# PILLAR 3 DISCLOSURES

31 DECEMBER 2021

HTB

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# 1. Introduction

### 1.1. Overview

This document provides the Pillar 3 disclosures required of Hampshire Trust Bank Plc (referred to in this document as 'the Bank') as at 31st December 2021. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

### 1.2. Background

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

The Basel framework consists of three 'pillars':

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

### 1.3. Basis of disclosure

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

The disclosures in this report have been prepared as at 31 December 2021. They should be read in conjunction with the Bank's 2021 Annual Report and Accounts ('the Annual Report and Accounts' or 'ARA'), approved by the Board on 13 May 2022.

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

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

### 1.4. Scope

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

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

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

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

## 1.5. Summary of key ratios

The key ratios for the Bank under CRD IV on transitional basis as at 31 December 2021 are:

| | 2021 | 2020 |
|---|---|---|
| Common Equity Tier 1 (CET1) Ratio | 19% | 19% |
| Total Capital Ratio | 22% | 22% |
| Risk weighted assets (£'000) | 816,157 | 725,118 |
| Leverage ratio | 8% | 10% |
| Liquidity Coverage Ratio | 314% | 393% |

Further details on the capital ratios, risk weighted assets ("RWAs") and leverage ratio are presented in Section 4 of this document.

## 1.6. Regulatory developments affecting the Bank

### CRR II amendments

CRR II has been implemented by the PRA through PS22/21 'Implementation of Basel standards: Final rules' published on 14 October 2021. The policy material will take effect on 1 January 2022. There are a number of factors which may impact the Bank, including changes to counterparty credit risk and implementation of the UK leverage ratio framework, as well as amendments to the Net Stable Funding Ratio (NSFR). The Bank has assessed these amendments and it is expected that they will not have a material impact on the Bank's capital or liquidity position. Details of affected changes will be set out in subsequent Pillar 3 disclosures.

### Basel 3.1

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. The PRA expect to publish their Consultation Paper on Basel 3.1 package in the fourth quarter of 2022, and will become effective on 1 January 2025.

### Pillar 3

The revised Pillar III disclosure requirements were published by the Basel Committee on Banking Supervision ("BCBS") in January 2015 and revised and enhanced in March 2017. These changes will be brought into effect through PS22/21 'Implementation of Basel standards: Final rules', which also addresses the scope of various Pillar 3 requirements. The implementation date for these requirements is for period on or after 1 January 2022.

# 2. Governance

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

The Bank's Pillar 3 disclosure policy is considered annually to ensure that it remains appropriate in the light of new regulations and emerging best practice.

### 2.1. Disclosure level

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

### 2.2. Media and location

Per the requirement in Article 433 of Part 8 of the CRR, the Pillar 3 disclosures document will be published on the Bank's website at the same time as the Annual Report and Accounts.

### 2.3. Verification

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

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

# 3.
# Risk Management

## 3.1. Overview

### The Bank's approach to risk

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

### Risk Culture

The Board is responsible for setting the 'tone from the top' and ensuring that a strong risk culture exists across the Bank. Senior Management will support this by leading in the implementation of the Risk Management Framework ("RMF"), ensuring that it is fully embedded with a strong focus in particular on the adherence to risk appetite, monitored through its suite of risk metrics and key risk indicators. The Bank uses a network of Risk Champions as departmental owners of risk related issues, providing training to other team members where required.
By taking a strategic, balanced approach to risk identification and subsequent management, the RMF's aim is to engage colleagues at all levels of HTB, promoting a deep understanding of the Bank's approach to risk.

### Risk Strategy

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

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

## 3.2. Risk Management Framework

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

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

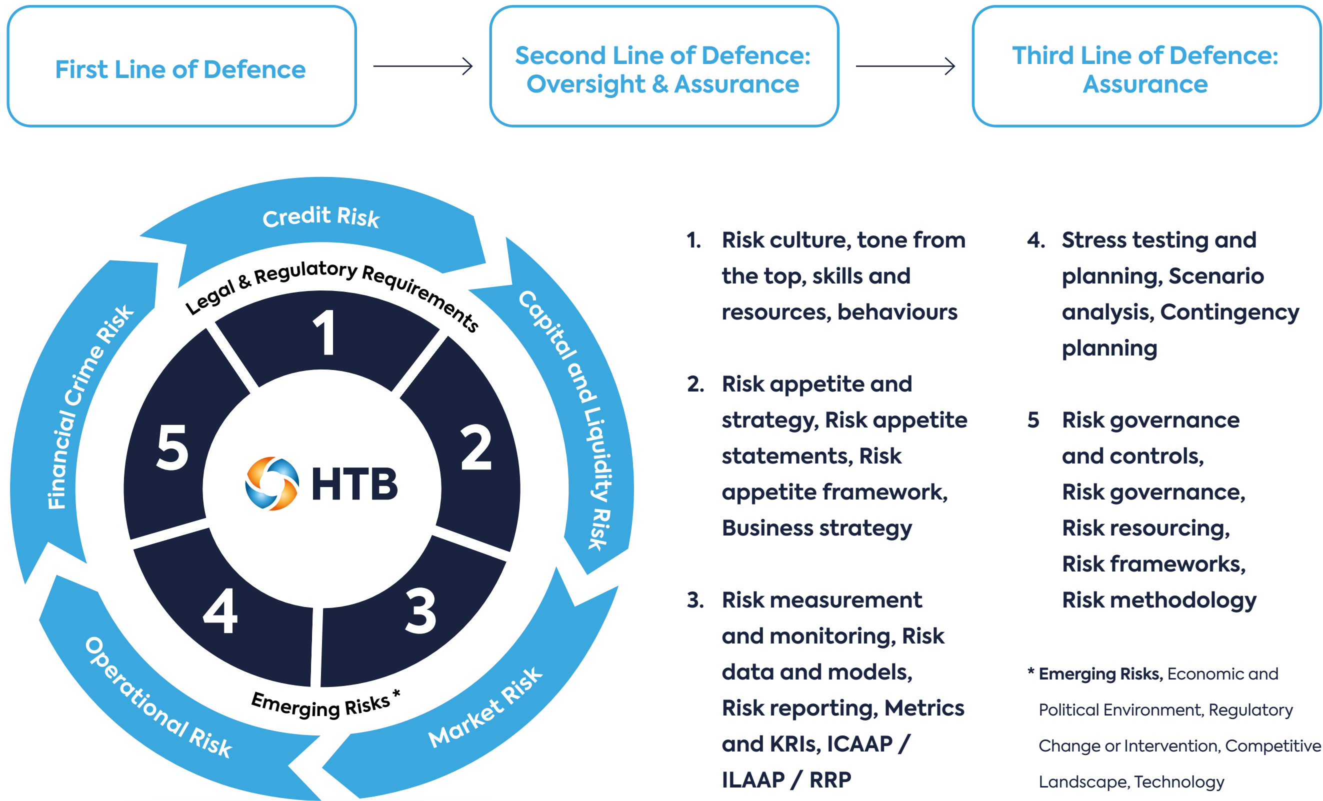



Figure 1 – Risk Management Framework

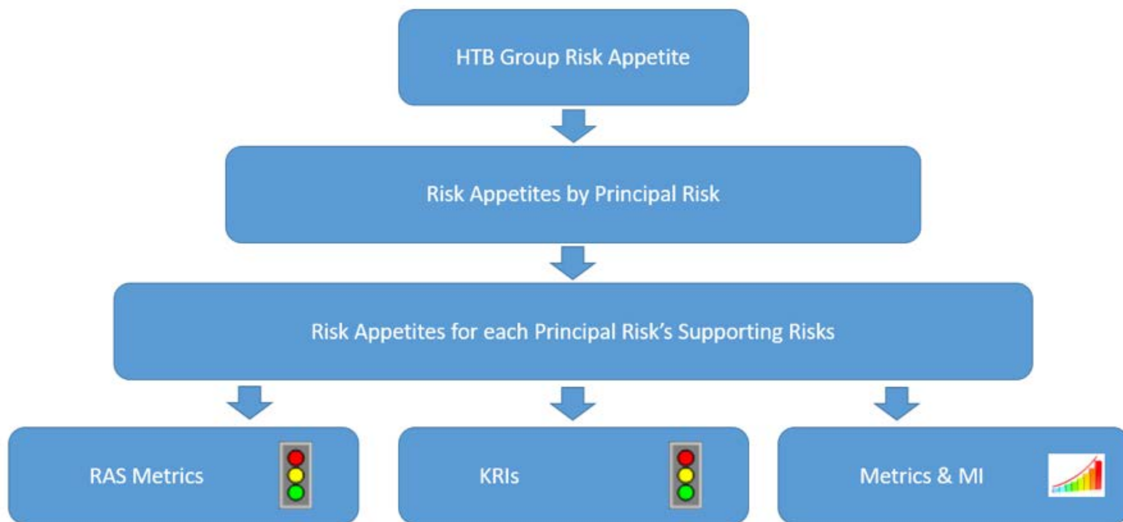
### 3.3. Risk Appetite Framework

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 and must take 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 across a range of business drivers (Financial, Customer, Legal and Regulatory and Reputational).
- 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

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, with Key Risk Indicators (KRIs) providing current indication of changing risk profile. The Risk Appetite metrics are clearly measurable against the Corporate Plan, are actionable and have an assigned limit to monitor performance against the Risk Appetite. The KRIs are outcome driven with negative trends reported monthly to the relevant risk committees.

The structure of the RAF is set out in Figure 2 below.




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

### 3.4. 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 Bank operates a three lines of defence (3LOD) model to manage its risks. The 3LOD model provides a simple and effective way to segregate activities and enhance communications on risk management and control by clarifying essential roles and duties and enabling the Bank to manage its risks proactively. The separate lines of defence together with their roles are summarised below:

*Front Line Business Units (1st line of defence)*
The business lines and central functions own primary responsibility for the day to day management of the operational level risks that feed up through the framework, and the implementation of mitigating controls in line with approved policies, frameworks, processes and procedures. They use the Bank's Risk & Control Self-Assessment (RCSA) process to identify and measure risk exposure and to ensure through the application of controls that these are managed within agreed Risk Appetite. They are responsible for risk event identification and early escalation. They will also test key controls, providing regular assurance.

*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. The second line provides independent challenge, oversight and ongoing assurance of the adequacy and effectiveness of risk management within the business units including oversight of the RCSA process. The Risk and Compliance function monitors performance in relation to risk appetite; working with Finance and Treasury on the production of the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), and the Recovery Plan and Resolution Pack ("RRP").

*Internal Audit (3rd line of defence)*
Internal Audit operates under the direction of the Board Audit Committee and provides independent assurance to the Board that the first and second lines of defence are discharging their responsibilities effectively. The Bank currently outsources this function to Deloitte, an independent professional services firm.

### 3.5. Stress Testing

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

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

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

The Bank also performs Reverse Stress Testing ("RST") to help it identify events that could cause its business to become unviable. The starting point for RST is assumed to be the point at which failure would occur and a logical approach is then taken to work back to identify the potential sequence of events that could occur to lead to that failure. If the tests reveal a risk of failure that is unacceptably high compared to risk appetite, the Board will take action to mitigate that risk.

During 2021, Climate Change risk appetite statements have been created and these will form part of the risk appetite framework going forward with relevant metrics developed to support and monitor compliance against the appetite statements.

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

### 3.6. 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
- Transversal Risk – Reputational and Climate

These should not be regarded as a comprehensive list of all the risk and uncertainties faced by the Bank but rather a summary of the primary risks which have the potential to significantly impact the achievement of strategic objectives. These risks are further detailed in sections 4 to 10.

# 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<br><br>**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<br>• We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually. This considers the necessary time lag for management actions to take place. We meet, as a minimum, all regulatory prescribed ratios<br>• 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<br>• The capital and liquidity forecasts, and their compliance with our risk appetite, form an integral part of the annual budgeting process<br>• We maintain liquidity buffers and contingency funding plans against various stressed liquidity scenarios. |

### 4.1. Capital Adequacy

At 31 December 2021 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.

The Bank's Tier 1 capital arises from the equity represented by its ordinary shares. On 25 June 2021, 13,539,999 Ordinary shares of £1 each were issued for cash at par value (2020: nil).

Tier 2 capital instruments are £30m of subordinated loan notes bearing interest at 7.25% payable semi-annually and is callable at the Bank's option from 10 May 2023, with a final redemption date of 10 May 2028. As at 31 December 2021, £22 million was eligible for Tier 2.

The table in Appendix 2 summarise the detailed information on these financial instruments as required by Article 437 of Part 8.

## Capital Resources

The Bank's capital resources as at 31 December 2021, including the 2021 audited profits approved by the Board on 28 April 2022, are broken down as follows:

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| *Common Equity Tier 1 (CET1)* | | |
| Share Capital | 139,828 | 126,288 |
| Share Premium | 196 | 196 |
| Retained Earnings | 48,812 | 27,574 |
| | **188,836** | **154,058** |
| *Regulatory adjustments to CET1:* | | |
| Prudential Valuation Adjustments* | (14) | (51) |
| IFRS 9 transitional arrangement | 1,572 | 7,722 |
| Intangible Assets | (7,606) | (2,117) |
| Securitisation positions (see Section 13) | (7,875) | (7,875) |
| **Total Common Equity Tier 1 (CET1) capital** | **174,913** | **151,737** |
| *Tier 2* | | |
| Subordinated Liabilities | 30,000 | 30,000 |
| Collective impairment allowance | - | - |
| **Total regulatory capital** | **204,913** | **181,737** |

The Bank has elected to take advantage of the European Banking Authority's transitional arrangements set out in Article 473a of the CRR. As part of the regulatory response to Covid-19, Article 473a was revised in June 2020 whereby PRA had adopted the "CRR Quick Fix" package. This introduced a new transition period that allows financial institutions to add-back increases in ECL provisions for non-credit impaired assets to CET1 capital using a phased manner from 95% to 25% during 2020 – 2024. All disclosures in this document are stated after application of IFRS 9 transitional adjustments unless otherwise noted. Under paragraph 7a of the Article, the impact of transitional adjustments to be weighted at 100% in calculating RWA.

Where these reliefs are taken, firms are also required to disclose their capital positions calculated as if the relief were not available, the table in Appendix 3 provides details of the Bank's capital position with and without the IFRS 9 transitional arrangement.

The Bank's regulatory capital of £205m was in excess of the amounts required by the regulator.
The table in Appendix 1 summarises the own funds disclosures, as required by CRD IV, as at 31 December 2021.

* The prudent valuation adjustment on the Bank's derivatives, is calculated using the 'Simplified Approach' set out in the CRR.

## 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 2021.

| £'000 | Exposures | RWAs* | Pillar 1 Capital |
|---|---|---|---|
| | 2021 | 2021 | 2021 |
| Corporate | 62,534 | 38,671 | 3,094 |
| Secured by mortgages on immovable property | 1,283,417 | 491,374 | 39,310 |
| Items associated with particularly high risk | 151,467 | 134,774 | 10,782 |
| Retail | 195,903 | 113,642 | 9,091 |
| Exposures in default | 22,572 | 21,272 | 1,702 |
| Central governments or central banks | 409,091 | 2,674 | 214 |
| Institutions | 14,556 | 3,907 | 313 |
| Covered Bonds | 20,043 | 2,004 | 160 |
| Other | 7,839 | 7,839 | 627 |
| | **2,167,422** | **816,157** | **65,293** |

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

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

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

The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2021.

* The RWAs include benefits from government guarantees as set out further in Section 13 and 14.

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Capital resources requirement – Pillar 1** | | |
| Credit risk | 65,293 | 58,009 |
| Operational risk | 8,426 | 6,643 |
| Capital resources Pillar 1 requirement | 73,719 | 64,652 |
| | | |
| Capital resources (see table in 4.1) | 204,913 | 181,737 |
| **Capital resources surplus over Pillar 1 requirement** | **131,194** | **117,085** |

The Bank calculates CRD IV risk weightings for credit risk exposures using the Standardised Approach and the risk weightings for operational risk using the Basic Indicator Approach.

Changes in operational risk requirements in the year reflect income growth within the regulatory prescribed income streams, as these measures form the basis of the Basic Indicator Approach.
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 2021 was 22% (2020: 22%).

## 4.3. Capital Buffers

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

The Capital Conservation Buffer ('CCB') is currently set at 2.5% of RWA and has been developed to ensure capital buffers are available which can be drawn upon during periods of stress if required.

The Countercyclical Capital Buffer ('CCyB') is currently set at 0% (2020: 0%) of RWA for the Bank's UK exposures as a result of the UK Financial Policy Committee ('FPC') decision in March 2020. This is further disclosed below.
The FPC will increase the CCyB from 0% to 1% from 13 December 2022 and is expected to increase to 2% in Q2 of 2022 and likely to be effective from 2023.

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

| Breakdown by country | General credit exposures | | Trading book exposures | | Securitisation exposure | | Own funds requirements | | | | Own funds requirement weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure value for SA | Exposure value for IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | | |
| | 010 | 020 | 030 | 040 | 050 | 060 | 070 | 080 | 090 | 100 | 110 | 120 |
| United Kingdom | 2,124,388 | - | - | - | 43,034 | - | 99,490 | - | - | 99,490 | 100% | 0.00% |

| Amount of institution specific countercyclical capital buffer | |
|---|---|
| Total risk exposure amount | 932,302 |
| Institution specific countercyclical buffer rate | 0% |
| Institution specific countercyclical buffer requirement | 0.0 |

Excluding these capital buffers, the Bank's Total Capital Requirement is 9.69%.

### 4.4. Leverage Ratio

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

The Bank's leverage ratio at 31 December 2021 was 8% (2020: 10%). As at this date, the Bank had no minimum leverage requirement as it was not in scope of the UK Leverage Framework Regime. However the Bank monitors its leverage through its capital risk management and is well above the minimum requirement of 3% expected. The management of excessive leverage is monitored through monthly Risk Metrics reported to the appropriate levels of management, to ensure that appropriate actions are taken if internal limits and triggers are breached.

The Bank's leverage ratio has decreased 2% from 2020 due to higher lending during the year.

The table in Appendix 4 summarise the leverage ratio disclosures, as required by CRD IV, as at 31 December 2021.

### 4.5. Liquidity Coverage Ratio

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

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

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

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

All banks within the European Economic Area were required to have a minimum LCR of 60% by 1st October 2015, although UK banks were required by the PRA to have a minimum LCR of 80% by this date, rising to 90% by 1st January 2017, then to 100% by 1st January 2018.
As at 31st December 2021 the Bank's Liquidity Coverage Ratio was 314%.

New guidelines were issued by the EBA in March 2017 to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013. This is disclosed below. More details on the Bank's liquidity exposure are given in the notes to the ARA.

### Quantitative LCR Information

| | | Total weighted value ( £'000) | | | |
|---|---|---|---|---|---|
| | | 31-Dec-21 | 30-Sep-21 | 30-Jun-21 | 31-Mar-21 |
| 21 | Liquidity Buffer | 250,246 | 232,389 | 158,159 | 156,561 |
| 22 | Total Net Cash Outflows | 79,692 | 67,463 | 51,664 | 54,480 |
| 23 | Liquidity Coverage Ratio % | 314% | 344% | 306% | 287% |

# 5. 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<br><br>In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part | • We evidence affordability (ability to repay from cash flow)<br>• We take security and where appropriate, guarantees, to support our lending<br>• We maintain a diversified portfolio of loans by originating in markets we understand and by limiting concentrations by size proportionate to our own balance sheet size and position in the market, by asset class, collateral type, geography, sector and (where appropriate) by sub-sector<br>• 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<br>• We consider threats from climate change (e.g. flood risk and transitional energy performance legislation) in our approach to underwriting<br>• We have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process<br>• We undertake regular reviews of our loan portfolios and ongoing assurance testing of lending decisions and our processes<br>• We operate a Treasury policy that only allows for deposits to be placed with large Groups or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings<br>• Lending performance against Risk Appetite is monitored regularly |

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

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

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

**Asset Finance ("AF")** comprises small to medium ticket leasing and hire purchase secured on vehicles and business assets. The lending is spread across a diverse customer base and secured against a range of asset types. A rigorous assessment of the resale value of assets are made, with deposits required, typically of between 10% and 20%. Loans are only made to 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 and Block Discounting ("WBD")** provides lending facilities across a range of non-bank finance companies. The Bank may provide finance to the customer based on their credit standing, however there will also be a review carried out on the underlying loan receivables to ensure 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 help avoid fraud. All customers will have audits carried out either by the Bank's experienced in-house audit team or third party providers. These will typically 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.

## 5.1. Credit Risk Exposure

The table below highlights the Bank's credit risk by exposure class as at 31 December 2021.

| | Exposures £'000 | Average Exposures £'000 |
|---|---|---|
| | 2021 | 2021 |
| Corporate | 62,534 | 58,353 |
| Secured by mortgages on immovable property | 1,283,417 | 1,146,030 |
| Items associated with particularly high risk | 151,467 | 153,438 |
| Retail | 195,903 | 198,076 |
| Exposures in default | 22,572 | 14,467 |
| Central governments or central banks | 409,091 | 234,753 |
| Institutions | 14,556 | 18,276 |
| Covered Bonds | 20,043 | 20,060 |
| Other | 7,839 | 9,481 |
| | **2,167,422** | **1,852,933** |
| Concentration by Location: | | |
| **UK** | **2,167,422** | **1,852,933** |

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

The Bank predominately lends to SMEs. Of the exposures in the table above, as at 31 December 2021, £1.2bn is lending to SMEs.

## 5.2. Credit Risk Exposure by Industry

The table below represents the total amount of exposures, as at 31 December 2021, by industry.

| £'000 | Associated with particularly high risk | Corporate | Exposures in Default | Retail | Secured by mortgages on immovable property | Central Banks / government | Institutions/ Covered bonds | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Accommodation and food service activities | – | 114 | 129 | 936 | – | – | – | – | **1,206** |
| Administrative and support service activities | – | 10,103 | 373 | 37,183 | – | – | – | – | **47,659** |
| Agriculture, forestry and fishing | – | 6 | – | 978 | – | – | – | – | **984** |
| Arts, entertainment and recreation | – | 4,421 | 45 | 2,330 | – | – | – | – | **6,796** |
| Construction | 151,134 | 5,458 | 101 | 10,549 | 8,738 | – | – | – | **175,980** |
| Education | – | – | – | 471 | – | – | – | – | **471** |
| Electricity, gas, steam and air conditioning supply | – | 4,614 | – | 452 | – | – | – | – | **5,066** |
| Human health and social work activities | – | – | – | 4,758 | – | – | – | – | **4,758** |
| Information and communication | – | 704 | 1 | 4,186 | – | – | – | – | **4,891** |
| Manufacturing | – | 9,943 | 499 | 8,354 | – | – | – | – | **18,796** |
| Mining and quarrying | – | – | – | 165 | – | – | – | – | **165** |
| Other | – | 15,291 | 4,970 | 101,122 | – | – | – | 7,839 | **129,222** |
| Professional, scientific and technical activities | – | 863 | 1,986 | 2,989 | – | – | – | – | **5,838** |
| Public administration and defence; compulsory social security | – | – | – | 189 | – | – | – | – | **189** |
| Real estate | 333 | – | 13,983 | 1,574 | 1,274,679 | – | – | – | **1,290,569** |
| Transporting and storage | – | 1,003 | 183 | 7,210 | – | – | – | – | **8,396** |
| Water supply; sewerage; waste management and remediation activities | – | – | – | 777 | – | – | – | – | **777** |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | – | 10,014 | 302 | 11,653 | – | – | – | – | **21,969** |
| Financial | – | – | – | – | – | 409,091 | 34,599 | – | **443,690** |
| Accommodation and food service activities | – | – | – | – | – | – | – | – | |
| **Total** | **151,467** | **62,534** | **22,572** | **195,903** | **1,283,417** | **409,091** | **34,599** | **7,839** | **2,167,422** |

## 5.3. Credit Risk Exposure by Residual Maturity

The table below represents the total amount of exposures, as at 31 December 2021, by remaining contractual maturity.

| 2021<br>£'000 | Within<br>1 Year | After 1 Year<br>but within<br>5 Years | More than<br>5 Years | Non-interest<br>bearing | Total |
|---|---|---|---|---|---|
| Loan and advances to customers | 167,439 | 476,770 | 1,071,684 | - | **1,715,893** |
| Central governments or central banks | 409,091 | - | - | - | **409,091** |
| Institutions | 14,556 | - | - | - | **14,556** |
| Covered Bonds | - | 2,000 | 18,043 | - | **20,043** |
| Other | - | - | - | 7,839 | **7,839** |
| **Total** | **591,086** | **478,770** | **1,089,727** | **7,839** | **2,167,422** |

## 5.4. Non-Performing Loans and Provisioning

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

Loans are defined as "past due" when any contractually due payment of interest or capital, has not been received by the due date.

### Definition of default

A financial asset is considered to be credit impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

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

For regulatory purposes, a financial asset is treated as in default when a payment is 90 days past the contractual due date or the counterparty is considered unlikely to pay its credit obligations in full. The regulatory definition of default captures all financial assets classified within Stage 3.

The following tables summarise the impairments for 2021 by material industry class and highlights the impaired and past due exposures.

| 2021 | Construction | Real Estate Activities | Financial | Other | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Neither past due nor impaired** | **168,111** | **1,270,400** | **443,690** | **251,517** | **2,133,718** |
| **Past due but not impaired:** | | | | | |
| Up to 30 days | 39 | 3,853 | – | 2,037 | **5,930** |
| 30-60 days | – | 6 | – | 26 | **32** |
| 60-90 days | – | 13 | – | 8 | **21** |
| **Total Past due but not impaired** | **39** | **3,872** | **-** | **2,071** | **5,982** |
| **Impaired Assets** | 10,511 | 19,130 | – | 9,251 | **38,892** |
| Less: specific credit risk adjustment | (2,683) | (2,833) | – | (5,655) | **(11,171)** |
| **Net Loans and Advances** | **175,979** | **1,290,569** | **443,690** | **257,184** | **2,167,422** |

| Specific Credit Risk Adjustment | Construction | Real Estate Activities | Financial | Other | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 1 January** | **(3,270)** | **(4,316)** | **-** | **(7,791)** | **(15,377)** |
| Charge for the year | 587 | 1,443 | – | (2,568) | (538) |
| Write-offs | – | 40 | – | 4,704 | 4,744 |
| **Balance at 31 December** | **(2,683)** | **(2,833)** | **-** | **(5,655)** | **(11,171)** |

Specific credit risk adjustments represent loan-by-loan impairments determined using an expected credit loss basis in accordance with IFRS 9. All loans are considered for provision, and an impairment amount calculated based on each account's probability of default. The expected credit loss represents the probability weighted exposure at default reduced by the value of any security. There are no significant concentrations of credit risk to individual counterparties, all of the Bank's loan assets are situated in the UK

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 2021, 84 accounts amounting to £25.2m (2020: £34m) had forbearance arrangements in place. Further information on IFRS 9 provisioning can be found in the Annual Report and Accounts.

## 5.5. Treasury Counterparty Risk

### Credit risk management: Treasury

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

The table below, presents an analysis of the credit quality of treasury financial assets, by rating agency designation as at 31 December 2021 based on Moody's long-term ratings.

| Exposure Category | Under 3 Months | 3 Months to 1 Year | 1 year to 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Aa3 Rated UK Banks | 126,452 | 50,221 | - | - | 176,673 |
| A2 Rated UK Banks | - | - | - | - | - |
| A1 Rated UK Banks | - | 2,006 | 18,155 | - | 20,161 |
| **Total [1,2]** | **126,452** | **52,227** | **18,155** | - | **196,834** |

The above relates to the Institutions, Covered Bond and T-bills as part of the government exposure class. Credit agencies are not used for any other exposure classes.

## Cash Placements

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

## Eligible Securities

The bank has a proportion of its HQLA buffer invested in AAA-rated, GBP-denominated UK covered bonds. All covered bond investments are in FCA-registered covered bond programmes representing the highest quality and most liquid part of the market. In addition, HTB occasionally invests in AAA-rated UK government bonds or T-bills.

## Derivatives

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

The Bank's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA) master agreements. ISDA has reviewed its standardised contracts in light of IBOR reform and has published an IBOR fall-back supplement to amend the 2006 ISDA definitions. As at 31st December 2021, the Bank had no outstanding IBOR derivatives and the Bank had no public credit rating and no exposure to

1. Excludes exposures for swap counterparties and accrued interest receivable totalling £3,319,611
2. The Bank complies with the standard association published by the EBA

credit derivatives.

### Wrong Way Risk

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

### Credit Valuation adjustment

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

### Hedge accounting and hedge effectiveness

Where possible, the Bank seeks to account for the derivatives used within hedges which meet the qualification requirements of IAS 39 as fair value portfolio hedges (see accounting policy note 6.13 and note 19 of the 2021 ARA). All hedges are included in the interest rate risk reports and are reviewed on a monthly basis by ALCO. The effectiveness of hedging relationships is reviewed on a monthly basis by the Finance function.

# 6.
# Market Risk

| Definition | How we manage the risk |
|---|---|
| The risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments | • We intend to maintain exposures at a very low level against our capital and earnings positions<br>• Wherever possible we match the interest rate structure of assets with liabilities or deposits to create a natural hedge<br>• We enter into swap agreements where required to minimise basis and repricing risks within appetite<br>• 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)<br>• We monitor asset swap spread risk<br>• We exchange or swap into GBP any FX exposure<br>• All above risks are reported to ALCO against our risk appetite levels |

### 6.1. Interest Rate Sensitivity

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

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| +200 basis points | (1,447) | (3,087) |
| - 200 basis points | 1,738 | 3,412 |

In 2017 the FCA first announced that it was planning to cease the requirement for the calculation and publication of LIBOR, a widely-used reference interest rate across multiple jurisdictions, currencies and financial products. During 2020 and 2021 UK and foreign banks with LIBOR exposures have been seeking to cease writing new LIBOR exposures and to actively transition back-book exposures to an alternative reference rate.

In 2019 HTB established a LIBOR Transition Steering Committee, chaired by the CFO and reporting to the Board, which, during 2020 and 2021, has overseen the cessation of all new LIBOR business, the transfer of all LIBOR-linked derivatives to SONIA and the transition of LIBOR-linked or LIBOR reverting loans to an alternative benchmark. As at 30th November 2021, HTB had managed to transition all LIBOR-referencing loans with the exception of £124m of 'tough-legacy' balances that continue to reference LIBOR. In addition, the bank has £567m of fixed rate loans which include a reversionary rate tied to LIBOR (although it should be noted that our experience is only a very small percentage of these fixed rate mortgages are expected to revert to a floating rate). At the end of 2021, the bank had successfully transitioned all derivatives to SONIA.

During 2021 the FCA and HMT introduced what is widely known as 'tough legacy' provisions. These provisions apply to customer contracts referencing LIBOR whereby banks have not been able to transition the accounts to an alternative reference rate despite concerted efforts to do so. The legislation means that LIBOR-referencing contracts can continue to perform into 2022 past the cessation of LIBOR. This is achieved by replacing the definition and calculation of LIBOR to one based on SONIA. This is commonly referred to as 'synthetic LIBOR' and requires no adjustment to customer contracts.

The tough legacy provisions are due to expire at the end of 2022 (although may be extended by the FCA) and therefore HTB will continue to seek to actively transition as many contracts as possible during 2022.

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

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

# 7. Operational Risk

| Definition | How we manage the risk |
| --- | --- |
| The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk | • We ensure all staff understand and follow the Operational Risk Management Framework ("ORMF")<br>• We provide training and guidance to first line staff on aspects of the Framework via both the Risk Champions forum and formal training sessions<br>• Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a RCSA process<br>• We have a defined Operational Resilience Policy<br>• We have defined our recovery time and point objectives for our business processes where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives<br>• Adequacy and Effectiveness of business resilience capability is tested annually and results subject to oversight by second line<br>• Business resilience KRIs with supporting triggers and limits are reported through the Bank's Risk committee structure<br>• We make use of independent expert legal advice where appropriate<br>• We have a documented third party supplier's policy and first line ownership which is subject to both periodic second line assurance review and oversight<br>• We have a CISO team focused on Governance / Protect/ Identify/ Detect/ Respond / Recover<br>• We respond to all risk events, including near misses as soon as they are identified to ensure rapid mitigation of impact and prevention of further crystallisation<br>• We record and track all corrective actions through a dedicated system with committee oversight and governance |

The Bank has adopted the Pillar 1 Basic Indicator Approach to operational risk, and thus will hold, as a minimum, capital against the risk equal to 15% of the last three years' average net operating income (net interest income plus fees and commissions). As at December 2021 this was £8.4m (2020: £6.6m).

# 8. 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, creates unfair customer outcomes or detriment to customers, clients and counterparties and/or undermines market integrity<br><br>**Compliance** – The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable regulations, codes of conduct or standards of good practice<br><br>**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 manage these risks and the minimum standards that we expect<br>• Our Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function<br>• 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<br>• New and emerging regulatory driven changes are overseen through our horizon scanning process<br>• We design our products and services so that they consistently deliver fair outcomes for our customers<br>• We complete regular and themed assurance testing of our activities to ensure that we are operating within our Board approved risk appetite and prevailing legal and regulatory requirements<br>• We operate a programme of staff training and awareness via our regulatory reading programme<br>• 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.

# 9.<br>Transversal Risks – Reputational and Climate

| Definition | How we manage the risk |
| --- | --- |
| Reputational Risk and Environmental, Social and Governance (ESG) risk.<br><br>Climate Change risk is part of ESG risk. These risks arise from day to day operations and in main are managed through the risk management framework delivering an effective management of the Principal risks | • Reputational impact is used to quantify risk and impact<br>• Consideration of reputational risk is embedded within our risk management<br>• We have an Environmental, Social and Governance ("ESG") steering Group in place to oversee the development and embedding of ESG into our day to day risk management and processes<br>• We monitor exposure to ESG risk, including Diversity, Equal Pay and opportunities via HR and escalate agenda items across the Bank's risk committee structure and Board<br>• Our People related policies provide guidance to staff to support local social initiatives and charity organisations via volunteering / involvement in local community projects<br>• We closely monitor climate change policy, regulatory guidance and industry advances relating to climate change, considering both transition and physical risks. We assess the impact of these changes/advances on our Business model and risk profile and consider possible impacts on our reporting obligations and our reputation |

# 10.
# Emerging Risks

The Bank recognises the dynamic nature of risk management and follows a structured approach to the identification and monitoring of Emerging Risks that could, in the future, affect the business model. An Emerging risk is an identified risk on the horizon, however, it is not yet clear whether the risk will impact HTB or if it does, to what extent it will impact. Each Emerging Risk is allocated to one of four categories:

- Economic and Political Landscape – Risks that will emerge directly or indirectly from changes to the National or Global environment in which the Bank operates, including those emanating from health or environmental root causes
- Regulatory Change or Intervention – Risks that will emerge from National and/or International regulatory bodies that will require material changes to the way in which the Bank operates
- Competitive Landscape – Risks that will emerge from both traditional operators utilising different operating strategies and/or new entrants to the markets in which the Bank operates
- Technology Risk – Risks that will emerge from any exploitable weakness in the Bank's infrastructure and/or its ability to withstand targeted attacks

Emerging Risks are reviewed at least annually by the Board and regularly by the Board Risk Committee. Regulatory Horizon Scanning is maintained and tracked through monthly management committees.

### Climate Change

Climate change represents a material risk to HTB and the financial system within which it operates. Climate risk arises from both the physical effects of climate change, and from the impact of changes associated with the transition of the economy to a lower carbon economy. Please see page 23 of the Annual Report & Accounts for more detailed information on the Bank's response to climate change.

### Macroeconomic Pressures

Macro-economic uncertainty remains high as the UK economy rebounds following Covid19 as government economic support measures are withdrawn and unwound, and inflationary pressures are increasing, not only due to the Ukraine situation. Additional risks remain around the full impact of Brexit on the UK economy.

HTB has maintained it's risk appetite and assesses debt serviceability for all front book lending. We conduct frequent portfolio reviews to assess the credit risk within the portfolio and utilise a range of stress test scenarios to test the resilience of our lending.

### Ukraine

Russia's invasion of Ukraine represents a global increase in uncertainty and risk. The full range of impacts have yet to be felt, but this has the potential to be wide-ranging across numerous areas such as energy prices and inflation, energy policy, trade flows, migration, defence spending, cyber-crime landscape, and regulatory compliance to sanctions amongst others.

HTB is conducting a specific portfolio review to assess the potential impacts on its customer lending portfolios. We continue to update the lists of sanctioned individuals and screen against our customers to ensure HTB remains compliant with the evolving sanctions environment.

### Evolving Working Practices

Technology and social changes have been gradually adjusting workers' expectations with regard to working practices. Covid19 forced a step change in the working patterns at HTB, across Financial Services and adjacent sectors. There is a risk that labour market expectations regarding work patterns have changed permanently.

The Bank has invested in technology to facilitate remote working and has sought to calibrate its expectations of colleagues in terms of presence in the office to ensure HTB is not an outlier. HTB is developing its people strategy to ensure its holistic colleague proposition is appropriate

### Competition

The current competitive landscape is impacted by the economic fall-out from the Covid-19 pandemic which has not been equally felt across industry sectors. The effect of the withdrawal of government initiatives and the shape of the economic rebound are similarly having an impact. Margin compression is beginning to be felt across HTB's product offering, driven by the increasing interest rate environment, with little sign of an offsetting increase in asset pricing.

The Bank monitors the markets in which it operates closely and manages the performance of its lending and retail savings businesses closely.

### Wesleyan Bank Acquisition

HTB purchased 100% of the shares of Wesleyan Bank Limited on 28 February 2022. The successful separation of Wesleyan Bank from its parent and its transition into the HTB Group creates execution risk for HTB. The level of integration planned for Wesleyan Bank is low, and the strategy is to retain it as a stand-alone entity. However, there are new requirements on HTB Group such as Regulatory and Financial reporting that represent new activities to the Group and therefore increased risk.

HTB has added people and consultant resources and has a centrally governed project to enable it to manage the safe integration of Wesleyan Bank into the HTB Group.

# 11. Corporate Governance

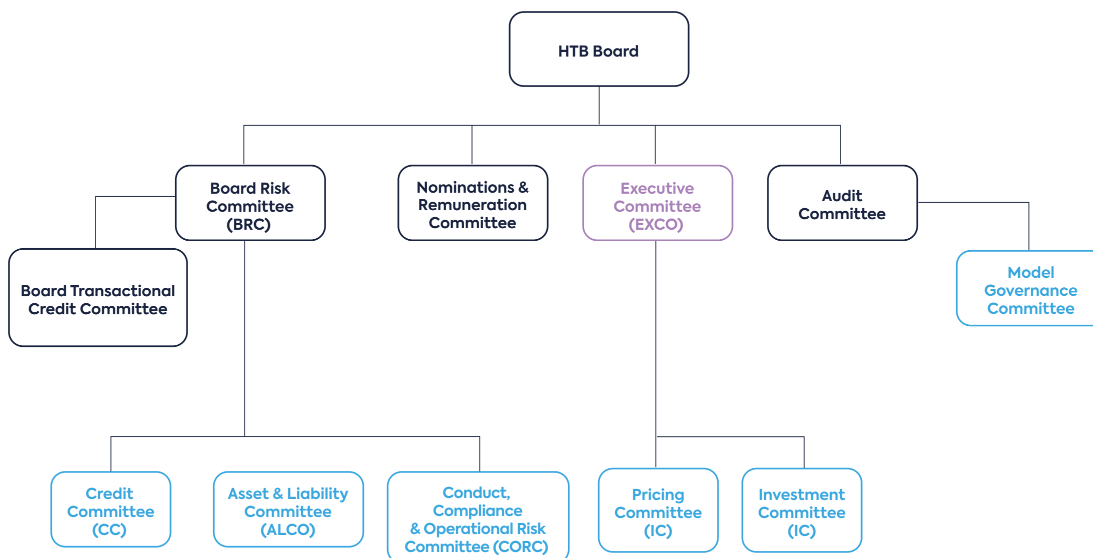
The Bank has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") published by the Financial Reporting Council in 2018.

Applying the Wates Principles has ensured that the Bank has continued to enhance its corporate governance standards for the benefit of all of its stakeholders; ensuring that it is well managed and aligned behind a clear purpose. A detailed analysis of how the Bank has complied with the specific principles is set out in Governance section of the Annual Report & Accounts.

The Bank is led by a Board which is supported by a number of Committees to which the Board has delegated relevant authority; the principle Committees being the Board Risk Committee, the Audit Committee, the Nomination and Remuneration Committee and the Executive Committee.

## 11.1. 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 2021 with regard to risk management is outlined below:




**Membership**

**Directors**

Executive Directors & Senior Management

Executive Directors, Senior Managers & Nominated Staff Members

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.

## 11.2. The Board

The Bank's governance structure is designed to ensure the proper running of the Bank in accordance with the legal and regulatory obligations and in line with established principles of good conduct and practice. The Bank is led by a Board comprising an independent Non-Executive Chairman, Non-Executive (Shareholder) Directors, independent Non-Executive Directors and Executive Directors. The Board approves the strategy and direction of the business, sets the policies and risk appetite, monitors risk management, financial performance and reporting, and ensures that appropriate and effective succession-planning arrangements and remuneration policies are in place. Directors are appointed by the Board.

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

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

### 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 2021, in addition to their roles within the Bank, are detailed below.

| Name | Position | Positions held at 31 December 2021 |
|---|---|---|
| Robert Sharpe | Chairman | 3 |
| Matthew Wyles | CEO/Executive Director | 0 |
| Tim Blackwell | CFO/Executive Director | 0 |
| Robert East | Non-Executive Director | 4 |
| Martyn Scrivens | Non-Executive Director | 5 |
| Astrid Grey | Non-Executive Director | 3 |
| Richard Price | Non-Executive Director | 2 |
| Dominic Slade | Non-Executive Director | 3 |

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

### 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 personal and cognitive strengths that it needs greater focus to achieve diversity of background and gender and the importance that this affords in ensuring that a particular Board or Board Committee is not composed solely of likeminded people. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

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

### 11.3. Audit Committee

The Audit Committee oversees the effectiveness of the Bank's internal control environment, monitors the integrity of the financial statements and risk management systems, involving internal and external auditors in that process, and considers compliance monitoring programmes. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal control is maintained. The Committee recommends to the Board the appointment of both internal and external auditors and approves the annual internal and external audit plans. The Committee also oversees the Model Governance Committee which operates under its own terms of reference. The Committee is chaired by an independent Non-executive Director and comprises solely Non-Executive Directors. The Audit Committee meets at least quarterly. During 2021, the Committee recommended approval to the Board of the 2020 statutory accounts.

#### 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.

### 11.4. Board Risk Committee ('BRC')

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

#### Board Transactional Credit Committee

The Board Transactional Credit Committee is the committee charged with approval of transactional credits above limits allocated to the Executive. This includes credit proposals falling outside Board approved policy, credit proposals of large exposures above Board approved credit committee mandate and where the Board requests the Board Transactional Credit Committee to review or oversee a material loan in default. The Committee is chaired by the Chairman of the Risk Committee and comprises of independent and shareholder-appointed Non-Executive Directors.

#### Credit Committee ('CC')

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

### Asset and Liability Committee ('ALCO')

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

### Conduct, Compliance and Operational Risk Committee ('CORC')

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

### 11.5. Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits, performance related pay structures for the Bank and leads the process for identifying and making nomination recommendations to the Board. It is also responsible for considering all senior appointments at Executive levels (including Non-Executive Directors). It reviews and approves succession plans for all Board and Board Committee positions (including the Executive Committee); makes appointments of Committee Approved staff under recommendation from the CEO; sets remuneration and benefits entitlements of Committee-Approved staff; and, agrees bonus awards for the Bank and Committee-Approved staff. The Committee is chaired by the Chairman of the Board and comprises independent and shareholder-appointed Non-Executive Directors. During 2021 the Committee recommended the appointment of an additional Non-Executive Director to the Board to reflect the growth of the Bank and to further broaden the skills of the Board.

### 11.6. Executive Committee ('ExCo')

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

### Pricing Committee ('PC')

The purpose of the PC 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.

### Investment Committee ('IC')

The Investment 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.

All the directors bring a broad and valuable range of experience to the Company and further details, together with other biographical details, are set out in the Governance Section of the Annual Report & Accounts.

### 11.7. Division of responsibilities between the Chair and CEO

There is a clear division of responsibilities at the top of the Company between the running of the Board and the executive responsibility for the day-to-day running of the business of the Group. The Chair has overall responsibility for the leadership of the Board, its effectiveness on all aspects of its role and setting its agenda. The CEO is responsible for the day to day running of the business and is accountable to the Board for its operational and financial performance.

The division of responsibilities between the Chair and CEO is clearly established, set out in writing, agreed by the Board in the Company's Governance Framework document.

# 12. Asset Encumbrance

The Bank primarily encumbers assets through positioning loans as collateral against drawings under the Bank of England's Sterling Monetary Framework facilities. The Bank has used these assets to access funding through the 'Term Funding Scheme' (TFS), 'Term Funding Scheme with additional incentives for SMEs' (TFSME) and through Indexed Long-Term Repo operations ("ILTR"). As at 31 December 2021, the Bank had £295m of drawings under the TFSME, no ILTR drawings and had repaid all TFS drawings.

The TFSME was introduced following the COVID-19 outbreak in Q1 of 2020, provides four-year funding rates very close to bank rate and entitles eligible participants to borrow at least 10% of their stock of real economic lending. The aim of the scheme is to reinforce the transmission of Base Rate cuts to households and businesses. The Bank's only other source of encumbrance is cash posted with swap counterparties, in respect of out of the money positions on our swap portfolio.

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

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 2021.

### Template A: Encumbered and unencumbered assets

| | | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|---|
| £'000 | | 010 | 040 | 060 | 090 |
| **010** | **Assets of the reporting institution** | 379,82 | | 1,808,626 | |
| 030 | Equity instruments | | | | |
| 040 | Debt securities | 175,125 | | 21,587 | |
| 120 | Other assets | | | 33,523 | |

### Template B: Collateral received

| | | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|---|
| £'000 | | 010 | 040 |
| **130** | **Collateral received by the reporting institution** | 15,559 | - |
| 150 | Equity instruments | - | - |
| 160 | Debt securities | - | - |
| 230 | Other collateral received | - | - |
| **240** | **Own debt securities issued other than own covered bonds or ABSs** | - | - |

### Template C: Encumbered assets/collateral received and associated liabilities

| £'000 | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|---|
| **010** | **Carrying amount of selected financial liabilities** | 295,000 | 394,245 |

# 13. Credit Risk Mitigation

As explained further in the Bank's Annual Report and Accounts, the majority of the banking division's lending is secured. The security taken does not result in any reduction in RWAs under the standardised approach to credit risk. The Bank has been able to offer a number of our customers' facilities under the UK Government introduced Coronavirus Business Interruption Loan Scheme ('CBILS') and Recovery Loan Scheme ('RLS').

### CBILS

Loans provided under these schemes are covered by government guarantees, which do qualify as eligible collateral under the standardised approach to credit risk. The guarantee applies to 80% of the capital losses following a default. As at 31/12/2021, the Bank held £27m of CBILS exposures, of which £22m is guaranteed.

### RLS

Announced by HM Treasury on 3 March 2021, available after 6th April 2021, RLS provides lenders with a government-backed guarantee of 80% on losses that may arise on facilities of above £25,000 (£1,000 for asset finance) up to £10 million. As at 31/12/2021, the Bank held £19m of RLS exposures, of which £15m is guaranteed.

The Bank carries out securitisation as a form of credit risk mitigation which is further detailed in section 14.

# 14. Securitisation

In 2019 the Bank's Enable Guarantee with the British Business Bank became effective. The British Business Bank is a state-owned economic development bank established by the UK Government. Its aim is to increase the supply of credit to small and medium size enterprises as well as providing business advice services. The Enable Guarantee provides unfunded credit protection for qualifying loans within the Bank's development finance loan book. Its effect is to partially offset the Bank's exposure to qualifying loans; the Bank remains exposed to the unguaranteed portion and to a 'first loss' element of the guaranteed portion. This latter exposure constitutes a synthetic securitisation position under the CRR. The guarantee improves the Bank's capital efficiency and increases the Bank's capacity to fund SME housebuilders in the UK.

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

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

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

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

The accounting for the guarantee protection is off balance sheet and the full originated loan exposure remains on balance sheet. The fees paid for the guarantee are included within operating expenses within the income statement. The total amount of outstanding drawn exposures under the guarantee at year end (being the guaranteed portion of the qualifying loans) was £43m in 2021 (2020: £39m).

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

# 15. Remuneration

This remuneration disclosure is a requirement under Article 450 of the CRR. The following references the Bank's remuneration policies and practices for categories of staff whose professional activities have a material impact on the company's risk profile (Material Risk Takers ("MRTs")). MRTs include staff who hold Significant Management Functions ("SFs") as designated by the regulatory authorities. The Remuneration part of CRD V amended the requirements as from 29 December 2020, in respect of complete financial years ending after that date. Accordingly, the new requirements took effect for the period 1 January 2021 to 31 December 2021.

### 15.1. Decision making process

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

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

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

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

### 15.2. Remuneration structure

#### Fixed Pay

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

#### Annual bonus

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

Allocation of bonus awards to individuals are reviewed against individual performance to ensure they appropriately reflect performance not only relative to financial and delivery-based objectives, but also to behaviours, alignment to the Bank's values and risk culture, customer focus and conduct standards. In advance of any bonus award being made, a thorough review of conduct is carried out jointly by the Chief People Officer and Chief Compliance Officer, and recommendations for any required action are reviewed as part of the approval process by NomCo/RemCo.

In performance year 2020 a Long Term Incentive Plan was introduced for a restricted group of individuals. This scheme involves a bonus award being made to the relevant individual which is then deferred over a 3 year period before payment is made. In line with other incentive schemes (such as B share awards) the conditions are that the employee must remain in service until either an exit event occurs or for a minimum period of 3 years' service after an award is made, at which point the entire award becomes payable. The purpose of this scheme is to retain and motivate a small team of business critical staff. All awards are subject to the scrutiny and approval of the Nom/RemCo and subject to the Bank's policies regarding regulatory controls. There is currently no deferred element applied to the Bank's general cash bonus scheme therefore no criteria to be applied in this regard.

### Management Incentive plan

Some senior staff from time to time may be offered B class ordinary shares B in the Bank's parent company, Hoggant Ltd as part of an incentive share scheme. In this case the conditions are that the employee must remain in service and also must remain in service until an exit event occurs.

## 15.3. Link between pay and performance

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

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

## 15.4. Remuneration statistics

In relation to 2021 the Bank paid the following remuneration:-

Broken down by business area, aggregate remuneration in respect of MRTs as at the 31 December 2021 was:

| Total value of remuneration awards for the current fiscal year £'000 | Lending | Treasury & Central Services | Total |
|---|---|---|---|
| Number of MRTs | 4 | 17 | 21 |
| **Total remuneration** | **1,070** | **4,478** | **5,548** |

The table below shows total fixed and variable remuneration awarded to MRTs in respect of the financial year ended 31 December 2021.

| £'000 | Senior Management | Other MRTs | Total |
|---|---|---|---|
| Fixed remuneration | 2,441 | 1,115 | 3,456 |
| Cash variable remuneration | 1,136 | 412 | 1,548 |
| Variable remuneration in the form of "B" shares | 396 | 48 | 444 |
| Severance pay | - | - | - |
| **Total remuneration** | **3,973** | **1,575** | **5,548** |

There were no individuals being remunerated more than EUR 1 million for 2021.

# 16. Appendix 1: Own Funds Disclosure Template

| | Own funds disclosure template | 2021 £'000 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | | | |
| 1 | Capital instruments and the related share premium accounts | 140,024 | 26 (1), 27, 28, 29 |
| | of which: ordinary share capital | 140,024 | EBA list 26 (3) |
| | of which: Instrument type 2 | - | EBA list 26 (3) |
| | of which: Instrument type 3 | - | EBA list 26 (3) |
| 2 | Retained earnings | 48,812 | 26 (1) (c) |
| 3 | Accumulated other comprehensive income (and any other reserves) | - | 26 (1) |
| 3a | Funds for general banking risk | - | 26 (1) (f) |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | - | 486 (2) |
| 5 | Minority interests (amount allowed in consolidated CET1) | - | 84 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | - | 26 (2) |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **188,836** | Sum of rows 1 to 5a |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | |
| 7 | Additional value adjustments (negative amount) | (14) | 34, 105 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (7,606) | 36 (1) (b), 37, 472 (4) |
| 9 | Empty set in the EU | - | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | 36 (1) (c), 38 |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | - | 33 (1) (a) |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | - | 36 (1) (d), 40, 159 |
| 12a | IFRS 9 transitional adjustment to CET1 | 1,572 | 473a |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | 32 (1) |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | - | 33 (1) (b) |
| 15 | Defined-benefit pension fund assets (negative amount) | - | 36 (1) (e), 41 |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | - | 36 (1) (f), 42 |
| 17 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 36 (1) (g), 44 |
| 18 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79 |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (I), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79 |
| 20 | Empty set in the EU | - | |

| | Own funds disclosure template | 2021 £'000 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | - | 36 (1) (k) |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | 36 (1) (k) (i), 89 to 91 |
| 20c | of which: securitisation positions (negative amount) | (7,875) | 36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258 |
| 20d | of which: free deliveries (negative amount) | - | 36 (1) (k) (iii), 379 (3) |
| 21 | Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | 36 (1) (c), 38, 48 (1) (a) |
| 22 | Amount exceeding the 15% threshold (negative amount) | - | 48 (1) |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | 36 (1) (i), 48 (1) (b) |
| 24 | Empty set in the EU | - | |
| 25 | of which: deferred tax assets arising from temporary difference | - | 36 (1) (c), 38, 48 (1) (a) |
| 25a | Losses for the current financial year (negative amount) | - | 36 (1) (a) |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | - | 36 (1) (l) |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | - | 36 (1) (j) |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(13,923)** | Sum of rows 7 to 20a, 21, 22 and 25a to 27 |
| **29** | **Common Equity Tier 1 (CET1) capital** | **174,913** | Row 6 minus row 28 |
| **Additional Tier 1 (AT1) capital: instruments** | | | |
| 30 | Capital instruments and the related share premium accounts | - | 51, 52 |
| 31 | of which: classified as equity under applicable accounting standards | - | |
| 32 | of which: classified as liabilities under applicable accounting standards | - | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | - | 486 (3) |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | - | 85, 86 |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | - | 486 (3) |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **-** | Sum of rows 30, 33 and 34 |
| **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | - | 52 (1) (b), 56 (a), 57 |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount) | - | 56 (b), 58 |

| Own funds disclosure template | | 2021 £'000 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 56 (c), 59, 60, 79 |
| 40 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 56 (d), 59, 79 |
| 41 | Empty set in the EU | - | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | 56 (e) |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | Sum of rows 37 to 42 |
| **44** | **Additional Tier 1 (AT1) capital** | **-** | Row 36 minus row 43 |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **174,913** | Sum of row 29 and row 44 |
| **Tier 2 (T2) capital: instruments and provisions** | | | |
| 46 | Capital instruments and the related share premium accounts | 30,000 | 62, 63 |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | - | 486 (4) |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | - | 87, 88 |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | - | 486 (4) |
| 50 | Credit risk adjustments | - | 62 (c) & (d) |
| **51** | **Tier 2 (T2) capital before regulatory adjustment** | **30,000** | |
| **Tier 2 (T2) capital: regulatory adjustments** | | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | 63 (b) (i), 66 (a), 67 |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount) | - | 66 (b), 68 |
| 54 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 66 (c), 69, 70, 79 |
| 55 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | - | 66 (d), 69, 79 |
| 56 | Empty set in the EU | - | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-** | Sum of rows 52 to 56 |
| **58** | **Tier 2 (T2) capital** | **30,000** | Row 51 minus row 57 |

| | Own funds disclosure template | 2021 £'000 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| **59** | **Total capital (TC = T1 + T2)** | **204,913** | Sum of row 45 and row 58 |
| **60** | **Total risk-weighted assets** | **816,157** | |
| **Capital ratios and buffers** | | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 18.94% | 92 (2) (a) |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 18.94% | 92 (2) (b) |
| 63 | Total capital (as a percentage of total risk exposure amount) | 22.19% | 92 (2) (c) |
| 64 | Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) 1) | 7.00% | CRD 128, 129, 130, 131, 133 |
| 65 | of which: capital conservation buffer requirement | 2.50% | |
| 66 | of which: countercyclical buffer requirement | 0.00% | |
| 67 | of which: systemic risk buffer requirement | - | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | - | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 13.49% | CRD 128 |
| 69 | [non-relevant in EU regulation] | - | |
| 70 | [non-relevant in EU regulation] | - | |
| 71 | [non-relevant in EU regulation] | - | |
| **Amounts below the thresholds for deduction (before risk-weighting)** | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | 36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70 |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | 36 (1) (i), 45, 48 |
| 74 | Empty set in the EU | - | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) | - | 36 (1) (c), 38, 48 |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | - | 62 |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | - | 62 |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | - | 62 |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | - | 62 |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | | |
| 80 | - Current cap on CET1 instruments subject to phase-out arrangements | - | 484 (3), 486 (2) & (5) |

| Own funds disclosure template | | 2021 £'000 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| 81 | - Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | 484 (3), 486 (2) & (5) |
| 82 | - Current cap on AT1 instruments subject to phase-out arrangements | - | 484 (4), 486 (3) & (5) |
| 83 | - Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | 484 (4), 486 (3) & (5) |
| 84 | - Current cap on T2 instruments subject to phase-out arrangements | - | 484 (5), 486 (4) & (5) |
| 85 | - Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | 484 (5), 486 (4) & (5) |

# 17. Appendix 2: Capital instruments' main features Template

| Capital instruments' main features template [1] | | | |
|---|---|---|---|
| 1 | Issuer | Hampshire Trust Bank Plc | Hampshire Trust Bank Plc |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A | N/A |
| 3 | Governing law(s) of the instrument | English | English |
| | Regulatory treatment | | |
| 4 | Transitional CRR rules | Common Equity Tier 1 | Tier 2 |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 | Tier 2 |
| 6 | Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated | Solo & Consolidated | Solo & Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Share capital as published in Regulation (EU) No 575/2013 article 28 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | £140m | £30m |
| 9 | Nominal amount of instrument | £139m | £30m |
| 9a | Issue price | N/A | N/A |
| 9b | Redemption price | N/A | N/A |
| 10 | Accounting classification | Shareholders' equity | Liability - amortised cost |
| 11 | Original date of issuance | 12-Jun-2014 | 10-May-18 |
| 12 | Perpetual or dated | Perpetual | Dated |
| 13 | Original maturity date | No maturity | 10-May-2028 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates, and redemption amount | N/A | 10-May-2023 |
| 16 | Subsequent call dates, if applicable | N/A | N/A |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | N/A | Fixed |
| 18 | Coupon rate and any related index | N/A | 7.25% |
| 19 | Existence of a dividend stopper | N/A | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Mandatory |
| 21 | Existence of step up or other incentive to redeem | N/A | No |
| 22 | Noncumulative or cumulative | N/A | Non-cumulative |
| 23 | Convertible or non-convertible | N/A | Non-convertible |
| 24 | If convertible, conversion trigger (s) | N/A | N/A |
| 25 | If convertible, fully or partially | N/A | N/A |

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

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

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

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

# 18. Appendix 3: Capital Position with and without IFRS 9 Transitional Adjustment

| Available capital (£'000) | 2021 |
|---|---|
| Common Equity Tier 1 (CET1) capital | 174,913 |
| Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied | 173,341 |
| Tier 1 capital | 174,913 |
| Tier 1 capital as if IFRS 9 transitional arrangements had not been applied | 173,341 |
| Total capital | 204,913 |
| Total capital as if IFRS 9 transitional arrangements had not been applied | 203,341 |
| **Risk-weighted assets (£'000)** | |
| Total risk-weighted assets | 923,302 |
| Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied | 921,730 |
| **Capital ratios** | |
| Common Equity Tier 1 (as a percentage of risk exposure amount) | 18.94% |
| Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 18.81% |
| Tier 1 (as a percentage of risk exposure amount) | 18.94% |
| Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 18.81% |
| Total capital (as a percentage of risk exposure amount) | 22.19% |
| Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 22.06% |
| **Leverage ratio** | |
| Leverage ratio total exposure measure | £2,190,634 |
| Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied | £2,189,062 |
| Leverage ratio | 7.99% |
| Leverage ratio as if IFRS 9 transitional arrangements had not been applied | 7.92% |

### Qualitative information

Narrative disclosures in respect of the reliefs applied by the Bank in respect of IFRS 9 transition under Article 473a are set out in Section 4. The Bank has no assets carried at Fair Value through Other Comprehensive Income and therefore the relief set out in Article 468 to such assets is not applicable to it.

# 19. Appendix 4: Leverage Ratio Template

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

| £'000 | | CRR Leverage Ratio Exposure 31 December 2021 | CRR Leverage Ratio Exposure 31 December 2020 |
|---|---|---|---|
| 1 | Total Assets as per published financial statements | 2,190,531 | 1,522,362 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | - | - |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) NO 575/2013) | - | - |
| 4 | Adjustment for derivative financial instruments | 3,320 | 2,903 |
| 5 | Adjustment for securities financing transactions (SFTs) | - | - |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 31,101 | 26,831 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013) | - | - |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013) | - | - |
| 7 | Other adjustments | (34,318) | (4,153) |
| **8** | **Leverage ratio total exposure measure** | **2,190,634** | **1,547,943** |

**Table LRCom: Leverage ratio common disclosure**

| £'000 | | CRR Leverage Ratio Exposure 31 December 2021 | CRR Leverage Ratio Exposure 31 December 2020 |
|---|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | | |
| 1 | On-balance sheet exposures (excluding derivatives and SFTs, but including collateral) | 2,171,708 | 1,528,252 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (15,495) | (10,043) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **2,156,213** | **1,518,209** |
| **Derivative Exposures** | | | |
| 4 | Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin) | 218 | 507 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 3,102 | 2,396 |
| EU-5a | Exposure determined under Original Exposure Method | - | - |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | - | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | - | - |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | - | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - | - |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - | - |
| **11** | **Total derivative exposures (sum of lines 4 to 10)** | **3,320** | **2,903** |

| £'000 | | CRR Leverage Ratio Exposure 31 December 2021 | CRR Leverage Ratio Exposure 31 December 2020 |
|---|---|---|---|
| **Securities financing transaction exposures** | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | - | - |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - |
| 14 | Counterparty credit risk exposure for SFT assets | - | - |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013 | - | - |
| 15 | Agent transaction exposures | - | - |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | - | - |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **-** | **-** |
| **Other off-balance sheet exposures** | | | |
| 17 | Off-balance sheet exposures at gross notional amount | 268,309 | 263,391 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (237,208) | (236,560) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 to 18)** | **31,101** | **26,831** |
| **Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off-balance sheet)** | | | |
| EU-19a | (Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet)) | - | - |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet)) | - | - |
| **Capital and total exposures** | | | |
| 20 | Tier 1 Capital | 174,913 | 151,737 |
| 21 | Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 2,190,634 | 1,547,943 |
| **Leverage Ratio** | | | |
| 22 | Leverage Ratio | 8% | 10% |

| Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) | | | |
|---|---|---|---|
| £'000 | | CRR Leverage Ratio Exposure 31 December 2021 | CRR Leverage Ratio Exposure 31 December 2020 |
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **2,171,708** | **1,528,252** |
| EU-2 | Trading book exposures | - | - |
| **EU-3** | **Banking book exposures, of which:** | **2,171,708** | **1,528,252** |
| EU-4 | Covered Bonds | 20,043 | 20,072 |
| EU-5 | Exposures treated as sovereigns | 409,091 | 135,563 |
| EU-7 | Institutions | 14,566 | 21,930 |
| EU-8 | Secured by mortgages of immovable property | 1,283,417 | 914,915 |
| EU-9 | Retail exposures | 195,903 | 216,085 |
| EU-10 | Corporate | 62,534 | 40,937 |
| EU-11 | Exposures in default | 22,572 | 6,559 |
| EU-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 163,582 | 172,191 |

# 20.
# Omissions Rationale

| CRR reference | High level summary | Omission rationale |
|---|---|---|
| 441 | Indicators of global systemic importance | HTB is not classified as a G-SII |
| 445 | Exposure to market risk | The Bank does not have a trading book |
| 447 | Exposures in equities not included in the trading book | The Bank does not have any equity exposures |
| 452 | Use of IRB approach to credit risk | The Bank assesses its Pillar 1 credit risk requirement under the Standardised Approach |
| 454 | Use of Advanced Measurement Approaches to Operational Risk | The Bank assesses its Operational risk under the Basic Indicator Approach |
| 455 | Use of internal market risk models | The Bank does not have any permissions to use internal models for exposures set out in Article 363 |

# 21. Glossary

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

| | |
|---|---|
| **ABS** | Asset Backed Securities |
| **ALCO** | Asset and Liability Committee |
| **BIA** | Basic Indicator Approach - set of operational risk measurement techniques specified by BCBS and detailed in the CRR IV, used to calculate Capital required for Operational Risk |
| **CBILS** | Coronavirus Business Interruption Loan Scheme |
| **CCB** | Capital Conservation Buffer |
| **CCyB** | Counter Cyclical Buffer |
| **CET 1** | Common Equity Tier 1 |
| **COVID-19** | Coronavirus |
| **CRD IV** | Capital Requirements Directive IV |
| **CRR** | Capital Requirements Regulation |
| **ECL** | Expected Credit Loss |
| **EIR** | Effective Interest Rate |
| **FPC** | Financial Policy Committee (of the Bank of England) |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **ILTR** | Indexed Long-Term Repo Scheme |
| **ILTR** | Indexed Long-Term Repo Scheme |
| **IRRBB** | Interest Rate Risk in the Banking Book |
| **Leverage ratio** | The ratio of Tier 1 capital divided by total exposure, which includes on and off-balance sheet assets, after netting derivatives. |
| **LIBOR** | London Interbank Offered Rate |
| **Liquidity coverage ratio** | Measure designed to ensure that financial institutions have sufficient high-quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario. |
| **LTV** | Loan to value, expresses the balance of a mortgage as a percentage of the value of the property. The Bank calculates residential mortgage LTVs on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in a house price index). |
| **Loans past due** | Loans on which payments are overdue including those on which partial payments are being made. |
| **MCR** | Minimum Capital Requirement |
| **MRT** | Material Risk Takers - group of employees to whom the FCA's Remuneration Code applies. MRTs consist of Executive Directors, Non-Executive Directors and certain senior managers who could have a material impact on the firm's risk profile. |
| **Pillar 1** | The first pillar - Minimum Capital Requirement covers total risk including the credit risk, market risk as well as Operational Risk |
| **Pillar 2** | The second pillar - Supervisory Review Process is intended to ensure that the banks have adequate capital to support all the risks associated in their businesses |
| **Pillar 3** | The third pillar is completed through these disclosures of capital structure and approaches to assess the capital adequacy including the governance |

| | |
|---|---|
| **PRA** | Prudential Regulation Authority |
| **RLS** | Recovery Loan Scheme |
| **RWA** | Risk Weighted Assets – value of assets, after adjustment, under CRD IV rules to reflect the degree of risk they represent. |
| **SICR** | A significant increase in credit risk on a financial asset is judged to have occurred when an assessment using quantitative and qualitative factors identifies that the credit risk has increased significantly since the asset was originally recognised. |
| **SMF** | Senior Management Functions |
| **SONIA** | Sterling Overnight Index Average |
| **The Bank** | Hampshire Trust Bank Plc |
| **Tier 1 capital** | Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits |
| **Tier 2 capital** | Tier 2 capital comprises regulated subordinated liabilities |
| **TFS** | Term Funding Scheme |
| **TRC** | Total Regulatory Capital |

PILLAR 3 DISCLOSURES 2021

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