Capital and Risk Management Pillar 3 Disclosures

Year ended 31 March 2022

C. Hoare & Co.
PRIVATE BANKERS SINCE 1672

Contents

		£	£
		T - Current Year	T-4 - Prior Year
		31-Mar-22	**31-Mar-21**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	381,989,000	381,441,000
2	Tier 1 capital	381,989,000	381,441,000
3	Total capital	386,392,000	385,764,000
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	1,822,243,507	1,764,829,000
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	20.96%	21.61%
6	Tier 1 ratio (%)	20.96%	21.61%
7	Total capital ratio (%)	21.20%	21.86%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.56%	0.56%
UK 7b	Additional AT1 SREP requirements (%)		
UK 7c	Additional T2 SREP requirements (%)		
UK 7d	Total SREP own funds requirements (%)	13.98%	13.98%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical capital buffer (%)	0%	0%
UK 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
UK 10a	Other Systemically Important Institution buffer		
11	Combined buffer requirement (%)	2.5%	2.5%
UK 11a	Overall capital requirements (%)	14.56%	14.58%
12	CET1 available after meeting the total SREP own funds requirements (%)	0.58%	0.60%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	5,526,722,574	4,375,665,802
14	Leverage ratio excluding claims on central banks (%)	6.61%	8.72%
	Additional leverage ratio disclosure requirements		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
14b	Leverage ratio including claims on central banks (%)		
14c	Average leverage ratio excluding claims on central banks (%)		
14d	Average leverage ratio including claims on central banks (%)		
14e	Countercyclical leverage ratio buffer (%)		
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	4,066,150,763	3,199,721,063
UK 16a	Cash outflows - Total weighted value	1,765,406,113	1,316,703,571
UK 16b	Cash inflows - Total weighted value	269,461,408	420,456,325
16	Total net cash outflows (adjusted value)	1,495,944,705	896,247,246
17	Liquidity coverage ratio (%)	272%	357%
	Net Stable Funding Ratio		
18	Total available stable funding	5,241,977,073	
19	Total required stable funding	1,950,439,094	
20	NSFR ratio (%)	269%	

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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 2022.

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.

1. 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. Basis of Disclosure

This document sets out the consolidated Pillar 3 disclosures of the Group as at 31 March 2022 and has been prepared in accordance with the requirements of the BOE Prudential Regulation Authority Rulebook – Disclosure CRR, that contain rules which were onshored from Part Eight of the Capital Requirements Regulation (575/2013) ("CRR"). The bank publishes reduced disclosure required in line with article 433c of the CRR. No material disclosures have been omitted, nor have any disclosures been omitted from this document for confidentiality purposes. The bank provides certain disclosures as part of the bank's Annual Report and Consolidated Financial Statements. The Risk Management, governance structure and principal risks affecting the bank are presented in the Strategic Report, with additional detail also provided in Note 31 'Financial Risk Management'.

2.1 Frequency, Media and Location

The Pillar 3 Disclosures are prepared annually, based upon the financial information that is 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 09 June 2022. These disclosures have not been externally audited; however, some of the information contained within the disclosures also appears in the bank's Annual Report.

3. Scope of Consolidation

The bank is authorised by the Prudential Regulation Authority ("PRA") and is 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 bank.

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 per CRR article 92, the bank must at all times satisfy the following own fund requirements:

  - Common Equity Tier 1 capital ratio of 4.5%;
  - Tier 1 capital ratio of 6%; and,
  - Total Capital Ratio of 8%.

- **Pillar 2** Supervisory review process includes requirement for the bank to undertake an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP represents an internal aggregated view of the risks faced by the bank which are not covered by the Pillar 1 framework. 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"). Supervisory Statement 31/15 requires firms to disclose the amount and quality of its TCR. The bank's TCR is 10.92% of RWAs. At least 56.25% of this must be met with CET1.

  - 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. It replaces the Capital Planning Buffer. This buffer is not disclosed.
  - Other Capital buffers required to be met from CET 1 capital include:

    - Capital Conservation Buffer (CCoB). This 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,
    - Countercyclical buffer (CCyB). This is expressed as a percentage of RWAs for a specific jurisdiction, in accordance with Regulation (EU) 1152/2014, as foreign credit exposure does not exceed 2% of the aggregate of general credit and securitisation exposures may be allocated to bank's UK exposures. The Financial Policy Committee is responsible for setting the UK countercyclical capital buffer rate, which for the UK is currently set at 0%, with projected increase of 1% applied from December 2022.

- **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 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 the Management Team ("MT") to monitor risks closely and to detect and manage any emerging changes at an early stage.

5. Risk Management Framework and Board Declaration on Adequacy of Risk Management Arrangements

The Board is ultimately responsible for the bank's systems and controls, and for reviewing effectiveness of those arrangements. However, such arrangements are designed to mitigate risk, not to eliminate it, and can therefore 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. It provides an overview of the bank's risk management systems and controls, and ensures that these are adequate.

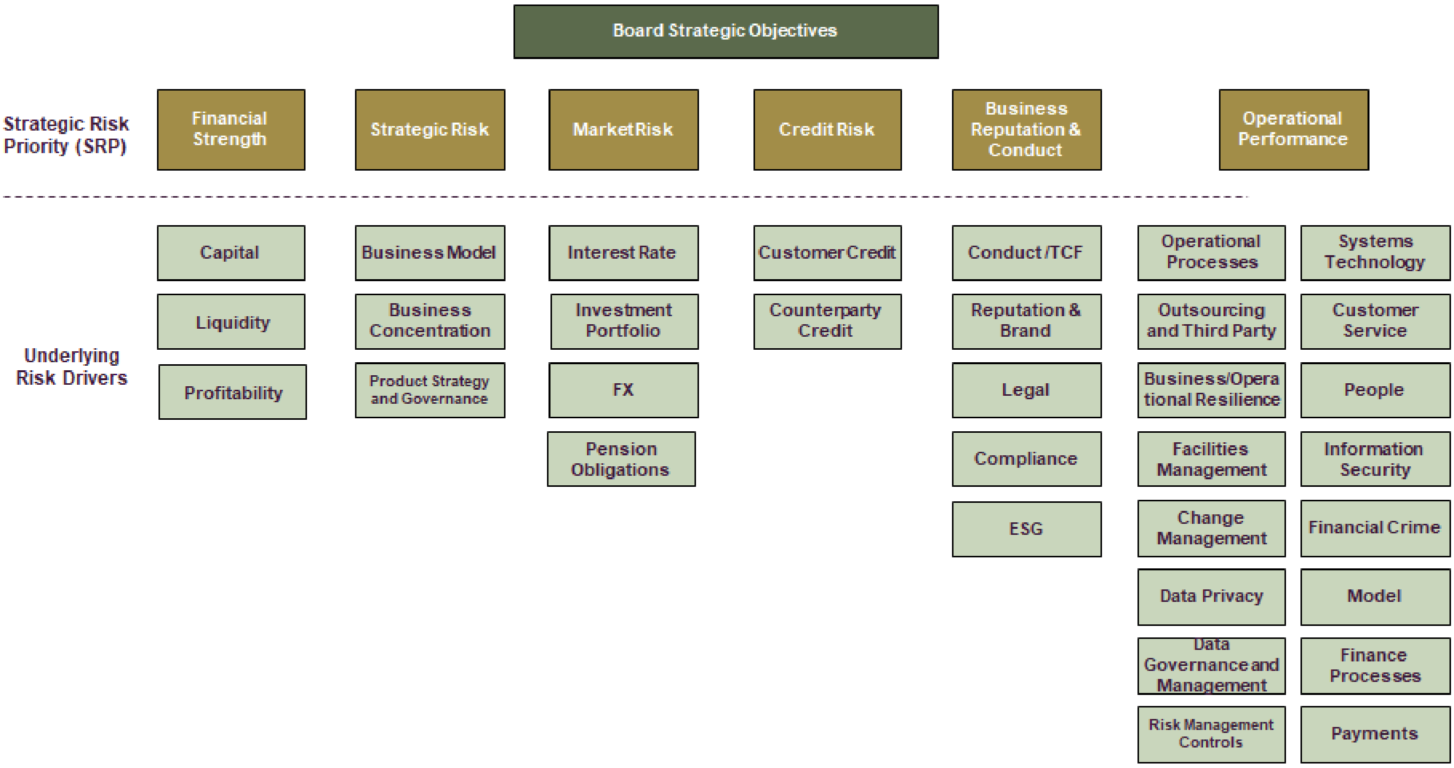
The purpose of RMF is to provide an overview of the structure for managing the bank's risks in line with its risk appetite to enable it to achieve its strategic objectives. The bank's RMF describes the risk governance structures, risk appetite, frameworks and policies that support the bank in achieving its strategy and objectives. These aims are achieved through risk-based decisions supported by tools/techniques to minimise impacts on the bank, customers and colleagues. The process also ensures that the bank meets the regulatory expectations in managing risk in pursuit of its strategy and objectives.

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.

5.1 Risk Appetite

Board Strategic Objective: The Hoare Family's vision is to "perpetuate a profitable family business" and the bank's strategic objective is to continue to be the pre-eminent private bank in the UK.

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. This is done through the bank's Risk Appetite Statement ("RAS") which is reviewed and updated at least annually. The articulation of the level of risk that the bank is willing to take, both quantitatively and qualitatively, is defined and monitored using risk appetite metrics and early warning indicators.



Risk Taxonomy

To support the translation of the bank's RAS to lower-level risk appetite statements, the bank has introduced Strategic Risk Priorities ("SRP"s). 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	Considers the risks that 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	Considers the risks that could result in the bank failing to achieve its strategic goals. as well as risks that could cause a volatility in earnings, impacting the bank's profitability.
Market Risk	Considers the risks from adverse movements in market prices resulting in losses for on- and off-balance sheet positions.
Credit Risk	Considers the risks that result in the bank's borrowers and counterparties defaulting on their obligations to the bank.
Business, Reputation & Conduct	Considers the risks that the actions of the bank's personnel result in customer detriment and/or negatively impact the bank's reputation.
Operational Performance	Considers the risks that the bank fails to have robust and well-designed processes, systems and procedures in place to identify and effectively manage the risks that negatively impact the delivery of day-to-day business operations.

5.2 Risk Policies

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

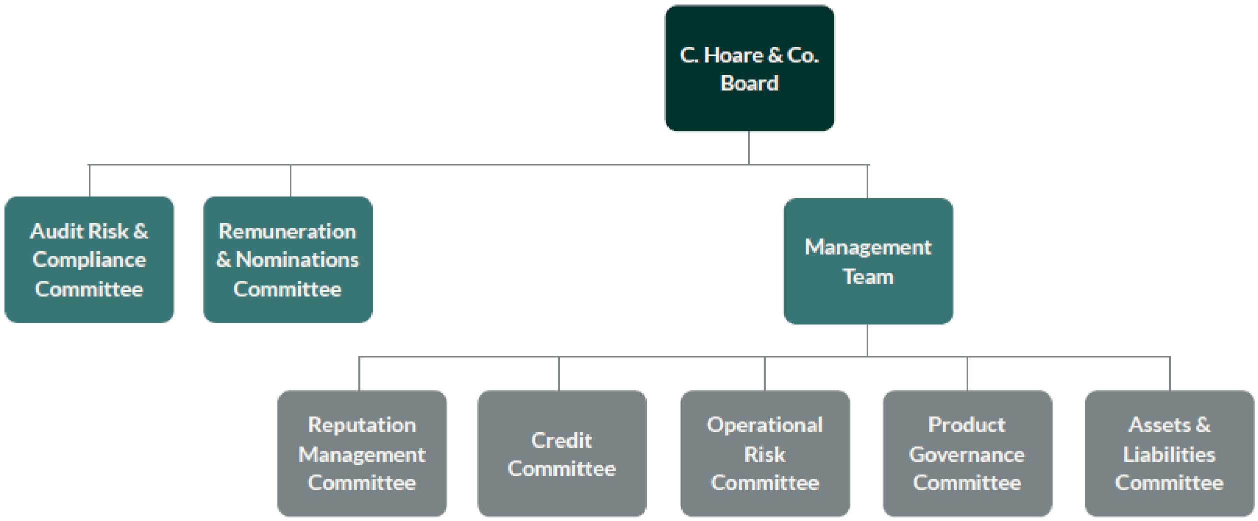
- Capital Risk Framework and Policy supported by the ICAAP;
- Liquidity Risk Framework & Policy supported by the Internal Liquidity Adequacy Assessment Process ("ILAAP");
- Liquidity Contingency Plan;
- Recovery & Resolution Plans;
- Credit risk policies for customers and counterparties;
- Policies to manage market risk, in particular interest rate risks; and,
- Operational Risk Management Framework to manage the bank's operational risks.

5.3 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 7.1 for more information.

Table 1: UK CRA (c) - Governance Structure



Board of Directors

The Board is the key governance body and is responsible for 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 approves 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 of the Board, in addition to their roles within the bank are detailed below:

Table 2: UK OVB (a) - Directorships[1]

		Commercial directorships	
Name	**Position**	**Total positions**	**No. separate groups**
Mr A. S. Hoare*	Executive Director	1	1
Mrs V. E. Hoare*	Executive Director	0	0
Mr S. M. Hoare*	Executive Director	0	0
Mrs A. S. Hoare*	Executive Director	2	2
Mr A.R.Q. Hoare*	Executive Director	2	2
The Lord Macpherson of Earl's Court GCB	Chairman	3	3
Mr A. J. McIntyre	Non-Executive Director	6	3
Mrs J.E.M Waterous	Non-Executive Director	4	4
Ms I.M. Gary-Martin	Non-Executive Director	1	1
Mrs D.S. Brightmore - Armour	Chief Executive Officer	3	3

At 31 March 2022, 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 two other Hoare family members, are the bank's only shareholders and each has unlimited liability. They are known as Partners, and all of them work in the business to ensure the continuation of the bank's long-held culture, values and approach to business.

Remuneration & Nominations Committee

Remuneration & Nominations Committee ("RemCo") is responsible for providing leadership over:

- 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; and,
- Setting of principles, parameters and governance of the remuneration policy across the bank and to consider and approve the remuneration of 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 as well as Material Risk Takers (staff whose actions are deemed to have a material impact on the bank's risk profile).

Board Recruitment and Diversity Policies

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. RemCo may also recommend a target for the representation of gender in the Board and prepare a policy on how to increase the number of women, taking into account the bank's strategy.

[1] Table excludes: (i) directorships with C. Hoare & Co. (ii) non-commercial directorships

While the Board has not a specific diversity target, it is satisfied with the current level of gender diversity as at 31 March 2022:

- two of three Non-Executive Directors are female;
- three of seven family related Shareholders (partners) are female;
- two of five family related Directors are female; and,
- four of the ten MT members are female.

Audit, Risk & Compliance Committee ("ARCCo")

ARCCo is responsible for assisting and advising the Board in its oversight of the following areas:

- Safeguarding the independence of, and providing oversight over, the performance of internal audit, compliance and risk functions;
- Ensuring effective management and maintenance of the bank's capital, funding (where applicable) and liquidity and the reporting thereof;
- Independence, autonomy and effectiveness of the bank's policies and procedures on financial crime, whistleblowing and recovery planning / resolution; and,
- Monitoring the effectiveness of the RMF, ensuring that the bank operates in a manner consistent with its risk appetite and strategy.

Management Team ("MT")

The Board delegates day-to-day executive management of the bank to the Chief Executive Officer ("CEO") who directs MT in managing the business to deliver against the bank's strategy. MT is responsible for assisting and advising the Board in its oversight of the following areas:

- Development and maintenance of the firm's business model as approved by the Board;
- Adoption of the bank's culture in the day-to-day management of the bank;
- Allocation of all prescribed responsibilities and monitoring the effective implementation of policies and procedures at the bank;
- Induction, training and professional development of all bank colleagues with special emphasis on senior managers and key function holders;
- Ensuring that all departments operate within the RMF of the bank;
- Managing the allocation and maintenance of the bank's capital, funding (where applicable) and liquidity in compliance with requirements of the regulatory authorities; and,
- Ensuring the integrity of the bank's financial, management and regulatory reporting; and implementing the firm's internal stress-tests and ensuring accuracy and timeliness of information provided to the regulatory authorities in this respect.

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

- Asset & Liability Committee ("ALCo");
- Credit Committee ("CCo");
- Product Governance Committee ("PGCo");
- Operational Risk Committee ("ORCo"); and,
- Reputation Management Committee ("RMCo").

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 service and shared services	Control Functions	Internal Audit

The 1LoD 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 providing insight, oversight and challenge to the risk management process implemented by the 1LoD. The 2LoD will support the 1LoD by establishing risk policies and offering guidance to ensure effective risk management practices are implemented.

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 assessing whether risk appetite has been established and reviewed through the active involvement of the board and executive management. Internal Audit assess whether risk appetite is embedded within the activities, limits and reporting of the organisation and is being adhered to.

5.4 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 of these directors are nominated by the members of the pension scheme, and one is nominated by the employer.

The Group's subsidiary companies do not undertake 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 Board.

6. Risk Assessment, Monitoring and Policies

6.1 Financial Strength Assessment and Monitoring

In compliance with the bank's Capital 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 to ensure it stays within appetite.

In compliance with the bank's Liquidity 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 to be 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 restore liquidity.

Refer to 7.1 for more detail on the bank's ICAAP and ILAAP.

Table 3: Key metrics for performance and risk monitoring

Category	Metric	Measure as at 31-Mar-22
Capital	Common Equity Tier 1 Ratio	20.96%
	Total Capital Ratio	21.20%
	Leverage Ratio excluding claims on central banks	6.61%
Liquidity	Liquidity Coverage Ratio (LCR)	272%
	High quality liquid assets as a percentage of total assets	58%
Profitability & Growth	Cost:Income Ratio	83.60%
	Profit Before Tax	£16.54m
Credit Risk	Non-performing loans as a percentage of gross lending	5.67%
	Specific impairment / non-performing loans	22.29%
	Total impairment as a percentage of gross total lending	1.48%
	Impaired treasury assets as a percentage of total assets	0bps
Market Risk	Net Interest Income Sensitivity (+/- 200 basis points)	£0.40m/-£0.32m
	Treasury assets as a percentage of total deposits	48%

6.2 Strategic Risks

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

- Business model risk;
- Business concentration risk; and,
- Product strategy and governance risk.

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

Risk Reporting

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

- The overall strategic risk profile relative to risk appetite (including any breaches of risk appetite);
- New or significantly changed key risk exposures and key trends; and,
- Identified issues and actions to address these.

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

7. Capital

7.1 Internal Capital and Liquidity Adequacy Assessment Processes

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. The Risk function challenges these processes, in particular the development of the bank's key risks and scenarios, which underpin the capital and liquidity calculations.

The ICAAP and ILAAP documents are challenged in turn by ALCo, MT and ARCCo, eventually leading to challenge and approval by the Board at least 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 regulatory requirements.

The ICAAP and ILAAP processes are integrated elements of the bank's Risk Appetite Framework. As such, they 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, in order to protect itself and its customers' deposits from the impact of stress events.

7.2 Capital Resources

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

The regulatory landscape continues to evolve. On 01 January 2022, major changes to the PRA rule book came into force in line with published PS 17/21 Implementation of Basel 3 Standards & PS 21/21 the UK Leverage Framework, impacting various areas including the approach to calculating counterparty credit risk, market risk, leverage ratio and operational risk RWAs. In the fourth quarter of 2022 the PRA is intending to publish a Consultation Paper on Basel 3.1 implementation, which will cover regulations around Credit RWAs, Capital Floors, Credit Valuation Adjustment Risk.

Key areas of development and change regarding capital included:

- Large Exposure Framework: changes to the design and calibration of the capital base and large exposure limit;
- Counterparty credit risk RWAs: introduction of new Simplified Standardised approach ("SA-CCR") with greater risk sensitivity and incorporation of margining into Potential Future Exposure ("PFE"), and,
- Leverage Ratio Framework: changes to the design and calibration of the framework with a focus on derivative exposures and margining

The bank continues to proactively monitor developments and to incorporate the impact of forthcoming regulatory changes to the capital forecasts; this ensures that the bank can maintain a strong capital base that exceeds minimum regulatory requirements.

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 comprises 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 regulatory capital, risk-weighted assets and capital ratios at 31 March 2022 were as follows:

Table 3: UK CC1 - Capital Resources

The bank's total regulatory capital ratio decreased year on year from 21.9% to 21.2%, while the Common Equity Tier 1 ratio decreased from 21.6% to 21.0%. The capital ratios remain above the regulatory requirements. The decrease in total regulatory capital during the year was due to increases in the deduction of intangible assets.

Group	**2022 £000**	*2021 £000*
Common Equity Tier 1 (CET1) capital before regulatory adjustments		
Ordinary share capital	**120**	*120*
Reserve fund	**22,598**	*22,598*
Profit and loss account	**357,097**	*340,230*
Property revaluation reserve	**24,896**	*27,386*
Heritage assets revaluation reserve	**10,982**	*7,398*
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**415,693**	*397,732*
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets adjustment for CRR II treatment	**(26,331)**	*(13,091)*
Net defined benefit obligation	**(7,373)**	*(3,200)*
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(33,704)**	*(16,291)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**381,989**	*381,441*
Tier 2 capital		
Collective Impairment Allowance	**4,403**	*4,323*
Total Tier 2 capital	**4,403**	*4,323*
Total regulatory capital	**386,392**	*385,764*
Risk weighted assets exposures	**1,822,244**	*1,764,829*
Capital ratios and buffers		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.20%**	*21.86%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**20.96%**	*21.61%*
CET1 overall capital requirement	**8.97%**	*8.98%*
of which: capital conservation buffer requirement	**2.50%**	*2.50%*
of which: countercyclical buffer requirement	**0.00%**	*0.00%*
Common Equity Tier 1 available to meet buffers as a percentage of risk exposure amount	**11.99%**	*12.63%*

Reconciliation of Regulatory Capital to Financial Statements

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

Table 4: UK CC2 - Reconciliation of regulatory capital to the shareholders' funds as reported in the audited financial statements.

	2022 £'000	*2021 £'000*
Total shareholders' funds per consolidated balance sheet	415,693	*397,732*
Add: Collective Impairment Allowance	4,403	*4,323*
Less: Intangible assets adjustment for CRR II treatment	(26,331)	*(13,091)*
Less: Net defined benefit obligation	(7,373)	*(3,200)*
Total regulatory capital (Table 3)	386,392	*385,764*

Own Funds Disclosures

Detailed disclosure of all Key Metrics and Overview of Risk-Weighted Exposure amount can be found in Appendix 1 (UK-MK1), in accordance with the PRA disclosure requirements Article 447.

7.3 Pillar 1 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.

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 2022 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: UK OV1 - Risk weighted assets and Pillar 1 capital requirements by exposure class

Exposure Class	Risk weighted assets 2022 £'000	Capital requirement 2022 £'000	*Risk weighted assets restated 2021 £'000*	*Capital requirement restated 2021 £'000*
Central governments or central banks	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	**61,655**	**4,932**	*66,031*	*5,282*
Corporates	**95,307**	**7,625**	*139,936*	*11,195*
Retail	**23,919**	**1,913**	*22,667*	*1,813*
Secured by mortgages on immovable property	**880,391**	**70,431**	*749,416*	*59,953*
Exposures in default	**61,214**	**4,897**	*114,437*	*9,155*
Items associated with particularly high risk	**45,923**	**3,674**	*50,392*	*4,031*
Covered bonds	**132,987**	**10,639**	*96,282*	*7,703*
Claims on institutions and corporates with short-term credit assessment	**45,485**	**3,639**	*70,016*	*5,601*
Claims in the form of Collective Investment Undertakings (CIU)	**165,017**	**13,201**	*140,580*	*11,247*
Equity exposures	-	-	-	-
Other Items	**89,211**	**7,137**	*91,239*	*7,299*
Securitisations	**36,844**	**2,948**	*31,338*	*2,507*
Total credit risk	**1,637,953**	**131,036**	*1,572,334*	*125,786*
Total market risk (FX PRR)	-	-	-	-
Total operational risk	**184,291**	**14,743**	*192,495*	*15,400*
Total Pillar 1 capital requirement	**1,822,244**	**145,779**	*1,764,829*	*141,186*

At 31 March 2022, the bank held excess capital over the Pillar 1 minimum capital requirement of £241m (2021: £244m).

The overall capital requirement for credit risk has increased 5% when compared to 2021. This movement is attributed to the organic balance sheet growth, primarily increase in loans collateralised by residential property.

8. Principal Risks and uncertainties

8.1 Business Reputation and Conduct Risk

Business Reputation and Conduct Risk is managed and overseen as part of the Operational Risk Management Framework (see section 8.10, below), and relates to how business is conducted at the bank. It covers legal and 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.

The bank expects to meet all applicable regulation, rules, internal standards and relevant industry codes of conduct in order to mitigate legal or regulatory sanctions, material financial loss or reputational damage that may arise from non-compliance. The bank deals with the regulators in an open and cooperative way and will disclose to them anything relating to the bank about which they would reasonably expect to receive notice. This will include instances where full compliance to a regulation is challenging for the bank.

The bank expects the conduct of its colleagues, third-party suppliers and customers to be consistent with the bank's values, and the bank expects to treat its customers fairly.

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

8.2 Climate risk

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. The Board has received risk and scenario assessment outputs on the impacts of climate risk under different temperature pathway scenarios. Climate Change responsibilities have been formalised into the relevant committees of the bank.

Under the Senior Managers Regime, responsibility for climate-related issues sits with the Chief Risk and Compliance Officer ("CRO"). Other individuals across the organisation support the CRO 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 Chief Customer Officer is responsible for integrating climate change into the bank's business strategy. The bank recently established a climate risk working group, which consists of a team of senior individuals across the bank, including the CRO and CFO. This working group has been providing review and challenge of the approach and of key outputs of the climate risk framework.

Climate Risk Management Framework

Climate change has the potential to affect the bank directly (company-related risks) and indirectly (predominantly via the lending book). Climate risks are anticipated to arise through both direct physical effects, such as flooding or subsidence, and indirect transitory effects typically associated with the transition to a lower-carbon global economy. The most common transitory risks relate to policy and legal actions, technology changes, market responses, and reputational considerations. Opportunities will also be created as global economies transition towards net-zero emissions.

The bank has developed and executed a methodology to assess the key credit risks arising from climate change, with reference to the publications from the Task Force for Climate related Financial Disclosures and evolving industry practices. The bank continues to assess how climate change can affect the bank through other transmission channels.

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

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 three years. In its 2019/20 financial accounts, the bank set itself a target of becoming carbon neutral for its tier one and two emissions by 2025. The Board, via a specific internal taskforce, is now looking to establish more challenging long-term goals related to climate change.

8.3 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 financial institutions and from treasury investments and lending.

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

The credit risk framework has been strengthened in recent years, and the bank continues to develop and evolve its credit risk management capabilities to enhance the bank's management through the credit risk life cycle.

Documented credit risk policies underpin the bank's approach to credit risk management, and they are designed to ensure that the bank's lending activities remain prudent and aligned to the businesses overall risk appetite and business plan. Lending authority approval levels within the business are controlled through policy limits which, along with lending policy, are approved by the Board, or an appropriately formed sub-committee. The delegated authority levels are segmented according to variables which include exposure amount, risk rating and policy compliance. Transactions categorised as being higher value or higher risk are sanctioned by the bank's credit committee.

The bank's Credit Risk team sits within the 2nd line of defence and falls under the Chief Risk and Compliance Officer's areas of responsibility. It operates independently of the 1st line of defence and has responsibility for credit risk management oversight and monitoring, and for the sanctioning (or recommending to Credit Committee) and administration of higher value transactions in accordance with approved lending authority limits.

8.3.1 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 are 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 counterparty's credit risk. Limits are also in place 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 external credit assessments, provided by Moody's, to determine counterparty credit ratings used in the onward risk weighted asset calculations for credit risk requirements under the standardised approach to rated counterparties. External credit ratings are relied upon for a range of exposure classes including 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 ratings 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. In the event of a limit breach, an escalation process is in place to report to the ALCo, the Board and the Regulator, as appropriate.

8.3.2 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 manage its credit risk by focusing on sectors where the bank has specialist expertise and a long track record of success. The bank's general policy is to lend to customers with security provided as collateral, and primarily includes charges over residential and commercial properties, as well as other forms of acceptable collateral, to mitigate the risk to the extent possible.

What constitutes acceptable collateral is detailed in the policies that govern the bank's lending activities but consists primarily of tangible real estate or other forms of high-quality realisable assets. The bank maintains a security valuations policy which articulates the requirements on both standards and frequency for security valuation.

Security valuations are monitored throughout the lending lifecycle and updated valuations may be sought where there is reasonable evidence to suggest that a significant or material deterioration in asset value may have occurred.

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 internal and regulatory guidelines, and lending is monitored closely against credit limits, with all significant exposures being subject to review every year at least.

The bank seeks to build strong relationships with customers, and endeavours to assist and provide support through the economic cycle. Through the course of its lending assessments, the bank's primary consideration is the customer's ability to service and repay their debt, notwithstanding the existence of any credit risk mitigations. The unique nature of the bank's customer base can occasionally lead to irregular liquidity events which could result in some delayed payments. Such events tend to be uncommon. They are closely monitored and are not necessarily indicative of an increase in credit risk. The bank manages such situations through regular communication with customers, and it holds strong levels of high-quality security cover on most of its lending facilities in accordance with the bank's risk appetite.

8.3.3 Exposures in Default

The bank categorises exposures in default in accordance with the definitions set forth in relevant regulatory documents. Such exposures are disclosed under the exposures in default exposure class.

The bank regularly reviews extended breaches of advised limits and exposures meeting the definition of Default. Breaches of advised limits often tend to be temporary in nature, and are rarely of concern, as usually there is more than sufficient collateral to cover the excess.

The bank regularly assesses whether there is objective evidence that assets are impaired. Assets are considered to be impaired when objective evidence demonstrates that one or more events have occurred that impact the expected future cash flows of the asset. All assets meeting the definition of Default are assessed for impairment and, where deemed appropriate, provisions raised. In determining whether an impairment provision is necessary and/or appropriate a number of factors will be considered by management. These will include a full assessment of the borrower's financial situation and the effectiveness and/or value of any collateral that may be held. All provisions are considered and approved by the bank's credit committee.

The bank establishes an allowance for impairment losses that represents its best estimate of 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 across the wider portfolio which have not been individually 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.

8.4 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 call 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 primarily to match customer requirements.

8.5 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, whilst optimising the return on residual risk taken.

The bank does not operate a material trading book. It generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments on a long-term basis. The bank 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 of allocated capital and are subject to limits and controls monitored by the ALCo.

The bank's market risk exposure primarily arises from the following key risks:

8.5.1 Interest Rate Risk

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 7, 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.

Basis Risk

Basis risk arises where assets and liabilities re-price with reference to different short term interest rate benchmarks. The ALCo has set limits to manage basis risk. Basis risk is calculated monthly and reported to the ALCo. 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 regular basis and adjusts the estimated fair value of the remaining cash flows accordingly.

Yield Curve Risk

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. As part of its risk management process, the bank uses interest rate swaps to hedge exposures to interest rate risk.

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 bi-weekly and reported to the ALCo monthly against a Board approved policy limit.

Repricing Risk

The majority of treasury assets reprice within 3 months, and all reprice within one year. Treasury assets are sufficiently liquid that positions could be sold or bought to manage any interest rate risk that arises. Likewise, the value deposited with the Bank of England could be altered to adjust the overall book's interest rate dynamics. In addition, the bank expects to be able to adjust pricing to defend balances in a competitive environment to limit the impact of competitive pressures on the bank's net interest income.

Optionality Risk

The bank aims to minimise any exposure to optionality risk such as prepayment risk. Treasury are responsible for the cancellation of interest rate swaps if fixed rate loans are repaid earlier than originally contracted. To minimise the cost to the bank, an early repayment fee is charged to the customer.

8.5.2 Management of Currency Risk

Foreign currency balances are primarily 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.

8.5.3 Inflation Risk

Factors such as the COVID-19 pandemic, the Ukraine-Russia war, movements in global oil and gas prices and Brexit transition have created economic pressure, particularly with respect to increased inflation. The UK economy may experience a more sustained period of higher inflation which is expected to put pressure on the bank's costs over the medium term.

Increased inflation is expected to be matched by an increase in the Bank of England base rate, which will positively impact the bank's interest income. The bank is also mindful that rising interest rates may impact borrowers, particularly in their ability to afford loan repayments and interest costs. The bank has an established credit risk framework, as mentioned in the credit risk section, to support the evaluation of customer affordability and to support our customers' evolving needs.

8.6 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 on 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. Although a significant proportion of customer deposits are repayable on demand, they have behaviourally remained stable and reliable through historic periods of market stress.

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

To mitigate liquidity risk, the bank has incorporated insights from the ILAAP in setting and monitoring the internal liquidity buffers. This ensures that the bank can meet its regulatory requirements in a stress condition with consideration of its available management actions. The bank carries out daily liquidity monitoring and reporting, with additional oversight of current and forecast positions against limits at ALCo, ARCCo and the Board. 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.

8.7 Operational Risk

The Operational Risk Management Framework (ORMF) sets out the structure that is in place to manage operational risk. The objective of the ORMF is to provide a structure for managing the bank's operational risks in line with it risk appetite, and so to enable it to achieve it strategic objectives.

The ORMF sets out the expectations in relation to:

- Operational Risk Strategy and Governance;
- Operational Risk Management Processes; and
- Risk Culture

The bank has established risk appetite metrics both at Strategic Risk Priority ("SRP") and underlying risk categories and these are regularly monitored and reported to the ORCo, ARCCo and the Board.

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or from external events. The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The ARCCo approves the ORMF 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 requirements of the ORMF. The Risk Department is responsible for providing insight, oversight, and challenge to the risk management implemented by the 1LoD. The 2LoD will support the 1LoD by establishing risk policies and offering guidance to ensure effective risk management practices are implemented.

The key elements of the ORMF consist of:

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

Each department is responsible for the ongoing application of the processes outlined in the ORMF and the risk policies. The bank's operational risk profile – including losses from operational risk events, monitoring results using KRIs and capital requirements – are reported to the ORCo, MT, ARCCo and the 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 inputs such as internal and external losses, changes in the risk profile, KRIs and other relevant information. Scenarios are based on the impact of severe, yet plausible events and provide a forward-looking assessment of the bank's risks under extreme conditions. This enables the bank to determine the capital required to manage the scenario within its risk appetite. The scenarios are reviewed by senior management via the ORCo, 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.

Concentration Risk

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

The bank's activities have been 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 to residential properties. Whilst UK high-net-worth individuals are 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. Since January 2021 there has been a clear focus on diversifying our customer base and balance sheet through regional expansion across the UK.

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

8.8 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. Day-to-day management of the Defined Benefit Scheme is entrusted to an expert third party, with regular oversight by the bank.

The bank's pension scheme remains well funded and continues to hold an accounting net surplus of assets. The bank also undertakes stress testing on the pension scheme liabilities and assets as part of its ICAAP. The risks associated with the pension scheme under normal and stress conditions are incorporated into the ICAAP to ensure key considerations are factored into setting the pillar 2 capital requirements. Quarterly investment performance reporting is overseen by the Board.

8.9 Technology and Change Risk

The bank's business model is dependent upon the technology platform employed to deliver service to customers of the bank. Technology is increasingly seen as a differentiating factor within the banking industry. MT and the Board have recognised this trend and have consequently devoted significant resources to ensuring that the technology platform evolves to respond efficiently to customer and stakeholder needs. At the same time, cyber security is an increasing threat and the bank continues to invest to ensure the security of its customers and various stakeholders. The change process is subject to review by committee that ensures all change projects delivered are equally responsive and robust.

8.10 People Risk

The bank's business model is dependent upon its people and their level of capability and engagement. Having the right people in the right positions with robust skill development and succession planning is key to building a long-term business. To this end, MT, RemCo and the Board are significantly involved in important staff decisions to ensure that the bank successfully attracts, retains and develops talent. The bank's Human Resources function is well resourced and has agreed a people strategy with MT and the Board, which will support the further development of colleagues by providing training and development. This also ensures that appropriate standards and conduct are maintained throughout.

9. 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), 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 6: UK REM1 - Remuneration Information – Identified Staff

	Governing Body	Senior Management	Other Material Risk Takers	Totals
Number of Identified Staff	**10**	**10**	**2**	**22**
Fixed remuneration				
Of which: cash-based (£m)	**7**	**2**	**1**	**10**
Of which: shares or equivalent ownership interests (£m)				
Of which: share-linked instruments or equivalent non-cash instruments (£m)				
Of which: other instruments (£m)				
Of which: other forms (£m)				
Total Fixed remuneration	**7**	**2**	**1**	**10**
Number of Identified Staff				
Variable remuneration				
Of which: cash-based (£m)	**3**	**1**	**1**	**5**
Of which: deferred				
Of which: shares or equivalent ownership interests (£m)				
Of which: deferred				
Of which: share-linked instruments or equivalent non-cash instruments (£m)				
Of which: deferred				
Of which: other instruments (£m)				
Of which: deferred				
Of which: other forms (£m)				
Of which: deferred				
Total Variable remuneration	**3**	**1**	**1**	**5**

Table 7: UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Governing Body	Senior Management	Other Material Risk Takers	Totals
Guaranteed variable remuneration awards	**0**	**0**	**0**	**0**
Number of identified staff				
Total amount (£m)				
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
Total Guaranteed variable remuneration awards	**0**	**0**	**0**	**0**
Severance payments awarded in previous periods, that have been paid out during the financial year				
Number of identified staff	0	0	0	0
Total amount (£m)	0	0	0	0
Total Severance payments awarded in previous periods, that have been paid out during the financial year	**0**	**0**	**0**	**0**
Severance payments awarded during the financial year				
Number of identified staff	0	3	0	0
Total amount (£m)	0	1	0	0
Of which paid during the financial year	0	1	0	0
Of which deferred	0	0	0	0
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
Of which highest payment that has been awarded to a single person	0	0	0	0
Total Severance payments awarded during the financial year	**0**	**1**	**0**	**0**

As per current remuneration structure, the bank doesn't have any deferred or retained remuneration (UK-REM3 table of Pillar 3 disclosure).

Table 8: UK REM4 – Remuneration Information of €1m or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	0
1 500 000 to below 2 000 000	1
2 000 000 to below 2 500 000	5
2 500 000 to below 3 000 000	0

The bank does not have any identified staff in higher brackets. Figures represent amounts paid during the 2021/2022 financial year.

9.1 Decision Making Process for determining 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 considered:
  - 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 Independent 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.

9.2 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; and,
- 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).

9.3 Composition of the RemCo

The RemCo convenes at least twice a year, and is currently chaired by The Rt. Hon. Lord Macpherson of Earl's Court GCB, the Chairman of the bank. RemCo's constitution requires that membership will consist of at least three Independent Non-Executive Directors. The members as at 31 March 2022 were:

- The Rt. Hon Lord Macpherson of Earl's Court GCB – Chairman;
- Andrew McIntyre – Independent Non-Executive Director;
- Johanna Waterous – Independent Non-Executive Director; and,
- India Gary-Martin – Independent Non-Executive Director.

9.4 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 RemCo. The final recommendations are ratified at the bank's AGM.

RemCo may invite any Partner, CEO, MT member or senior colleague to attend meetings, either regularly or specifically. Senior colleagues from Internal Audit and Risk Management functions may also attend from time to time at the invitation of the Chairman. RemCo is also supported by both the Compliance and Human Resources ("HR") functions as and when required.

9.5 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.

All employees are encouraged to discuss performance on an informal and on-going basis, and there are annual formal appraisals. 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; and,
- 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. Employess receive recognition for meeting both financial and non-financial objectives, and for achieving all behavioural competencies required by their role. When 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 'needs improvement' ratings. Additionally, HR reviews ratings on a bank-wide basis to ensure they have been objectively and consistently applied, and to map distribution of performance 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. Such payments are a proportion of overall employee basic salary, rather than a multiple.

Appendix

Appendix 1: Own Funds Disclosure Template

		£	£
		T - Current Year	T-4 - Prior Year
		31-Mar-22	**31-Mar-21**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	381,989,000	381,441,000
2	Tier 1 capital	381,989,000	381,441,000
3	Total capital	386,392,000	385,764,000
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	1,822,243,507	1,764,829,000
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	20.96%	21.61%
6	Tier 1 ratio (%)	20.96%	21.61%
7	Total capital ratio (%)	21.20%	21.86%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.56%	0.56%
UK 7b	Additional AT1 SREP requirements (%)		
UK 7c	Additional T2 SREP requirements (%)		
UK 7d	Total SREP own funds requirements (%)	13.98%	13.98%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical capital buffer (%)	0%	0%
UK 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
UK 10a	Other Systemically Important Institution buffer		
11	Combined buffer requirement (%)	2.5%	2.5%
UK 11a	Overall capital requirements (%)	14.56%	14.58%
12	CET1 available after meeting the total SREP own funds requirements (%)	0.58%	0.60%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	5,526,722,574	4,375,665,802
14	Leverage ratio excluding claims on central banks (%)	6.61%	8.72%
	Additional leverage ratio disclosure requirements		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
14b	Leverage ratio including claims on central banks (%)		
14c	Average leverage ratio excluding claims on central banks (%)		
14d	Average leverage ratio including claims on central banks (%)		
14e	Countercyclical leverage ratio buffer (%)		
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	4,066,150,763	3,199,721,063
UK 16a	Cash outflows - Total weighted value	1,765,406,113	1,316,703,571
UK 16b	Cash inflows - Total weighted value	269,461,408	420,456,325
16	Total net cash outflows (adjusted value)	1,495,944,705	896,247,246
17	Liquidity coverage ratio (%)	272%	357%
	Net Stable Funding Ratio		
18	Total available stable funding	5,241,977,073	
19	Total required stable funding	1,950,439,094	
20	NSFR ratio (%)	269%	