Hampshire Trust Bank

Pillar 3 Disclosures

31 DECEMBER 2017

Hampshire Trust Bank

Table of Contents

1. Introduction

1.1 Overview

This document provides the Pillar 3 disclosures required of Hampshire Trust Bank plc (referred to in this document as 'the Bank') as at 31 December 2017. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

1.2 Background

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

The Basel framework consists of three 'pillars':

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

1.3 Basis of disclosure

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

The disclosures in this report have been prepared as at 31 December 2017. They should be read in conjunction with the Bank's 2017 Annual Report and Accounts ('the Annual Report and Accounts'), approved by the Board on 29 March 2018.

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

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

The disclosures are published on the Bank's website.

1.4 Scope

The monitoring and controlling of risk is a fundamental part of the management process. All senior management are involved in the development of risk management policies and in monitoring their application.

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

This document is applicable only to Hampshire Trust Bank plc, which is a subsidiary of Hoggant Limited.

1.5 Summary of key ratios

The key ratios for the Bank under CRD IV are:

	2017	2016
Common Equity Tier 1 (CET1) Ratio	21%	17%
Risk weighted assets (£000)	529,157	430,807
Leverage ratio	15%	11%

1.6 Regulatory developments affecting the Bank

1.6.1 Basel IV

On 7 December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed the proposed revisions to the standardised approach to credit and operational risk, in addition to a revised leverage ratio. This has collectively been termed "Basel IV". These revisions, which are due to be implemented on 1 January 2022, may have a significant impact on banks' risk weighted assets and hence capital requirements. The Bank is currently going through an exercise to assess the impact of these changes.

1.6.2 IFRS 9

The key change introduced by IFRS 9 is the replacement of loan impairment recognition with expected loss from incurred loss. The Bank commenced the implementation of IFRS 9 in 2016 and delivered an expected loss model at the end of 2017. The model will continue to be refined through 2018 as the transition work from IAS 39 is completed.

1.6.3 Other

Total loss absorbing capital (TLAC) and minimum requirement for eligible liabilities (MREL) regulations continue to be developed and transitional arrangements are likely to be incremental up to 2022. The Bank is in the lowest resolution risk level category where MREL requirements are set to equal the level of Pillar 1 and Pillar 2 requirements, therefore no additional capital would be required. Developments in this area are however being monitored closely.

2. Risk Management

2.1 Overview

The Bank's approach to risk

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

Risk Culture

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

Risk Strategy

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

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

2.2 Risk Management Framework

The Risk Management Framework ("RMF") sets parameters within which all the Bank's activities are executed. This ensures we identify, manage, monitor and report the risks to which the Bank is exposed. The RMF is supported by supplemental frameworks, policies, processes and procedures that, together, ensure that risks are managed in a manner appropriate to the size of the Bank and the complexity of its operations. It is expected that as the Bank grows and matures, so the RMF should grow and mature with it, enabling the Bank to expand its business sustainably and in a controlled manner.

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

Risk Appetite Framework

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

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

The RAF is structured around the Principal Risks agreed by the Board from time to time with each Principal Risk being supplemented by a suite of more granular Supporting Risks. For each Supporting Risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics. These are supported by detailed quantitative or qualitative risk metrics, limits and tolerances which are monitored and reported upon to ensure that we remain within appetite.

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

Risk Governance and Oversight

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

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

Front Line Business Units (1st line of defence)

The business lines and central functions own primary responsibility for the day to day management of principal risks, and the implementation of approved policies, frameworks, processes and procedures. They manage risks within agreed parameters and are responsible for regular reporting against appetite.

Risk and Compliance Function (2nd line of defence)

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

Internal Audit (3rd line of defence)

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

Stress Testing

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

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

Principal Risks and how we manage them

The Principal Risks the Bank faces are:

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

These should not be regarded as a comprehensive list of all the risk and uncertainties faced by the Bank but rather a summary of the key risks which have the potential to significantly impact the achievement of strategic objectives. These risks are further detailed in sections 3 to 8.

3. Credit Risk

Definition	How we manage the risk
The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part	• We take security and where appropriate, guarantees, to support our lending • We focus on sectors where we have specific expertise. We limit concentrations by size, geography and sector • We evidence affordability (ability to repay from cash flow) • Credit decisions are made using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies and underwriting mandates are embedded in all business areas. Portfolios are subject to periodic reviews • We have a defined problem debt management process and ongoing assurance testing processes in place • We operate a Treasury policy that only allows for deposits to be placed with secure counterparties • Lending performance against Risk Appetite is monitored regularly

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

Property Finance

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

Asset Finance

Hire Purchase and Leasing

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

Wholesale Finance

Wholesale Finance includes block discounting lending which is spread across non -bank small finance companies and secured against instalment credit agreements for a diverse range of asset types. The Bank may provide finance to the customer based on their credit standing, however there will also be a review carried out on the end user contracts to ensure that they provide good security. Other factors will also be considered to ensure that credit risk is reduced such as customer track record (management experience, profitability, arrears etc.), low risk concentrations through diversified portfolios, sufficient security levels and effective auditing to avoid fraud.

All customers will have pre-audits carried out by the Bank's in-house audit team. These will be carried out prior to any approval of facilities, and will continue to be undertaken regularly once a facility has been approved. This measure will ensure that the Bank is alerted to any change in business performance at an early stage.

Specialist Mortgages ('SM')

Specialist Mortgages launched in Q2 2016, providing finance to professional landlords secured on residential properties, short term finance to experienced property investors and loans on semi-commercial and commercial properties in England and Wales. Lending is focussed on experienced investors and owner operators in both residential and commercial sectors. The business model concentrates on a twin approach to the market to optimise transaction flows and returns using a broker/direct approach (all brokers are FCA regulated or NACFB members).

SM lending mitigates risk by ensuring that borrowers have experience in managing property investments (or operating commercial assets if they are an owner operator), and that their financial conduct meets the Bank's strict criteria. Emphasis is placed on the track record of borrowers.

Commercial Finance

The Bank exited the asset backed lending market during 2016 as the opportunity to reach scale within acceptable risk appetite became unattainable. This is a discontinued activity. As at 31 December 2017, there was one remaining loan on the portfolio.

3.1 Credit Risk Exposure

The table below highlights the Bank's credit risk by exposure class as at 31 December 2017.

	Exposures £'000s 2017	Average Exposures £'000s 2017
Corporate	45,774	63,130
Secured by mortgages on immovable property	169,906	131,412
Items associated with particularly high risk	176,039	161,624
Retail	235,713	202,542
Exposures in default	6,029	6,245
Central governments or central banks	95,602	105,214
Institutions	8,457	9,486
Other	7,303	6,535
	744,823	**686,188**
Concentration by Location: UK	**744,823**	**686,188**

The Bank also monitors concentrations of credit risk by sector, size and by geographical location. However, as all lending exposures are to the UK, no further breakdown by geographic location has been disclosed.

3.2 Credit Risk Exposure by Residual Maturity

The table below represents the total amount of exposures, as at 31 December 2017, by remaining contractual maturity.

	Within 1 Year	After 1 Year but within 5 Years	More than 5 Years	Non-interest bearing	Total
Loan and advances to customers	236.176	242,360	154,925		633,461
Central governments or central banks	95,602				95,602
Institutions	8,457				8,457
Other				7,303	7,303
Total	**394,872**	**210,736**	**131,912**	**7,303**	**744,823**

3.3 Non-Performing Loans and Provisioning

A consistent approach to provisioning applies to all lending activities within the Bank. Collective provision reflects the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. Specific provisions are raised against non-performing or defaulted agreements.

In the case of residential development and commercial finance lending, specific impairment provisions will be raised against watch list or default loans where there is a reasonable expectation of an actual or potential loss. The distinction between a watch list classification and default classification is determined by Credit Committee based on the specific circumstances of a loan. The provision is determined by comparing outstanding loan balance against the stressed value of security.

Specific provisions for Hire Purchase and Leasing under Asset Finance are initially raised when a loan is over 2 months in arrears and is incrementally increased at each further month in arrears until it is fully provided at over 4 months in arrears. Asset values are initially attributed on a desktop basis and adjusted on inspection post recovery.

The following table shows the impairments for 2017:

	2017	2016
	£000	£000
Individual allowance for impairment		
Balance at 1 January	1,885	4
Charge for the year	3,856	2,244
Write offs	(207)	(363)
Balance at 31 December	**5,534**	**1,885**
Collective allowance for impairment		
Balance at 1 January	463	101
Charge for the year	429	362
Balance at 31 December	**892**	**463**

The Bank maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products. As at 31 December 2017, 15 accounts amounting to £5.0m (2016: £10.8m) had forbearance arrangements in place.

3.4 Treasury Counterparty Risk

Counterparty credit risk arises from wholesale placements made by the Bank's Treasury function. The Treasury function is responsible for managing this aspect of credit risk in line with Board approved risk appetite and counterparty credit policies. Wholesale counterparty limits are reviewed monthly by the ALCO based on counterparty credit ratings to ensure that limits remain within the defined Risk Appetite. Counterparty credit risk is analysed by its contractual maturity profile in the table below as at 31 December 2017 (based on Moody's long term ratings):

Exposure Category	**Under 3 Months**	**3 Months to 1 Year**	**Total**
	£000	**£000**	**£000**
Aa3 Rated UK Banks	331	0	331
A1 Rated UK Banks	2,223	3,362	5,585
A3 Rated UK Banks	102	0	102
Total[1]	**2,656**	**3,362**	**6,018**

1) Excludes exposures for swap counterparties and accrued interest receivable totalling £2,439k

4. Capital and Liquidity Risk

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

4.1 Capital Adequacy

At 31 December 2017 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and UK legislation, and enforced by the PRA.

Capital Resources

The Bank's capital resources as at 31 December 2017, including the 2017 audited profits approved by the Board on 29 March 2018, are broken down as follows:

	2017	2016
	£000	£000
Common Equity Tier 1 (CET1)		
Share Capital	111,288	78,288
Share Premium	196	196
Retained Earnings	4,156	(4,412)
	115,640	**74,072**
Regulatory adjustments to CET1:		
Intangible Assets	(3,097)	(1,845)
Total Common Equity Tier 1 (CET1) capital	**112,543**	**72,227**
Tier 2		
Collective impairment allowance	892	463
Total regulatory capital	**113,435**	**72,690**

4.2 Minimum capital requirement

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

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

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

The table below shows the total exposure and capital resource requirements for credit risk by regulatory exposure class as at 31 December 2017.

£'000s	Exposures 2017	RWAs 2017	Pillar 1 Capital
Corporate	45,774	42,100	3,368
Secured by mortgages on immovable property	169,906	67,276	5,382
Items associated with particularly high risk	176,039	264,058	21,125
Retail	235,713	142,500	11,400
Exposures in default	6,029	6,229	498
Central governments or central banks	95,602	0	0
Institutions	8,457	2,233	179
Other	7,303	4,763	381
	744,823	**529,157**	**42,333**

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

At all times the Bank's capital position must be aligned with the capital adequacy limits approved by the Board in the risk appetite statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means:

- Maintaining a level of capital equal to the minimum that is set by the PRA.
- All capital mainly comprises Core tier 1 capital.

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

The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2017.

	2017	2016
	£000	£000
Capital resources requirement – Pillar 1		
Credit risk	42,333	34,464
Operational risk	3,136	1,189
Capital resources Pillar 1 requirement	**45,469**	**35,653**
Capital resources (see table in 4.1)	113,345	72,690
Capital resources surplus over Pillar 1 requirement	**67,966**	**37,037**

Throughout the year the Bank has benefited from surplus capital resources over its Pillar 1 and Total Capital Requirement. The Bank's total capital ratio as at 31 December 2017 was 21% (2016: 17%).

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

The Capital Conservation Buffer ('CCB') is being phased in, with the Bank being required to hold additional capital of 1.25% of RWA during 2017. This buffer rate is to increase by 0.625% per annum to reach a maximum of 2.5% in 2019.

The Countercyclical Capital Buffer ('CCyB') is currently set at 0% of RWA for the Bank's UK exposures. On 21 June 2017, the UK Financial Policy Committee ('FPC') agreed to increase this rate from 0% to 0.5%, to be implemented in June 2018. On 27 November 2017, the FPC further agreed to raise the CCyB rate from 0.5% to 1%, with binding effect from 28 November 2018.

Excluding these capital buffers, the Bank's Total Capital Requirement is 12.26%.

4.3 Leverage Ratio

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

The Bank's leverage ratio at 31 December 2017 was 15%. As at this date, the Bank had no minimum leverage requirement as it is currently not in scope of the UK Leverage Framework Regime. However the Bank monitors its leverage through its capital risk management, and is well above the minimum requirement of 3.25% expected in 2018.

Summary reconciliation of accounting assets and leverage ratio exposures

£'000s	CRR Leverage Ratio Exposure 31 December 2017	CRR Leverage Ratio Exposure 31 December 2016
Total Assets as per published financial statements	742,260	606,660
Adjustment for derivative financial instruments	1,805	1,210
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	15,491	18,984
Other adjustments	758	244
Total leverage exposure	**760,314**	**627,098**

Leverage ratio common disclosure

£'000s	CRR Leverage Ratio Exposure 31 December 2017	CRR Leverage Ratio Exposure 31 December 2016
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	743,018	606,904
Derivative Exposure		
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	1,805	1,210
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	154,915	189,838
(Adjustments for conversion to credit equivalent amounts)	(139,424)	(170,854)
Capital and total exposures		
Total leverage ratio exposure	760,314	627,098
Tier 1 Capital	112,498	72,227
Leverage Ratio	**15%**	**11%**

Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

£'000s	CRR Leverage Ratio Exposure 31 December 2017	CRR Leverage Ratio Exposure 31 December 2016
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**743,018**	**606,904**
Trading book exposures	–	–
Banking book exposures, of which:		
Central governments or central banks	95,602	128,831
Institutions	6,652	7,877
Secured by mortgages of immovable property	169,906	89,567
Retail exposures	235,713	163,813
Corporate	45,774	60,415
Items with particularly high risk	176,039	149,254
Exposures in default	6,029	973
Other exposures	7,303	6,174

4.4 Liquidity Coverage Ratio

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

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

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

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

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

As at 31 December 2017 the Bank's Liquidity Coverage Ratio was 467%.

5. Market Risk

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

5.1 Interest Rate Sensitivity

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

	2017	2016
	£000	£000
+ 200 basis points	(243)	4,502
- 200 basis points	355	(2,369)

This resulting change in equity as shown above is lower for 2017 compared to 2016 due to increased hedging cover of fixed deposits in 2017.

6. Operational Risk

Definition	How we manage the risk
The risk of loss resulting from inadequate or failed processes or controls, weak or failed governance, adverse people related issues, systems failures or from external events including strategy, legal and regulatory risks	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Change Steering Committee to ensure that major change programmes are delivered on time and on budget • We monitor the Operational risk profile alongside proactive recording/ management of incidents • We make use of independent expert legal advice where appropriate • We seek to maintain an engaged and diverse workforce with the right mix of skills to be able to deliver our strategy

The Bank has adopted the Pillar 1 Basic Indicator Approach to operating risk, and thus will hold, as a minimum, capital against the risk equal to 15% of the last three years' average net operating income (net interest income plus fees and commissions). As at December 2017 this was £3.1m.

7. Conduct, Compliance and Financial Crime Risk

Definition	How we manage the risk
Conduct – The risk that the business strategy , the culture, and the manner in which the business is run , create unfair customer outcomes and detriment to customers and/or undermines market integrity Compliance – The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable laws, codes of conduct or standards of good practice Financial crime – The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to obtain or launder funds through illegal means and/or for illegal purposes	• We operate a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how we will manage these risks and the minimum standards that we expect • Our Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function • Senior Management identify and assess conduct, compliance and financial crime risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • New and emerging legislative and regulatory driven changes are overseen through our horizon scanning process • We design our products and services so that they consistently deliver fair outcomes for our customers • We complete regular assurance testing of our activities to check that we are operating within our Board approved risk appetite • We make use of independent legal advice to maintain compliance where required • We operate a programme of staff training and awareness via our regulatory reading programme • We complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle

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

8. Information Security and Cyber Risk

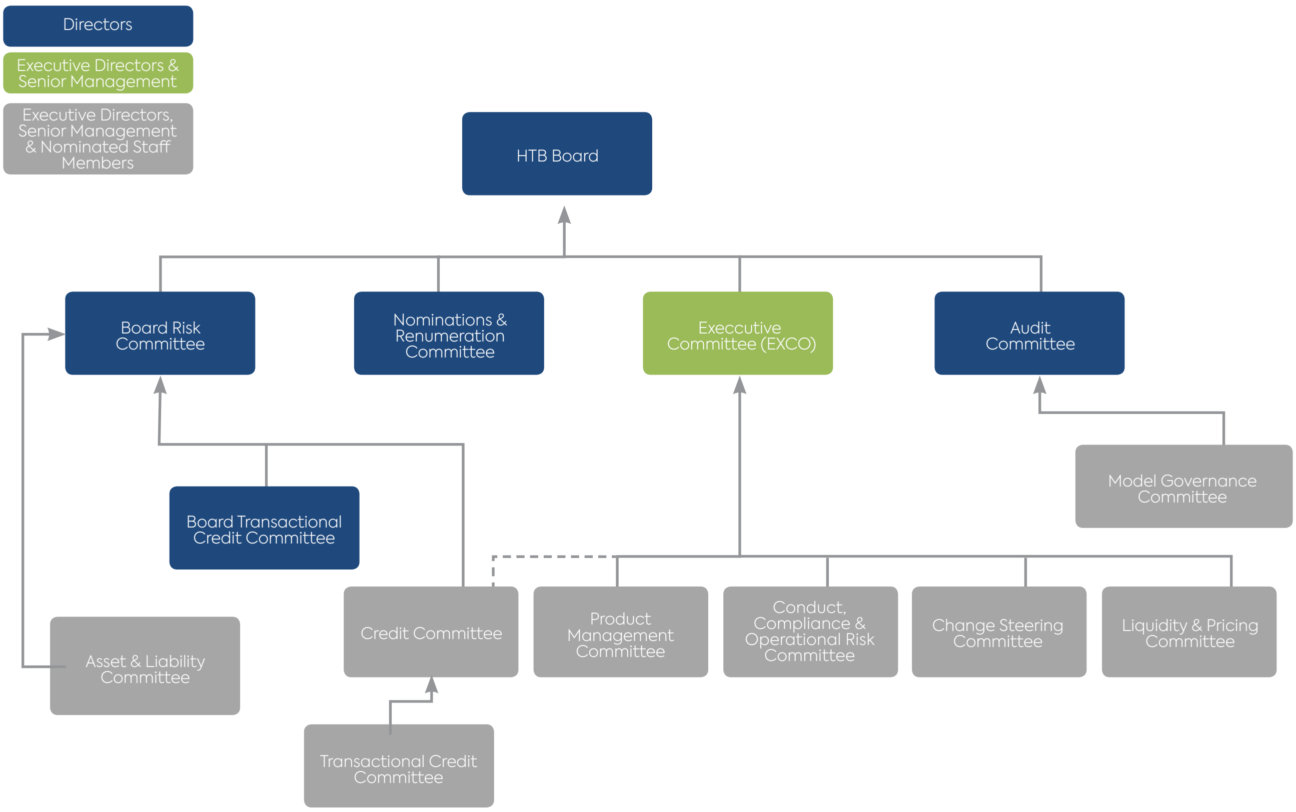
Definition	How we manage the risk
The risk of financial loss, reputational damage or operational disruption arising from intentional or accidental loss, damage to or unauthorised disclosure of any business or customer information or systems by internal or external agents.	• We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and resilience needs – this need is regularly reviewed • We operate a series of internal and external tests to confirm the integrity of our systems • We operate with robust business continuity plans • We set a very low risk appetite for breaches of information security whether from internal leakage or external attack • Our staff are required to regularly complete mandatory training around information security

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

9. Corporate Governance

9.1 Committee Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors. The Bank's committee structure as at 31 December 2017 with regard to risk management is outlined below:



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

9.1.2 The Board

The Board of Directors is the primary governing body and has ultimate responsibility for setting HTB's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders.

The Board defines and approves the level of risk which the Bank is willing to accept. It is responsible for maintaining an appropriate control environment to manage the principal risks and for ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives without taking undue risk. The Board are therefore satisfied that the Bank's risk management arrangements, including its risk management systems and controls, are adequate in regards to the Bank's profile and risk.

The Board also maintains a close oversight of current and future activities, through a combination of monthly board reports including financial results, operational reports, budgets and forecasts and reviews of the main risks set out in the ICAAP and ILAAP reports.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2017, in addition to their roles within the Group, are detailed below.

Name	Position	Positions held at 31 December 2017
Robert Sharpe	Chairman	3
Mark Sismey-Durrant	Executive Director	1
Tim Blackwell	Executive Director	-
Robert East	Non-Executive Director	7
Jamie Drummond Smith	Non-Executive Director	5
Dominic Slade	Shareholder Director	12
Alex Leicester	Shareholder Director	3

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

Board Diversity

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

The Board Nominations and Remuneration Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new directors and of new senior managers.

The Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

9.1.3 Audit Committee

The Audit Committee oversees the effectiveness of the Bank's internal control environment, monitors the integrity of the financial statements and risk management systems, involving internal and external auditors in that process, and considers compliance monitoring programmes. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal control is maintained. The Committee is chaired by an independent non-executive director and comprises solely of non-executive directors.

9.1.4 Board Risk Committee ('BRC')

The Board has delegated responsibility for oversight of the Bank's principal risks to the Board Risk Committee. This involves reviewing the aggregate risk profile of the bank, including performance against risk appetite for all risk types and ensuring both the risk profile and the risk appetite remain appropriate. This committee oversees the development, implementation and maintenance of the Bank's Risk Management Framework, compliance with relevant regulations and law, and whistleblowing and proper functioning of controls over the prevention of money laundering, bribery and fraud. The Committee is chaired by an independent non-executive director and comprises solely of non-executive directors.

9.1.5 Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits and performance related pay structures for HTB. It is also responsible for considering all senior appointments both at Board and Executive levels (including Non-Executive Directors). The Committee is chaired by the Chairman of the Bank and comprises solely of non-executive directors.

The Committee will consider management and board succession plans from time to time but at least annually.

9.1.6 Executive Committee

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

9.1.7 Board Transactional Credit Committee

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

9.1.8 Credit Committee

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

9.1.9 Transactional Credit Committee

The Transactional Credit Committee is the body charged with the transactional credit responsibility for the Bank. It operates within policy parameters approved by the Board in carrying out the approval and monitoring of the credit business of the Bank. The Transactional Credit Committee is a deal specific review forum and is also responsible for making provisions for loan losses.

9.1.10 Asset and Liability Committee ('ALCO')

The Board Risk Committee has delegated responsibility for overseeing the Bank's exposure to capital, liquidity, interest rate and market risk to the ALCO.

The ALCO meets monthly and ensures that the overall policies and objectives for asset and liability management, including interest rate, liquidity and market risk, are adhered to by the Bank. It also has responsibility for ensuring that the policies that are implemented are adequate to meet prudential and regulatory targets.

9.1.11 Product Management Committee

The Product Management Committee manages the process for determining how the Bank deals with its customers; including oversight and approval of new products and review of existing products. Specifically, it is responsible for ensuring that these comply with applicable laws, regulations and codes of practice that apply to the Bank's business.

9.1.12 Liquidity and Pricing Committee ('LPC')

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

9.1.13 Change Steering Committee

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

9.1.14 Conduct, Compliance and Operational Risk Committee

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

9.1.15 Model Governance Committee

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

10. Asset Encumbrance

The Bank primarily encumbers assets through positioning loans as collateral to enable it to participate in the 'Term Funding Scheme' (TFS) at the Bank of England. The Bank took the opportunity provided by this preferential funding scheme to make an initial drawdown of £20m in 2017. An amount of cash is also encumbered with Barclays, the Bank's primary operational bank account provider, to provide collateral against BACS payments.

The Bank has an asset encumbrance risk appetite limit of 25% of total assets. This has been set to ensure that the Bank is able to utilise the TFS as much as possible, in order to facilitate lending to the economy, whilst ensuring sufficient availability of 'free' assets, (assets that are unencumbered but that may be encumbered).

25% was considered to be an appropriate limit, as this is in line with the average level of asset encumbrance seen in firms throughout the UK and across the EU (as detailed in the EBA report on asset encumbrance, published June 2016).

The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits.

The Pillar 3 asset disclosure templates, shown below, are prescriptive and have been compiled in accordance with PRA and EBA regulatory reporting requirements. This highlights the level of encumbered and unencumbered assets held by the Bank as at the 31 December 2017.

£000s	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090
Assets of the reporting institution	114,815		628,203	
Equity instruments				
Debt securities				
Other assets				

Template B: Collateral received

None of the collateral received by the Bank entails encumbrance

Template C: Encumbered assets/collateral received and associated liabilities

None of the financial liabilities of the Bank entails encumbrance

11. Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR.

"Remuneration policies and practices for categories of staff whose professional activities have a material impact on the company's risk profile (Material Risk Takers ("MRTs")). MRTs include staff who hold Significant Management Functions ("SFs") as designated by the regulatory authorities."

11.1 Decision making process

The Nomination and Remuneration Committee (the 'Nom/RemCo'), on an annual basis, formally review and (where applicable) update the Bank's Remuneration Policy and submit this to the Board for approval. Nom/RemCo also has oversight of the remuneration of the senior management team.

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

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

11.2 Remuneration structure

Fixed Pay

Employees are paid fixed base salaries, and benefits such as holiday allowance, pension scheme, life assurance, private medical insurance, permanent health insurance and may access staff loans. These elements are set at a level so as to ensure that there is not an excessive dependence on variable remuneration.

Annual bonus

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

Long term incentive plans ("LTIP")

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

11.3 Link between pay and performance

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

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

11.4 Remuneration statistics

In relation to 2017 the Bank paid the following remuneration:-

Total value of remuneration awards for the current fiscal year	**£000**
Fixed remuneration	7,758
Variable remuneration	1,520
	9,278
Social Security costs	1,243
Pension cost	802
Other adjustments	2,163
Total leverage exposure	**13,486**

Senior management whose actions have a material impact on the risk profile of the Bank (during 2017, including Non-Executive Directors)	**Number 23**	**Amount £000**
Salaries		2,899
Pensions		134
Social security costs		439
Cash variable remuneration		532
Variable remuneration in the form of "B" shares		308
Total remuneration		**4,312**

There were no individuals being remunerated more than EUR 1 million for 2017.

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