PILLAR 3 DISCLOSURES

31 DECEMBER 2018

HTB

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1. Introduction

1.1. Overview
This document provides the Pillar 3 disclosures required of Hampshire Trust Bank Plc (referred to in this document as 'the Bank') as at 31st December 2018. The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

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

The Basel framework consists of three 'pillars':

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

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

The disclosures in this report have been prepared as at 31 December 2018. They should be read in conjunction with the Bank's 2018 Annual Report and Accounts ('the Annual Report and Accounts' or 'ARA'), approved by the Board on 4 April 2019.

The Bank uses the Standardised Approach for credit risk, capital management and market risk. This approach uses standard risk weighting percentages set by the PRA. The Basic Indicator Approach is used for operational risk. The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Bank's financial statements.

Internal Audit has undertaken procedures to provide management and the Board with assurance relating to the adequacy and effectiveness of the processes, controls and governance framework over the production of the Pillar 3 disclosures.

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

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

This document is applicable only to Hampshire Trust Bank Plc, which is a subsidiary of Hoggant Limited, and excludes the Bank's subsidiary, Hampshire Bank Limited, which is dormant. There are no current or foreseen material, practical or legal impediments to the transfer of capital resources or the repayment of liabilities among the parent undertaking and the Bank.

1.5. Summary of key ratios

The key ratios for the Bank under CRD IV are:

	2018	2017
Common Equity Tier 1 (CET1) Ratio	16%	21%
Total Capital Ratio	20%	21%
Risk weighted assets (£000)	687,497	529,157
Leverage ratio	12%	15%
Liquidity Coverage Ratio	335%	467%

1.6. Regulatory developments affecting the Bank

1.6.1. Basel IV

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

1.6.2. IFRS 16

This standard is applicable from 1 January 2019 and introduces a single, on-balance sheet accounting model. Significant leases that are treated as operating leases prior to 2019 will be recognised as an asset with a corresponding lease liability from 1 January 2019.

1.7. Governance

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

Article 432 of the Capital Requirements Regulation ("CRR") allows firms to omit one or more of the disclosures listed in Title II (of the CRR) if the information provided by such disclosures is not regarded as material. In line with EBA guidance (EBAGL201414), any such information or set of requirements which are not disclosed due to immateriality, will clearly state this fact.

The requirements similarly allow firms to omit items of information if it is regarded as proprietary or confidential. The Directors review such omissions as part of the overall approval process. The Bank regards information as proprietary or confidential as, if shared with competitors would undermine its competitive position; or there are obligations to customers / other counterparty relationships binding the Bank. In the event any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed in accordance with EBA guidelines (EBAGL201414).

The Pillar 3 disclosures document will be posted on the Bank's website at the same time as the Annual Report and Accounts.

2.
Risk Management

2.1. Overview

The Bank's approach to risk

Effective risk management plays a key role in the successful execution of Hampshire Trust Bank's business strategy as encapsulated within our overarching Risk Appetite Statement.

"To run a sustainable, safe and sound business that conducts its activities in a prudent and reputable manner taking into account the interests of our customers and key stakeholders".

Risk Culture

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

Risk Strategy

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

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

2.2. Risk Management Framework

The Risk Management Framework ("RMF") sets parameters within which all the Bank's activities are executed. This ensures we identify, manage, monitor and report the risks to which the Bank is exposed. The RMF is supported by supplemental frameworks, policies, processes and procedures that, together, ensure that risks are managed in a manner appropriate to the size of the Bank and the complexity of its operations. The RMF addresses the legal and regulatory risks the Bank is exposed to, together with the Principal and Emerging Risks. The design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee.

Risk Appetite Framework

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

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

The RAF is structured around the Principal Risks agreed by the Board from time to time with each Principal Risk being supplemented by a suite of more granular Supporting Risks. For each Supporting Risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics and Key Risk Indicators (KRIs). The Risk Appetite metrics are clearly measurable against the Corporate Plan, are actionable and have an assigned limit to monitor performance against the Risk Appetite. The KRIs are outcome driven with negative trends reported monthly to the relevant risk committees. Performance against Risk Metrics is regularly reported to the Board and Board Risk Committee via appropriate sub committees.

Risk Governance and Oversight

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

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

Front Line Business Units (1st line of defence)

The business lines and central functions own primary responsibility for the day to day management of Principal Risks, and the implementation of approved policies, frameworks, processes and procedures. They use the Bank's Risk & Control Self-Assessment (RCSA) process to identify and measure risks and ensure that these are managed within agreed Risk Appetite. They will also test key controls, providing regular reporting of testing output.

Risk and Compliance Function (2nd line of defence)

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

Internal Audit (3rd line of defence)

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

Stress Testing

Stress testing is an important risk management tool for the Bank and is used to inform the setting of Risk Appetite limits. Stress testing is also used to inform the Bank's key annual assessments and determination of required buffers, the strategy for capital and liquidity management, and certain documents including the ICAAP, ILAAP and RRP. Further details on the Bank's approach to Stress Testing can be found in the Annual Report and Accounts.

Principal Risks and how we manage them

The Principal Risks the Bank faces are:

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

These should not be regarded as a comprehensive list of all the risk and uncertainties faced by the Bank but rather a summary of the key risks which have the potential to significantly impact the achievement of strategic objectives. These risks are further detailed in sections 3 to 7.

3.
Credit Risk

Definition	How we manage the risk
The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part, or that swap counterparty does not perform	• We evidence affordability (ability to repay from cash flow) • We take security and where appropriate, guarantees, to support our lending • We maintain a diversified portfolio of loans by limiting concentrations by size, asset class, collateral types, geography and sector • We focus on sectors where we have specific expertise • We determine credit decisions using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process • We undertake regular reviews of our loan portfolios and ongoing assurance testing of our processes • We operate a Treasury policy that only allows for deposits and swaps to be placed with large banks • We monitor lending performance against Risk Appetite regularly

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

Development Finance

This business provides development and bridging finance to well established UK house builders. Development Finance lending operates within conservative loan to value ratios, with a rigorous and cost focused approach to assessing development values. Lending is focused primarily in liquid residential markets and multi dwelling developments which offer granular security.

An assessment is made of the quality of the developer, with a focus on clients with an established track record. There is also a robust monitoring process, which involves an external monitoring surveyor who visits client sites on a regular basis before further drawdowns of facilities. This is supplemented by regular site visits from the development finance team and surveyors.

Asset Finance

Hire Purchase and Leasing

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

Wholesale Finance

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

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

Specialist Mortgages ('SM')

Specialist Mortgages launched in Q2 2016, providing finance principally to experienced landlords secured on residential properties, short term finance to experienced property investors and loans on semi-commercial and commercial properties in England and Wales. Lending is focussed on experienced investors and owner operators in both residential and commercial sectors. Distribution is through a panel of high quality mortgage intermediary partners.

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

3.1. Credit Risk Exposure

The table below highlights the Bank's credit risk by exposure class as at 31 December 2018.

	Exposures £'000s 2018	Average Exposures £'000s 2018
Corporate	62,417	68,101
Secured by mortgages on immovable property	319,251	242,028
Items associated with particularly high risk	194,118	180,271
Retail	316,428	289,923
Exposures in default	7,317	8,555
Central governments or central banks	106,458	131,831
Institutions	10,431	11,375
Other	4,893	4,646
	1,021,313	**936,730**
Concentration by Location:		
UK	**1,021,313**	**936,730**

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

The Bank predominately lends to SMEs. Of the exposures in the table above, as at 31 December 2018, £709,124k is lending to SMEs.

3.2. Credit Risk Exposure by Industry

The table below represents the total amount of exposures, as at 31 December 2018, by industry.

£'000s	Corporate	Secured by mortgages on immovable property	Items associated with particularly high risk	Retail	Exposures in default	Central governments or central banks	Institutions	Other	Total
Financial	–	–	–	–	–	106,458	10,431	–	**116,889**
Agriculture, forestry and fishing	–	–	–	3,341	17	–	–	–	**3,358**
Mining and quarrying	–	–	–	401	–	–	–	–	**401**
Manufacturing	–	–	–	16,138	145	–	–	–	**16,283**
Electricity, gas, steam and air conditioning supply	–	–	–	1,654	6	–	–	–	**1,660**
Water supply	–	–	–	3,451	70	–	–	–	**3,521**
Construction	55,088	10,666	194,118	26,624	5,549	–	–	–	**292,045**
Wholesale and retail trade	–	–	–	22,192	75	–	–	–	**22,267**
Transport and storage	–	–	–	21,335	766	–	–	–	**22,101**
Accommodation and food service activities	–	–	–	3,301	31	–	–	–	**3,332**
Information and communication	–	–	–	3,733	7	–	–	–	**3,740**
Real estate activities	7,329	308,585	–	34,486	9	–	–	–	**350,409**
Professional, scientific and technical activities	–	–	–	6,498	94	–	–	–	**6,592**
Administrative and support service activities	–	–	–	25,113	300	–	–	–	**25,413**
Public administration and defence, social security	–	–	–	164	–	–	–	–	**164**
Education	–	–	–	790	–	–	–	–	**790**
Human health services and social work activities	–	–	–	11,757	22	–	–	–	**11,779**
Arts, entertainment and recreation	–	–	–	1,743	7	–	–	–	**1,750**
Other services	–	–	–	133,707	219	–	–	4,893	**138,819**
Total	**62,417**	**319,251**	**194,118**	**316,428**	**7,317**	**106,458**	**10,431**	**4,893**	**1,021,313**

3.3. Credit Risk Exposure by Residual Maturity

The table below represents the total amount of exposures, as at 31 December 2018, by remaining contractual maturity.

2018 £'000s	Within 1 Year	After 1 Year but within 5 Years	More than 5 Years	Non-interest bearing	Total
Loan and advances to customers	330,298	309,099	260,134	-	899,531
Central governments or central banks	106,458	-	-	-	106,458
Institutions	10,431	-	-	-	10,431
Other	-	-	-	4,893	4,893
Total	**447,187**	**309,099**	**260,134**	**4,893**	**1,021,313**

3.4. Non-Performing Loans and Provisioning

A consistent approach to provisioning applies to all lending activities within the Bank. With the implementation of IFRS 9, the calculation of specific credit risk adjustments has been amended with a forward looking expected credit loss ("ECL") approach for financial assets measured at amortised cost. The Bank's ARA details the transition from IAS 39 to IFRS 9 and full IFRS 9 ECL disclosures.

Loans are defined as "past due" when any contractually due payment of interest or capital, has not been received by the due date. A financial asset is considered to be credit impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

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

The Bank maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products. As at 31 December 2018, 47 accounts amounting to £38.1m (2017: £5.0m) had forbearance arrangements in place.

The following tables summarise the impairments for 2018 by material industry class, and highlights the impaired and past due exposures. All credit risk adjustments are assumed to be specific.

	Construction	Real Estate Activities	Financial	Other	Total
	£000	£000	£000	£000	£000
Neither past due nor impaired	**290,982**	**345,749**	**116,889**	**259,515**	**1,013,135**
Past due but not impaired:					
Up to 30 days	107	4,060	-	1,627	5,794
30-60 days	13	340	-	630	983
60-90 days	-	-	-	53	53
Over 90 days	-	-	-	-	-
Total Past due but not impaired	**120**	**4,400**	**-**	**2,310**	**6,830**
Impaired Assets	**1,318**	**530**	**-**	**1,372**	**3,220**
Less: specific credit risk adjustment	(375)	(270)	-	(1,227)	(1,872)
Net Loans and Advances	**292,045**	**350,409**	**116,889**	**261,970**	**1,021,313**

Specific Credit Risk Adjustment	Construction	Real Estate Activities	Financial	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 January	(191)	(213)	-	(2,973)	(3,377)
Charge for the year	(184)	(57)	-	(1,501)	(1,742)
Write-offs	-	-	-	3,247	3,247
Balance at 31 December	**(375)**	**(270)**	**-**	**(1,227)**	**(1,872)**

Further information on IFRS 9 provisioning can be found in the Annual Report and Accounts.

3.5. Treasury Counterparty Risk

Credit risk management: treasury

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

The table below sets out information about the credit quality of treasury financial assets. As at 31 December 2018, no treasury assets were past due or impaired. The analysis below represents ratings based on Moody's long term ratings.

Exposure Category	Under 3 Months £000	3 Months to 1 Year £000	Total £000
Aa3 Rated UK Banks	477	0	477
A2 Rated UK Banks	3,457	3,373	6,830
Total [1 & 2]	**3,934**	**3,373**	**7,307**

The above relates to the Institutions exposure class. Credit agencies are not used for any other exposure classes.

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

Eligible Securities
As part of its liquidity buffer, the Bank occasionally invests in AAA rated UK government bonds with a maximum term of 6 months.

Derivatives
The Bank transacts derivatives with other financial institutions for the purpose of hedging interest rate risk. However, this introduces credit risk to those institutions with which the Bank has transacted. Credit risk on derivatives is controlled through the receipt/payment of cash collateral.

Daily margin calls can be made to cover the mark to market value of the contract. In general, under master netting agreements, the amounts owed by each counterparty that are due on a single day in respect of all outstanding transactions are aggregated into a single net amount, being payable by one party to the other. As at 31st December 2018, the Bank had no public credit rating and no exposure to credit derivatives.

Due to the immaterial nature of the Bank's derivatives, no further disclosures have been presented.

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty (i.e. the size of the exposure increases at the same time as the risk of the counterparty being unable to meet that obligation increases). As the Bank only enters into interest rate swaps contracts, the Bank will not be exposed to wrong way risk, as the value of the trades are determined by movements in interest rates, not the credit quality of the counterparty.

1. Excludes exposures for swap counterparties and accrued interest receivable totalling £3,124k
2. The Bank complies with the standard association published by the EBA

4.
Capital and Liquidity Risk

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

4.1. Capital Adequacy

At 31 December 2018 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and UK legislation, and enforced by the PRA.

Capital Resources

The Bank's capital resources as at 31 December 2018, including the 2018 audited profits approved by the Board on 4 April 2019, are broken down as follows:

	2018 £000	2017 £000
Common Equity Tier 1 (CET1)		
Share Capital	111,288	111,288
Share Premium	196	196
Retained Earnings	14,316	4,156
Accumulated other comprehensive income	(50)	-
	125,750	**115,640**
Regulatory adjustments to CET1:		
Prudential Valuation Adjustments	(2)	-
Intangible Assets	(4,058)	(3,097)
Total Common Equity Tier 1 (CET1) capital	**121,690**	**112,543**
Tier 2		
Subordinated Loans	30,000	-
Collective impairment allowance	-	892
Total regulatory capital	**151,690**	**113,435**

EBA Guidelines 2018/01 details the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. While the Bank has opted to take advantage of the IFRS 9 transitional capital rules in respect of ECLs (as specified in CRR Article 473a), it is not applying these transitional arrangements because IFRS 9 ECLs are lower than IAS 39 loss impairments. This is because most Development Finance loans are measured at fair value and not amortised cost under IFRS 9. See the ARA for fuller details. The Bank's own funds, capital and leverage ratios therefore already reflect the full impact of IFRS 9. As such Template IFRS 9-FL required by the EBA Guidelines 2018/01 is not required as it is limited to those institutions that apply the transitional arrangements.

During the period, the Bank raised £30m of subordinated loan notes bearing interest at 7.25% payable semi-annually and is callable at the Bank's option from 10 May 2023, with a final redemption date of 10 May 2028. As at 31 December 2018, £23 million was eligible for Tier 2.

4.2. Minimum capital requirement

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

Credit risk capital requirement =
Exposure value x Risk weighting[3] x 8%.

The table below shows the total exposure and capital resource requirements for credit risk by regulatory exposure class as at 31 December 2018.

	Exposures	RWAs	Pillar 1 Capital
£'000s	**2018**	**2018**	**2018**
Corporate	62,417	58,946	4,716
Secured by mortgages on immovable property	319,251	127,248	10,180
Items associated with particularly high risk	194,118	291,176	23,294
Retail	316,428	192,835	15,427
Exposures in default	7,317	9,490	759
Central governments or central banks	106,458	-	-
Institutions	10,431	2,909	233
Other	4,893	4,893	391
	1,021,313	**687,497**	**55,000**

The Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Bank needs to hold.

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

This method takes the Pillar 1 capital formula calculations (standardised approach for credit and market risk, and basic indicator approach for operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequate to cover management's anticipated risks. Where the Board considered that the Pillar 1 calculations did not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Bank's Total Capital Requirement issued by the PRA.

At all times the Bank's capital position must be aligned with the capital adequacy limits approved by the Board in the risk appetite statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means maintaining a level of capital greater than the minimum that is set by the PRA. The Bank's Pillar 1 capital resources requirement is calculated by adding the capital resources requirements for credit risk, and operational risk. The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2018.

	2018 £000	2017 £000
Capital resources requirement – Pillar 1		
Credit risk	55,000	42,333
Operational risk	4,677	3,136
Capital resources Pillar 1 requirement	59,677	45,469
Capital resources (see table in 4.1)	151,690	113,435
Capital resources surplus over Pillar 1 requirement	**92,013**	67,966

Throughout the year the Bank has benefited from surplus capital resources over its Pillar 1 and Total Capital Requirement. The Bank's total capital ratio as at 31 December 2018 was 20% (2017: 21%).

The Bank is also required to hold additional capital in the form of capital buffers. 100% of the regulatory buffers must be met by CET1 capital. The Capital Conservation Buffer ('CCB') is being phased in, with the Bank being required to hold additional capital of 1.875% of RWA during 2018. This buffer rate has increased by 0.625% in 2019, reaching the maximum of 2.5%. The Countercyclical Capital Buffer ('CCyB') is currently set at 1% of RWA for the Bank's UK exposures as a result of the UK Financial Policy Committee ('FPC') decision in November 2017. This is further disclosed below:

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

Row	General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements				Own fund requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for RB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
	010	020	030	040	050	060	070	080	090	100	110	120
10 Breakdown by country												
United Kingdom	904,424	-	-	-	-	-	-	104,708	-	104,708	100%	1%

Amount of institution-specific countercyclical capital buffer

Row		010
010	Total risk exposure amount	746,201
020	Institution specific contercyclical buffer rate	1%
030	Institution specific contercyclical buffer requirement	7,462

Excluding these capital buffers, the Bank's Total Capital Requirement is 12.42%.

4.3. Leverage Ratio

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

The Bank's leverage ratio at 31 December 2018 was 12%. As at this date, the Bank had no minimum leverage requirement as it is currently not in scope of the UK Leverage Framework Regime. However the Bank monitors its leverage through its capital risk management, and is well above the minimum requirement of 3 % expected. The management of excessive leverage is monitored through monthly Risk Metrics reported to the appropriate levels of management, to ensure that appropriate actions are taken if internal limits and triggers are breached.

The Bank's leverage ratio has decreased 3% from 2017 due to the leverage exposure increasing 37% (as a result of increased lending), while Tier 1 has only increased 8% (primarily due to the inclusion of profit after tax for the period).

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

£'000s		CRR Leverage Ratio Exposure 31 December 2018	CRR Leverage Ratio Exposure 31 December 2017
1	Total Assets as per published financial statements	1,024,173	742,260
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) NO 575/2013)	-	-
4	Adjustment for derivative financial instruments	2,750	1,805
5	Adjustment for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	22,025	15,491
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(5,640)	758
8	**Leverage ratio total exposure measure**	**1,043,338**	**760,314**

Table LRCom: Leverage ratio common disclosure

£'000s		CRR Leverage Ratio Exposure 31 December 2018	CRR Leverage Ratio Exposure 31 December 2017
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	1,022,623	746,115
2	(Asset amounts deducted in determining Tier 1 capital)	(4,060)	(3,097)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**1,018,563**	**743,018**
	Derivative Exposures		
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	2,750	1,805
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	-	-
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**2,750**	**1,805**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**-**	**-**

£'000s		CRR Leverage Ratio Exposure 31 December 2018	CRR Leverage Ratio Exposure 31 December 2017
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	220,248	154,915
18	(Adjustments for conversion to credit equivalent amounts)	(198,223)	(139,424)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**22,025**	**15,491**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposures		
20	Tier 1 Capital	121,690	112,543
21	**Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**1,043,338**	**760,314**
	Leverage Ratio		
22	**Leverage Ratio**	**12%**	**15%**

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

£'000s		CRR Leverage Ratio Exposure 31 December 2018	CRR Leverage Ratio Exposure 31 December 2017
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**1,018,563**	**743,018**
EU-2	Trading book exposures	-	-
EU-3	**Banking book exposures, of which:**	**1,018,563**	**743,018**
EU-4	Covered Bonds	-	-
EU-5	Exposures treated as sovereigns	-	-
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	106,458	95,602
EU-7	Institutions	7,681	6,652
EU-8	Secured by mortgages of immovable property	319,251	169,906
EU-9	Retail exposures	316,428	235,713
EU-10	Corporate	62,417	45,774
EU-11	Exposures in default	7,317	6,029
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	199,011	182,068

4.4. Liquidity Coverage Ratio

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

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

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

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

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

As at 31st December 2018 the Bank's Liquidity Coverage Ratio was 335%.

New guidelines were issued by the EBA in March 2017 to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013. This is disclosed below.

Quantitative LCR Information

	Total weighted value (£000s)	31 Dec 18	30 Sep 18	30 Jun 18	31 Mar 18
21	Liquidity Buffer	105,973	153,601	91,955	174,339
22	Total Net Cash Outflows	31,666	31,455	29,385	27,345
23	Liquidity Coverage Ratio %	335%	488%	313%	638%

5.
Market Risk

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

5.1. Interest Rate Sensitivity

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

	2018 £000	2017 £000
+200 basis points	(1,117)	(243)
- 200 basis points	1,273	355

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

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

6. Operational Risk

Definition	How we manage the risk
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including strategy and legal risk	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • We have a defined Operational Resilience Policy and Framework • We have defined our recovery time objectives for our critical business services where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives. • We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and business resilience needs which are regularly reviewed • We seek to ensure our systems continue to deliver a secure and reliable service to our customers and staff by identifying cyber security threats and putting in place measures to address those threats • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Change Steering Committee to ensure that major change programmes are delivered on time and on budget • We monitor the Operational risk profile alongside proactive recording/ management of events, losses and incidents • We make use of independent expert legal advice where appropriate management of events, losses and incidents • New and emerging legislation driven changes are overseen through our horizon scanning process • We seek to maintain an engaged and diverse workforce with the right mix of skills to be able to deliver our strategy

The Bank has adopted the Pillar 1 Basic Indicator Approach to operating risk, and thus will hold, as a minimum, capital against the risk equal to 15% of the last three years' average net operating income (net interest income plus fees and commissions). As at December 2018 this was £4.7m.

7.
Conduct, Compliance and Financial Crime Risk

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

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

8.
Emerging Risks

The Bank recognises the dynamic nature of risk management and follows a structured approach to the identification and monitoring of Emerging Risks that could, in the future, affect the business model.

Currently the Bank considers the economic and political risks following the UK's decision to leave the EU to be elevated. The potential impact on the UK economy remains uncertain and, until the outcome of negotiations is clearer, the risks are to the downsides with regard to economic activity and consumer sentiment. The current geo-political environment presents risks to global markets. Whilst the Bank only operates within the UK and in sterling, the impact of Brexit either on its own or combined with global impacts, may affect the Bank's ability to grow and increase the probability of credit losses.

The Bank is exposed to the housing market through both its Specialist Mortgages and Development Finance businesses. If the housing market stalls due to Brexit, or other reasons, the Bank may face higher credit losses in the Development Finance business in particular if property prices fell materially or sales in new build properties became protracted. The Bank ensures that the type of new build properties it funds are primarily "everyday homes for everyday people" which limits the risks. We believe the demand for these type of properties is less volatile than higher value units.

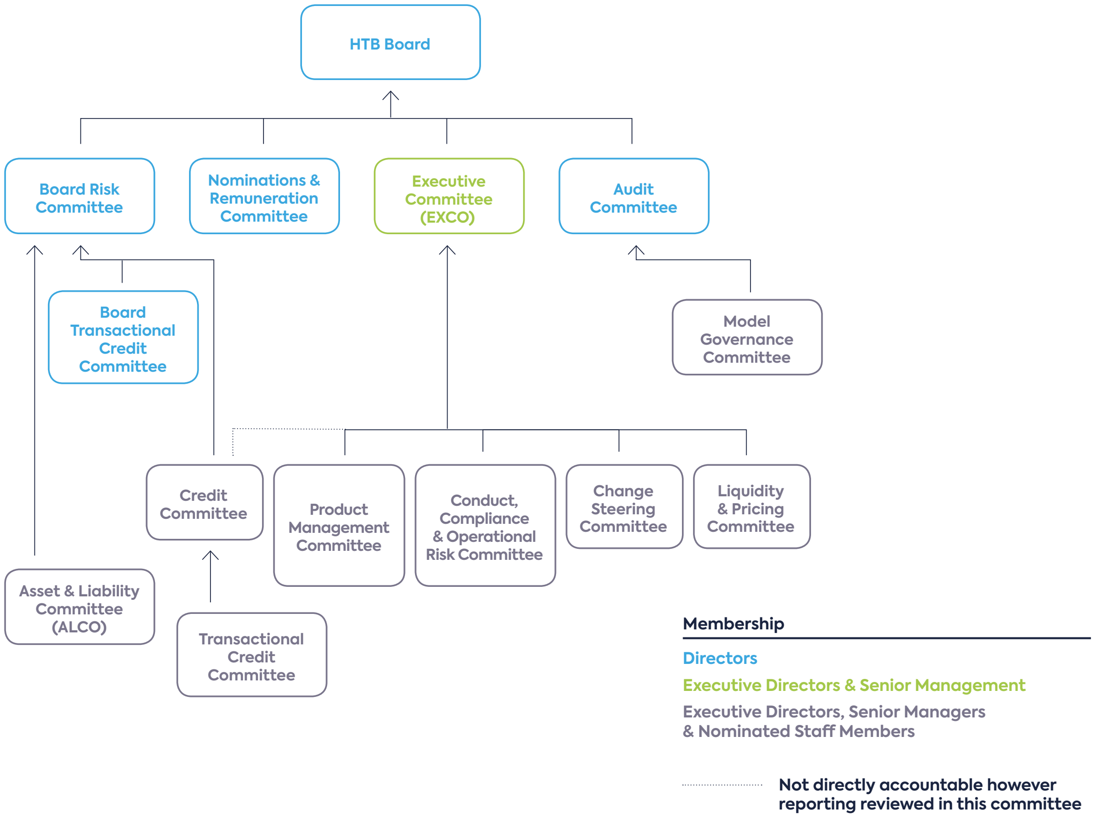
The frequency of Cyber Attacks continues to grow on a global basis and is inherent within the financial services industry. We have strengthened the Bank's Cyber defences, and have continued to invest in keeping our systems safe and up to date.

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

9.
Corporate Governance

9.1. Committee Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors. The Bank's committee structure as at 31 December 2018 with regard to risk management is outlined below:



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

9.1.2. The Board

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

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

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

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2018, in addition to their roles within the Group, are detailed below.

Name	Position	Positions held at 31 December 2018
Robert Sharpe	Chairman	3
Matthew Wyles	Executive Director	2
Tim Blackwell	Executive Director	-
Robert East	Non-Executive Director	7
Jamie Drummond Smith	Non-Executive Director	7
Astrid Grey	Non-Executive Director	-
Richard Price	Non-Executive Director	4
Dominic Slade	Shareholder Director	14

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

Board Diversity

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

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

9.1.3. Audit Committee

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

9.1.4. Board Risk Committee ('BRC')

The Board has delegated responsibility for oversight of the Bank's principal risks to the Board Risk Committee. This involves reviewing the aggregate risk profile of the Bank, including performance against risk appetite for all risk types and ensuring both the risk profile and the risk appetite remain appropriate. This committee oversees the development, implementation and maintenance of the Bank's Risk Management Framework, compliance with relevant regulations and law, and whistleblowing and proper functioning of controls over the prevention of money laundering, bribery and fraud. The Committee is chaired by an independent non-executive director and comprises solely of non-executive directors. The BRC met 15 times during 2018.

9.1.5. Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits, performance related pay structures for the Bank and leads the process for identifying and making nomination recommendations to the Board. It is also responsible for considering all senior appointments at executive levels (including non-executive directors). The Committee is chaired by the Chairman of the Bank and comprises solely non-executive directors. The Committee will consider management and board succession plans from time to time but at least annually. During 2018 the Nomination and Remuneration Committee met 9 times.

9.1.6. Executive Committee

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

9.1.7. Board Transactional Credit Committee

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

9.1.8. Credit Committee

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

9.1.9. Transactional Credit Committee

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

9.1.10. Asset and Liability Committee ('ALCO')

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

9.1.11. Product Management Committee

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

9.1.12. Liquidity and Pricing Committee ('LPC')

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

9.1.13. Change Steering Committee

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

9.1.14. Conduct, Compliance and Operational Risk Committee

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

9.1.15. Model Governance Committee

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

10.
Asset Encumbrance

The Bank primarily encumbers assets through positioning loans as collateral to enable it to participate in the 'Term Funding Scheme' (TFS) at the Bank of England. The Bank took the opportunity provided by this preferential funding scheme to make an initial drawdown of £20m in 2017 and a further £115m in 2018. An amount of cash is also encumbered with Barclays, the Bank's primary operational bank account provider, to provide collateral against BACS payments.

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

25% was considered to be an appropriate limit, as this is in line with the average level of asset encumbrance seen in firms throughout the UK and across the EU (as detailed in the EBA report on asset encumbrance, published June 2016). The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits. The Pillar 3 asset disclosure templates, shown below, are prescriptive and have been compiled in accordance with PRA and EBA regulatory reporting requirements. This highlights the level of encumbered and unencumbered assets held by the Bank as at the 31 December 2018.

Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
£000s		010	040	060	090
010	**Assets of the reporting institution**	**242,573**		**778,729**	
030	Equity instruments				
040	Debt securities				
120	Other assets				

Template B: Collateral received

None of the collateral received by the Bank entails encumbrance.

Template C: Encumbered assets/collateral received and associated liabilities

None of the financial liabilities of the Bank entails encumbrance.

11. Remuneration

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

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

11.1. Decision making process

The Nomination and Remuneration Committee (the 'Nom/RemCo'), on an annual basis, formally review and (where applicable) update the Bank's Remuneration Policy and submit this to the Board for approval. An external consultant, McLagan, were also formally contracted to review the Bank's Remuneration Policy. Nom/RemCo also has oversight of the remuneration of the senior management team. The Bank maintains a record of staff whose activities have a material impact on the Bank's risk profile and takes reasonable steps to ensure they understand the implications of the code.

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

11.2. Remuneration structure

Fixed Pay

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

Annual bonus

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

Long term incentive plans ("LTIP")

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

11.3. Link between pay and performance

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

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

11.4. Remuneration statistics

In relation to 2018 the Bank paid the following remuneration:-

Total value of remuneration awards for the current fiscal year	£000
Fixed remuneration	10,805
Variable remuneration	1,350
	12,155
Social Security costs	1,599
Pension cost	987
Other staff costs	2,152
	16,893

Broken down by business area, remuneration as at the 31 December 2018 was:

Total value of remuneration awards for the current fiscal year (£000)	Lending	Treasury & Central Services	Total
Fixed remuneration	5,155	5,650	10,805
Variable remuneration	835	515	1,350
	5,990	**6,165**	**12,155**
Social Security costs	697	902	1,599
Pension cost	362	625	987
	7,049	**7,692**	**14,741**

The table below shows total fixed and variable remuneration awarded to MRTs in respect of the financial year ended 31 December 2018.

	Number	Amount £000
Senior management whose actions have a material impact on the risk profile of the Bank (during 2018, including Non-Executive Directors)	28	
Salaries		3,530
Pensions		158
Social security costs		544
Cash variable remuneration		532
Variable remuneration in the form of “B” shares		321
Total remuneration		**5,085**

There were no individuals being remunerated more than EUR 1 million for 2018.

12.
Appendix 1: Own Funds Disclosure Template

Own funds disclosure template		2018 £'000s	Regulation (EU) No 575/2013 article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	111,484	26 (1), 27, 28, 29
	of which: ordinary share capital	111,484	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	14,316	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	(50)	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	125,750	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(4,058)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	

	Own funds disclosure template	2018 £'000s	Regulation (EU) No 575/2013 article reference
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(4,060)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	121,690	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	Sum of rows 30, 33 and 34

Own funds disclosure template		2018 £'000s	Regulation (EU) No 575/2013 article reference
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital	-	Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)	121,690	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	30,000	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)
50	Credit risk adjustments	-	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustment	30,000	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79

	Own funds disclosure template	2018 £'000s	Regulation (EU) No 575/2013 article reference
56	Empty set in the EU	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	Sum of rows 52 to 56
58	Tier 2 (T2) capital	30,000	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	151,690	Sum of row 45 and row 58
60	Total risk-weighted assets	687,497	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.31%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	16.31%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	20.33%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) 1)	7.38%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1.88%	
66	of which: countercyclical buffer requirement	1.00%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.44%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 48
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48

Own funds disclosure template		2018 £'000s	Regulation (EU) No 575/2013 article reference
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

13.
Appendix 2: Capital Instruments' Main Features Template

Capital instruments' main features template[4]			
1	Issuer	Hampshire Trust Bank Plc	Hampshire Trust Bank Plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	English	English
Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£111m	£30m
9	Nominal amount of instrument	£111m	£30m
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	N/A	10-May-18
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	29-Sep-20
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	10-May-23
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	7.25%
19	Existence of a dividend stopper	N/A	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A

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

Capital instruments' main features template[4]			
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Senior debt
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

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

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

PILLAR 3 DISCLOSURES 2018

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