

2023

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**Pillar 3 Disclosures**  
For the year ended 31 December 2023

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## 1 Overview

### 1.1 Introduction

Hampden & Co's (the Bank) purpose is to help high-net-worth clients, their families and associated businesses to achieve their aspirations by providing an exceptional banking service that is personalised to their needs, delivered by experts and enhanced by digital capabilities.

The Bank offers day-to-day banking services, deposits and lending. For current accounts and deposits, the Bank's niche is in offering a high-service, high-convenience proposition superior to that of alternative banks, at a competitive price level. For lending, it is in being able, in terms both of time and skills, to understand and underwrite lending business too complex to fit with the business models of the high street banks and many of the more established private banks, again at a competitive price.

### 1.2 Background

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).

This document has been prepared in accordance with the Disclosure (Capital Requirements Regulation (CRR)) part of the PRA Rulebook, which incorporates varying levels of disclosure, tailored to the size and type of firm, with simpler requirements for smaller and non-listed institutions.

The Pillar 3 disclosure requirements set out in the Disclosure (CRR) part of the PRA Rulebook aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and to encourage 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.

### 1.3 Scope of disclosure

The disclosures contained within this document are for the single legal entity Hampden & Co plc (company registration number SC386922) for the year ended 31 December 2023.

This Pillar 3 report provides additional information over and above that contained in the Bank's Annual Report and Financial Statements for the year ended 31 December 2023 (the Financial Statements). It should be read in conjunction with the Financial Statements.

### 1.4 Disclosure policy

Pillar 3 disclosures are issued annually in accordance with the frequency requirements of the PRA Rulebook. They are published on the Bank's website ([www.hampdenandco.com/investors](http://www.hampdenandco.com/investors)) as soon as is practical after the publication of the Bank's Financial Statements.

The Bank is a non-listed 'small and non-complex institution' and is subject to proportional disclosure requirements in accordance with Article 433(b) of the CRR. As such the Pillar 3 disclosures comprise the following items as required by the Disclosure (CRR) part of the PRA Rulebook:

- **Disclosure of Key Metrics:** Article 447;
- **Risk Management Objectives and Policies:** points (a), (e) and (f) of Article 435(1)
- **Disclosure of Own Funds Requirements and Risk Weighted Exposure Amounts:** point (d) of Article 438; and
- **Remuneration Policy:** points (a) to (d), (h) and (i) of Article 450(1).

Disclosures are presented using the prescribed disclosure templates in the PRA Rulebook.

The Bank's Pillar 3 disclosures are subject to internal review procedures. They are not subject to external audit, although some of the information presented also appears in the Bank's Financial Statements which are subject to external audit.

These Pillar 3 disclosures were reviewed and approved by the Bank's Board of Directors (the Board) on 19 June 2024.

### **1.5 Attestation**

The Bank's Chief Financial Officer attests that the Bank has made the Pillar 3 disclosures required by the Disclosure (CRR) part of the PRA Rulebook in accordance with the Disclosure Policy, as above, and the Bank's internal processes, systems and controls.

### **1.6 Regulatory developments**

The Bank is subject to the regulatory framework defined by the Capital Requirements Directive and CRR as implemented and enforced in the UK by the PRA. The Bank monitors regulatory developments to ensure that it continues to meet all regulatory requirements.

#### **Basel 3.1**

CP16/22: *Implementation of the Basel 3.1 standards* was published by the PRA in November 2022. It covers the UK's implementation of the remaining Basel 3.1 standards and proposes a revised standardised approach for credit risk, which is the approach used by the Bank. The revised standardised approach would apply from 1 July 2025 and incorporates significant changes to the calculation of risk weighted assets.

It was expected that a policy statement on the Basel 3.1 credit risk rules would be published by the PRA in Q2 2024, however this is now expected to be delayed until after the General Election on 4 July 2024.

#### **Small Domestic Deposit Takers Regime**

The PRA is implementing a Small Domestic Deposit Takers (SDDT) regime, the aim of which is to simplify the prudential reporting framework for small, domestic banks and building societies, while maintaining their resilience and reducing barriers to growth. This was formerly known as the Strong and Simple framework.

The Bank meets all of the SDDT eligibility criteria and its application to become an SDDT has been approved by the PRA, effective from 25 April 2024.

The PRA has split the development of the SDDT regime into two phases:

- Phase 1 considers the liquidity and disclosure requirements for SDDTs. The rules for this phase have been published and include simplified liquidity rules, reduced liquidity reporting and changes to disclosure requirements.
- Phase 2 will focus on the capital framework and the PRA had intended to consult on this in H2 2024, however the timing is expected to be delayed until after the General Election on 4 July 2024. The PRA is making the planning assumption that the Basel 3.1 Pillar 1 approach to credit risk would be the starting point for designing the simpler-regime risk-based capital framework.

The PRA has introduced an Interim Capital Regime (ICR) for SDDTs which will enable them to apply for a modification by consent to remain subject to existing CRR provisions until the permanent capital framework for SDDTs is implemented. As such, SDDTs would not be required to implement Basel 3.1 from 1 July 2025 and instead would remain on the existing rules under the ICR until the future implementation date of the SDDT capital regime.

## 2 Key Metrics

The following table (UK KM1), provides a summary of the Bank's main prudential regulatory ratios and measures, disclosed in accordance with points (a) to (g) of Article 447 of the Disclosure (CRR) part of the PRA Rulebook. Point (h) of Article 447 requires the reporting of own funds and eligible liabilities ratios as calculated in accordance with CRR Articles 92a and 92b and broken down at the level of each resolution group, where applicable. Both these CRR Articles only apply to G-SIIs and so are not applicable to the Bank.

The ratios are reviewed on at least a monthly basis to ensure that external requirements are adhered to. During 2023 and 2022 the Bank complied with all its capital and liquidity requirements.

		Dec-23	Dec-22
	<b>Available own funds (amounts)</b>		
1	Common Equity Tier 1 (CET1) capital (£'000)	74,173	65,731
2	Tier 1 capital (£'000)	74,173	65,731
3	Total capital (£'000)	74,173	65,731
	<b>Risk-weighted exposure amounts</b>		
4	Total risk-weighted exposure amount (£'000)	361,317	316,422
	<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>		
5	Common Equity Tier 1 ratio (%)	20.53%	20.77%
6	Tier 1 ratio (%)	20.53%	20.77%
7	Total capital ratio (%)	20.53%	20.77%
	<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>		
UK 7a	Additional CET1 SREP requirements (%)	1.65%	2.26%
UK 7b	Additional AT1 SREP requirements (%)	0.55%	0.76%
UK 7c	Additional T2 SREP requirements (%)	0.73%	1.00%
UK 7d	Total SREP own funds requirements (%)	10.93%	12.02%
	<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>		
8	Capital conservation buffer (%)	2.50%	2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%) <sup>1</sup>	1.98%	0.98%
UK 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
UK 10a	Other Systemically Important Institution buffer	-	-
11	Combined buffer requirement (%)	4.48%	3.48%
UK 11a	Overall capital requirements (%)	15.41%	15.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	12.33%	11.75%

<sup>1</sup> The UK countercyclical capital buffer rate increased from 1.00% to 2.00% from 5 July 2023.

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		<b>Dec-23</b>	<b>Dec-22</b>
	<b>Leverage ratio</b>		
13	Total exposure measure excluding claims on central banks (£'000)	887,505	753,996
14	Leverage ratio excluding claims on central banks (%)	8.36%	8.72%
	<b>Additional leverage ratio disclosure requirements <sup>2</sup></b>		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	N/A	N/A
14b	Leverage ratio including claims on central banks (%)	N/A	N/A
14c	Average leverage ratio excluding claims on central banks (%)	N/A	N/A
14d	Average leverage ratio including claims on central banks (%)	N/A	N/A
14e	Countercyclical leverage ratio buffer (%)	N/A	N/A
	<b>Liquidity Coverage Ratio <sup>3</sup></b>		
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£'000)	231,356	214,700
UK 16a	Cash outflows - Total weighted value (£'000)	169,411	165,723
UK 16b	Cash inflows - Total weighted value (£'000)	80,955	64,805
16	Total net cash outflows (adjusted value) (£'000)	88,456	100,918
17	Liquidity coverage ratio (%)	262%	213%
	<b>Net Stable Funding Ratio <sup>4</sup></b>		
18	Total available stable funding (£'000)	669,587	602,633
19	Total required stable funding (£'000)	360,891	324,684
20	NSFR ratio (%)	186%	186%

<sup>2</sup> Only LREQ firms shall disclose values in rows UK KM1:14a to UK KM1:14e.

<sup>3</sup> The LCR balances are calculated as the simple averages of month end positions over the 12 months preceding the end of the reporting period.

<sup>4</sup> The NSFR ratio is calculated as an average of the preceding four quarters.

## 3 Risk Management Objectives and Policies

### 3.1 Disclosure of concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy

In accordance with Article 435(1)(f) of the UK CRR, the Bank's risk management approach is summarised below.

#### 3.1.1 Risk strategy

The Bank's risk strategy is to operate within its risk capacity by maintaining a cautious approach to risk-taking, in line with the traditional nature of UK private banking, to build long term shareholder value. The overall aim is to ensure there is a balance between taking too much risk (operating beyond appetite and capacity) and too little risk (failing to thrive).

Remuneration rewards consider prudent commercial risk-taking behaviour in line with the Bank's risk appetite. Risk mitigation capabilities are deployed to deliver the low-risk outcomes desired by the Board and avoid risk-taking beyond the Bank's capacity.

The Bank maintains a Risk Management Framework (RMF) which outlines its approach to the management of risk. It is intended to enable proactive identification, active management and monitoring of the Bank's risks.

The RMF supports the Board and Executive Management to balance risk and opportunity and deliver strategic objectives, achieve good client outcomes, meet stakeholders' expectations, and create sustainable growth. The RMF provides a mechanism for developing and embedding risk policies and risk management strategies and supports commercial risk-taking by ensuring risk is understood and appropriate risk mitigation is established and maintained.

Key ratios/metrics used to monitor performance and risk outlook are disclosed in section 2 (Key Metrics). The Bank does not disclose key ratios, limits and figures relating to its risk appetite, as they are considered to be proprietary information under Article 432 of the Disclosure (CRR) part of the PRA Rulebook.

Related party transactions are disclosed in note 27 to the Financial Statements. There are no related party transactions that have a material impact on the Bank.

#### 3.1.2 Risk appetite

A key component of the RMF is the application of risk appetite to strategic and day-to-day decision-making.

Risk appetite is defined as the level and type of risk the Bank is willing to accept to achieve its strategic objectives and business plan. Risk appetite is used in planning, to inform decision-making and to provide an ongoing view of the management of risk.

The Risk Appetite Statement (RAS) articulates the Bank's risk appetite and provides a view on the risk-taking activities the Board accepts, and guides decision-makers in their strategic and business decisions.

The RAS sets out the balance required between risk-taking and the commercial and reputational implications of doing so, promoting good client outcomes, and protecting the Bank from excessive risk exposure.

It is reviewed in full at least annually and when necessary, in light of any material business, market and regulatory developments. The RAS is owned by the Board and any changes must be approved by the Board, following a recommendation from the Board Risk Committee (BRC).

The RAS contains risk metrics and a risk appetite definition for each of the Bank's principal risks. Risk metrics are designed to translate the qualitative RAS for each principal risk into quantitative measures that are used to monitor and report the Bank's risk exposure relative to risk appetite to the Board and Executive Management. By setting thresholds for risk metrics and monitoring performance against these, it allows the Board and Executive Management to act where any metric indicates that performance is, or is close to, moving outside of risk appetite.

### **3.1.3 Risk culture**

A key element of an effective RMF is risk culture and 'tone from the top'.

A positive risk culture is one in which everyone understands the organisation's approach to risk, takes personal responsibility to manage risk in everything they do, and encourages others to follow their example. Maintaining a positive risk culture enables informed risk-based decision-making and supporting the effective operation of the RMF.

The Board, the BRC and Executive Management set the 'tone at the top' and play a key role in shaping and embedding a positive risk culture. The Bank builds a positive risk culture by designing and embedding risk management through communication to, and training of, all Bank colleagues.

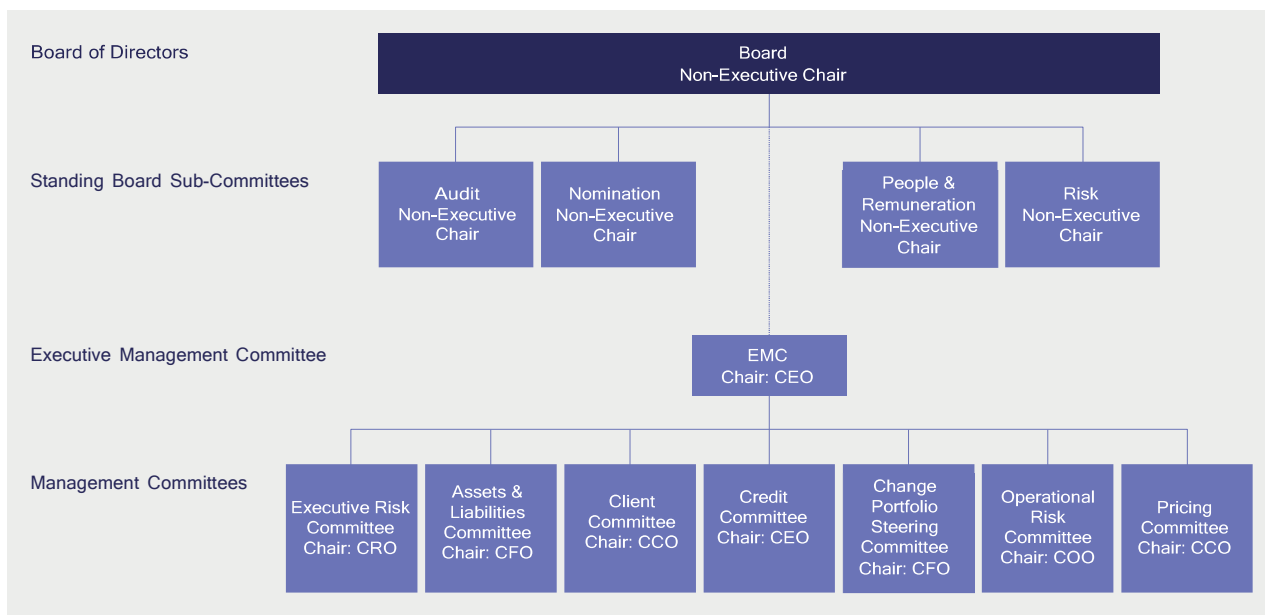
The Bank seeks to instil a positive risk culture which:

- Supports effective management of risk and embraces open and constructive challenge.
- Seeks to understand root cause when, despite best efforts, things go wrong and takes action to learn and reduce the likelihood of recurrence.
- Is forward-looking, considering the potential impact of emerging and horizon risks.
- Ensures clear accountability for the ownership of risks and controls.
- Is reflected by 1LoD and 2LoD maintaining operational independence but working together to manage the Bank's risks within agreed risk appetite.
- Encourages all colleagues to escalate matters without fear of any adverse consequences.
- Ensures colleagues are aware of, and operate within, agreed risk appetite and delegated authorities.
- Champions good client outcomes and focuses on developing deep, sustainable long-term client relationships.
- Promotes a robust governance culture, ensuring appropriate segregation of duties and avoiding conflicts of interest.
- Adjusts colleagues' reward to reflect performance to the expected standards of risk management, behaviour and culture.
- Leads to a learning organisation where all colleagues are encouraged and supported in their personal development, including risk awareness training at induction and regularly thereafter.

### **3.1.4 Risk governance**

The Board and its committees, supported by the executive committees, together with the three lines of defence model (described later in this section) form the Bank's governance structure:





## The Board

The Board is the main decision-making forum of the Bank and is collectively responsible for its long-term, sustainable success in the interests of shareholders and other stakeholders. It provides entrepreneurial leadership, sets purpose, goals and strategy and oversees their implementation. The Board ensures that the Bank manages risk effectively as well as assessing strategic opportunities and threats. The Board sets the ‘tone from the top’ by exemplifying and overseeing the Bank’s desired culture.

### Standing Board sub-committees

The Board has four standing sub-committees to support proper discharge of its responsibilities.

Committee	Responsibility
Audit Committee	Recommends to the Board the internal and external audit approach. It also recommends approval of the financial statements, provides independent approval and oversight of internal and external audit policies and procedures.
Risk Committee	Provides the Board with focused support and advice on risk governance, to develop a forward-looking, resilient and sustainably successful organisation. It advises the Board on the appropriateness of the Bank’s risk strategy and risk appetite in light of the Bank’s purpose, goals, strategy and risk culture expectations
People & Remuneration Committee	Provides independent oversight and recommendations on people strategy and executive remuneration policies, including an independent review and assessment of any reward schemes. It also presents an annual Whistleblowing Policy and Report to the Board.
Nomination Committee	Reviews the structure, size and composition required of the Board and makes recommendations with regard to any changes, taking into account the skills and expertise needed.

Details of the membership of the Board’s standing sub-committees is provided in the Governance section of the Bank’s Financial Statements.

### Executive and management committees

Committee	Responsibility
Executive Management Committee <i>Chaired by: Chief Executive Officer</i>	Operates under delegated authority from the Board to manage the day-to-day operations of the Bank. Its purpose is to assist the Chief Executive Officer in the performance of his duties.
Executive Risk Committee <i>Chaired by: Chief Risk Officer</i>	Oversees the development, maintenance and effectiveness of the Risk Management Framework, and implementation of any actions required to enhance the control environment.
Credit Committee <i>Chaired by: Chief Executive Officer</i>	Approving new (and renewing existing) credit facilities, agreeing and monitoring individual personal banker and credit team delegated sanctioning authorities, proposing credit risk policies, monitoring the credit risk appetite metrics and quality of the loan portfolio.
Operational Risk Committee <i>Chaired by: Chief Operating Officer</i>	Managing the Bank's operational risk profile within risk appetite, including operational resilience.
Assets & Liabilities Committee <i>Chaired by: Chief Financial Officer</i>	Managing balance sheet risk (capital, liquidity & market) within the limits set by the Board, establishing and reviewing the measurement, pricing and performance of the Bank's assets and liabilities.
Client Committee <i>Chaired by: Chief Commercial Officer</i>	Ensuring that the Bank is delivering consistently good client outcomes.
Change Portfolio Steering Committee <i>Chaired by: Chief Financial Officer</i>	Managing the Bank's change framework and managing change in line with direction from the Executive Management Committee.
Pricing Committee <i>Chaired by: Chief Commercial Officer</i>	Oversees the pricing of products and services.

### Three lines of defence model

Risk management is maintained through a three lines of defence (3LoD) model which defines clear responsibilities and accountabilities and ensures that effective independent oversight and assurance activities take place covering key decisions.

- **The first line of defence (1LoD)** is the business areas that have primary responsibility for identifying, assessing, accepting, mitigating, monitoring and reporting on risks within their areas of accountability. They must establish effective governance and controls that evidence compliance with RMF requirements and operate within risk appetite.
- **The second line of defence (2LoD)** is the Risk and Compliance team, headed by the Chief Risk Officer. The 2LoD is responsible for ownership and management of the RMF, Policy Management Framework, reporting on the risk profile of the Bank and for providing oversight and constructive challenge as to the effectiveness or risk decisions taken by Executive Management (1LoD) and their teams.

The 2LoD supports the Board to promote the implementation of a risk strategy consistent with the Bank's risk appetite and RMF. This includes provision of guidance and advice to the Board and Executive Management on horizon scanning, strategic risk and the development of risk appetite.

The 2LoD provides risk management training and education across the Bank to support the efficient, effective and consistent application of the RMF.

- **The third line of defence (3LoD)** is Internal Audit, which is currently outsourced in full to Grant Thornton UK LLP. The 3LoD provides independent assurance to the Board via the Board Audit Committee (BAC) and is independent of Executive Management (1LoD) and the 2LoD. Independent assurance is delivered via completion of risk-based audits which consider the design and operating effectiveness of internal controls across the control framework. The final reports for these audits are communicated to Executive Management and the BAC. An annual risk-based 3LoD audit plan is constructed and considers the material areas of risk that the Bank is exposed to. An Internal Audit Charter, which contains the principles of 3LoD activity, and an annual Internal Audit Plan are agreed annually by the BAC. The BAC monitors completion of the Audit Plan and receives audit reports over the course of the year as they are completed.

### **3.2 Declaration of the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate regarding the institution’s profile and strategy**

In accordance with Article 435(1)(e) of the UK CRR, the Board declares that the Bank’s risk management arrangements and systems are adequate regarding the Bank’s risk profile and strategy.

### **3.3 Strategies and processes to manage risks for each category of risk**

In accordance with Article 435(1)(a) of the UK CRR, the Group maintains the strategies and processes set out below to manage its principal risks.

<b>Principal risk</b>	<b>Definition</b>	<b>Approach</b>	<b>Governance committee</b>	<b>Escalation Pathway</b>
Strategic & business risk	The failure to deliver planned financial performance and/or risks arising from any potential changes to strategy, the business model, target markets or the wider external business and political environment, including climate change.	Monitoring of performance trends; overseeing progress of strategic change; required actions are discussed by both management and the Board.  The Bank monitors risks associated with climate change, including measurement of the Bank’s exposure to the physical and transition risks that may arise.	Executive Management Committee	Board Risk Committee
Capital risk	The risk of not having sufficient capital to meet the requirements of the business including under stressed conditions.	The Bank’s capital, and capital adequacy, is monitored to ensure this exceeds regulatory requirements, with positions reported to the Board and BRC. Early Warning Indicators are monitored to identify emerging capital concerns at an early stage, so that mitigating actions can be taken.	Assets & Liabilities Committee	Board Risk Committee

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<b>Principal risk</b>	<b>Definition</b>	<b>Approach</b>	<b>Governance committee</b>	<b>Escalation Pathway</b>
Credit risk	The risk of loss arising from the failure of clients, or third parties with client credit-related obligations to the Bank, to meet their obligations in full or in a timely manner, whether such obligations are direct, indirect, or contingent.	Client lending is undertaken within prescribed limits and risk appetite measures which are reviewed regularly and approved by the Board.  Treasury counterparties must meet a minimum credit rating and are subject to approval and internal monitoring.	Credit Committee  Assets & Liabilities Committee	Board Risk Committee  Board Risk Committee
Funding and liquidity risk	Funding risk is the risk that the Bank does not have stable sources of funding in the medium and long term to enable it to meet its planned commitments or to do so only at excessive cost. Liquidity risk is the risk that the Bank does not have available sufficient financial resources to meet its obligations as they fall due.	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. The Treasury function seeks to minimise liquidity risk, with liquidity and funding positions reviewed daily, and a monthly review of the liquidity position and the composition of the balance sheet is undertaken.	Assets & Liabilities Committee	Board Risk Committee
Market risk	The risk that the Bank's earnings and economic value may be volatile due to changes in the value of financial market prices. This includes Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange (FX) risk. Market risk arises only from banking activity as the Bank does not have a trading book.	IRRBB arising on fixed rate assets and liabilities is hedged by entering into interest rate swaps as required. Sensitivity to interest rate changes is managed within set limits.  FX risk is managed through adherence to agreed exposure limits and risk appetite metrics. Natural hedges and FX forward contracts are used to leave no material open currency positions.	Assets & Liabilities Committee	Board Risk Committee

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<b>Principal risk</b>	<b>Definition</b>	<b>Approach</b>	<b>Governance committee</b>	<b>Escalation Pathway</b>
Change risk	The failure to identify the changes required to deliver business priorities and plan, and to execute and deliver the agreed change portfolio which could result in an inability to meet client, colleague, regulatory and business expectations.	Change risk arises when the Bank undertakes activities which require changes to existing, or the introduction of new, products, processes, systems, suppliers or controls. The Bank applies a Change Management Framework, which includes regular Executive Management governance and oversight of the change portfolio, to limit negative impacts on clients, colleagues and stakeholders as a result of change activity.	Change Portfolio Steering Committee	Board Risk Committee
Conduct risk	The failure to achieve good outcomes for clients through poor design and delivery of client services, internal culture or behaviours.	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 in line with the requirements of the FCA's Consumer Duty rules.	Client Committee	Board Risk Committee
Data risk	The risk of the Bank failing to govern, manage and protect its data effectively, including data processed by third-parties, which can lead to unethical decision-making, poor client outcomes and financial loss.	The Bank is developing its data strategy and risk management to ensure that data can be used to enhance its relationship management proposition and help deliver good client outcomes.	Operational Risk Committee	Board Risk Committee
Financial crime risk	The risk that the Bank fails to prevent money laundering, terrorist financing, proliferation financing, tax evasion, sanctions violations, bribery, corruption and fraud.	During 2023 the Bank enhanced its financial crime policies, procedures and controls in line with the Bank's commitment to undertake business that complies with regulations and laws, and to prevent its products and services being exploited for illicit purposes and financial crime.	Executive Risk Committee	Board Risk Committee

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Principal risk	Definition	Approach	Governance committee	Escalation Pathway
Operational risk	The risk of loss and reputational damage resulting from inadequate operational resilience or from failed internal processes, systems, people or external events.	The Bank enhanced its operational resilience and third-party oversight during 2023 and continues to enhance its IT security controls to protect clients and the Bank from cyber risks and to avoid service disruption for clients.	Operational Risk Committee	Board Risk Committee
Regulatory and legal risk	The risk of financial loss, regulatory censure, criminal or civil enforcement and litigation action, or client detriment caused by a failure to comply with applicable law, regulations, standards and codes of conduct.	The Bank undertakes horizon scanning, to identify new and changing requirements, and conducts regular assurance and oversight activity, to test the effectiveness of controls which support continued regulatory and legal compliance.	Executive Risk Committee	Board Risk Committee
People risk	The risk of failing to adequately manage the Bank's people resources, leading to an inability to service clients, poor performance and / or reputational damage.	The Bank is taking active steps to create more diversity across the organisation. This includes developing and monitoring metrics in relation to DE&I and embedding DE&I within hiring processes.	Executive Risk Committee	Board Risk Committee

**3.4 ICAAP, ILAAP, Recovery Plan, resilience, stress testing and scenario analysis**

The Board is required to manage the present and future activities of the Bank within regulatory capital and liquidity parameters. This is evaluated annually through the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) which consider:

- the Bank's strategies, processes, systems and controls;
- material risks to the Bank's ability to meet its liabilities as they fall due; and
- the amounts and types of capital and liquidity resources available and whether they are adequate to cover the nature and level of risks to which the Bank is exposed.

An integral part of the ICAAP and ILAAP is the performance of stress testing and scenario analysis appropriate to the nature and scale of the business. The Bank considers a range of adverse circumstances of varying degrees of severity and duration to understand how much capital or liquidity could be absorbed under such circumstances. Outcomes are used as a forward-looking analysis tool to consider longer term capital and liquidity requirements in light of business plans and expected economic cycles and other market conditions.

The Recovery Plan assesses when mitigating actions would need to be taken to avoid a severe financial stress and sets out the preparations in place to enable the Bank to restore the business to a stable and sustainable financial condition should such an event occur. It comprises a menu of recovery options available to address a range of severe financial stresses caused by idiosyncratic events, market-wide stress or both. The indicators and triggers that might lead to the activation of the Bank's Recovery Plan are derived from the risk framework and are monitored as part of the regular suite of management information.

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The ICAAP, ILAAP and Recovery Plan are prepared by the Finance, Risk and Treasury teams and submitted through risk committee governance channels to the Board.

The Bank takes a holistic view of operational resilience by creating systems, processes and controls that build resilience from design through to delivery. Business continuity plans are maintained as part of the Bank's approach to managing operational resilience, ensuring business-critical processes are identified and plans to maintain services following operational events are in place.



## 4 Capital Requirements

### 4.1 Pillar 1 capital requirements

The minimum capital requirement is defined under Pillar 1 and is 8% of the risk weighted exposure amount.

The Bank calculates its Pillar 1 capital requirement as follows:

- Credit risk – standardised approach
- Market risk (FX) – net foreign exchange position risk requirement
- Counterparty credit risk (CCR) – original exposure method
- Credit valuation adjustment (CVA) – standardised method
- Operational risk – basic indicator approach

Table UK OV1 below shows the Bank's risk weighted exposure amounts and own funds requirements:

Template UK OV1 – Overview of risk weighted exposure amounts		Risk weighted exposure amounts (RWEAs) (£'000)		Total own funds requirements (£'000)	
		Dec-23	Dec-22	Dec-23	Dec-22
1	Credit risk (excluding CCR)	317,736	284,658	25,419	22,773
2	Of which the standardised approach	317,736	284,658	25,419	22,773
6	Counterparty credit risk - CCR	1,549	2,826	124	226
UK 8b	Of which credit valuation adjustment - CVA	738	1,750	59	140
9	Of which other CCR	811	1,076	65	86
23	Operational risk	42,032	28,938	3,363	2,315
UK 23a	Of which basic indicator approach	42,032	28,938	3,363	2,315
<b>29</b>	<b>Total</b>	<b>361,317</b>	<b>316,422</b>	<b>28,906</b>	<b>25,314</b>

#### 4.1.1 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.

The Bank has adopted the standardised approach to credit risk and uses an agent to source external credit assessment institution ratings provided by Moody's for treasury exposures.

#### 4.1.2 Counterparty credit risk

The CCR exposure arises from the Bank's use of derivative financial instrument (interest rate swaps) to manage interest rate risk. The CVA charge reflects the risk of losses arising from adverse movements in CVA values due to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions.

#### 4.1.3 Operational risk

The Pillar 1 capital requirement in relation to operational risk is determined by the basic indicator approach, where RWEAs are based on the Bank's average income over the past three years.



## **4.2 Pillar 2 capital requirements**

### **4.2.1 Pillar 2A**

Additional bank-specific minimum requirements under Pillar 2A are supplementary to Pillar 1 and are set by the PRA through the issuance of a total capital requirement (TCR). The TCR includes an additional minimum amount of capital over and above the 8% Pillar 1 requirement to cover risks that are not fully covered by Pillar 1. During 2023 the Bank's Pillar 2A capital requirement was reduced by the PRA and the Bank's TCR at 31 December 2023 was 10.93% of RWEAs (2022: 12.02%).

The assessment of the additional Pillar 2 capital requirement is achieved through the ICAAP, the objectives of which 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
- ensure business policies address the risks identified.

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.

### **4.2.2 Combined buffer**

In addition to the TCR the Bank is also required to hold common equity tier 1 (CET1) capital to meet other regulatory capital buffers, together called the combined buffer. These are:

#### **Capital conservation buffer**

The capital conservation buffer (CCB) is a standard buffer designed to ensure sufficient capital buffers are built up to provide for losses in times of stress. At 31 December 2023 the CCB was 2.50% (2022: 2.50%).

#### **Countercyclical capital buffer**

The countercyclical capital buffer (CCyB) requires financial institutions to hold an additional cushion of capital to absorb potential future losses, enhancing their resilience and contributing to a stable financial system.

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, in July 2022 the FPC increased the UK CCyB rate from 1.00% to 2.00%. This became effective from 5 July 2023 in line with the usual 12-month implementation period.

### **4.2.3 Pillar 2B**

Pillar 2B (PRA buffer) is an additional amount of capital that banks are required to hold over and above their TCR and the combined buffer.

The PRA buffer absorbs losses that may arise under a severe but plausible stress scenario, while avoiding duplication with the combined buffer. It is set by the PRA based on the results of stress testing included in the ICAAP. The PRA requires all information relating to the PRA buffer to remain confidential.

## 5 Leverage and Liquidity

### 5.1 Leverage ratio

The leverage ratio is a non-risk-based measure to supplement the risk-based capital requirements. It is calculated by dividing tier 1 capital by total on and off-balance sheet exposures, subject to credit conversion factors. Under the UK leverage ratio framework, the leverage ratio exposure measure excludes assets constituting claims on central banks, where they are matched by liabilities denominated in the same currency and of identical or longer maturity.

Currently the Bank has no minimum UK leverage requirement as it is exempt from the UK leverage ratio framework, which only applies to institutions with retail deposits equal to or greater than £50 billion or foreign assets equal to or greater than £10 billion.

For firms in scope of the Leverage Ratio – Capital Requirements and Buffers part of the PRA Rulebook there is a minimum leverage ratio requirement of 3.25%.

In accordance with PRA SS45/15: *The UK leverage ratio framework* (effective 1 January 2022), firms that are not in scope of the leverage ratio requirement are nevertheless expected to manage their leverage risk so that their leverage ratio (to be calculated based on the same rules as the in-scope firms) does not ordinarily fall below 3.25%. The Bank monitors its leverage ratio and adheres to this PRA expectation.

The Bank's leverage ratio is disclosed within the Key Metrics template.

### 5.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due or can only secure the necessary resources at excessive cost.

Throughout the year the Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were above minimum regulatory requirements.

The Bank's LCR and NSFR are disclosed within the Key Metrics template.

## 6 Remuneration

### 6.1 Remuneration of Code Staff

The Bank is required to make disclosures regarding the remuneration of Material Risk Takers (MRTs), also known as Code Staff, whose professional activities may have a material impact on the Bank's risk profile. The following have been identified as MRTs:

- (a) all Executive and Non-Executive Directors of the Bank;
- (b) all members of the Executive Management Committee;
- (c) all other employees of the Bank who hold a Senior Management Function; and
- (d) all other MRTs not caught under (a) to (c) above, as per the criteria defined under 3.1, 3.2A and 3.3A of the Remuneration part of the PRA Rulebook.

The number of MRTs identified includes individuals who were MRTs for only part of the year.

Table UK REM1 below provides an analysis of the remuneration paid to Code Staff during the year ended 31 December 2023:

		MB Supervisory function	MB Management function	Other senior management	Other identified staff	
1	Fixed remuneration	Number of identified staff	6	3	5.63	4
2		Total fixed remuneration	£459,930	£818,544	£901,667	£409,718
3		Of which: cash-based	£459,930	£792,171	£833,776	£369,896
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the UK)				
7		Of which: other forms	-	£26,373	£67,891	£39,822
8	(Not applicable in the UK)					
9	Variable remuneration	Number of identified staff	-	3	5.63	4
10		Total variable remuneration	-	£429,125	£250,234	£41,328
11		Of which: cash-based	-	£429,125	£250,234	£41,328
12		Of which: deferred	-	-	-	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-	
16	Of which: deferred	-	-	-	-	
17	Total remuneration (2 + 10)		£459,930	£1,247,669	£1,151,901	£451,046

In line with the requirements of the Disclosure (CRR) part of the PRA Rulebook, the number of MRTs represents FTE (full time equivalent) for identified staff other than members of the MB (management body) where the number is disclosed as headcount.

No individual received remuneration of €1 million or more during the year.

There is no outstanding deferred remuneration, and no severance payments were made to MRTs during 2023.

## **6.2 Decision making process for determining the Remuneration Policy**

The Bank's People & Remuneration Committee (PRC) operates under delegated authority from the Board to provide independent oversight and recommendation on the Remuneration Policy and principles of the Bank, including any independent review undertaken and any assessment of incentive schemes.

## **6.3 People & Remuneration Committee**

During 2023 the PRC met four times. It is comprised entirely of non-executive directors as follows:

- Caroline Taylor: Non-Executive Director and Chair of the Committee
- Simon Miller: Non-Executive Chairman
- Angus Macpherson: Non-Executive Director

Other individuals, internal or external to the Bank, may be invited to attend all or any part of any PRC meeting as and when appropriate and necessary. The Chief Executive Officer and the Chief People Officer are standing attendees but exclude themselves from discussions relating to their respective positions.

The responsibilities, procedures and duties of the PRC, its membership and its procedures are set out in its Terms of Reference and professional advice is sought, as required, from QQPM.

The main responsibilities of the PRC, on behalf of the Board and the shareholders of the Bank, are to:

- ensure that the Remuneration Policy is aligned to the Bank's business strategy, objectives, values and long-term interests and includes measures to avoid conflicts of interest;
- determine and approve the remuneration arrangements of the Chairman, the executive directors and other senior managers and Code Staff (as defined by the PRA and FCA Remuneration Code);
- ensure that executive directors and other members of the executive management of the Bank are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the long-term success of the Bank;
- structure the Remuneration Policy to ensure that it promotes sound and effective risk management, which discourages risk-taking that exceeds the Bank's tolerated risk levels and embraces the principles of remuneration recommended by the Committee and laid down by the Board;
- approve the design of any performance related pay schemes operated by the Bank and approve the total annual payments made under such schemes, subject to performance and to the views of the BRC;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, and the performance targets to be used. In doing this, to receive, and take into account the opinion of the BRC regarding adherence to Board risk appetites, and adequate operation of the Control and Risk frameworks of the Bank; and
- ensure that the Bank complies with its obligations arising from the Remuneration Code in a proportionate way that is appropriate to its size and internal organisation and the scope and complexity of its activities.

#### **6.4 Remuneration 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.

The principles adopted by the PRC aim to ensure that the interests of shareholders, employees, clients and other stakeholders are aligned and are appropriate to the remuneration of the Bank's employees. The following overarching remuneration principles are applied to the policy:

- the Bank will remain competitive in the financial services market and provide fair rewards, benefits and conditions that attract, recognise, motivate and retain talent and high performers;
- commitment to equal and fair pay which does not discriminate, and which meets statutory requirements in terms of equal pay;
- compliance with the details and the spirit of the PRA's Remuneration Code and the FCA's principles and requirements;
- alignment of the interests of colleagues and shareholders through colleague share ownership;
- malus adjustments and claw back will be applied to all variable pay where required;
- remuneration reflects achievements which are aligned to the strategic goals and culture of the Bank and the awards to individual team members are varied to reflect individual contribution;
- reward will promote delivery of longer-term sustainable returns reflecting individual and business performance; and
- remuneration structures will be straightforward and simple for everyone to understand.

The Bank's Remuneration Policy was reviewed in 2023 by the PRC, and in turn by the Board, and no substantive changes were made.

#### **6.5 Link between pay and performance**

In support of the Bank's objectives, fixed pay is based on the PRC's assessment of the contribution that each individual is making to the business. Advice on external market comparisons is sought from the Bank's external remuneration consultant where appropriate. The PRC 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, conduct and risk management responsibilities.

Performance is managed on an ongoing basis and formal performance reviews take place in Q1 each year. In addition to the annual performance review meetings, line managers and colleagues meet to review performance and progress against objectives twice a year. Performance management is aligned to the Bank's values and is evaluated against agreed financial and non-financial goals and objectives, risk management responsibilities and appropriate conduct.

A variable pay pool is determined by the PRC 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.

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