Capital and Risk Management Pillar 3 Disclosures

Year ended 31 March 2024

C. Hoare & Co.
PRIVATE BANKERS SINCE 1672

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Introduction

This document presents the consolidated Pillar 3 disclosures of C. Hoare & Co. ("the bank") and its subsidiaries, Messrs Hoare Trustees Limited, Hoares Trustees Limited (formerly, Hoare's Bank Nominees Limited) and Hoare's Bank Pension Trustees Limited ("the Group"), as at 31 March 2024.

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.

This year, on 15th March 2024, the bank made the decision to sell the Trusts and Estates business, Messrs Hoare Trustees Limited. Hoares Trustees Limited was appointed to be the trustee of the Master Charitable Trust on 15th April 2024.

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 2024 and has been prepared in accordance with the requirements of the BOE Prudential Regulation Authority Rulebook – Disclosure (CRR), that contains rules which were onshored from Part Eight of the Capital Requirements Regulation (575/2013) ("CRR").

The level of disclosure on remuneration matters is subject to the proportionality rules set out in PRA PS16/23 "Remuneration: Enhancing proportionality for small firms". In accordance with the new regulations published by the PRA in December 2023, the bank meets the small CRR firms criteria and for non-listed institutions, and therefore is exempted from making remuneration disclosures. The required disclosure on Board Recruitment and Diversity Policies continues to be disclosed and is covered in section 5.4.

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 approach, governance structure, and principal risks for 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 prepared for the financial statements to the 31 March of each year and are available on the bank's website: www.hoaresbank.co.uk.

2.2 Verification

The Pillar 3 disclosures were reviewed and approved by the bank's Board of Directors on 19 June 2024. 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 regulated by the PRA and the Financial Conduct Authority ("FCA") (together, the "Regulators"). 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. Hoares Trustees Limited 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 submits quarterly capital adequacy returns to the PRA.

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 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 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, which includes Pillar 1 and Pillar 2A, and at least 56.25% of Pillar 2A must be met with CET1 capital.

  - 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 buffer is not disclosed; and

  - Other Capital buffers 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
    - Countercyclical buffer (CCyB) 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 2%.

- **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.

5. Risk Management Framework & 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, 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 an overview of the bank's risk management systems and controls and 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 through risk-based decisions supported by tools/techniques to minimise impacts on the bank, customers and colleagues. It 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 regularly reviews and discusses its risk management arrangements, including its risk management systems and controls, to ensure that they are adequate with regards to the bank's profile and strategy.

For the bank's strategy to succeed, the bank defines strategic risks that must be prioritised and managed when delivering the strategy. See *Risk Taxonomy* at 5.1 below for further details.

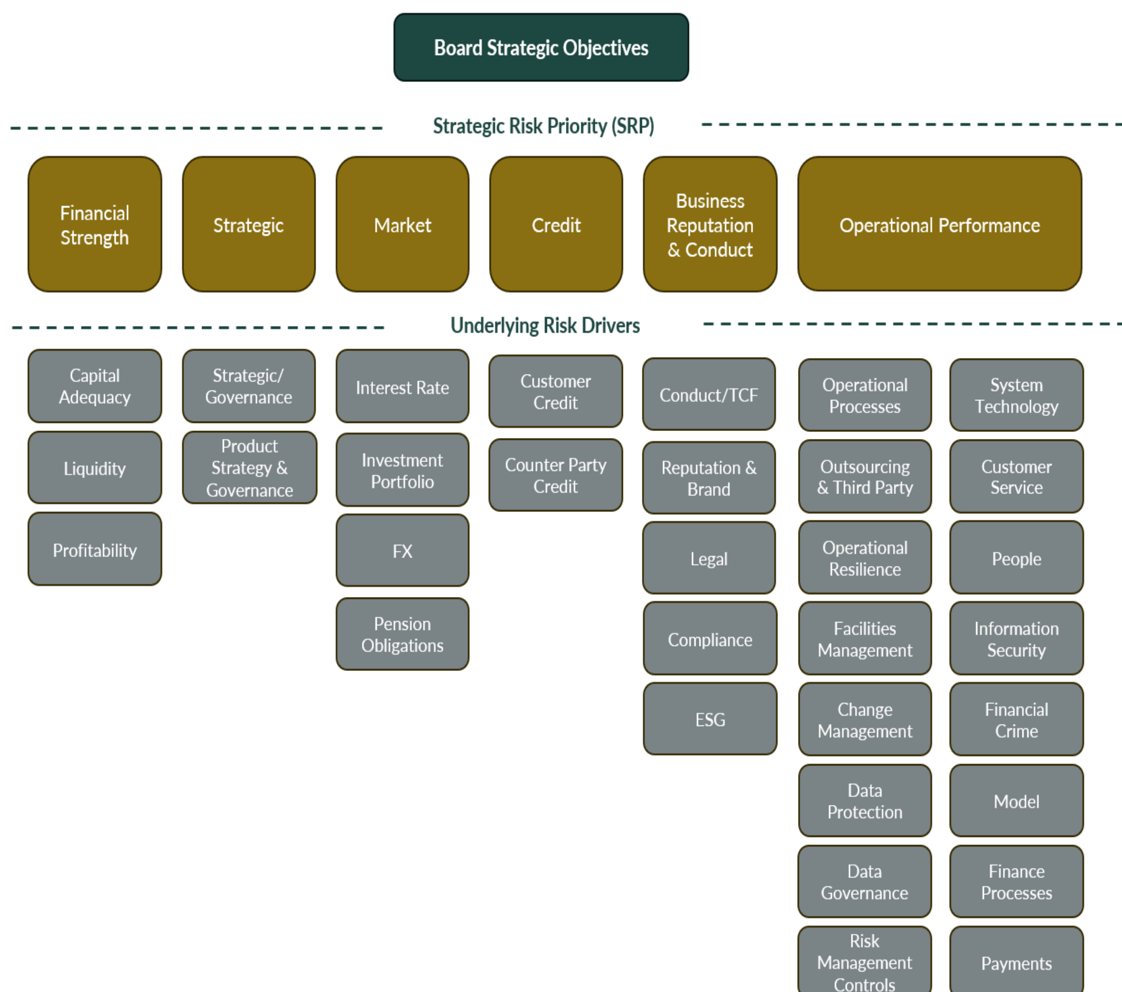
5.1 Strategy & Risk Appetite

The Hoare family's vision is "to continue to be the preeminent private bank in the UK". 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

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 bank's Risk Appetite Statement ("RAS") which is reviewed and updated at least annually.

The bank also articulates the level of risk it is willing to take, both quantitatively and qualitatively, using risk appetite key risk indicators and early warning indicators.



Risk Taxonomy

To support the translation of the bank's strategy to the RAS, the bank has introduced Strategic Risk Priorities (each a "SRP" and together the "SRPs"). Each SRP is supported by a set of lower-level risk categories, collectively known as the Risk Taxonomy. The SRPs form the high-level framework against which the bank's appetite is monitored.

Strategic Risk Priority (SRP)	Description
Financial Strength	The risk that the bank is under capitalised relative to minimum regulatory and/or economic capital requirements, including risk events that impact the bank's ability to maintain an appropriate level of liquidity and contingency liquidity to support ongoing operations.
Strategic Risk	The risk that the bank fails to achieve its strategic goals and risks that could cause a volatility in earnings, impacting the bank's profitability.
Market Risk	The risk of losses across both on and off balance sheet positions arising from adverse movements in market prices.
Credit Risk	The risk that the bank's borrowers or counterparties default on their obligations to the bank.
Business, Reputation & Conduct	The risk that the actions of bank personnel or external events lead to customer detriment or negatively impact the bank's reputation.
Operational Performance	The risk 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 & Frameworks

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:

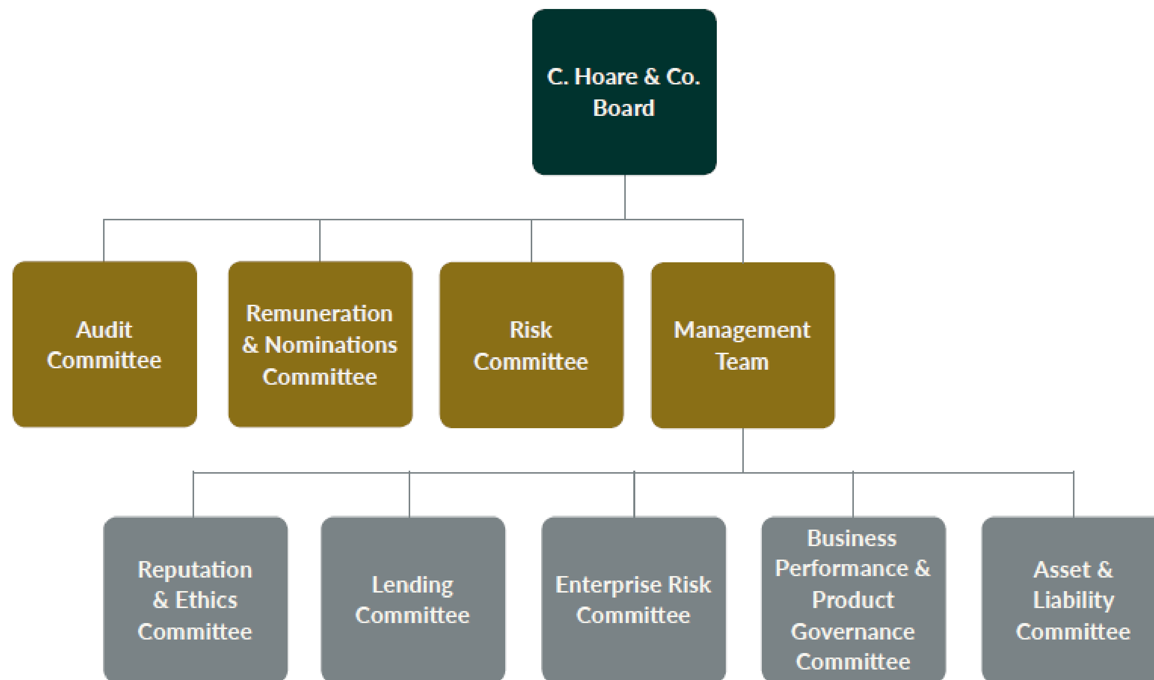
- Capital Policy supported by the Internal Capital Adequacy Assessment Process (ICAAP);
- Liquidity Policy supported by the Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan & Resolution Pack;
- Credit risk policies for customers and counterparties;
- Policies to manage market risk, in particular interest rate risks; and,
- A 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 9.1(b) for more information.

Table 1: UK CRA (c) - Governance Structure



<u>Board of Directors</u>

The Board is the key governance body and is responsible for overall strategy, business performance and risk management of the bank. It comprises independent non-executive directors, the Chief Executive Officer (CEO) and the bank's partners. The Board delegates day-to-day executive management of the bank to the CEO, who directs the Management Team to deliver against the bank's strategy. More details of the roles and responsibilities of the Board, the Management Team and other bank committees can be found in section 9.1(b) of Annual Accounts.

The Board has established the following committees to provide support in discharging its responsibilities:

- Audit Committee ("ACo");
- Risk Committee ("RCo");
- Management Team ("MT"); and
- Remuneration & Nominations Committee ("RemCo").

<u>Directorships held by Members of the Board</u>

At 31 March 2024, the Board comprises twelve board members, four of whom are Non-Executive Directors (''NEDs''). The table below sets out the number of external directorships and partnerships held by the Executive and Non-Executive Directors of the Board in <u>addition</u> to their roles within the bank (by reference to the bank's latest internal Register of Directors' Potential Conflicts).

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

Name	Position	Commercial directorships	
		Total positions	No. separate groups
The Lord Macpherson of Earl's Court GCB	Chairman	3	3
Mr A. S. Hoare*	Executive Director	2	2
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
Mr R. R. Hoare*	Executive Director	0	0
Mrs D. S. Brightmore - Armour	Chief Executive Officer	2	1
Mr A. J. McIntyre	Non-Executive Director	5	4
Ms I. M. Gary-Martin	Non-Executive Director	0	0
Mr G. Andrews	Non-Executive Director	5	3
Ms M. R. King (appointed 2 April 2024)	Non-Executive Director	3	3

At 31 March 2024, the Board includes six Executive 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'. All 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 in:

- The appointment of directors and MT members to the Board, ensuring robust succession planning. with the aim of achieving an appropriate balance of skills and experience.
- A formal, transparent and rigorous process for selection and oversight of partner directors and non-executive directors ; and
- The setting of principles, parameters and governance over the bank's remuneration policy, including the review and approval of senior management remuneration and that of non-executive directors and material risk takers (colleagues whose actions are deemed to have 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 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 Remco may also recommend a target for the representation of gender on the Board and prepare a policy on how to increase representation, taking into account the bank's strategy.

While the Board does not have a specific diversity target, it always seeks to improve on the current level of gender diversity.

As at 31 March 2024:

- Five of the twelve Board members are female;
- Two of four Non-Executive Directors are female;
- Four of eight family related Shareholders (Partners) are female;
- Two of six family related Directors are female; and
- Four of the nine MT members are female.

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

Audit Committee

The Audit Committee is responsible for assisting and advising the Board in its oversight of the following areas:

- Safeguarding the independence of, and providing oversight of, the performance of internal audit, including ensuring sufficient budget and resources.
- Monitoring the integrity of the published financial statements.
- Monitoring the effectiveness of the RMF, ensuring that the bank operates in a manner consistent with its risk appetite and strategy.
- Providing oversight of recovery and resolution, capital, liquidity and funding planning and strategy, financial reporting and internal and external audit.
- Whistleblowing.

Risk Committee

The Risk Committee is responsible for assisting and advising the Board in its oversight of the following key areas:

- Monitoring the effectiveness of the Risk Management Framework, ensuring that the bank operates in a manner consistent with its risk appetite and strategy.
- Overall control environment (and advise the Remuneration and Nominations Committee of this in relation to bonus awards).
- Compliance, data protection and information security.
- Consumer Duty.
- Monitoring the bank's position on data against risk appetite and at the request of the Board undertake deep dives on data.

Management Team ("MT")

The Board has delegated day-to-day executive management of the bank to the Chief Executive Officer 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:

- Assets & Liability Committee (ALCo);
- Lending Committee;
- Business Performance & Product Governance Committee;
- Enterprise Risk Committee and
- Reputation and Ethics Committee.

As of April 2024, the Enterprise Risk Committee has replaced the Operational Risk Committee that was previously in place. As of May 2024, the Reputation and Ethics Committee has replaced the Reputation Committee that was previously in place.

Three Lines of Defence model

A Three Lines of Defence model has been adopted by the bank to embed the Risk Management Framework (RMF).

The 1LoD is responsible for day-to-day risk management and control. Each department is responsible for recommending its business risk appetite for Board approval. The 1LoD owns the management of individual risks and controls directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks.

The 2LoD is responsible for providing oversight, insight and challenge to the risk management processes 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 3LoD 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 bank's subsidiary companies has its own board of directors.

In November 2023, Messrs. Hoare Trustees was incorporated in England and Wales as a private limited company with the name Messrs. Hoare Trustees Limited ("MHT"). This was approved by Companies House in January 2024. MHT was previously an unlimited company incorporated in England and Wales under a Private Act of Parliament, namely the Messrs Hoare Trustees Act 1926. MHT carries on the business of acting as an executor and/or trustee. Its board meets quarterly, with a verbal update of their meetings provided to the Group board.

Hoare's Bank Pension Trustees Limited (HBPT) acts as trustee of the Group's defined benefit pension scheme and, in addition to two partner directors, has one non-partner director, nominated by the members of the pension scheme (as at 31st March 2024).

In December 2023, Hoares Bank Nominees Limited was renamed Hoares Trustees Limited. The company was capitalised and will be appointed as trustee of the Master Charitable Trust and the Golden Bottle Trust.

In November 2023, voluntary applications to strike off were filed at Companies House in respect of C. Hoare & Co. EIG Management Limited and Mitre Court Property Holding Company. The companies were dissolved on 6th February 2024.

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.

Table 3: Key Metrics for performance and risk monitoring

Category	Metric	Measure as at 31-Mar-24
Capital	Common Equity Tier 1 Ratio	23.11%
	Total Capital Ratio	23.34%
	Leverage Ratio excluding claims on central banks	7.61%
Liquidity	Liquidity Coverage Ratio (LCR)	308%
	High quality liquid assets as a percentage of total assets	58%
Profitability & Growth	Cost : Income Ratio (fully loaded)	68.90%
	Profit Before Tax	£80.8m
Credit Risk	Non-performing loans as a percentage of gross lending	2.01%
	Specific impairment / non-performing loans	20.20%
	Total impairment as a percentage of gross total lending	0.41%
	Impaired treasury assets as percentage of total assets	0%
Market Risk	Interest Rate Gap Sensitivity (change in economic value, +/- 200 basis points)	£2.64m/-£2.81m
	Treasury assets as a percentage of total deposits	51%

Risk Reporting

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

- The overall strategic risk profile relative to risk appetite (including any breaches to 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;
- material risks to the firm's ability to meet its liabilities as they fall due;
- results of internal stress testing of these risks; and
- 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 additionally challenged in turn by ALCo, MT, and RCo, 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 RMF 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.

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, and the bank is actively involved in industry discussions on forthcoming regulations on Basel 3.1 and its impact on Pillar 1 capital requirements. The PRA is expected to publish a consultation on credit risk for 'Small Domestic Deposit Takers' (SDDTs) and the bank will be reviewing regulations and thresholds in scope. The bank falls under the SDDT definition, and will decide on which approach should be adopted in due course.

The bank continues to proactively monitor developments and to incorporate the impact of forthcoming regulatory changes and any changes to the wider economy 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). It was subsequently onshored into UK law under the European Union (Withdrawal) Act 2018.

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 2024 were as follows:

Table 4: UK CC1 - Capital Resources

The bank's total regulatory capital ratio increased year on year from 21.72% to 23.34%, while the Common Equity Tier 1 ratio increased from 21.44% to 23.11%. The capital ratios remain above the regulatory requirements. The increase in total regulatory capital during the year was due to increases in retained earnings and a reduction in the deduction of pension surplus. Change in monetary policies and increases in interest rates resulted in higher profitability for the bank as the bank de-compressed its deposit yields, which had fallen to near zero during the period of very low interest rates.

Group	2024 £000	*2023* *£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 and Other comprehensive income	**457,423**	*402,610*
Property revaluation reserve	**20,544**	*21,022*
Heritage assets revaluation reserve	**10,982**	*10,982*
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**511,667**	*457,332*
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets adjustment for CRR II treatment	**(28,432)**	*(25,895)*
Net defined benefit obligation	**-**	*(2,894)*
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(28,432)**	*(28,789)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**483,235**	*428,543*
Tier 2 capital		
Collective Impairment Allowance	**4,878**	*5,313*
Total Tier 2 capital	**4,878**	*5,313*
Total regulatory capital	**488,113**	*433,856*
Risk weighted assets exposures	**2,091,044**	*1,997,896*
Capital ratios and buffers		
Total regulatory capital expressed as a percentage of risk weighted assets	**23.34%**	*21.72%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**23.11%**	*21.44%*
CET1 overall capital requirement	**10.78%**	*9.94%*
of which: capital conservation buffer requirement	**2.50%**	*2.50%*
of which: countercyclical buffer requirement	**1.85%**	*0.90%*
Common Equity Tier 1 available to meet buffers as a percentage of risk exposure amount	**12.33%**	*11.51%*

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

	2024 £'000	*2023 £'000*
Total shareholders' funds per consolidated balance sheet	**511,668**	*457,332*
Add: Collective Impairment Allowance	**4,878**	*5,313*
Less: Intangible assets adjustment for CRR II treatment	**(28,432)**	*(25,895)*
Less: Net defined benefit obligation	-	*(2,894)*
Total regulatory capital (Table 4)	**488,114**	*433,856*

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 2024, 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 6: UK OV1 - Risk weighted assets and Pillar 1 capital requirements by exposure class

	Risk weighted assets	Capital requirement	*Risk weighted assets*	*Capital requirement*
Exposure Class	**2024 £'000**	**2024 £'000**	*2023 £'000*	*2023 £'000*
Central governments or central banks	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	**54,239**	**4,339**	*162,882*	*13,031*
Corporates	**102,248**	**8,180**	*107,319*	*8,586*
Retail	**26,562**	**2,125**	*26,867*	*2,149*
Secured by mortgages on immovable property	**968,778**	**77,502**	*952,975*	*76,238*
Exposures in default	**26,252**	**2,100**	*31,691*	*2,535*
Items associated with particularly high risk	**109,542**	**8,763**	*43,564*	*3,485*
Covered bonds	**154,784**	**12,383**	*159,974*	*12,798*
Claims on Institutions and corporates with short-term credit assessment	-	-	-	-
Claims in the form of Collective Investment Undertakings (CIU)[1]	**148,636**	**11,891**	*146,236*	*11,699*
Equity exposures	-	-	-	-
Other Items[2]	**115,345**	**9,228**	*96,342*	*7,707*
Securitisations	**65,116**	**5,209**	*39,209*	*3,137*
Total credit risk	**1,771,501**	**141,720**	*1,767,060*	*141,365*
Total market risk (FX PRR)	-	-	-	-
Total operational risk	**319,543**	**25,563**	*230,837*	*18,467*
Total Pillar 1 capital requirement	**2,091,044**	**167,283**	*1,997,896*	*159,832*

At 31 March 2024, the bank held excess capital over the Pillar 1 minimum capital requirement of £320.8m (2023: £274m).

The overall capital requirement for credit risk has moved only slightly (0.23% increase) when compared to 2023. The operational risk requirement has increased due to the increase in 2023-24 P&L, which has been audited and recognised for Pillar 3 purposes.

8. Principal Risks and Uncertainties

The Board has ultimate responsibility for the management of risk within the bank. The RCo, which reports to the Board, provides oversight and monitors the effectiveness of internal control and risk management processes. The primary risks affecting the bank through the use of financial instruments are credit, liquidity and market risk, which includes interest rate, foreign exchange and capital risk.

8.1 Credit risk

8.1.1 Customer Credit Risk

Credit risk arising from loans and advances to customers is managed in accordance with lending policies and procedures which are aligned to the bank's risk appetite, and 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 provide secured lending to customers with the security provided primarily taking the form of charges over residential and commercial properties and, to a lesser extent, 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 periodic review and no less than annually.

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 primarily takes into consideration 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 and their financial affairs can occasionally result in 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 the vast majority of its lending facilities in accordance with the bank's risk appetite.

8.1.2 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 and shareholder equity. Surplus deposits not required to fund customer lending are managed by the Treasury team to ensure liquidity, whilst optimising capital usage and yield. The Treasury portfolio also comprises of derivatives used only for the purposes of hedging.

The bank has policies in place that set exposure limits for approved counterparties, taking into consideration the regulatory large exposure requirements and, where appropriate, external credit assessments are used to supplement the bank's internal assessment of credit risk. The bank uses market information, such as equity prices, credit default swap spreads, capital ratios and liquidity ratios to monitor counterparties' credit risk. The bank receives independent credit review reporting from 'Your Treasurer'. Limits are also in place by country, economic area, instrument type and residual maturity to mitigate concentration risk within the treasury portfolio.

The ALCo reviews each authorised counterparty at least annually and authorises any amendments to the approved list of counterparties and related credit limits. The committee also provides ongoing consideration to developments in counterparties' creditworthiness 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, as well as changes to outlooks, 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 limits are either removed from the approved counterparty list or escalated to the RCo and the Board for an exemption approval.

The Treasury department is responsible for ensuring compliance with the counterparty credit risk limits. These are monitored by the Treasury Operations department, with the Finance department providing oversight that these limits are adhered to. In the event of a limit breach, an escalation process is in place to report to the ALCo, the Board, and the PRA, as appropriate.

8.1.3 Exposures in Default

The bank categorises exposures in default in accordance with the definitions set forth in relevant regulatory documents.

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 given the overall financial standing of the bank customers and the collateral value available to cover the excess.

Assets are considered to be impaired when objective evidence demonstrates that one or more events have occurred which have an impact on 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 which 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 lending 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.

8.2 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 mismatches in the repricing profile of its assets and liabilities where appropriate. Following the introduction of the European Market and Infrastructure Regulation (EMIR), the bank clears most, if not all, of its derivatives through the central counterparty (CCP) LCH Limited. These positions are subject to a daily collateral call to or from the CCP. Any interest rate swaps which are not eligible for clearing are traded bilaterally, subject to two-way credit support annexes (CSAs) and cash-collateralised daily with the counterparty. In each case, the exchange of collateral limits CCR and renders any associated credit risk immaterial, however exposures are monitored and limited regardless.

The bank uses foreign exchange swaps and forwards to hedge its mismatches in foreign currency assets and liabilities. This predominately stems from customer requirements to borrow in foreign currency exceeding the bank's liabilities denominated in that currency. The bank no longer trades foreign exchange swaps and forwards on behalf of its customers. Foreign exchange swaps and forwards are traded bilaterally, subject to two-way

credit support annexes (CSAs) and cash-collateralised daily with the counterparty. In each case the exchange of collateral limits CCR and renders any associated credit risk immaterial, however exposures are monitored and limited regardless.

8.3 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 CRR) 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 require 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:

8.3.1 Interest Rate Risk

The bank aims to minimise interest rate risk and uses natural hedging as well as interest rate swaps to manage its exposure. Given the bank's approach to managing interest rate risk, as outlined in the Strategic Report, section 7 of the Annual Report and Consolidated Financial Statements, the net exposure to this risk inclusive of hedging is considered to be low and maintained within the bank's risk appetite at all times.

The bank accrues the net interest payment/receipt on interest rate swaps on a regular basis and adjusts the calculated fair value of the remaining cash flows through profit and loss accordingly on a monthly basis. It also applies hedge accounting, where possible, to reduce the profit and loss volatility that the accounting of such derivatives can create.

When required, interest rate swaps are booked against individual assets or liabilities, of equal amount and duration to protect the bank's net interest margin against adverse changes in interest rates.

Basis Risk

Basis risk arises where assets and liabilities re-price with reference to different interest rate reference rates. The ALCo has set limits to manage basis risk. Basis risk is calculated monthly and reported to the ALCo. Frequent stress testing of appropriate scenarios is conducted and reviewed regularly with the ALCo and included in the bank's ICAAP.

Gap Risk

Gap risk is managed by the bank's Treasury department principally through monitoring interest rate gaps between assets and liabilities and ensuring that total risk remains within the bank's risk appetite limits.

The bank regularly monitors and reviews its exposure to gap risk. Consistent with the financial regulator's requirements, the impact of a potential 2.00% parallel shift in the yield curve, in either direction, on the bank's balance sheet is computed to a change in economic value. This is calculated and reported to the ALCo monthly against a Board approved policy limit and included in the bank's ICAAP.

The bank also runs six other regulatory prescribed stress scenarios in a similar manner and assesses the change in its economic value of equity against its tier one capital (often known as the "Supervisory Outlier Test"). The results are reported to the ALCo monthly against both the regulatory threshold and Board approved policy limit.

Optionality Risk

The bank aims to minimise any exposure to optionality risk and early redemption risk through contractual terms and conditions. For example, most early repayments made on fixed rate loan facilities would incur an early repayment charge and early redemptions of fixed term deposits are only allowed in extraordinary circumstances such as death or court order. In these instances, no interest will be paid.

Credit Spread Risk

The bank faces credit spread risk on its assets that have a publicly quoted market price. Credit spread risk is reflected in the change in price over and above the change in the shape of the yield curve (that which is interest rate driven). Whilst this would not immediately impact the bank, as assets are predominately accounted for at

amortised cost; if they required liquidating, any unrealised losses would be crystallised and impact capital.The bank maintains high levels of liquidity and ensures potential losses of this nature are monitored and limited. The bank applies a severe stress test scenario and assesses the modelled stress losses against Board approved policy limits, which is based on the bank's ability to absorb losses and still maintain its regulatory capital requirements. This is calculated and reported to the ALCo monthly. A system of early warning indicators is also in place to monitor any deterioration of credit quality, increased market risk, etc.

8.3.2 Management of Currency Risk

Foreign currency balances are primarily driven by the requirements of the bank's customers, as well as net interest income earned on non-GBP balances, and do not form a significant part of the balance sheet. To limit the bank's exposure to exchange rate risks, thresholds are placed on intraday and end of day cumulative absolute positions. The bank's Treasury department is responsible for managing currency risk within intra-day and overnight limits, with oversight by the Treasury Operations department. The resulting positions are independently monitored by the Finance department and are reported monthly on a currency-by-currency basis to the ALCo. In the event of a limit breach, an escalation process is in place to report to the ALCo, the Board and the PRA, as appropriate.

8.3.3 Inflation Risk

A combination of domestic, macroeconomic and geopolitical factors have in the past two years caused a higher interest rate, higher inflation and lower growth UK economy. Whilst the UK has experienced a more sustained period of higher inflation, this is not as a base case expected to continue at such a material level. However, should upward price pressure continue, or inflation remain persistent, this would impact the bank's costs over the medium term.

This past year, with increased inflation, the Bank of England increased base rates at every Monetary Policy Committee meeting, which positively impacted the bank's interest income. Whilst interest rates are higher, the bank is mindful of the impact on 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.

8.4 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 significant 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 obligations, including customer lending, other longer term and illiquid assets. The risk arises when the funding required cannot be obtained at the expected terms and when required. The bank does not use wholesale funding. The bank's principal source of funding is customer deposits in the form of current accounts and savings deposits, as well as shareholder equity. Although a significant proportion of customer deposits are repayable on demand, they have behaviourally remained stable and reliable through historic periods of market stress, with a good proportion, circa 60%, deemed core, i.e. deposits that are more sticky and less likely to be withdrawn in the short term. Core deposits remain far in excess of the banks customer lending portfolio.

The bank's Treasury department has responsibility for day-to-day liquidity management, including intraday requirements, and continuously monitors deposit activity to forecast expected cash flows. Finance provides oversight to Treasury Liquidity Management and independently review all reporting matrix. The ALCo oversees the management of the bank's balance sheet within the Board approved policies.

To mitigate liquidity risk, the bank incorporates the insights from the ILAAP in setting and monitoring the internal liquidity requirements. This ensures that the bank can meet its regulatory requirements in a stress with consideration of its available management actions. The bank carries out weekly liquidity monitoring and reporting, with additional oversight of current and forecast positions against limits at ALCo, Risk Committee (RCo) and the Board. The ILAAP is presented at least annually to the ALCo, the MT and the Risk Committee (RCo) for review and challenge, eventually leading to review, challenge, and approval by the Board.

8.5 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. 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. Treasury counterparty concentration risk is limited in accordance with Bank limits to large exposures as established by the PRA's CRR and is actively monitored daily with oversight by the ALCo.

8.6 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. The bank's exposure both for assets and obligations is now fully hedged following the purchase of two buy-in contracts. Any movements in the obligations will be matched by a movement in the annuity assets, such that, the net impact to other comprehensive income will be nil.

8.7 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition includes legal risk but excludes strategic risk which is captured elsewhere within the bank's risk management framework. The main objectives for operational risk management are to:

- Articulate and communicate the Board's operational risk appetite and ensure the bank's operational risk profile operates within the defined parameters;
- Ensure key operational risks are identified, measured, mitigated, monitored, and reported in a consistent and effective manner across the bank;
- Integrate and consolidate all components of operational 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
- Embed a risk culture.

The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The Operational Risk team are responsible for providing insight, oversight and challenge on all operational risks and maintaining the Operational Risk Management Framework (ORMF). The team assists the first line of defence with ongoing identification, assessment, monitoring, management and mitigation of operational risks throughout the firm. The key elements of the ORMF consist of:

- Risk and Control Self-Assessments (RCSAs);
- Operational Risk Event Manageemnt;
- Risk Reporting and Key Risk Indicators (KRIs); and
- Operational Risk Scenario Analysis (for ICAAP).

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.

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 ERC, MT, RCo, 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.

With respect to Pillar 2A capital requirements, the bank uses scenario analysis to determine the bank's operational oisk capital requirements over a 12-month period. The scenarios consider the impact of severe but plausible events. This enables the bank to gain a better understanding of the risks that it faces under extreme conditions.

To identify the scenarios that will be assessed and to ensure that there is full coverage across the bank's key operational risk types, the Operational Risk team considers both internal and external data. Internal data includes bank information from risk reports, internal risk events, including losses as well as the input from

subject-matter experts.. This is combined with relevant external risk information, including external risk events and industry horizon scanning papers.

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.

8.8 Climate risk

8.8.1 Governance

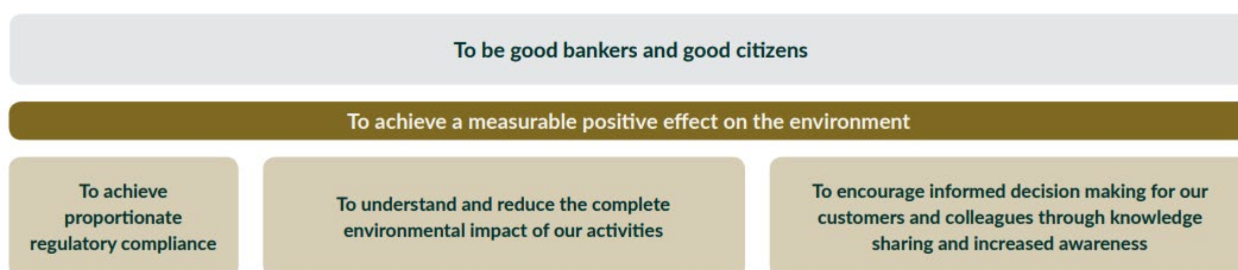
Board Oversight of Climate Related Risks and Opportunities

In the past year, climate-related issues have been reviewed, discussed and challenged at Board level. The Board has received updates on the work to implement the PRA's requirements for climate risk, and has approved an updated climate strategy.

Management Oversight of Climate Related Risks and Opportunities

Under the Senior Managers Regime, responsibility for ensuring that the risks arising from climate change are adequately identified and managed sits jointly with the Chief Operating Officer and the Chief Risk Officer. Climate change responsibilities have been formalised into the relevant committees of the bank. The bank has also established a Climate Action Steering Committee which consists of a team of senior individuals across the bank, and is co-chaired by the Chief Risk Officer and the Chief Operating Officer. This committee has been providing review and challenge of the approach and key outputs of the climate risk management framework. As we strive to achieve a measurable positive impact on the environment, the bank will continue to review these outputs, to implement new ways of thinking and set ourselves goals to improve and alter behaviours.

8.8.2 Strategy



Our main focus is on collating reliable climate data and taking action to minimise our emissions in line with our guiding principle to have a measurable positive effect on the environment.

We have set in place plans to implement a number of actions that will have a positive effect, not only on our carbon footprint, but also on our wider environmental impact.

In the short term, our priority is to improve the accuracy of our data and reduce the number of assumptions used to calculate our Scope 3 emissions.

Climate Related Risks and Opportunities

In accordance with regulatory obligations, climate-related risks and opportunities that are inherent to the bank's day-to-day business operations have been assessed over the short, medium, and long term. These risks and opportunities have been considered across several of the bank's Principal Risks and Uncertainties:

- Credit Risk;
- Market Risk;
- Liquidity Risk; and
- Operational Risk.

Climate-Related Risks and Opportunities have a direct financial impact on industries, and manifest in either physical or transition risks. The bank's lending exposure to these risks has been comprehensively reviewed as part of SS3/19 regulatory requirements and TCFD Disclosures. Physical Risk has been quantitively assessed through the bank's lending exposure to direct and indirect climate hazards, including subsidence, river and sea flooding, urban flooding and landslide. Our focus is on the impact these hazards could pose to the physical collateral held by the bank, namely residential and commercial property.

External research and data modelling was carried out in order to assess the probability of default and loss. The potential for default and loss arising from these scenarios was explored over the short term; longer term impact was also assessed.

Transition Risks and Opportunities are industry-specific, and arise as the result of the global transition to a lower carbon economy. The bank's lending exposure to Transition Risk has been assessed on a qualitative, top-down basis, at industry-level concentration, specific to the bank's loan book.

In accordance with the SS3/19 and TCFD guidance, detailed research has been conducted on the key drivers for Transition Risk for each industry – Policy and Legal, Technology, Market and Reputation – with each being assessed for their materiality over the short, medium, and long-term.

Both Physical and Transition risks were validated by industry subject-matter experts across the bank, and shared with the Climate Action Steering group and ALCo for inclusion in the ICAAP.

As a result of the assessments undertaken, the bank believes that the risks are not material, and the research we have carried out allows the Board to stay up-to-date with emerging risks and so maintain better oversight of the Climate Strategy.

In addition to the Physical and Transition Risk assessment, the bank has assessed its exposure to industries which the TCFD considers to have the highest vulnerabilities to climate-related risks. The timescale over which the bank will remain exposed to these industries, with their associated vulnerabilities, has also been considered.

As part of the bank's desire to make continuous improvements to its Climate Risk assessment methodologies, roadmaps have been put in place to enhance the granularity of our reporting. For example, we have devised a methodology for completing a bottom-up analysis of industry-specific transition risks, so as to allow for further quantitative assessment.

The continuing work of the Climate Action Steering Group is used, alongside completed analysis, to inform the Board in its oversight of the Climate Strategy. This is in line with SS3/19 regulation and TCFD disclosure requirements.

Impact of Climate Related Risks and Opportunities

The bank has been working to calculate its complete carbon footprint; this will help us better understand which actions the bank can take to reduce the impact of climate-related risks.

Financial impacts have been estimated through the implementation of a climate modelling analysis, estimating the potential for impacts on customers and future loss risks, as well as longer-term industry-specific opportunities and challenges.

Considering Different Climate Related Scenarios

In addtion to estimating the short-term physical impact and the short, medium and long term transition risk, the bank has completed an estimation of the longer-term impact of physical risk in line with the Intergrovernmental Panel on Climate Change scenarios, RCP 2.6, RCP4.5 and RCP8.5.

The findings of all the Climate Risk Senarios/Modelling showed an immaterial impact on the banks' overall capital position, but they did highlight the need to improve our awareness of future security level risks and associated levels of insurance cover required.

8.8.3 Risk Management

Identifying and Assessing Climate-Related Risks

The bank has identified the following climate-related risks:

(a) Credit Risk

There is a risk of increased financial loss arising from a customer failing to meet their obligations to the bank. Both physical and transition factors of climate risk can have a detrimental financial impact on industries. This in turn can manifest in financial pressures for our customers. These risks are proactively managed across the lending book, and climate-related losses are factored into the bank's five-year ICAAP stress.

(b) Market Risk

Government/Regulator transition towards a low carbon economy may result in policy/regulation change, leading to significant market repricing. There is a risk that climate-related events could affect the prices of assets held by the bank, and that adverse fluctuations in currency exchange rates could affect investments held.

The bank maintains a range of Early Warning Indicators, which are overseen at its Asset and Liability Committee (ALCo), to assess the external market conditions and respond accordingly.

(c) Liquidity Risk

There is a risk that the bank has insufficient sources of liquidity available for immediate conversion into liquid assets, so as to meet its liabilities when they become due, without incurring a loss of capital and/or income in the process. This risk is overseen by the bank's ALCo and proactively managed by Treasury, with oversight from the Finance and Risk department. Each counterparty of the bank is subject to annual review by ALCo, whereby the impact ESG credentials of that counterparty are considered in respect of both counterparty credit risk and the liquidity risk of its products.

(d) Operational Risk

There is risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Climate change is an increasing driver of a variety of operational risks, from people/human behaviours and regulatory changes in the short term to extreme weather events affecting resilience, third parties and facilities in the long term. The bank has governance structures in place to monitor these changes and ensure appropriate steps are taken to mitigate any emerging risks.

Managing Climate Related Risks & Integration with Overall Risk Management

The bank has no appetite for undertaking direct lending business with corporate customers or lending directly for purposes which, in the banks opinion, pose a significant Environmental, Social or Governance (ESG) risk. These include, but are not limited to:

- Mining of natural resources (e.g., Coal, Iron Ore)
- Oil and Gas extraction (whether on or offshore)
- Coal power generation
- Chemical production

A Three Lines of Defence model has been adopted by the bank to embed the Climate Risk Strategy and Management into the bank's overall Risk Management Framework.

First Line of Defence (1LoD) – Day-to-day risk management and control

1LoD is responsible for identifying, mitigating, monitoring, and reporting climate related risks.

Second Line of Defence (2LoD) – Risk and Compliance oversight, policies and methodology

The 2LoD is responsible for embedding the climate risk frameworks and policy, creating key risk metrics, and providing oversight and challenge of the 1LoD procedures, controls and reporting of risk-related information.

Third Line of Defence (3LoD) – Internal Audit

The Internal Audit function is responsible for providing independent assurance on the design and operating effectiveness of the Climate Risk Strategy and Management Framework as part of the overall Risk Management Framework.

8.8.4 Metrics and Targets

Since 2020 the bank has calculated and reported on its Scope 1 and Scope 2 emissions, and has been taking proactive steps to reduce these emissions year on year. Last year, as a result of our carbon reduction plan, the bank saw a 10% decrease in its Scope 1 and Scope 2 emissions.

The bank has made significant progress in reducing its Scope 1 and Scope 2 emissions, given the constraints of its 24/7 business model and of the listed status of the buildings from which it operates. The bank's long-term goal is to maintain its current low levels of Scope 1 and Scope 2 emissions by continuing to purchase green energy, and by investing in carbon-reducing products such as electric cars and LED lighting. As new products and technologies come to market, the bank will explore ways to further reduce its Scope 1 and Scope 2 emissions.

This year, for the first time, the bank calculated its total carbon footprint. The work provided us with a better understanding of our emissions and helped us identify the data we need to obtain to improve the accuracy of our calculations. A roadmap for improving the accuracy of our data over the next 12 months is being developed. As we improve the accuracy of our data, we will be in a better position to set credible long-term targets for reducing our Scope 3 emissions.

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 and is designed to support our colleagues in being Good Bankers and Good Citizens. More broadly, the delivery of stable, resilient and useable systems for customers underpins our entire purpose and value proposition. MT and the Board have recognised this increasing reliance on technology 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 remains paramount. Change Management is subject to review by various governing committees that ensure all transformation deliveries are equally resilient, robust and meet the requirements of customers and colleagues.

The bank also recognises the rapid emergence of Artificial Intelligence (AI) technologies and considers them to be both a risk and an opportunity. The bank is actively managing current and future potential impacts from AI technolgoies and is estabilishing a robust framework to manage both the change/execution considerations and ethical considerations.

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 People team 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.

8.11 Business Reputation and Conduct Risk

Business Reputation and Conduct Risk is managed and overseen as part of the ORMF, 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 and providing good customer outcomes. Poor conduct can result in legal penalties, financial forfeiture, material loss and/or damage to the bank's reputation.

The bank expects to comply with all applicable legislation, regulation, rules, and internal standards, as well as relevant industry codes of conduct, to mitigate the risk of legal and/or regulatory sanctions, material financial loss and/or reputational damage that may arise from non-compliance.

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

The Board and supporting committees regularly receive reporting to confirm whether the Bank remains within its stated risk appetite.

9. Appendix

Appendix 1: Own Funds Disclosure template

		£	£
		T - Current Year	T-4 - Prior Year
		31-Mar-24	**31-Mar-23**
		£'000	**£'000**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	483,236	428,543
2	Tier 1 capital	483,236	428,543
3	Total capital	488,114	433,856
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	2,091,044	1,977,896
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	23.11%	21.45%
6	Tier 1 ratio (%)	23.11%	21.45%
7	Total capital ratio (%)	23.34%	21.72%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	3.43%	3.45%
UK 7b	Additional AT1 SREP requirements (%)		
UK 7c	Additional T2 SREP requirements (%)		
UK 7d	Total SREP own funds requirements (%)	11.43%	11.45%
	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 (%)	1.9%	0.9%
UK 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
UK 10a	Other Systemically Important Institution buffer		
11	Combined buffer requirement (%)	4.4%	3.4%
UK 11a	Overall capital requirements (%)	15.78%	14.85%
12	CET1 available after meeting the total SREP own funds requirements (%)	31.73%	30.77%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	5,517,665	5,497,608
14	Leverage ratio excluding claims on central banks (%)	7.61%	6.96%
	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)	3,587,504	3,837,797
UK 16a	Cash outflows - Total weighted value	1,392,229	1,704,436
UK 16b	Cash inflows - Total weighted value	224,303	294,390
16	Total net cash outflows (adjusted value)	1,167,925	1,410,045
17	Liquidity coverage ratio (%)	308%	273%
	Net Stable Funding Ratio		
18	Total available stable funding	4,999,224	5,346,941
19	Total required stable funding	2,029,170	2,085,219
20	NSFR ratio (%)	246%	256%

* Liquidity measures are based on a 12-month rolling average of month end positions

** Net Stable Funding Ratio measure are based on a 4-quarter rolling average of quarter end positions.