Hampden & Co.
BANKERS

Pillar 3 Disclosures

Year Ended 31st December 2019

Contents

1 Overview

1.1 Introduction

2019 represents Hampden & Co plc's ("the Bank") fourth full year of trading.

The Bank provides a discreet, personal service delivered with care and courtesy by dedicated and experienced private bankers supplemented by digital channels. When combined with a thorough knowledge of the client and related family members, tailored services and continuity of personnel, the Directors of Hampden & Co. ("the Board") believe this is highly appealing to its high net worth target market – how banking should be.

The Board has determined that the core strategy is to continue to grow the Bank in a prudent manner both organically and, where appropriate, by selective acquisitions, whilst remaining focused on the interests of clients and the provision of a high-quality service. The services the Bank offers are straightforward, centred on current accounts, savings, mortgages and loans. Debit cards are available, but the Bank does not operate a credit card. In 2019 the Bank continued to add to the services offered with the launch of a mobile digital banking app. Although the Bank does not intend to be at the leading edge of technological development, it does need to be competitive in its use of technology to enhance services to clients. This can be achieved at lower cost by using proven technology.

Scope of disclosure

The disclosures contained within this document are for the single legal entity Hampden & Co plc (Company registration number SC386922). The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and PRA (Financial Services Register number 606934). The Bank's capital for prudential regulatory reporting purposes is calculated in line with the Capital Requirements Regulation and Capital Requirements Directive ("CRD IV"), implemented under the Basel III framework of the Basel Committee on Banking Supervision and enforced in the UK by the PRA. The aim of CRD IV is to improve financial stability through strengthening the regulation, supervision and risk management of the banking sector in order to provide security for depositors.

The Basel III framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements for credit, operational and market risk;
- Pillar 2 sets out requirements for banks to assess risks that are specific to them and, if appropriate, to hold additional capital over and above that required for Pillar 1. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP");
- Pillar 3 complements the capital requirement and supervisory review process by encouraging market discipline through expanded disclosures that enable investors and market participants to understand a firm's capital resources, key risk exposures and risk management processes.

This document sets out the Pillar 3 disclosures and has been prepared in accordance with Part Eight of the Capital Requirements Regulation (575/2013).

1.2 Basis and frequency of disclosure

This Pillar 3 report is based upon the Bank's Annual Report and Financial Statements ("Financial Statements") for the year ended 31 December 2019.

Pillar 3 disclosures are issued on an annual basis and are published on the Bank's website (www.hampdenandco.com) as soon as practical after the publication of the Bank's Financial Statements. The Financial Statements include a range of risk factors and provide details on the specific risks to which the Bank is exposed. These Pillar 3 disclosures provide additional information over and above that contained in the Financial Statements.

These Pillar 3 disclosures were reviewed and approved by the Board on 24 April 2020. They are not subject to external audit except where the information contained also appears in the Bank's Financial Statements.

2 Governance and Risk Management

2.1 Introduction

Ultimate responsibility for governance and risk management rests with the Board.

The Board sets and regularly reviews the Bank's risk appetite in light of strategic, commercial and economic aims together with statutory and regulatory requirements. This is complemented by the Bank's culture of putting clients' interests at the heart of the business and the development and maintenance of long-term relationships with clients.

CRD IV requires a concise risk statement approved by the management body describing the institution's overall risk profile associated with the business strategy. The Bank's risk strategy is to maintain a cautious approach to risk taking in line with the traditional nature of private banking in order to build long term, sustainable shareholder value. Risk management capabilities and the Bank's control environment are expected to remain appropriate to, and develop in line with, the nature and size of the business.

The risk strategy recognises that:

- the Bank has yet to achieve self-sufficiency, a principal risk that the Board seeks to address;
- developing the Bank's client acquisition capabilities and appeal through excellent client service and fair outcomes are essential to the Bank's success; and
- in terms of financial soundness and reputation, it is paramount that the Bank is operationally resilient, compliant and sustainable throughout economic cycles and other severe stresses with limited profit/loss volatility.

The Bank is UK focused, does not undertake proprietary trading and manages capital and liquidity in a controlled manner. The Bank has a Tier 1 ratio of 26% (2018: 41%) as at 31 December 2019. Other key ratios are disclosed in the Bank's Financial Statements within the Strategic Report: Key Performance Indicators (page 5).

The Board has established a comprehensive risk management and governance framework and seeks to balance opportunities, risks and rewards by setting a risk appetite appropriate for building a highly respected reputation necessary for the sound delivery of the Bank's strategic objectives and meeting stakeholders' expectations. As such there is vigilant monitoring of, and response to, any events which could potentially damage the Bank's reputation. The Board considers that its system of governance and risk management arrangements, including governance committees, risk management systems and controls, are appropriate and consistent relative to the Bank's profile and strategy.

A key element of the Bank's risk management framework is the business culture. An important objective of the Board is to have:

- Board and Committee members that openly champion client needs and fair outcomes for clients, voice the views of the business areas they represent and challenge each other in an open and constructive manner thus demonstrating an appropriate tone from the top to others within the organisation;
- a Board that promotes a robust governance, risk and compliance culture, ensuring appropriate segregation of duties and avoiding conflicts of interest;
- staff who seek to understand the needs of clients and treat them fairly;
- staff who act with integrity and honesty and within the limits of their delegated authorities and accountabilities;
- staff who understand and manage the risks they take on behalf of the Bank and who are given the appropriate training to do so;
- a performance appraisal process which takes achievement of risk management objectives into account for all staff;
- a remuneration policy which promotes teamwork, reinforcing the culture required to deliver the Bank's strategy;
- staff who are actively encouraged to identify and report failings and to take proactive steps to address weaknesses when they are discovered;
- a whistleblowing process in place should staff require to escalate an issue outside of the normal management reporting lines;
- adequate induction and continuing professional development training for all members of staff.

The Bank's risk management framework adopts a "three lines of defence" model which provides clear delineation of responsibilities between risk control by the business areas (first line), monitoring and challenge by the risk and compliance functions (second line) and independent assurance by internal audit (third line).

Risk and Control Assessments ("RACA") are used across the Bank to support the identification, assessment and control of key risks. The RACA is maintained in conjunction with the Bank's risk function which provides challenge and oversight of the process. An events reporting process is in place to inform management of issues and to ensure appropriate and prompt remedial action and client remediation is taken where necessary. Stress testing and scenario analysis are performed as part of capital and liquidity adequacy planning.

An enterprise wide risk report is considered by the Board at each meeting.

2.2 Key Governance Committees

2.2.1 The Board

The Board is the main decision-making forum on strategic issues and for setting key policies. It ensures the Bank manages risk effectively through approving and monitoring the Board's policy principles and risk appetite, considering stress scenarios and agreed mitigants, and identifying longer term strategic threats to the Bank's business operations. The Board approves the Bank's ICAAP, Internal Liquidity Adequacy Assessment Process ("ILAAP"), Recovery Plan & Resolution Pack and policy principles. Members of the Board are deemed to have adequate collective knowledge, skills and experience to be able to understand the Bank's activities, including its main risks. Each member of the Board is able to commit sufficient time required by the Bank in line with the demands of a growing business. The Board met 14 times in the year to 31 December 2019.

2.2.2 Audit and Risk Committees

Supporting the Board's oversight of the Bank's risk management are the Board Audit Committee ("BAC") and Board Risk Committee ("BRC"), both comprised of Non-Executive Directors.

Chaired by an Independent Non-Executive Director, the BAC recommends the internal and external audit approaches and the Financial Statements to the Board. It also approves and oversees the internal and external audit plans, receives internal and external audit reports and oversees the relevant management responses.

Also chaired by an Independent Non-Executive Director, the BRC supports the Board's risk governance through assigned responsibilities which include recommending to the Board the business risk appetite and relevant monitoring measures, and approval and oversight of key policies adopted by the business. The BRC provides oversight of the assessment and appropriate control of the key risks by management in line with the Board's risk appetite.

In 2019 the Audit and Risk Committees were combined as the Audit and Risk Committee ("ARC") which met eight times in the year to 31 December 2019. The BAC and BRC were reinstated from the ARC in early 2020.

2.2.3 Remuneration Committee

This is a Board sub-committee chaired by an Independent Non-Executive Director or the Chairman. The Remuneration Committee provides independent oversight and recommendations on remuneration policies, including independent reviews and assessments of any incentive schemes. It met twice in the year to 31 December 2019.

2.2.4 Nominations Committee

This Board sub-committee is chaired by the Chairman. The function of the Nominations Committee is to periodically review the composition and succession of the Board and its committees and to ensure the Board has a sufficient balance of knowledge, skills and experience for effective delivery of the Bank's strategy. Fundamental to the composition of the Board is equality of opportunity regardless of age, disability, ethnicity, gender, religion or belief or sexual orientation. Whilst the Board has not set a specific diversity target, it is satisfied with the current level of diversity. The Nominations Committee met once in the year to 31 December 2019.

2.2.5 Executive Management Committee ("EMC")

The Board has delegated responsibility of the implementation of the strategy and day-to-day management of the Bank's activities to the Chief Executive Officer ("CEO"), who is supported by the EMC. The EMC comprises the Bank's Executive Directors and senior management team. Chaired by the CEO, the EMC meets regularly to oversee and ensure the efficient implementation of the Bank's strategy, operational plans and budgets, the monitoring of business risks, operating and financial performance, and the prioritisation and allocation of resources.

2.2.6 Risk Management Committee ("RMC")

This management committee is chaired by the Chief Risk Officer ("CRO"). The RMC is responsible for maintaining, monitoring and reporting the Key Risk Indicators of the business, as established by the BRC, and for overseeing the implementation of any action plans required to enhance the risk control environment. It proposes policies for approval, other than those under the remit of ALCO and CC. The RMC also monitors compliance with key policies and assesses the impact of changes to the legal and regulatory environment.

2.2.7 Assets & Liabilities Committee ("ALCO")

Reporting into RMC, this management committee is chaired by the CEO and is responsible for managing balance sheet risk within the limits set by the Board, together with establishing and reviewing the measurement, pricing and performance of the Bank's assets and liabilities. ALCO proposes market, capital and liquidity risk policies for approval.

2.2.8 Credit Committee ("CC")

Reporting into RMC, this management committee is chaired by the CEO and is responsible for monitoring credit performance, agreeing and monitoring individual delegated credit authorities, proposing credit risk policies and sanctioning credit facilities within Board approved limits.

2.2.9 Conduct & Compliance Committee ("CCC")

Reporting into RMC, this management committee is chaired by the CRO and is responsible for monitoring the compliance and conduct of the Bank.

2.2.10 Operational Resilience Committee ("ORC")

Reporting into RMC, this management committee is chaired by the Chief Operating Officer and is responsible for developing, monitoring and testing the operational resilience of the Bank.

2.3 Principal Risks

To varying degrees of significance the principal risks faced by the Bank, and which could impact the reputation of the Bank, are:

- business/strategic risk;
- capital risk;
- conduct risk;
- credit risk;
- liquidity risk;
- market risk (including interest rate risk); and
- operational risk, which the Bank has categorised into operational (including cyber), financial reporting and regulatory risks (including financial crime).

2.3.1 Business/Strategic risk

Business risk is the risk that the Bank fails to execute its strategy or fails to execute elements of its business plan effectively. This includes failing to build capabilities, or the inability to meet goals due to changes in the economic or political environment. Actual and forecast performance trends are monitored on a weekly basis and any action needed is discussed by both the EMC and the Board. Management of this risk is designed to keep the Bank safe and protect against earnings, growth and strategic shocks and demonstrate consideration of risks and rewards in short and longer term decision making.

The Bank recognises that climate change is a global issue which has significant implications for its clients, suppliers, partners and employees. A strategic review of climate related risks and opportunities has been initiated as part of a wider plan of work addressing climate change, including delivering on the regulatory requirements through enhancing the measurement of the Bank's exposure to the physical and transition risks that may arise. To date no material exposure to financial risks from climate change has been identified. The onus on companies to demonstrate their commitment to tackling climate change is expected to increase and the Bank will keep its plans under review to ensure they remain appropriate and in line with evolving regulatory requirements.

The Bank's response to the Covid-19 outbreak is being closely managed by the EMC, supported by the Bank's operational resilience framework. Around 98% of employees are working from home and disruption to service levels has been minimal with clients still able to contact their nominated Private Banker via the normal channels and to access the full range of transactional services. Regular contact is being maintained with key suppliers who continue to deliver their contracted services and payments to suppliers have not been affected. The Bank is committed to supporting its employees and clients and to maintaining the quality of its service throughout the Covid-19 outbreak. The Board recognises, however, that the economic impact of Covid-19 will slow the Bank's growth and likely extend its time to profitability, at least in the short to medium-term.

2.3.2 Capital risk

Capital risk is the risk that the Bank does not have sufficient capital to meet the requirements of the business including under stressed conditions. The Bank is, and will continue to be, dependent on new capital investment until the Bank generates its own.

The Bank is required to hold capital which is permanent and which meets regulatory requirements. The Bank's policy is to maintain its capital base at a level which is adequate, both as to amount and quality, to ensure that the Bank's liabilities can be met as they fall due and its strategy achieved. There is a low appetite for taking actions which may compromise either the quantum or quality of capital to the extent that the Bank may fail to meet the strict regulation in place for capital adequacy of firms.

The Bank monitors and assesses optimal use of its capital and capital adequacy regularly to ensure its capital exceeds requirements with regular reporting to ALCO, RMC, BRC and the Board. This is in line with the Bank's Capital Management Policy for maintaining a strong capital base that is above the capital requirement level set for it by the PRA.

2.3.3 Conduct risk

Conduct risk refers broadly to practices that give rise to unfair outcomes. The Bank manages this risk by putting clients' interests at the heart of the business, seeking to develop and maintain long-term relationships with its clients and by being focused on providing products and services relevant to their needs. The Bank relies on its reputation to build its business and sees the adherence to good conduct principles and delivery of fair outcomes as of paramount importance. The results from the monitoring of client outcomes and other conduct risk indicators are reported to the RMC and the Board. High levels of client advocacy contribute to the Bank's growth and help promote shareholder confidence. All staff are required to adhere to an internal Code of Conduct and regulatory conduct rules, which require attainment of the highest levels of integrity and ethical behaviour towards the business, colleagues, clients, suppliers and regulators.

2.3.4 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank and arises from lending to clients (a mix of private individuals, trusts and SME business lending) and treasury counterparties. Credit policies, principles and risk appetite metrics are designed to protect the business throughout economic cycles by ensuring the credit portfolio is of high quality, with a low overall percentage of unsecured lending and relatively low monetary limits for individual unsecured lending cases.

Lending propositions are subject to thorough credit assessment, including affordability and stress testing at increased rates at a percentage over the prevailing rate at loan origination. The Board attaches significant importance to ensure that, in addition to adhering to all regulatory requirements and imbuing an aspirational culture amongst its staff, the highest levels of integrity are employed in all its dealings with clients. In particular, the Bank has established a separate Responsible Lending Policy to which all staff involved in lending and the decision-making process must adhere. In order to mitigate risk in the lending book the Bank has in place formal procedures to set authority limits and assess borrowing applications. Credit approval follows a hierarchical approach where the key differentiator between each approval category is the maximum credit exposure each group can authorise. The Credit Risk team and CC provide a challenge and review process by undertaking sample reviews of all credit exposures agreed in the authorisation matrix. The CC is also responsible for the approval of large exposures in line with the Board approved credit risk policy and limits, which are subject to periodic review.

The Bank seeks to mitigate credit risk by setting and monitoring geographical, business sector and product type limits to avoid the emergence of concentration risk within the client base. Disclosure of credit risk by geographical location is included below and disclosure by exposure class is detailed in section 3.2.

The tables below show the Bank's credit risk exposures by geographical area:

31 December 2019	**United Kingdom £'000**	**North America £'000**	**Other £'000**	**Total £'000**
Cash and balances at central banks	119,658	-	-	**119,658**
Loans and advances to banks	62,197	66,535	-	**128,732**
Loan and advances to clients	265,421	-	8,236	**273,657**
Other assets	5,579	-	-	**5,579**
Total	**452,855**	**66,535**	**8,236**	**527,626**

31 December 2018	**United Kingdom £'000**	**North America £'000**	**Other £'000**	**Total £'000**
Cash and balances at central banks	91,101	-	-	**91,101**
Loans and advances to banks	32,931	48,623	-	**81,554**
Loan and advances to clients	157,346	-	2,290	**159,636**
Other assets	4,337	-	-	**4,337**
Total	**285,715**	**48,623**	**2,290**	**336,628**

The following tables show the residual maturity of the Bank's exposures:

At 31 December 2019	**Up to 1 month £000**	**1-3 months £000**	**3-12 months £000**	**1-5 years £000**	**Over 5 years £000**	**Total £000**
Cash and balances at central banks	119,658	-	-	-	-	119,658
Loans and advances to banks	101,970	7,575	19,187	-	-	128,732
Loans and advances to clients	115,075	3,068	13,845	87,792	53,877	273,657
Total	**336,703**	**10,643**	**33,032**	**87,792**	**53,877**	**522,047**

At 31 December 2018	**Up to 1 month £000**	**1-3 months £000**	**3-12 months £000**	**1-5 years £000**	**Over 5 years £000**	**Total £000**
Cash and balances at central banks	91,101	-	-	-	-	91,101
Loans and advances to banks	64,393	3,008	14,153	-	-	81,554
Loans and advances to clients	41,941	1	5,054	74,510	38,130	159,636
Total	**197,435**	**3,009**	**19,207**	**74,510**	**38,130**	**332,291**

The nature of the Bank's lending reduces the risk of default in the portfolio. For the year ended 31 December 2019 the expected credit loss was £8k (2018: £31k).

A position is defined as in default when it meets one of the following criteria:

- A facility's contractual payments are more than 90 days past due;
- It is considered that the client is unlikely to pay their credit obligation to the Bank in full, without recourse actions such as the realisation of security (if held).

An instrument is considered to be no longer in default when it no longer meets the above default criteria and has returned to being up to date on its contractual repayments. There was one exposure at 31 December 2019 which was greater than 90 days past due (2018: one), and it has been classified within stage 3, credit impaired.

Further details can be found in note 2.8 to the Financial Statements.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining collateral where appropriate to mitigate credit risk. For lending to clients, collateral is primarily in the form of residential or commercial property based in the UK or UK-managed share portfolios.

The table below details the Bank's age analysis of accounting past due exposures:

At 31 December 2019	**Amount Past Due £000s**	**Gross carrying value £000s**
Past due less than a month	-	-
Past due more than a month less than three months	-	-
Past due more than three months	6	372
Total	**6**	**372**

The table below shows the credit quality of loans and advances to clients:

	Gross carrying values		**Allowances/ Impairments**	**of which ECL accounting provisions for credit losses on SA exposures (regulatory specific)**	**Net Values**
	Defaulted Exposures	**Non-Defaulted Exposures**			
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Loans	372	203,442	7	7	203,807
Off-balance sheet exposures	7	69,514	1	1	69,520
Total	**379**	**272,956**	**8**	**8**	**273,327**

Credit risk includes treasury counterparty risk, being the loss that might arise from counterparties of the Bank with whom it places its surplus funds. The types of financial instruments used by the Bank which can give rise to counterparty risk are balances with central banks, money market placements, liquidity funds and foreign exchange transactions. Treasury counterparties are required to meet a minimum credit rating as defined in the Bank's counterparty policy principles approved by the Board. The use of treasury counterparties and counterparty limits are approved and monitored by ALCO.

The Bank uses an agent to source external credit assessment ratings provided by Fitch for calculating the credit risk requirements under the standardised approach for treasury exposures. The tables below show the breakdown of counterparty exposures, risk weights, risk weighted assets ("RWAs"), credit assessment rating and credit quality step.

31 December 2019	Exposure value £'000	Risk weight %	RWAs £'000	Rating	Credit Quality Step
Cash and balances with central banks	119,658	0%	-	AA	1
Loans and advances to banks	66,283	0%	-	AAA	1
Loans and advances to banks	14,977	20%	2,995	A	2
Loans and advances to banks	19	20%	4	A+	2
Loans and advances to banks	7,827	20%	1,565	BBB+	3
Loans and advances to banks	23,050	20%	4,610	AA-	1
Loans and advances to banks	6,788	50%	3,394	A	2
Loans and advances to banks	3,788	50%	1,894	A+	2
Loans and advances to banks	6,000	50%	3,000	BBB+	3
	248,390		**17,462**		

31 December 2018	Exposure value £'000	Risk weight %	RWAs £'000	Rating	Credit Quality Step
Cash and balances with central banks	91,101	0%	-	AA	1
Loans and advances to banks	48,363	0%	-	AAA	1
Loans and advances to banks	6,552	20%	1,310	A	2
Loans and advances to banks	9,457	20%	1,891	A-	2
Loans and advances to banks	19	20%	4	A+	2
Loans and advances to banks	3,008	20%	602	BBB+	3
Loans and advances to banks	10,153	50%	5,077	A	2
Loans and advances to banks	4,000	50%	2,000	BBB+	3
	172,653		**10,884**		

2.3.5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due. Liquidity is the ongoing ability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity risk is inherent within the Bank's operating model as profit generation relies on short term contractual maturity of deposits versus long term lending to generate revenues.

The Board accepts a limited level of risk to achieve the Bank's strategic goals and sets its risk appetite and liquidity requirement measures accordingly. It recognises that in the early stages of development, there is a concentration of depositors and so seeks to establish a loyal, diverse and stable client base. The Bank seeks to minimise liquidity risk on a forward-looking basis via its Treasury function which is responsible for managing liquidity risk within the Bank's risk appetite under the supervision of ALCO.

The Bank maintains an ILAAP, which is approved annually by the Board. It includes a description of the governance and authority arrangements in the Bank and articulates the risk tolerance. When assessing liquidity risk, the Bank considers the amount of assets held as eligible buffer assets being highly liquid, marketable forms that are available should unexpected cash flows lead to a liquidity requirement.

The Liquidity Coverage Ratio ("LCR") is a short-term funding ratio which aims to ensure the Bank maintains an adequate level of liquidity to meet its net cash requirements for a 30 day period under stressed conditions. As at 31 December 2019 the liquidity buffer was £185.9m (2018: £139.5m), net liquidity outflow was £39.8m (2018: £27.4m) and LCR was 467% (2018: 509%). The Bank's LCR was above the minimum regulatory requirement throughout the year.

2.3.6 Market risk

Market risk is the risk that the value of the Bank's earnings and economic value will decrease due to changes in the value of financial market prices. The Bank is exposed to two main types of market risk - interest rate risk and foreign exchange risk - both of which are managed to reduce the impact of market movements.

The Bank does not have a trading book and does not undertake proprietary trading activities.

2.3.6.1 Interest rate risk

Interest rate risk is the risk that arises from volatility in interest rates. The Bank does not operate a trading book and all exposures to interest rate risk arises from banking activities. Where possible, the Bank seeks to match the interest rate structure of assets with liabilities (mainly deposits), creating a natural hedge. Where this is not possible, the Bank may enter into interest rate swap agreements to hedge any exposure. The Bank's exposure to interest rate changes is managed within Board approved limits by the Treasury function and regularly reported to ALCO. One such internally reported measure is MV, or Economic Value of Equity, where the Treasury function calculates changes in the net present value of the balance sheet under a 2% yield curve shock. The results at both 31 December 2019 and 2018 did not show a material change in net present value. Basis risk arises where assets and liabilities re-price with reference to differing short term interest rate benchmarks (e.g. Bank of England base rate and Sterling Overnight Index Average). Basis risk is reported to ALCO on a monthly basis and ALCO has set limits to manage this risk.

2.3.6.2 Foreign exchange risk

The Treasury function manages the risk of failing to control the effects of material movements in foreign exchange markets through adherence to agreed limits and risk appetite metrics, overviewed by members of ALCO, and reported to RMC, BRC and Board. Client deposit accounts denominated in foreign currencies are currently, and for the foreseeable future, naturally hedged on both sides of the balance sheet.

2.3.7 Operational Risk

Operational risk is the risk of loss resulting from failed or inadequate internal processes, systems, people or from external events. The operational risks and policies (in their widest sense i.e. regulatory, operational, financial reporting and business) are monitored and controlled through the RMC. Key risk appetite metrics are monitored, at a minimum, on a monthly basis and reported to the RMC, BRC and Board. Operational processes are closely monitored for evidence of avoidable operational risk factors and, when identified, processes are amended to minimise the potential impact. New or amended processes are screened to ensure that operational risk has been considered and its impact managed in line with the Board's risk appetite.

The principal sources of other operational risks for the Bank stem from client account management, IT systems, information security and outsourcing. These risk sources include "cyber" risks, principally in relation to information security and financial crime. Availability, resilience and security of IT systems are core objectives which are fundamental to meeting clients' needs and maintaining their confidence in the Bank's services. As the pace of technological development increases, so does the threat of new cyberattacks. Accordingly, the Board, BRC and RMC have increased their focus on maintaining an effective cyber threat identification and control framework. The ORC oversees the Bank's arrangements.

The Bank has a number of supplier outsourcing arrangements which are managed by ensuring appropriate oversight and governance, supplier assessment and monitoring and control procedures are in place. Robust contractual arrangements are agreed with each outsourced supplier, including detailed service level agreements at an appropriately granular level.

The Bank has a dependency on a number of key individuals and small teams. In addition to developing a succession plan, the Board recognises the importance of a positive and rewarding working environment to mitigate this risk.

As the Bank grows and enhances its client services and digital capabilities, it will have due regard to the evolving risks and develop its people, systems, processes and controls accordingly. Other threats and opportunities to the business arise from the economic, political and regulatory arena, not least the economic impact of Covid-19 and the UK's departure from the European Union ("EU"), and these are subject to on-going monitoring and review. Material events are escalated in line with policy to the Board and/or the most appropriate risk committee(s).

Business continuity plans, which include actions required in response to a cyber incident, are in place and are regularly updated and tested. The Bank uses external disaster recovery sites as back up locations for its IT systems and operational activity.

The Bank's insurance coverage is reviewed annually.

2.3.7.1 Financial Reporting Risk

This is the risk of failing to monitor and accurately report financial positions to the Board, regulators and key stakeholders through monthly management accounts and the annual Financial Statements. This includes failing to manage the risks of changes in taxation legislation and rates or to disclose accurate and timely information in the Financial Statements and to HMRC. Systems and controls are designed to ensure that accounting and tax policies meet the letter and spirit of legislation and prevent high value unresolved differences in general ledger accounts.

2.3.7.2 Regulatory Risk

The principal sources of regulatory risk relate to the failure to prevent breaches of regulatory or legal requirements, including financial crime. It is important to the Bank to adhere to the letter and spirit of all relevant laws, regulations and codes of practice and to adopt an open and transparent relationship with regulators. The Bank recognises that the volume and complexity of EU and UK requirements is a key source of risk to successful implementation of regulatory change.

3 Capital Resources and Requirements

The Bank is required to hold capital resources in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for capital resources. The Board is required to manage the present and future activities within these parameters. At 31 December 2019 and 2018 the Bank's capital position was in excess of the minimum requirement set by the PRA.

3.1 Composition of regulatory capital and key ratios for the Bank

	Dec-19 £'000	Dec-18 £'000	Movement £'000
Common Equity Tier 1			
Paid up ordinary share capital	3,322	59,902	(56,580)
Share premium	-	15,066	(15,066)
Retained earnings & other reserves	41,542	(35,116)	76,658
Less: deductions for intangible assets	(2,342)	(2,910)	568
Total Regulatory Capital	**42,522**	**36,942**	**5,580**
Capital Ratio	26%	41%	
Leverage Ratio	9%	11%	

The Bank restructured its share capital during 2019 in order to reduce the number of shares in issue to a more manageable number and to simplify the capital base, as follows:

- **Share capital consolidation**: Every 20 existing ordinary shares of £0.05 each were converted into 1 ordinary share of £1.00. This reduced the number of ordinary shares in issue from 1,328,902,840 to 66,445,142.
- **Reduction of capital**: The nominal value of ordinary shares was reduced from £1.00 to £0.05 by cancelling capital to the extent of £0.95 on each ordinary share. The amount of share capital so cancelled (£63.1m) has been credited to retained earnings.
- **Share premium cancellation and redemption reserve cancellation**: The balances on the share premium account and the capital redemption reserve (total £18.1m) have been cancelled and transferred to retained earnings.

The share capital consolidation, reduction of capital, share premium cancellation and redemption reserve cancellation (collectively "the share capital restructure") were approved by the Bank's shareholders at a general meeting on 19 November 2019. The reduction of capital, share premium cancellation and redemption reserve cancellation were also approved by the Court of Session in Edinburgh on 17 December 2019.

The share capital restructure had no impact on cash, net assets or the Bank's regulatory capital, other than the implementation costs of £0.1m which were charged to the share premium account prior to its cancellation.

The table below reconciles shareholders' funds within the audited Financial Statements to the total regulatory capital as shown above.

	Dec-19 £'000	Dec-18 £'000
Total shareholders' funds per the balance sheet	44,864	39,852
Less: Intangible assets	(2,342)	(2,910)
Total Regulatory Capital	**42,522**	**36,942**

3.2 Pillar 1 Capital Resources Requirement

	Dec-19 £'000s	Dec-18 £'000
Total Capital Resources Requirement		
Market Risk (Note 1)	-	-
Credit Risk (Note 2)	12,450	7,010
Operational Risk (Note 3)	595	285
Pillar 1 capital requirement	**13,045**	**7,295**
Excess of Total Capital over Pillar 1 capital requirement	**29,477**	**29,647**

Notes:

1. As noted in Section 2.3.6 the Bank does not undertake proprietary trading activities and has no material exposure to Market Risk. The amount of capital required to cover possible losses on foreign exchange positions due to movements in foreign exchange rates is defined by the Foreign Exchange Position Risk Requirement.
2. The Standardised Approach is used to calculate the credit risk requirements.
3. For Operational Risk requirements, the Bank uses the Basic Indicator Approach providing for 15% of the average net income.

The following table shows the Bank's credit risk capital requirements by asset class. The exposure amounts considered for regulatory purposes are gross exposures after credit risk mitigation.

	Dec-19		Dec-18	
Pillar 1 Credit risk capital requirement by exposure class	**RWAs £'000**	**Capital Requirement £'000**	**RWAs £'000**	**Capital Requirement £'000**
Institutions	17,462	1,397	10,884	871
Corporates	32,760	2,621	830	66
Retail	165	13	146	12
Secured by mortgages on immovable property	87,384	6,991	67,268	5,381
Exposures in default	552	44	-	-
Items associated with particular high risk	13,396	1,072	7,051	564
Other items	3,908	312	1,451	116
	155,627	**12,450**	**87,630**	**7,010**

The increase in RWAs and associated capital requirement during 2019 reflects growth in loans and advances to clients, including the acquisition of a £31m portfolio lending book from Smith & Williamson. These loans are secured against Smith & Williamson client investment portfolios and categorised in the 'Corporates' exposure class.

In addition to the Pillar 1 minimum capital resources requirement shown above, the Bank is required to assess risks that are specific to its activities and, if appropriate, to hold additional capital over and above that required for Pillar 1. The assessment of the additional capital requirement, referred to as Pillar 2 capital, is achieved through the ICAAP. The objectives of the ICAAP are to:

- identify and embed a robust understanding throughout the Board and senior management of the risks faced by the business and the subsequent capital requirements;

- detail the risk management processes which control and mitigate these risks;
- outline the regulatory capital planning process followed;
- provide an internal assessment on the adequacy of current and future capital held;
- detail key stress tests run by management; and
- allow business policies to address risks identified.

Whilst the ICAAP, and internal processes and systems supporting it, are proportionate to the nature, scale and complexity of the Bank, the internal capabilities in this regard are continually being improved. The ICAAP is the responsibility of the Board and it is used as an integral part of the Bank's capital management process and decision making.

The Bank's leverage ratio is monitored monthly by ALCO and the Board and is included in the capital forecasts and stress tests which are part of the ICAAP. The Bank's leverage ratio of 9% (2018: 11%) is in excess of the minimum requirements. The leverage ratio has reduced since the prior year end, because on and off-balance sheet exposures have increased in the past 12 months as the Bank continues to grow.

Pillar 2A capital requirements are supplementary to Pillar 1 and under Pillar 2A additional minimum requirements are currently set by the PRA through issuance of bank specific Total Capital Requirement ("TCR"). This is the minimum amount of capital that is required to cover risks that are not fully covered by Pillar 1. The Bank's TCR as at 31 December 2019 was 13.5% of RWAs (2018: 13.28%).

The Bank is also required to hold CET1 capital to meet other regulatory capital buffers (together called the Combined buffer), these are:

<u>Capital conservation buffer</u>

The capital conservation buffer ("CCB") is a standard buffer which is designed to ensure sufficient capital buffers are built up to provide for losses in times of stress. At December 2019 the CCB was 2.5% (2018: 1.875%).

<u>Countercyclical capital buffer</u>

The countercyclical capital buffer ("CCyB") requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit future credit growth.

Each institution's specific CCyB rate is a weighted average of the countercyclical capital buffers that apply to the jurisdiction where the relevant credit exposures are located. The Financial Policy Committee ("FPC") is responsible for setting the UK CCyB rate and at 31 December 2019 the UK CCyB was set to 1% (2018: 1%). At 31 December 2019 the Bank's total CCyB was £1,614k (2018: £890k).

On 11 March 2020, as part of a package of Bank of England measures to respond to the economic shock from Covid-19, it was announced that the FPC has reduced the UK CCyB to 0% of banks' exposures with immediate effect. The CCyB had been set at 1% and was due to increase to 2% by December 2020. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

4 Remuneration

In compliance with financial services regulatory requirements, the Bank is required to make disclosures regarding the remuneration of Directors, Senior Management and Material Risk Takers ("MRTs") whose professional activities may have a material impact on the Bank's risk profile. The principles and practice underlying the remuneration of Code Staff applies throughout the Bank. However, for disclosure purposes, individuals defined as Code Staff by the PRA and FCA include all Directors, Senior Managers who have FCA or PRA Senior Manager Function responsibilities and MRTs and Significant Harm Functions who have the potential to impact materially on the Bank's risk profile.

Aggregate Remuneration paid to Code Staff in the year ending 31 December 2019 is summarised below:

Remuneration amount		**Directors**	**Senior Managers and MRTs**
Fixed remuneration	Number of employees	8	8
	Total fixed remuneration (£)	**691,870**	**567,581**
	Of which: cash based (£)	*679,060*	*477,170*
	Of which: shares or other share-linked instruments (£)	-	-
	Of which: other forms (£)	*12,810*	*90,411*
Variable remuneration	Number of employees	8	8
	Total variable remuneration (£)	**-**	**13,812**
	Of which: cash based (£)	-	*13,812*
	Of which: shares options (£)	**-**	**-**
	Of which: other forms (£)	-	-

The Bank's Remuneration Committee is a sub-committee of the Board and reports to the Board on a regular basis. The Remuneration Committee convenes at least once a year and during the year to 31 December 2019 it met twice and was chaired by an Independent Non-Executive Director or the Chairman.

The responsibilities, procedures and duties of the Remuneration Committee, its membership and its procedures are set out in its Terms of Reference and professional advice is sought, as required, from Brodies LLP. The Remuneration Committee, which is composed entirely of non-executive directors, reports to and is accountable to the Board. The Committee has responsibility for the approval and oversight of the Bank's Remuneration Policy and the implementation of it in line with the risk culture and long-term goals of the Bank. The Remuneration Policy was reviewed in 2019 by the Committee, and in turn by the Board, and no substantive changes were made to the policy.

The Bank's Remuneration Policy is aligned to the Bank's objectives of good corporate governance, a culture of low risk and future sustainability and reflects the long-term strategy adopted by the Bank with regard to share plans, fixed pay and variable pay awards

In support of the Bank's objectives fixed pay is based on the Remuneration Committee's assessment of the worth and contribution that each individual is making to the business and advice on external market comparisons is sought from the Bank's remuneration consultant where appropriate. The Remuneration Committee considers the performance and remuneration package of Code Staff once a year and adjustments to remuneration are based on an assessment of each individual's contribution to the business.

The Bank's remuneration policy does not extend to the provision of other benefits, save for those required by law or where it is more efficient for the Bank to provide such benefits, however fixed pay is supplemented with 6% employer pension contribution and discretionary awards are made subject to individual, team and business-wide performance.

Performance is managed on an ongoing basis and formal appraisals take place twice a year in January and July. Performance management is aligned to the Bank's values and is evaluated against agreed financial and non-financial goals objectives, risk management responsibilities and appropriate conduct.

A variable pay pool is determined by the Remuneration Committee annually in consultation with the Board. Individual payments are distributed according to individual, team and business-wide performance and adjusting factors are applied to reflect the performance and conduct of each individual. All variable pay is subject to the principles of the Remuneration Code laid down by the PRA and FCA and deferral, malus and clawback will be implemented in compliance with the Remuneration Code where appropriate. As at the end of 2019 no individual received remuneration in excess of €1 million.

The Bank operates a share option scheme with two parts: a tax advantaged Company Share Option Plan for all employees and a non-tax advantaged Share Option Plan for the executive management team. No share options were granted or exercised under either part during 2019. Further information is contained within the Annual Report & Financial Statements (www.hampdenandco.com).

There is no outstanding deferred remuneration and during the current and prior years no inducement offers or severance payments were made to members of staff whose professional activities have a material impact on the risk profile of the Bank.