levels, basis risk can become more impactful: in a negative interest rate environment, management decisions to move managed rates in line with the movement of benchmark rates could be influenced by a greater degree by the actions of peers in the market. Frequent stress testing of such scenarios is conducted and reviewed regularly with the ALCo and included in the bank's ICAAP.

Fixed rate loans that are hedged use interest rate swaps of equal size and duration which protect the net interest margin against adverse changes in money market rates. The bank accrues the net interest payment/receipt on interest rate swaps on a quarterly basis and adjusts the estimated fair value of the remaining cash flows accordingly.

Yield curve risk is managed by the bank's treasury department principally through monitoring interest rate gaps between assets and liabilities and ensuring that this remains within our risk appetite limits. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process.

The bank monitors its exposure to yield curve risk. Consistent with the financial regulator's requirements, the impact of a potential 2.00% shift, both increase and decrease, in the yield curve against the bank's interest bearing assets is computed back to a net present value. This value is monitored and calculated weekly and reported to the ALCo monthly against a Board approved policy limit.

The reported interest rate sensitivity as at 31 March 2021 is shown in the table below.

Table 14: Interest Rate Sensitivity

Effect of a change of 2.00% in Sterling Market Rates

	2021	*2020*
	£000	*£000*
Net present value sensitivity to:		
Positive shift	**1,456**	*(812)*
Negative shift	**(2,023)**	*868*

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios in which all managed rates are assumed to be able to move in tandem with changes in the benchmark rates. The figures above represent the effect on net interest income, primarily relating to the small number of unhedged fixed rate loans, arising from a parallel fall or rise in the yield curve. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments. Given the bank's approach to managing interest rate risk, as outlined in the Strategic report section 3(d), the net exposure to this risk after hedging is minimal and arises primarily during the period from offering a facility to a customer to the date of acceptance at which point a hedge is put in place.

The bank also assesses the broader impact of interest rate changes on future earnings, which is caused by potential time delays in moving managed rates to mirror changes in benchmark rates. As at 31 March 2021, approximately 154% *(2020: 142% restated)* of the bank's assets were priced based on or linked to different interest rates when compared to liabilities. The impact of a delay in adjusting the managed rates to align with a 25bps shift in benchmark rates would impact future earnings in the amount of £1.4m over a 12 month period. As such the bank closely monitors benchmark rates in order to take pre-emptive action where possible.

10.2 Management of Currency Risk

Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. In order to limit the bank's exposure to exchange rate risks, thresholds are placed on intraday and end of day positions. The bank's Treasury department is responsible for managing currency risk within intra-day and overnight limits.

The foreign exchange dealers have authority to deal in forward foreign exchange contracts within specified limits, either to meet or match customers' requirements. The resulting positions are independently monitored and are reported monthly on a currency by currency basis to the ALCo.

11. Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet its liabilities when they come due or is unable to obtain funding other than by paying a premium. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that the bank does not have sufficient funding available in the medium and longer term to enable it to fund its customer lending and other longer term and illiquid assets. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required. The bank does not use wholesale funding. The bank's source of funding is customer deposits in the form of current accounts and savings deposits where a significant proportion of these are repayable on demand.

The bank's Treasury department has responsibility for the day to day liquidity management and continuously monitors deposit activity in order to predict expected maturity flows. The ALCo oversees the management of the bank's balance sheet within the Board approved policies.

The bank assesses the adequacy of its liquidity through the annual update of the ILAAP, and more frequently in the event of a material change in liquidity. The ILAAP is the bank's own assessment of its liquidity needs and is based on stress testing, including reverse stress testing, and scenario analysis of the impact of material risks affecting the bank. Reverse stress testing is undertaken to identify the scenario or combination of scenarios that would result in liquidity resources being exhausted causing the bank to become unviable or insolvent. The ILAAP is presented at least annually to the ALCo, the MT and the ARCCo for review and challenge, eventually leading to review, challenge and approval by the Board.

CRD IV introduced two new liquidity standards, the short term Liquidity Coverage Requirement (LCR) and the longer term Net Stable Funding Requirement (NSFR).

The LCR has a regulatory minimum standard of 100%. The objective of the LCR is to ensure that banks have sufficient high quality liquid assets (HQLA) that can be converted easily into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario. Assets which are eligible for inclusion as HQLA include, for example, balances held at the

Central Bank, holdings of securities issued by central banks and multilateral development banks and assets which are able to be lent (repo'd) as security against cash advances (e.g. from the Central Bank). The bank's LCR was above regulatory requirements throughout the year.

The bank is a member of the Bank of England's Sterling Monetary Framework (SMF). This enables the bank to swap funds invested in High Quality Liquid Assets (HQLA) into the most liquid asset in the economy, central bank reserves thereby increasing its level of available liquidity.

12. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or from external events, including legal risk, financial crime risk and information security risk. This definition excludes strategic risk and reputation risk which are captured elsewhere within the bank's risk framework.

The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The Board has approved an operational risk policy to ensure operational risks are adequately identified, monitored and controlled and any losses resulting from inadequate or failed internal processes, human error and systems or from external events are minimised in line with the Bank's risk appetite.

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks and ensuring that activities are undertaken within the policy requirements. The Risk Department is responsible for establishing risk policies, facilitating the implementation of effective risk management practices by the business, providing oversight over the over the risk management process and supporting risk reporting.

The key elements of the Operational Risk Framework consist of:

- Risk and Control Self-Assessments (RCSAs)
- Key Risks and Emerging Risks
- Key Risk Indicators (KRIs)
- Operational Risk Events and External Loss Data
- Operational Risk Scenario Analysis (for ICAAP)

Business units are responsible for the ongoing application of the operational risk management processes and policies. The bank's operational risk profile including losses from operational risk events, monitoring results using KRIs and capital requirements have been reported at the ORC, MT, ARCCo and Board throughout the year.

The bank has adopted the Standardised Approach to calculating Pillar 1 capital requirements for operational risk. In accordance with the requirements of Article 317 of the CRR, the calculation applies risk percentages to the average annual income over three years by business line.

Scenario analysis is a key input into determining the bank's operational risk Pillar 2A capital requirements over a 12 month period. The scenario analysis considers several inputs such as internal and external losses, the RCSA, KRIs and other relevant information. Scenarios are based on the impact of severe but plausible events and provide a forward-looking assessment of the bank's risks under extreme conditions. This enables the bank to determine whether or not these can be managed within its risk appetite. The scenarios are reviewed by senior management via the ORC, the ALCo, the ARCCo and approved by the Board.

The bank takes a conservative approach regarding the use of insurance as a mitigant with respect to Operational Risk scenarios, limiting its consideration to risks such as Business Continuity incidents where there is high certainty of recovery on a timely basis.

13. Other Principal Risks

In addition to the risks identified above, there are a number of other risks to which the bank is exposed as detailed below.

13.1 Concentration Risk

Additional credit risk can result from high exposure to certain customers, treasury counterparties, regions or industry sectors.

The bank's activities are concentrated on serving high net worth individuals within the UK primarily in the South of England, where a significant proportion of the bank's lending activities relate residential properties. Whilst this is a somewhat concentrated group, the bank's experience, particularly with respect to lending, is that exposures to this group are lower risk than to the average UK population. The bank's treasury department also invests in a range of high quality assets issued by governments, top rated institutional counterparties, funds which invest mainly in investment grade bonds and securitisations backed by large and diverse portfolios of UK prime owner-occupied mortgages. Treasury counterparty

concentration risk is limited in accordance with Bank limits to large exposures as established by the PRAs Capital Requirements Regulation and is actively monitored daily with oversight by the ALCo.

The tables within this document set out the bank's exposure by geography and industrial sector.

13.2 Pension Obligation Risk

The bank has a funding obligation for a defined benefit pension scheme which is closed to new entrants and to future accrual. Pension risk is the risk that the market value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to meet the projected liabilities of the Scheme. Pension risk can adversely impact the bank's capital resources. The bank also undertakes stress testing on the pension scheme liabilities and assets as part of its ICAAP.

On 9 July 2018 the Trustee completed the purchase of a "buy-in" bulk annuity policy covering existing pensioners and dependant members at that time, greatly reducing the overall pension risk uncertainty to the Company. In respect of the uninsured liabilities, the scheme holds liability-driven investments (LDIs) and bonds, the value of which increase and decrease in a similar way to the liabilities, from changes in interest rates and market-implied inflation. The LDI strategy aims to hedge the interest rate risk and inflation risk at a level that maintains the funding level on the technical provisions basis. In addition, subsequent to the "buy-in", the scheme has continued to de-risk to lock in good market performance and to reduce the potential for a shortfall in the scheme's assets to fund future liabilities, by moving assets into lower risk assets.

Further details of the defined pension scheme are provided in Note 4 'Retirement Benefit obligations' of the Financial Statements.

14. Remuneration

In compliance with financial services regulatory requirements, the bank is required to make the disclosures set out below. Table 15 sets out the remuneration awards that have been made to Identified Staff. Identified Staff include Senior Management (including the partners, staff performing a Senior Management Function (as defined by the Regulators) and Non-Executive Directors) and Material Risk Takers (staff whose actions are deemed to have a material impact on the bank's risk profile).

Subsequent paragraphs provide information on decision-making policies for remuneration and links between pay and performance.

Table 15: Remuneration Information – Identified Staff

	Governing Body	Senior Management	Other Material Risk Takers	Totals
Number of Identified Staff	**10**	**10**	**0**	**20**
Fixed remuneration				
Cash (£m)	**7.3**	**2.6**	**0**	**9.9**
Total Fixed remuneration	**7.3**	**2.6**	**0**	**9.9**
Variable remuneration				
Cash (£m)	**4.3**	**0.8**	**0**	**5.1**
Total Variable remuneration	**4.3**	**0.8**	**0**	**5.1**

Figures represent amounts paid during the 2020/2021 financial year.

14.1 Decision Making Process for Determining the Remuneration Policy

The bank's RemCo is a sub-committee of the Board, and therefore reports to the Board on a regular basis. The purpose of the RemCo is to set the over-arching principles, parameters and governance of the remuneration policy across the bank and to consider and approve the remuneration arrangements of the Partners, the MT and other senior employees. The responsibilities of the RemCo include, but are not limited to:

- Determining the remuneration policy of the bank and making recommendations to the Board on the policy and structure of remuneration. This includes proposing total remuneration packages, having given consideration to:
  a) overall market positioning of the remuneration package
  b) individual remuneration packages (including pension and compensation rights)
  c) annual and long term bonus arrangements
  d) service contracts
  e) termination arrangements
  f) the risk implications in respect of the design, implementation and management of remuneration arrangements
  g) ensuring that there are formal and transparent procedures for developing the policy around these decisions to the level that the RemCo considers appropriate
- Overseeing the remuneration arrangements for those staff carrying out a Senior Management Function (as defined by the Regulators) or individuals whose activities have or could have a material impact on the risk profile of the bank.
- Ensuring that no individual is involved in any decision relating to their own remuneration
- Undertaking periodic reviews of the remuneration policy in the context of consistent and effective risk management through consultation with the Internal Audit, Compliance and Risk Management functions as required
- Approving the annual recommendations to be included in the bank's budget for pay and employee benefits

The remuneration of Non-Executive Directors ('NEDs'), including the Chairman, is determined by the Partners. The level of remuneration for NEDs is designed to reflect their responsibilities and time commitments. The level of fees paid to NEDs is benchmarked to industry standards and reviewed annually. NEDs do not receive variable remuneration payments.

14.2 The Remuneration Policy

The bank's remuneration policy reflects the objectives for good corporate governance as well as supporting the business strategy, culture of low risk and future sustainability. The overarching principles of the policy are to:

- Recognise the capabilities and achievements of individual employees, rewarding and incentivising sustained good performance. Whilst pay is performance related, individual targets are not aligned directly to bonus payments
- Encourage behaviour that is consistent with the core values, as captured in the bank's behavioural framework which promotes team working, service excellence and the highest levels of integrity
- Deliver a total remuneration package that is both market competitive and affordable, with consideration given to the impact on capital ratios, liquidity and the continued ability to invest in, and grow, the business
- Ensure remuneration is in line with regulatory requirements as set out in the FCA Sourcebook and PRA Handbook and promotes sound and effective risk management
- Variable remuneration payments are made by the bank on an entirely discretionary basis, subject to individual performance and the financial performance of the bank
- Ensure that total remuneration packages meet the bank's commitment in relation to equal pay, gender pay and non-discrimination
- Ensure that appropriate processes are in place to identify and annually review all material risk takers (i.e. those staff whose roles and related activities could have a material impact on the bank's risk profile).

14.3 Composition of the RemCo

The RemCo convenes, at a minimum, twice a year and is currently chaired by The Rt. Hon. Lord Macpherson of Earl's Court GCB, the Executive Chairman of the bank. The RemCo's constitution requires that membership will consist of at least three Non-Executive Directors.

The members as at 31 March 2021 were:

- The Rt. Hon Lord Macpherson of Earl's Court GCB – Executive Chairman
- Andrew McIntyre – Independent Non-Executive Director
- Diana Brightmore-Armour – Independent Non-Executive Director
- Johanna Waterous – Independent Non-Executive Director

14.4 The Role of Relevant Stakeholders

The Board is fully engaged with remuneration governance and is instrumental in agreeing the size of the annual bonus pool based on the recommendations made by the RemCo. The final recommendations are ratified at the bank's AGM.

The RemCo may invite any Partner, CEO, MT member or senior employee to attend meetings, either regularly, or specifically. Staff in the Internal Audit and Risk Management functions will attend from time to time at the invitation of the Chairman. The RemCo will also be supported by both the Compliance department and the Human Resources (HR) function as and when required.

14.5 Link between Pay and Performance

The bank aims to provide a competitive total remuneration package, starting with a fair base salary aligned to the internal and external median pay rate for the employee's role, responsibilities and experience. Base salary is supplemented by a discretionary variable bonus payment.

In addition to the cash remuneration, a pension contribution of 20% per annum of base salary (subject to a company earnings cap) and other core benefits such as death in service cover, group income protection and a heavily subsidised canteen are provided to all employees. All employees may also participate in the flexible benefits scheme offered by the bank which currently includes, but is not limited to private medical, dental and travel insurance.

While all employees are encouraged to discuss performance on an informal and on-going basis, formal appraisals take place twice a year in March (end of year) and September (interim). The bank has a behavioural competencies framework to supplement the appraisal process. The framework focuses employee attention on the skills and behaviours that are required to drive effective performance and achieve the bank's strategic aims within the prescribed risk appetite. The framework is aligned to the bank's values of empathy, social responsibility, honesty and excellence. The framework also ensures that:

- Employees have a well-defined set of behaviours required for their role and are clear about how they are expected to perform
- Employee behaviour is aligned with business objectives and there is a link between effective individual inputs and organisational performance
- All employees will have a risk objective which is appropriate and proportionate to their role

The interim and end of year performance appraisals evaluate performance against agreed goals and objectives. Recognition is given to employees meeting both financial and non-financial objectives and to the achievement of all behavioural competencies required by the role. In awarding an overall annual performance rating, the bank encourages consideration of the values and behaviours demonstrated by its employees, rather than focussing exclusively on the achievement of financial objectives.

The MT hold a calibration session to review all exceptional and poor ratings. Additionally, HR review ratings on a bank-wide basis to ensure they have been objectively and consistently applied and review distribution of performance ratings against a bell curve to encourage differentiation.

Any bonus payments are made on an entirely discretionary basis. Payments are aligned to the bank's overall economic achievement rather than to individual and/or business line performance and as a proportion, rather than multiple, of overall employee basic salary.

15. Appendix

Appendix 1: Own Funds Disclosure template

Own funds disclosure template		2021 £'000	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	120	26 (1), 27, 28, 29
	of which: ordinary share capital	120	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	340,230	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	57,382	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**	**397,732**	**Sum of rows 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-13,091	36 (1) (b), 37
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) 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)	-3,199	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 CET 1 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 by the institution 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 by the institution 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

	Own funds disclosure template	**2021 £'000**	**Regulation (EU) No 575/2013 Article Reference**
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)
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)	-	244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (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 differences	-	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)	-16,290	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	**381,442**	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 interests 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	Direct, indirect and synthetic holdings of the AT1 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)	-	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	2021 £'000	Regulation (EU) No 575/2013 Article Reference
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (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)**	381,442	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	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 interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)
50	Credit risk adjustments	4,323	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**4,323**	
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 institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct and indirect 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 and indirect holdings by the institution 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 amount)	-	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**	**4,323**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**385,765**	Sum of row 45 and row 58
60	**Total risk weighted assets**	**1,764,829**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21.61%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	21.61%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	21.86%	92 (2) (c)

	Own funds disclosure template	**2021 £'000**	**Regulation (EU) No 575/2013 Article Reference**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	10.5%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0%	
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)	17.11%	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), 46, 45 56 (c), 59, 60 66 (c), 69, 70
73	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 (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 differences (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)
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)

Appendix 2: Asset Encumbrance

The following tables represent the disclosure of encumbered and unencumbered assets as at 31 March 2021.

F 32.01 **ASSETS OF THE REPORTING INSTITUTION (AE-ASS)**

		Carrying amount of encumbered assets (£'000)			Fair value of encumbered assets (£'000)		Carrying amount of non-encumbered assets (£'000)			Fair value of non-encumbered assets(£'000)	
			of which: issued by other entities of the group	of which:central bank'seligible		of which:central bank's eligible		of which: issued by other entities of the group	of which:central bank'seligible		of which:central bank's eligible
		010	020	030	040	050	060	070	080	090	100
010	**Assets of the reporting institution**	**39,852**					**5.974,600**		**1,657,488**		
020	Loans on demand	39,352					1,997,299				
030	Equity instruments						142,613			142,613	
040	Debt securities	500					1,837,891		1,657,488	1,837,891	1,657,488
050	of which: covered bonds						984,814		984,814	984,814	984,814
060	of which: asset-backed securities						313,495		313,495	313,495	313,495
070	of which: issued by general governments	500					359,180		359,180	359,180	359,180
080	of which: issued by financial corporations	0					180,403			180,403	
090	of which: issued by non-financial corporations										
100	Loans and advances other than loans on demand						1,861,860				
110	of which: mortgage loans						1,596,081				
120	Other assets						134,937				

F 32.04 **SOURCES OF ENCUMBRANCE (AE-SOU)**

		Matching liabilities, contingent liabilities or securities lent (£'000)		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered (£'000)		
			of which: from other entities of the group		of which: collateral received re-used	of which: own debt securities encumbered
		010	020	030	040	050
010	**Carrying amount of selected financial liabilities**	29,358		**29,003**		
020	Derivatives	29,358		29,003		
030	of which: Over-The-Counter	29,358		29,003		
040	Deposits					
050	Repurchase agreements					
060	of which: central banks					
070	Collateralised deposits other than repurchase agreements					
080	of which: central banks					
090	Debt securities issued					
100	of which: covered bonds issued					
110	of which: asset-backed securities issued					
120	**Other sources of encumbrance**	**10,848**		**10,848**		
130	Nominal of loan commitments received					
140	Nominal of financial guarantees received	0				
150	Fair value of securities lent with non cash-collateral					
160	Other	10,848		10,848		
170	**TOTAL SOURCES OF ENCUMBRANCE**	**40,206**		**39,852**		

Information on importance of encumbrance

The bank is funded primarily (aside from shareholders' capital) from customer deposits payable on demand or at short notice. As a result, the bank does not use wholesale funding. The bank's policy is to restrict the encumbrance of its assets, and the exceptions to these are cash collateral pledged in derivative transactions due to hedging purposes, securities pledged in favour of the Hoare's Bank Pension Trustees Limited in the event of the bank's insolvency and a Cash Ratio Deposit held at the Bank of England.