HODGE

Pillar 3
Disclosures

30 September 2023

Registered number 00743437

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1 Introduction

01 Introduction

This document constitutes the Pillar 3 disclosures of Julian Hodge Bank Limited ("JHB") as required under the Capital Requirements Directive.

The purpose of this document is to supplement information and disclosures provided in the 2023 Financial Statements for the use of stakeholders including JHB's depositors, borrowers, and others in relation to the internal procedures and policies adopted by JHB to manage and mitigate its key risks. These Pillar 3 disclosures also provide additional numerical disclosures about JHB's assets, liabilities, capital resources and liquidity over and above those disclosed in its Financial Statements.

This document should be read in conjunction with the 2023 Annual Report and Financial Statements.

1.1 Background

JHB's principal lending activities comprise of specialist residential mortgages, later life mortgages, Diverse income mortgages, buy-to-let and commercial lending. Residential and lifetime mortgages involve the provision of loan facilities to enable people to use their homes as security to raise money. Commercial lending involves the provision of finance to clients operating within the property sector. Buy-to-let mortgages are aimed at individuals with holiday lets and portfolio landlords who want a single lender relationship, flexibility to move properties in and out and the ability to grow their portfolio. JHB also invests in other financial instruments (for example covered bonds) as a means of managing its liquidity profile. JHB's lending is primarily funded using its own capital resources and customer deposits.

1.2 Basis and Frequency of Disclosure

The document has been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (amendment) (EU Exit) Regulation 2021 (UK CRR from this point onwards) which is the legislative package for implementing the Basel III framework within the UK. This came into effect from 1 January 2022 and is enforced by the Prudential Regulation Authority ("PRA").

All numerical disclosures within this document have been prepared as of 30 September 2023 which is JHB's most recent financial period-end. Pillar 3 disclosures are issued on an annual basis and are made available concurrently with the audited Financial Statements as required by the UK CRR.

CRD is a means of regulating banks and provides a common framework for the assessment of the individual risk profile of each financial institution. This includes determining the level of capital that banks must hold according to the individual risk profile of each banking product. The purpose of a bank's capital resources is to act as a buffer that could absorb possible future losses incurred by JHB to ensure the long-term viability of JHB and protection of stakeholders.

The requirements of the Basel capital framework are divided into three 'pillars' as described below:

Pillar 1 – these requirements set out the minimum capital requirements that each bank must adhere to.

The Pillar 1 capital requirement is calculated for JHB using the following approaches:

- Credit Risk - Standardised Approach
- Counterparty Credit Risk - Standardised Approach
- Operational Risk - Basic Indicator Approach

Pillar 2 – builds on Pillar 1 and incorporates JHB's own assessment of additional capital resources needed to cover specific risks that are not covered by Pillar 1. JHB has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP). The amount of additional capital required is also reviewed by the PRA as part of the Supervisory Review and Evaluation Process (SREP) and this determines the overall level of capital required to be held by JHB.

Pillar 3 – these rules are designed to promote market discipline and transparency by enhancing the level of disclosure made by banks to its stakeholders by allowing them to assess JHB's key risk exposures and the adequacy of JHB's risk management processes to mitigate these risks.

The PRA rulebook Disclosure (CRR) section lays down uniform disclosure formats which JHB adopts for all items regarded as material. These disclosures are referred to below in the disclosure tables as "Template UK" followed by the title of the template. Disclosures may not be made for items regarded as immaterial in line with Article 432 of the UK CRR which states that "institutions may omit one or more of the disclosures where the information provided by those disclosures is not regarded as material." The term "material" is interpreted to refer to the value of the information provided to the user. Accordingly, certain prescribed tables and disclosures are not presented or are abbreviated in this document for any of the following reasons:

1. Tables, rows or columns are omitted or abbreviated where they would disclose zero or immaterial values.

2. Tables and disclosures are omitted where they would duplicate information disclosed elsewhere.

3. Tables, columns, rows and disclosures are omitted where they refer to methodologies, processes or terms that are not relevant to JHB

1.3 Key Regulatory Metrics

Detail of key regulatory metrics and measures are disclosed in section 3 of the document.

1.4 Verification of Information

JHB's Pillar 3 disclosures are subject to internal verification, they have been reviewed by JHB's Audit Committee and are published on JHB's website: https://www.hodgebank.co.uk/financial-information/.

These disclosures are not subject to external audit except for those prepared under accounting requirements for inclusion in JHB's audited Financial Statements.

1.5 Scope of Pillar 3

This document contains the Pillar 3 disclosures of Julian Hodge Bank Limited as a standalone separate entity. A summary of the main differences between the Financial Statements carrying amounts and regulatory exposures has been included within Appendix 1.

1.6 Regulatory Horizon

Disclosures

As noted in Section 1.2 the PRA Rulebook recommends disclosures and guidance which JHB has followed together with best practice for all quantitative and qualitative disclosures contained within this report. This document also includes additional qualitative and quantitative disclosures considered useful to the users of this document.

Basel 3.1

During November 2022, the Bank of England published a consultation (CP 16/22) titled "Implementation of the Basel 3.1 standards". This consultation paper contains detail of two new policy statements, the first of which was published in December 2023 (PS17/23) which sets out the final rules for some of the measures under Basel 3.1 with those most relevant to JHB being Credit Valuation, Counterparty Credit Risk and Operational Risk. The second part due for publication in 2024 will contain final rules for the remaining measures under Basel 3.1 such as Credit Risk and Reporting. Final implementation of these changes is scheduled for 1 July 2025. JHB has assessed the impact of the proposed changes based on the consultation paper and published policy statements and the Board is satisfied that forecast levels of capital are sufficient to meet the requirements associated with the new regulatory requirements.

Strong and Simple

The Strong and Simple framework was first outlined in a discussion paper in 2021 (DP1/21) and followed up by a consultation paper in 2022 (CP5/22). The framework aims to mitigate the 'complexity problem' that can arise when the same prudential requirements are applied to all firms. The regulator aims to achieve this through its 'strong and simple' initiative that would seek to simplify the prudential framework for non-systemic domestic banks and building societies, while maintaining their resilience.

During February 2023, the Bank of England published a consultation (CP4/23) titled "The Strong and Simple Framework: Liquidity and disclosure requirements for simpler-regime firms". This consultation was followed up by a policy statement (PS15/23) in December 2023 that sets out the criteria for institutions that wish to be considered as a Small domestic deposit taker and the revised requirements for those firms. The changes include reduced disclosures to the regulator on liquidity reporting and the removal of the need to make certain public disclosures subject to certain conditions.

A further consultation is expected in 2024 that will outline the proposed strong and simple approach to Capital. Management will continue to monitor regulatory publications for further information on the potential changes and impacts of the strong and simple framework.

Countercyclical Buffer ("CCyB")

The Bank of England's Financial Policy Committee agreed to increase the UK's CCyB to 2% with effect from 5 July 2023. The Board is satisfied that forecast levels of capital for the current financial year are sufficient to meet requirements associated with the current level of CCyB. The forecast is reviewed regularly and takes account of the latest planned CCyB levels.

2 Risk Management Objectives and Policies

2 Risk Management Objectives and Policies

JHB has a strong culture of risk awareness and control and actively monitors and manages the risks of its business in line with Board Risk Appetite and strategy through a robust and embedded risk management framework.

The objectives of JHB's Enterprise Risk Management Framework (ERMF) are as follows:
- Delivering against its strategy whilst operating within risk appetite.
- Building greater resilience to organisational threats.
- Protecting its customers from unfair outcomes.
- JHB operates it's RMF using the three lines of defence model. The three lines of defence model consists of three functions with clearly delineated responsibilities that provide robust operational and oversight independence and effectiveness.

JHB has an established Board Risk Committee which met seven times during the year with the objective of:
- Promoting an appropriate risk culture and overseeing the development and implementation of the ERMF and associated policies.
- Monitoring JHB's current and emerging risk profile and ensuring that this is appropriately mitigated.
- Reviewing and recommending risk appetite to the Board and monitoring our risk profile within this appetite.
- Reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP and Recovery Plan).

Further detail of JHB's risk management, risk committees (such as the above noted Board Risk Committee) and frequency of meetings along with senior management profiles (including other interests) can be found in the published Financial Statements.

3 Key Regulatory Metrics

3 Key Regulatory Metrics

Throughout the year ended 30 September 2023 JHB maintained its capital resources, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio at levels above the minimum regulatory requirements.

The following table provides a summary of the key regulatory metrics for JHB as of 30 September:

		2023	2022
Available own funds (amounts) (£m)			
1	Common Equity Tier 1 (CET1)	172.9	177.4
2	Tier 1	172.9	177.4
	Total capital	**172.9**	**177.4**
	Risk-weighted exposure amounts RWEA (£m)		
4	Total RWEA	704.7	705.0
	Capital ratios (as a percentage of RWEA)		
5	Common Equity Tier 1 ratio	24.5%	25.2%
6	Tier 1 ratio	24.5%	25.2%
7	**Total capital ratio**	**24.5%**	**25.2%**
Combined buffer requirement (as a percentage of RWEA)			
8	Capital conservation buffer	2.5%	2.5%
9	Institution specific countercyclical capital buffer	2.0%	0.0%
11	Combined buffer requirement	4.5%	2.5%
UK11a	Overall capital requirements	16.0%	15.9%
12	CET1 available after meeting the total SREP own funds requirements	13.0%	11.8%
Leverage Ratio			
13	Total leverage Ratio exposure measure (£m)	1,649.9	1,623.2
14	**Leverage Ratio**	**10.5%**	**10.9%**
Liquidity Coverage Ratio*			
15	Total HQLA after haircuts (£m)	230.4	334.3
UK16a	Cash outflows – Total weighted value (£m)	141.0	136.8
UK16b	Cash inflows – Total weighted value (£m)	10.7	4.1
16	Total net cash outflows (adjusted value)(£m)	130.2	132.7
17	**Liquidity coverage ratio (%)**	**176.9%**	**251.9%**
Net Stable Funding Ratio			
18	Total available stable funding	1,721.9	1,548.8
19	Total required stable funding	1,144.2	1,085.2
20	**NSFR ratio (%)**	**150.5%**	**142.7%**

Source: Template UK KM1
*=year end value for LCR related metrics whereas detailed analysis at LIQ1 reports average values as defined in the table.

4 Capital Resources

4 Capital Resources

The table below summarises the composition of regulatory capital. JHB has complied with all the externally imposed capital requirements to which it is subject during the years ended 30 September 2023 and 30 September 2022.

Composition of regulatory own funds at 30 September

		2023 £m	2022 £m
Common Equity Tier 1 Capital: Instruments and Reserves			
1	Capital instruments and the related share premium accounts	130.0	130.0
	*of which: ordinary share capital**	130.0	130.0
2	Retained earnings	56.3	58.3
3	Accumulated other comprehensive income (and other reserves)	(2.5)	(3.4)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**183.8**	**184.9**
Common Equity Tier 1 capital: regulatory adjustments			
8	Intangible assets (1)	(12.5)	(9.4)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant) (2)	1.8	2.1
	Valuation adjustment (3)	(0.2)	(0.2)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(10.9)**	**(7.5)**
29	**Common Equity Tier 1 capital**	**172.9**	**177.4**
45	**Tier 1 capital (T1=CET1+AT1)**	**172.9**	**177.4**
59	**Total capital**	**172.9**	**177.4**
60	Total Risk exposure amount	704.7	705.0
Capital ratios and buffers			
61	Common Equity Tier 1 (as a % of total risk exposure amount)	24.5%	25.2%
62	Tier 1 (as a % of total risk exposure amount)	24.5%	25.2%
63	Total capital (as a % of total risk exposure amount)	24.5%	25.2%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	4.5%	2.5%
65	Of which: capital conservation buffer requirement	2.5%	2.5%
66	Of which: bank specific countercyclical buffer requirement	2.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a % of risk exposure amount)	13.0%	11.8%
	Amounts below threshold for deduction	**£m**	**£m**
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	5.6	6.3

Source: Template UK CC1
(1) An adjustment has been made to JHB's Common Equity Tier 1 capital in respect of intangible assets, as set out in the UK CRR. For regulatory purposes intangible assets are deducted from capital.
(2) Article 473a of the UK CRR provides a framework for the transitional adoption of the IFRS 9 standards into JHB's own funds calculation. Due to the COVID-19 pandemic additional IFRS 9 transitional relief was introduced in 2020. At 30 September 2023, JHB can recognise transitional relief of 25% of the IFRS 9 Stage 1 and 2 Expected Credit Loss (ECL) provisions raised prior to 1 January 2020 and 75% against the Stage 1 and 2 ECL provisions raised post 1 January 2020.
(3) A regulatory adjustment has been made to JHB's Common Equity Tier 1 capital in respect of the Prudent Valuation Adjustment.
(4) As JHB's deferred tax asset balance is lower than 10% of Common Equity Tier 1 Capital, it is below the threshold for deduction as per the requirements set out within Article 48(1) of the UK CRR. No adjustment is required.
* In respect of the information that is required by template UK CCA JHB has issued a total of £130m of share capital in ordinary shares of £1 each in several tranches during the period since incorporation.

Tier 1 Capital

JHB's Tier 1 capital comprises of issued share capital, accumulated accounting profits and other reserve balances. The following table shows the movement in CET1 capital during the year to 30 September:

CET1 Movements for period ended 30 September

	2023 £m	2022 £m
CET1 capital at beginning of period	**177.4**	**143.8**
Issue of share capital	-	25.0
(Loss)/Profit for the financial period	(2.1)	4.0
IFRS 9 transitional relief	(0.3)	(0.1)
Movement in other reserves	1.0	7.2
Movement in Intangible deduction	(3.1)	(2.5)
CET1 Capital at end of period	**172.9**	**177.4**

5 Capital Adequacy

05 Capital Adequacy

5.1 Capital Management

JHB's policy is to maintain a strong capital base to retain market confidence and to sustain future business volumes.

Pillar 1

The Pillar 1 capital requirements detailed within the CRD set out the fixed minimum capital requirement and consists of the following components:

- *Credit and Counterparty Credit risk* – reflects the risk that a counterparty will be unable or unwilling to meet an agreed commitment. JHB has adopted the standardised approach to determine its Pillar 1 credit risk capital requirement. This involves applying standard rules to each exposure class.
- *Operational risk — is the risk of direct or indirect loss resulting from inadequate or failed internal processes and controls, people or systems, or from external events. JHB has adopted the basic indicator approach to determine its Pillar 1 operational risk capital requirement. This calculation is based on JHB's average income for the past three years.*
- *Market risk – JHB does not have a trading book and is not exposed to commodity or foreign exchange risk positions and does not have a requirement for market risk capital.*

Pillar 1 capital adequacy is monitored by ALCo and reviewed by the Risk and Conduct Committee on a monthly basis. Capital adequacy is reported to the regulator on a quarterly basis. Capital forecasts are prepared on an annual basis, as part of the Bank's annual budgeting and forecasting cycle. During the year, reforecasting is performed and presented to the Board to consider the impact of events that were not reflected in the original budget.

Pillar 2

JHB must also set aside Pillar 2 capital to provide for additional risks. JHB's Pillar 2 capital requirements are reviewed formally at least annually, and additional reviews are undertaken if management become aware of a significant change in the business model or a change in JHB's risk profile. JHB has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP). JHB's Pillar 2 requirements also reflect the capital required to support future growth.

5.2 Internal Capital Adequacy Assessment Process

JHB undertakes an internal assessment of its capital requirements by completing an annual ICAAP. This internal process is designed to take account of other risks not covered by the minimum capital requirement.

Included within the ICAAP are capital projections covering a 5-year time horizon reflecting JHB's approved strategy and potential growth prospects together with the results of stress tests applied to this strategic plan. This process is designed to ensure that adequate capital is retained by JHB to meet its current requirements and to cover any increased risks resulting from proposed future plans.

The ICAAP is presented to the Board for challenge and approval with the most recent review being completed in September 2023. In addition to the PRA prescribed ICAAP stress testing, enterprise-wide stress testing of capital, liquidity, operational risk and reverse stress testing is performed.

The ICAAP is assessed by the PRA and used to determine and set JHB's Total Capital Requirement (TCR) and any required PRA buffer. The TCR was last reviewed by Management and agreed with the PRA during JHB's Supervisory Review and Evaluation Process (SREP) in February 2023.

The amounts and composition of JHB's capital requirements are determined by assessing the relevant Pillar 1 minimum capital requirement, the requirement for other risks not included in Pillar 1, and the impact of stress and scenario tests under Pillar 2.

At 30 September 2023 JHB's TCR as a proportion of Risk Weighted Exposure Amount (RWEA) equated to 11.5% of which 6.5% must be covered by CET1 capital. This reflected a point-in-time estimate by Management and the PRA which may change over time. JHB is not permitted by the PRA to provide any further details regarding the individual components in respect of its Pillar 2A assessment.

JHB manages its capital above the minimum TCR threshold, always including a capital buffer (further detail on this is included in Section 6).

5.3 Pillar 1 Capital Requirement

Exposure Class Summary

The table below sets out the Pillar 1 capital requirements by exposure class. The Pillar 1 requirement in respect of credit risk is based on 8% of the risk weighted exposure for each of the following standardised exposure classes. The Pillar 1 capital requirement is calculated as follows:

As at 30 September 2023	Exposure Value £m	RWEAs £m	Pillar 1 Capital* £m
Government and central banks	156.7	-	-
Multilateral development banks	70.1	-	-
Financial institutions	13.7	3.5	0.3
Covered bonds	14.2	1.4	0.1
Mortgages secured on residential/commercial real estate	1,518.8	597.0	47.8
Items associated with particularly high risk	10.5	15.7	1.3
Exposures in default	8.8	8.8	0.7
Other items	10.9	19.2	1.5
Total credit risk	**1,803.7**	**645.6**	**51.7**
Operational risk – basic indicator approach	-	58.9	4.7
CVA – standardised approach	-	0.2	0.0
Total	**1,803.7**	**704.7**	**56.4**

As at 30 September 2022	Exposure Value £m	RWEAs £m	Pillar 1 Capital* £m
Government and central banks	233.6	-	-
Multilateral development banks	91.1	-	-
Financial institutions	2.4	1.1	0.1
Covered bonds	28.7	2.9	0.2
Mortgages secured on residential/commercial real estate	1,448.4	593.3	47.5
Items associated with particularly high risk	13.9	20.8	1.7
Exposures in default	12.3	12.4	1.0
Other items	21.2	30.7	2.4
Total credit risk	**1,851.6**	**661.2**	**52.9**
Operational risk – basic indicator approach	-	43.5	3.5
CVA – standardised approach	-	0.3	0.0
Total	**1,851.6**	**705.0**	**56.4**

*=Pillar 1 credit risk capital required = Exposure value x Risk weighting x 8%

• Capital Adequacy (continued)

Risk Type Breakdown

Overview of risk weighted exposure amounts (RWEAs) as at 30 September

		RWEA		Total own funds requirement
		2023 £m	2022 £m	**2023 £m**
1	**Credit risk (excluding CCR)**	629.2	643.1	**50.3**
2	Of which standardised approach	629.2	643.1	**50.3**
6	**CCR**	2.7	2.5	**0.2**
UK 8b	Of which credit valuation adjustment - CVA	0.2	0.3	**0.0**
9	Of which other CCR	2.5	2.2	**0.2**
23	**Operational risk**	58.9	43.5	**4.7**
23a	Of which basic indicator approach	58.9	43.5	**4.7**
24	**Amounts below the threshold for deduction (subject to 250% risk weight)**	**13.9**	**15.9**	**1.2**
29	**Total**	**704.7**	**705.0**	**56.4**

Source: Template UK OV1

Operational risk

The Bank used a Basic Indicator approach to assess the capital charge for operational risk.

		2021 £m	2022 £m	2023 £m	Own funds requirement £m	RWEA £m
1	Banking activities subject to basic indicator approach	20.3	32.0	42.0	4.7	58.9

Source: Template UK OR1

Credit valuation adjustment

JHB holds additional capital in the form of a CVA to cover the risk of loss as a result of a deterioration in the creditworthiness of counterparties to derivative transactions.
A breakdown of the exposure value by on and off-Balance Sheet exposures is shown in section 7.1.

6 Regulatory Capital Buffers and IFRS9 Transitional Adjustments

06 Regulatory Capital Buffers and IFRS9 Transitional Adjustments

6.1 Buffers

JHB currently operates with an excess of capital over the regulatory minimum and can comfortably meet minimum requirements over the longer-term planning horizon.

The PRA rulebook requires the following regulatory capital buffers to be applied to JHB:

Capital Conservation Buffer ("CCoB")

The CCoB is a buffer required for all banks that can be used to absorb losses whilst avoiding breaching minimum capital requirements. It is currently set at 2.5% of an institution's RWEA's, the table below shows JHB's CCoB requirement at 30 September:

	2023	2022
Total RWEA (£m)	704.7	705.0
Institution specific CCoB rate (%)	2.5%	2.5%
Institution specific CCoB requirement (£m)	**17.6**	17.6

Countercyclical Capital Buffer ("CCyB")

Institutions are required to calculate an institution-specific countercyclical capital buffer (CCyB) based on buffer rates that apply in the countries where the credit exposures are located. The Financial Policy Committee of the Bank of England is responsible for setting the CCyB rate in the UK.

In accordance with UK CRR (PRA on-shored) delegated regulation 1152/2014, JHB has taken any exposures to non-UK entities and allocated them to the UK as the relevant non-UK exposures are less than 2% of exposures.

JHB's institutional countercyclical buffer rate applied as at 30 September 2023 was 2% resulting in a buffer requirement of £14.1m. Further disclosure of the countercyclical capital buffer requirement in accordance with Article 440 of the UK CRR is included in Appendix 2.

PRA Buffer

As previously mentioned in sections 1.2, 5.1 and 5.2 the PRA undertakes periodic SREP reviews to assess the adequacy of JHB's capital buffers in relation to all relevant risks. The outcome of the process is reflected in the calculation of TCR and, where deemed appropriate, a PRA buffer will be included in addition to the other capital buffers. This is designed to mitigate against possible stress periods in the future. The PRA requires that the level of any such buffer is not publicly disclosed.

The available CET1 capital as a percentage of risk weighted assets to meet all of the buffers discussed above is shown in Section 4 as 13.0%.

6.2 IFRS 9 Transitional Adjustment

Following the implementation of IFR9, the PRA advised that all financial institutions could make use of Article 473(a) of the CRR to apply transitional adjustments to gradually introduce the capital impact of IFRS 9, JHB elected to make use of these transitional adjustments.

Following the COVID-19 pandemic, additional transitional measures were introduced resulting in different transitional allowances being applied for Stage 1 and 2 provisions raised before and after 1 January 2020.

The following table provides a summary of the rates used to calculate the IFRS 9 transitional adjustment within JHB's CET1 capital position.

Transitional CET1 Adjustment %	Provisions raised pre 1 January 2020	Provisions raised post 1 January 2020
Financial period ended 30 September 2023	25%	75%
Financial period ended 30 September 2024	-	50%
Financial period ended 30 September 2025	-	25%

The following tables provides a summary of JHB's key regulatory metrics both with and without the transitional relief being applied:

	30 September 2023	
	With Transitional Relief	**Without Transitional Relief**
Common Equity Tier 1 Capital (£m)	172.9	171.2
Common Equity Tier 1 ratio (%)	24.5%	24.3%
Basel III Leverage Ratio (%)	10.5%	10.4%

	30 September 2022	
	With Transitional Relief	**Without Transitional Relief**
Common Equity Tier 1 Capital (£m)	177.4	175.3
Common Equity Tier 1 ratio (%)	25.2%	24.9%
Basel III Leverage Ratio (%)	10.9%	10.8%

As demonstrated in the September 2023 table above, JHB can meet all regulatory requirements both with and without the application of the transitional reliefs available.

7 Credit Risk

07 Credit risk

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered with JHB. JHB follows the Standardised Approach in relation to credit risk. The following qualitative disclosures concerning JHB's exposures to credit risk are made to supplement disclosure that is provided within the published Financial Statements.

7.1 Summary of JHB's Credit Risk Exposures

The exposures are summarised as follows at 30 September:

2023								
£m	Gross Exposures (Pre CCF)		Gross Exposures (Post CCF)					
	On-Balance Sheet £m	Off-Balance Sheet £m	On-Balance Sheet £m	Off-Balance Sheet £m	ECL Provision £m	Total Exposure £m	RWEA £m	RWEA Density
Government and central banks	156.7	-	156.7	-	-	**156.7**	-	0.0%
Multilateral development banks	70.1	-	70.1	-	-	**70.1**	-	0.0%
Financial institutions	13.7	-	13.7	-	-	**13.7**	3.5	25.4%
Covered bonds	14.2	-	14.2	-	-	**14.2**	1.4	10.0%
Mortgages on residential/ commercial real estate	1,516.7	22.1	1,516.7	4.4	(2.3)	**1,518.8**	597.0	39.3%
Items associated with particularly high risk	9.4	11.3	9.4	2.3	(1.2)	**10.5**	15.7	150.0%
Exposures in default	9.1	-	9.1	-	(0.3)	**8.8**	8.8	100.0%
Other items *	10.9	-	10.9	-	-	**10.9**	19.2	176.7%
Total	**1,800.8**	**33.4**	**1,800.8**	**6.7**	**(3.8)**	**1,803.7**	**645.6**	**35.8%**

2022								
£m	Gross Exposures (Pre CCF)		Gross Exposures (Post CCF)					
	On-Balance Sheet £m	Off-Balance Sheet £m	On-Balance Sheet £m	Off-Balance Sheet £m	ECL Provision £m	Total Exposure £m	RWEA £m	RWEA Density
Government and central banks	232.6	-	232.6	-	-	**233.6**	-	0%
Multilateral development banks	91.1	-	91.1	-	-	**91.1**	-	0%
Financial institutions	2.4	-	2.4	-	-	**2.4**	1.1	48%
Covered bonds	28.7	-	28.7	-	-	**28.7**	2.9	10%
Mortgages on residential/ commercial real estate	1,435.4	70.1	1,435.4	14.0	(1.0)	**1,448.4**	593.3	41%
Items associated with particularly high risk	15.1	10.1	15.1	2.0	(3.3)	**13.9**	20.8	150%
Exposures in default	14.1	-	14.1	-	(1.8)	**12.3**	12.4	100%
Other items *	21.2	-	21.2	-	-	**21.2**	30.7	145%
Total	**1,841.6**	**80.2**	**1,841.6**	**16.0**	**(6.1)**	**1,851.6**	**661.2**	**36%**

*= Other items include deferred tax assets, reversions, fixed assets and other debtors.

Source: Template UK CR4

7.2 Standardised approach to determination of credit risk – Exposures by risk weight and exposure class (£m)

	Risk Weightings									
Exposure classes	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	250% £m	Exposure Value £m
Government and central banks	156.7	-	-	-	-	-	-	-	-	**156.7**
Multilateral development banks	70.1	-	-	-	-	-	-	-	-	**70.1**
Financial institutions	-	-	11.2	-	2.5	-	-	-	-	**13.7**
Covered bonds	-	14.2	-	-	-	-	-	-	-	**14.2**
Mortgages secured on residential/ commercial real estate	-	-	-	1,418.0	-	0.8	100.0	-	-	**1,518.8**
Items associated with particularly high	-	-	-	-	-	-	-	10.5	-	**10.5**
Exposures in default	-	-	-	-	-	-	8.8	-	-	**8.8**
Other items	-	-	-	-	-	-	5.4	-	5.5	10.9
Total	**226.8**	**14.2**	**11.2**	**1,418.0**	**2.5**	**0.8**	**114.2**	**10.5**	**5.5**	**1,803.7**

Source: Template UK CR5

Included within the total exposures of £1.8bn are £70.1m of exposures to supranational banks, £1m in covered bonds issued by a Spanish bank and £2.2m in derivatives issued by a French bank.

7.3 Credit Risk by Residual Maturity

		Maturity of exposures					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total £m
		a £m	b £m	c £m	d £m	e £m	f £m
1	*Loans and advances*						
	Mortgages secured on residential/ commercial real estate	-	123.3	216.6	1,178.9	-	1,518.8
	Items associated with particularly high risk	-	9.2	1.3	-	-	10.5
	Exposures in default	-	0.9	7.2	0.7	-	8.8
	Other items	-	-	-	-	10.9	10.9
	Total loans and advances	-	133.4	225.1	1,179.6	10.9	1,549.0
2	*Debt securities*						
	Government and central banks	93.7	34.4	10.1	18.5	-	156.7
	Multilateral development banks	-	42.5	27.6	-	-	70.1
	Financial institutions	2.5	11.2	-	-	-	13.7
	Covered bonds	-	9.2	5.0	-	-	14.2
	Total debt securities	96.2	97.3	42.7	18.5	-	254.7
3	**Total**	**96.2**	**230.7**	**267.8**	**1,198.1**	**10.9**	**1,803.7**

Source: Template UK CR1-A

7.4 Non-performing loans and impairment

As described in more detail within the Financial Statements, JHB monitors credit risk by regularly reviewing loans and advances to customers for impairment.

IFRS 9 stipulates that the impairment of loans and advances to customers is calculated using a forward-looking Expected Credit Loss (ECL) model.

Loans are categorised in accordance with IFRS 9 as Stage 1, Stage 2, or Stage 3:

- Stage 1: when a financial asset is first recognised it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition the financial asset remains in Stage 1. Stage 1 also includes those financial assets where the credit risk has improved, and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised.
- Stage 2: when a financial asset demonstrates a significant increase in credit risk from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved, and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2, a lifetime ECL is recognised.
- Stage 3: when there is clear evidence of impairment and the financial asset is either in default, or otherwise credit impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.

During the year JHB experienced a low rate of non-performing loans (0.30%) and an even lower rate of forbearance (0.07%). Template tables relating to non-performing loans and forbearance are not presented in this report on the grounds of materiality.

7.5 Impairment Provisions on Loans and Advances to Customers

The table below summarises bad debt provisions held against financial assets classified at Amortised Cost, which is the majority of JHB's mortgage portfolios, and held on JHB's Balance Sheet by stage classification as at 30 September per the Financial Statements:

2023	Commercial £m	Portfolio Buy-to-let £m	Residential £m
Stage 1	128.7	37.1	1,137.9
Stage 2	44.7	39.4	86.0
Stage 3	1.8	-	7.4
Gross Loans and Advances	**175.2**	**76.5**	**1,231.3**
Stage 1 provisions	(0.9)	(0.4)	(0.1)
Stage 2 provisions	(1.6)	(1.4)	(0.2)
Stage 3 provisions	(1.1)	-	(0.2)
Loss allowance	**(3.6)**	**(1.8)**	**(0.5)**
Loan fee deferral	(1.1)	(0.1)	4.1
Loans and advances to customers	**170.5**	**74.6**	**1,234.9**

2022	Commercial £m	Portfolio Buy-to-let £m	Residential £m
Stage 1	143.0	71.3	1,076.7
Stage 2	31.0	6.5	56.6
Stage 3	16.0	-	2.2
Gross Loans and Advances	**190.0**	**77.8**	**1,135.5**
Stage 1 provisions	(0.9)	(0.7)	(0.1)
Stage 2 provisions	(0.9)	(0.4)	(0.1)
Stage 3 provisions	(4.9)	-	(0.1)
Loss allowance	**(6.7)**	**(1.0)**	**(0.3)**
Loan fee deferral	(1.1)	(0.1)	5.0
Loans and advances to customers	**182.3**	**76.7**	**1,140.2**

7.6 Treasury Credit Risk

The treasury portfolio contains a mix of debt securities issued by UK government (Gilts/T-Bills), Multilateral development banks (supranational institutions set up by sovereign states, which are their shareholders), covered bonds (issued by banks or mortgage institutions) and cash deposits with highly rated banks. The treasury portfolio also includes sterling deposits placed with or received from counterparties as collateral supporting JHB's derivative portfolio.

All JHB's exposures within the treasury asset portfolio are rated by major credit rating agencies. JHB uses these ratings in line with the CRR to calculate the capital requirements determined by the credit rating, counterparty and asset class of each of the assets.

The table below provides a summary of the External Credit Assessment Institution ratings mapped to credit quality steps:

Credit Quality Step	Moody's rating	Fitch's rating	S&P's rating
1	Aaa to Aa3	AAA to AA-	AAA to AA-
2	A1 to A3	A+ to A-	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
5	B1 to B3	B+ to B-	B+ to B-
6	Caa1 and below	CCC+ and below	CCC+ and below

There was no change in providers of external credit ratings during the year.

JHB's exposures at 30 September, analysed by credit rating, are summarised in the table below:

£m		
Central governments or central banks		
Rating – S&P / Fitch	**30 September 2023**	**30 September 2022**
AAA to AA-	156.7	232.6
Total	**156.7**	**232.6**
Multilateral development banks		
Rating	**30 September 2023**	**30 September 2022**
AAA to AA-	70.1	91.1
Total	**70.1**	**91.1**
Financial Institutions		
Rating – S&P / Fitch	**30 September 2023**	**30 September 2022**
A+ to A-	13.7	5.0
Total	**13.7**	**5.0**
Covered bonds		
Rating	**30 September 2023**	**30 September 2022**
AAA to AA-	14.2	28.7
Total	**14.2**	**28.7**

Derivatives and Collateral

JHB uses financial derivatives to manage interest rate risk. JHB uses central counterparties (CCPs) to clear these derivative transactions (interest rate swaps) which mitigates counterparty credit risk*. Positions are continuously marked to market and margin in the form of collateral which is exchanged on at least a daily basis. All derivatives are governed by appropriate legal documentation known as Master Agreements and are supported by a Credit Support Annex.

As at 30 September 2023, no additional credit risk mitigation was deemed necessary.

The following table shows the exposure to counterparty credit risk for derivative contracts as at 30 September:

£m	30 September 2023	30 September 2022
Fair value (inclusive of potential future exposure)	48.8	64.4
Cash collateral held by financial institutions	(39.1)	(19.4)
Net derivative exposure	**9.7**	**45.0**

JHB holds additional capital in the form of the CVA and CCR adjustment to protect against either the risk of the deterioration in the creditworthiness or default of counterparties. These are applicable to any derivatives which are not centrally cleared through a central clearing counterparty (CCP).

*JHB has one historical interest rate Swap that is not centrally cleared.

7.7 Credit Risk Mitigation ('CRM')

For treasury credit risk, ALCo is responsible for the review and management of JHB's cash portfolio and must approve all counterparties in advance (based on a combination of their credit rating and ALCo's own assessment of prospects). JHB's Treasury Credit Risk Management policy sets exposure limits for each approved counterparty and this is reviewed regularly considering current market developments.

JHB takes security in the form of legal charges over the property against which funds are advanced for commercial lending and residential mortgages. This does not qualify as CRM under the CRR and therefore the above credit risk disclosure tables including UK CR4 do not disclose CRM that would otherwise be required to be disclosed within the UK CRR disclosure templates.

For commercial lending, each security is valued at inception by a RICS-qualified surveyor. Further valuations are also requested by JHB if evidence comes to light that the security may have become impaired, or where the value of the security has been enhanced because of development activity. Additionally, there is a rolling review programme whereby valuations are updated on a regular cycle. JHB may also hold cash collateral in relation to certain commercial lending schemes in isolated cases and this may be used as security against any residual liabilities associated with a development scheme.

Properties secured against residential mortgages and reversionary interests in properties are also valued at inception of the loan by a RICS-qualified surveyor.

7.8 Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. JHB is exposed to counterparty credit risk because of derivative financial instrument contracts it is a party to.

The following table provides an analysis of counterparty credit risk by approach:

	Replacement Cost £m	Potential future exposure £m	Alpha used for computing regulatory exposure value	Exposure value pre CRM £m	Exposure value post CRM £m	Exposure value £m	RWEA £m
1 SA-CCR	0.4	1.4	1.2	73.8	2.5	2.5	1.2
6 Total				**73.8**	**2.5**	**2.5**	**1.2**

Source UK CCR1

Regarding disclosure requirements for UK-CCR3, UK-CCR5 and UK-CCR8 all counterparty credit risk exposures are held at institutions and risk weighted at 50%. Please refer to section 7.6 – derivatives and collateral.

8

Interest Rate Risk in the Banking Book

08 Interest Rate Risk in the Banking Book

Interest rate risk is the risk that arises when there is a mismatch between the maturity dates of interest rate sensitive assets, liabilities and off-Balance Sheet items. This risk is managed through the appropriate use of financial instruments, mainly derivatives within the established risk limits set by the Board.

Derivatives are only used to limit the extent to which JHB will be affected by changes in interest rates or other indices which affect cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The derivatives used by JHB are interest rate swaps. JHB's forecasting and planning processes incorporate the risk of interest rate changes and are prepared and stressed accordingly.

Basis Risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics. An example is the relationship between the Sterling Overnight Interest Average (SONIA) and the Bank of England Base Rate (Bank Rate).

Basis risk reported as at 30 September 2023 was 49%.

Interest Rate Sensitivity Gap

Interest rate risk exposures are measured monthly and reported to ALCo and the Board. The net present value sensitivity of the interest rate risk exposures for each of the supervisory prescribed interest rate shock scenarios are as follows:

	Economic Value of Equity (EVE)	
£m	**30 September 2023**	**30 September 2022**
+250 basis points increase	4.9	1.2
-250 basis points decrease (floored at zero)	(4.5)	0
Steepener (short term rates down and long-term rates up)	(5.6)	(6.5)
Flattener (short term rates up and long-term rates down)	6.4	6.5
Short rate up	7.2	6.1
Short rate down	(7.6)	(6.4)
Maximum	(7.6)	(6.5)

The movement in sensitivity of JHB's Balance Sheet to interest rate movements due to fluctuations in the interest rate environment and changes to the structure of the Balance Sheet.
In addition, the effect of a 100-basis point shift in the yield curve is applied to the Balance Sheet at the period-end, to determine how the net interest income (NII) may change on an annualised basis for one year, as follows:

	NII	
£m	**30 September 2023[1]**	**30 September 2022**
+100 basis points increase	10.4	5.0
-100 basis points decrease (floored at zero)	(6.9)	(6.4)

1 – Results from September reflect a 3-year time horizon (previously 2-years in 2022)

The movement in sensitivity of JHB's Balance Sheet to interest rate movements is due to fluctuations in the interest rate environment and changes to the structure of JHB's Balance Sheet. JHB makes certain assumptions regarding the expected and contractual re-pricing behaviour as well as behavioural repayment profiles of the underlying Balance Sheet items when preparing the sensitivities above. The results also include the impact of derivative transactions.

Credit Spread Risk in the Banking Book (CSRBB)

CSRBB measures duration and credit linked risk associated with both fixed and floating rate securities and is independent from interest rate risk. This risk cannot be mitigated through interest rate swaps and can only be partly mitigated through credit default swaps, although this is not a practice that JHB engages in. Movements in credit spreads will generate an additional valuation risk separate from interest rate risk. Any gain or loss in value arising from CSRBB is reflected in JHB's Financial Statements. This risk is managed through the setting of risk appetite and is defined in the Interest Rate Risk Management Policy. The metric used to monitor this risk is CR01 and this represents the value impact of a 1bps increase in the price of the underlying security, this value is currently deemed immaterial based on the definition of materiality within JHB's Financial Statements.
CSRBB reported as at 30 September 2023 was 4bps of CET1 (£65k).

3

Leverage Ratio

09 Leverage Ratio

The Leverage Ratio is a non-risk-based measure that supplements the risk-based capital requirements. It is calculated as Tier 1 capital divided by an adjusted Balance Sheet exposure. The ratio does not distinguish between the credit quality of loans and can be used to review lending in proportion to the capital base.

The PRA's UK Leverage Ratio framework that came into force from 1 January 2022, allows institutions within its scope to exclude assets held with the Bank of England from their leverage calculations with the minimum ratio set at 3.25%. A Counter-Cyclical Leverage Ratio Buffer (CCLB) applies under these regulations; institutions are required to hold 35% of their CCyB as a CCLB.

JHB is not within scope of the UK's Leverage framework as retail deposits do not exceed £50bn; however, the regulator expects all institutions to monitor the ratio and aim to meet it. JHB's ratio of 10.8% is well above the minimum requirements and is in line with the prior year.

JHB manages leverage within its Balance Sheet in accordance with the established risk limits set by the Board. Under the Enterprise Risk Management Framework, ALCo review key metrics on a monthly basis and the latest view of the leverage ratio is included in the suite of data presented. The Early Warning Indicator (EWI) for leverage is set at a significantly higher level than the regulatory minimum and if this threshold was triggered, ALCo is mandated to instigate corrective action. The potential impact on the leverage ratio is also examined in forward looking plans and in JHB's stress testing with the overall aim of maintaining JHB's leverage within risk appetite.

The following Leverage Ratio disclosures for the year ended 30 September 2023 are laid out in accordance with the requirements of the CRR.

Summary reconciliation of accounting assets and Leverage Ratio exposures as at 30 September

		2023	2022
		Applicable Amounts £m	**Applicable Amounts £m**
1	Total assets as per published financial statements	**1,823.1**	**1,860.8**
4	Adjustment for exemption of exposures to central Banks	153.9	228.4
8	Adjustment for derivative financial instruments	(11.6)	(14.0)
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	6.7	16.0
12	Other adjustments	(14.4)	(11.2)
13	**Total exposure measure**	**1,649.9**	**1,623.2**

Source: Template UK LRSum

Leverage Ratio common disclosure at 30 September

		2023	2022
		CRR Leverage Ratio exposures £m	**CRR Leverage Ratio exposures £m**
	On-balance sheet exposures		
1	On-balance sheet items	1,823.1	1,860.8
2	Asset amounts deducted in determining Tier 1 Capital	(14.4)	(11.2)
7	**Total on-Balance Sheet exposures**	**1,808.7**	**1,849.8**
	Derivative exposures		
8	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	(11.6)	(14.0)
13	**Total derivative exposures**	**(11.6)**	**(14.0)**
	Other off-Balance Sheet exposures		
19	Off-Balance Sheet exposures at gross notional amount	33.4	80.2
20	Adjustment for conversion to credit equivalent amounts	(26.7)	(64.1)
22	**Off-Balance Sheet exposures**	**6.7**	**16.0**
	Capital and total exposures		
23	**Tier 1 capital (leverage)**	**172.9**	**177.4**
24	Total Leverage Ratio exposure including claims on central banks	1,803.7	1,851.6
UK-24a	(-) Claims on central banks excluded	(153.9)	(228.4)
UK 24b	**Total exposure measure excluding claims on central banks**	**1,649.9**	**1,623.2**
25	Leverage ratio excluding claims on central banks	10.5%	10.9%
UK-25c	Leverage ratio including claims on central banks	9.6%	9.6%

Source: Template UK LRCom

Leverage Ratio: Split of on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures)

		30 September 2023 £m	30 September 2022 £m
UK-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	**1,797.1**	1,835.8
UK-3	Banking Book exposures, of which:	1,797.1	1,835.8
UK-4	Covered bonds	14.2	28.7
UK-5	Exposures treated as sovereigns	156.7	228.4
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	70.1	91.1
UK-7	Institutions	13.7	2.4
UK-8	Secured by mortgages of immovable properties	1,522.7	1,446.5
UK-11	Exposures in default	8.8	12.3
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	10.9	26.4

Source: Template UK LRSpl

10

Liquidity Management

10 Liquidity Management

JHB maintained liquidity levels more than the regulatory LCR minimum of 100% throughout the financial year. As noted in the risk management section there are detailed disclosures concerning liquidity risk management within the Financial Statements. Treasury manage liquidity daily by monitoring the quantum of cash balances against forecast and the internal liquidity requirement (ILR). Balance sheet maturity is analysed periodically to identify and close maturity gaps. Forward looking projections are reviewed by ALCo monthly.

As noted in the Financial Statements, management of JHB's liquidity and cash management is supplemented by stress testing and recovery planning whereby a series of worst-case scenarios are analysed to assess the resilience of JHB's balance sheet to a stress. This ensures, amongst other things, that JHB is not overly reliant on sources of funding from a single concentrated source. Management confirms that a combination of the BAU liquidity management systems and processes and the periodic stress testing and contingency planning that is performed are adequate to provide assurance that JHB has sufficient and adequate liquidity resources to meet its obligations in both normal market conditions and in unforeseen stress conditions.

10.1 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) refers to the amount of highly liquid assets a firm must hold to meet liquidity outflows during a 30-calendar day stress event. The aim of the LCR is to ensure that JHB can survive a 30-calendar day stress event by comparing the quantum of high quality liquid assets held to the net cash outflows JHB could encounter in such an event.

Approach to management of high-quality liquid assets

JHB maintains a portfolio of unencumbered high-quality liquid assets (HQLA) meeting the eligibility criteria specified by the LCR regulations. Assets pledged as collateral for secured funding transactions or derivative credit risk mitigation purposes are specifically excluded from the JHB's HQLA portfolio.

The Treasury Credit Risk Management policy contains a series of risk limits intended to limit exposures to individual counterparties and classes of assets, thereby ensuring diversification of risk to mitigate credit and concentration risks.

JHB maintains liquidity lines with counterparty banks providing the ability to monetise certain liquid assets through transactions such as repurchase agreements. JHB also has access to the Bank of England's Sterling Monetary Framework which allows JHB to obtain cash secured on eligible assets held in collateral as part of its liquidity management.

The major portion of cash resources are held in the JHB's Bank of England reserve account. Other, smaller, balances are held with relationship banks. Exposures to individual counterparties (excluding the Bank of England) are limited as per the Liquidity Risk Management Policy to avoid excessive deposits held with any one firm.

Liquidity outflows

Outflows are calculated by multiplying the outstanding balances of various categories of liabilities and off-Balance Sheet commitments by the rates at which they are expected to run off or be drawn down as indicated by the regulations and behavioural analysis.

Liquidity inflows

Inflows are assessed over a 30-calendar day period and comprise contractual inflows from exposures that are not past due.

Twelve month average quantitative information on LCR as at 30 September

		2023 £m
	High Quality Liquid Assets	
1	Total high-quality liquid assets (HQLA)	**241.6**
	Cash Outflows	
2	Retail deposits and deposits from small business customers, of which:	30.3
3	Stable deposits	14.0
4	Less stable deposits	16.3
5	Unsecured wholesale funding:	5.7
7	Non-operational deposits (all counterparties)	5.7
10	Additional requirements	62.5
11	Outflows related to derivative exposures and other collateral requirements	11.5
15	Other contingent funding obligations	16.0
16	TOTAL CASH OUTFLOWS	**126.1**
	Cash Inflows	
18	Inflows from fully performing exposures	3.0
19	Other cash flows	5.7
20	TOTAL CASH INFLOWS	**8.7**
UK-21	Liquidity buffer	241.6
22	Total net cash outflows	117.4
23	Liquidity Coverage Ratio (%)	205.7%

Source: Template UK LIQ1
Based on the average of the previous 12 months

10.2 Net Stable Funding Ratio

JHB's Net Stable Funding Ratio (NSFR) aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The NSFR as at September 2023 was 150.5% and is disclosed below in the required format.

		Unweighted value by residual maturity			Weighted value
		< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items				
1	Capital items and instruments	-	-	**183.6**	**183.6**
2	Own funds	-	-	183.6	183.6
4	Retail deposits	325.8	402.4	617.9	1,300.5
5	Stable deposits	202.4	340.6	426.2	942.1
6	Less stable deposits	123.3	61.8	191.7	358.4
7	Wholesale funding:	2.9	15.0	209.5	218.5
9	Other wholesale funding	2.9	15.0	209.5	218.5
11	Other liabilities:	-	-	**19.4**	**19.4**
13	All other liabilities and capital instruments not included in the above categories	-	-	19.4	19.4
14	**Total available stable funding (ASF)**				**1,721.9**
	Required stable funding (RSF) Items				
15	Total high-quality liquid assets (HQLA)				**2.0**
16	Deposits held at other financial institutions for operational purposes	**11.2**	**-**	**-**	**5.6**
17	Performing loans and securities:	**94.3**	**-**	**-**	**1,091.1**
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:	20.1	14.3	99.5	101.8
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	0.5	0.2	25.7	22.1
22	Performing residential mortgages, of which:	74.1	17.3	1,305.1	894.0
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	74.1	17.3	1,305.1	894.0
26	Other assets:	-	-	-	**43.8**
29	NSFR derivative assets	-	12.3	12.3	-
31	All other assets not included in the above categories	4.7	-	28.0	31.5
32	Off-balance sheet items	**33.4**	-	-	**1.7**
33	**Total RSF**				**1,144.2**
34	**Net Stable Funding Ratio (%)**				**150.5%**

Note: analysis has shown that the NSFR ratio was relatively stable throughout the year ended 30 September 2023 being at the end of Q1-FY23:155%, Q2-FY23:149%, Q3-FY23:150%, Q4-FY23:151%. Year end balances have therefore been reported as opposed to medians of quarter end balances because the latter measure would not provide further materially useful information for the user.

Source: Template UK LIQ2

11 Asset Encumbrance

11 Asset Encumbrance

Asset encumbrance is the process by which assets are pledged to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn. The table shows the split of JHB's encumbered and unencumbered assets as at 30 September 2023:

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered asset	
			of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		£m 010	£m 030	£m 040	£m 050	£m 060	£m 080	£m 090	£m 100
010	Assets of the reporting institution	285.8	285.8			1,476.6	-		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	142.0	142.0	134.6	134.6
050	of which: covered bonds	-	-	-	-	11.8	11.8	11.7	11.7
070	of which: issued by general governments	-	-	-	-	60.1	60.1	54.9	54.9
080	of which: issued by financial corporations	-	-	-	-	70.1	70.1	68.0	68.0
120	Other assets	285.8	285.8			1,334.7	102.1		

Source: Template UK AE1.

Note: analysis has shown that the encumbrance ratio was relatively stable throughout the year ended 30 September 2023 being at the end of Q1-FY23:18.4%, Q2-FY23:18.9%, Q3-FY23:16.5%, Q4-FY23:16.2%. Year end balances have therefore been reported as opposed to medians of quarter end balances because the latter measure would not provide further materially useful information for the user.

Information on the importance of encumbrance

JHB encumbers assets by pre-positioning loans and/or HQLA's as collateral to support access to the Bank of England's Funding Schemes including the TFSME and in relation to derivative transactions.

Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £m
		010	030
010	Carrying amount of selected financial liabilities	205.0	285.8

Source: Template UK AE3.

12 Remuneration

12 Remuneration

The Remuneration policy of JHB is managed by the Remuneration Committee. All members of the Remuneration Committee are non-executive directors and when appropriate the committee is supported by the Chief Executive Officer, Chief Financial Officer and Chief People Officer. The function of the Remuneration Committee is to consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The policy provides a framework to attract, retain and motivate employees to achieve the objectives of JHB within its risk appetite and risk management framework. Remuneration may comprise base salary, overtime, variable remuneration and car allowance dependent on an individual's terms of employment. Benefits may include holiday allowance, company car, pension scheme, life assurance, private medical insurance and permanent health insurance (dependent on an individual's terms of employment).

Fixed Remuneration

Fixed Remuneration relates to base salary, other cash payments which exclude variable payments and employer pension contributions. Fixed Remuneration components are reviewed annually through benchmarking exercises to ensure competitive alignment to the external recruitment market and ensure fair reward for the contributions of individuals and is subject to approval from the Committee. Reviews of non-executive director fees are set by executive directors. JHB does not offer share options or shares and, as a matter of principle, does not enter into supplementary arrangements, unless exceptional circumstances dictate. The Committee approves all retention payments if deemed appropriate.

Variable Remuneration

The percentage of any amount awarded is determined by the Committee after consideration of gateway conditions and a balanced scorecard. The Committee may award discretionary bonuses to individuals/categories of employees, without reference to specific qualifying criteria, if it feels that performance warrants a bonus.

Remuneration for MRTs

Under the CRR, the Group is required to make disclosures regarding the remuneration of Material Risk Takers ('MRTs'). Remuneration for the period ended 30 September for identified staff is shown in the disclosed tables.

			a	b	c	d	e
			MB Supervisory function	MB management function	Other senior management	Other identified staff	Retail banking
1	Fixed remuneration	**Number of identified staff**	**5**	**7**	**18**	**-**	**30**
2		Total fixed remuneration (£m)	0.4	1.3	1.4	-	3.1
3		Of which cash based (£m)	0.4	1.3	1.4	-	3.1
9	Variable remuneration	**Number of identified staff**	**-**	**7**	**18**	**-**	**22**
10		Total variable remuneration (£m)	-	0.3	0.2	-	0.5
11		Of which cash based (£m)	-	0.3	0.2	-	0.5
17	Total remuneration		**0.4**	**1.6**	**1.6**	**-**	**3.6**

Source: Templates UK REM1 and UK REM5

There have been no special payments made in the year ending 30 September 2023 to MRTs that would be reportable under Template UK REM2.

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods
7	MB Management function (£m)	0.2
8	Cash-based (£m)	0.2

Source Template UK REM 3

Note: in accordance with Article 450 the disclosures made concerning Remuneration Policy are those that JHB considers to be appropriate to its size, internal organisation and the nature, scope and complexity of activities. Certain elements of the published disclosure templates have therefore been omitted on these grounds or on the grounds of materiality.

Recruitment

Senior management are recruited into the business based on a balanced judgement regarding their suitability for the business and its culture combined with an assessment of the relevant experience they have had in relation to the role they will fill. For information about diversity and inclusion policies please refer to the Financial Statements.

Appendices

Appendix 1: Accounting to regulatory differences

Differences between accounting and regulatory scopes of consolidation and mapping of Financial Statement categories with regulatory risk categories

	30 September 2023				
	Carrying values as reported in published financial statements	Regulatory Exposure	Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework
Assets	**£m**	**£m**	**£m**	**£m**	**£m**
Cash balances held at central banks	93.7	93.7	93.7	-	-
Treasury bills	61.7	61.7	61.7	-	-
Debt securities	82.0	82.0	82.0	-	-
Advances to credit institutions	11.2	11.2	11.2	-	-
Loans and advances to customers	1,488.5	1,537.8	1,537.8	-	-
Intangible assets (1)	12.7	-	-	-	-
Property, plant & equipment	1.2	1.2	1.2	-	-
Investment properties	2.6	2.6	2.6	-	-
Deferred tax assets	5.6	5.6	5.6	-	-
Derivative financial instruments	58.5	2.5	-	2.5	-
Other assets	5.4	5.4	5.4	-	-
Total assets	**1,823.1**	**1,803.7**	**1,801.2**	**2.5**	**-**
Liabilities					
Deposit from banks	240.7	-	-	-	-
Deposits from customers	1,368.1	-	-	-	-
Derivative financial instruments	9.7	-	-	-	-
Other liabilities	16.5	-	-	-	-
Accruals and deferred income	-	-	-	-	-
Other provisions	-	-	-	-	-
Pension liabilities	4.3	-	-	-	-
Total liabilities	**1,639.3**	-	-	-	-
Share capital and reserves					
Called-up share capital	130.0	-	-	-	-
Other Reserves	53.8	-	-	-	-
Total equity	**183.8**	-	-	-	-
Total equity and liabilities	**1,823.1**	-	-	-	-

Source: Template UK LI1

Template UK CC2 has not been presented because this would duplicate the disclosure in the above table. Template LI2 has not been presented because this would duplicate the reconciliation in LI1.

(1) The intangible asset has an exposure value of £nil from a regulatory perspective. JHB deducts the intangible asset in calculating JHB's Common Equity Tier 1 capital.

Appendix 2: Countercyclical Buffer

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

		General exposure amount		Own funds requirement			
		Exposure value SA	Total exposure value	Relevant credit risk exposures - Credit risk	Total	Risk-weighted exposure amounts	Countercyclical buffer rate
		a	f	g	j	k	m
		£m	£m	£m	£m	£m	
010	Breakdown by country: UK	1,803.7	1,803.7	56.4	56.4	704.7	2.0%
020	Total	1,803.7	1,803.7	56.4	56.4	704.7	2.0%

Source: Template UK CCyB1

Amount of institution specific countercyclical capital buffer

		September 2023
010	Total risk exposure amount (£m)	1,803.7
020	Institution specific countercyclical capital buffer rate	2.0%
030	Institution specific countercyclical capital buffer requirement (£m)	36.1

Source: Template UK CCyB2

Appendix 3: Glossary of terms used

A

ALCo
Assets and Liabilities Committee

C

CCF
Credit Conversion Factor

CCLB
Counter-Cyclical Leverage Ratio Buffer

CCR
Counterparty Credit Risk

CCoB
Capital Conservation Buffer

CCyB
Countercyclical Capital Buffer

CET1
Common Equity Tier 1

CRD
Capital Requirements Directive

CRM
Credit Risk Mitigation

CRR
Capital Requirements Regulation

CSRBB
Credit Spread Risk in the Banking Book

CVA
Credit Valuation Adjustment

E

ECL
Expected Credit Loss

EHQLA
Extremely High Quality Liquid Assets

ERMF
Enterprise Risk Management Framework

EVE
Economic Value of Equity

H

HQLA
High Quality Liquid Assets

I

ICAAP
Internal Capital Adequacy Assessment Process

L

LCR
Liquidity Coverage RatioProcess

M

MRT
Material Risk Taker

N

NII
Net Interest Income

NSFR
Net Stable Funding Ratio

P

PRA
Prudential Regulation Authority

R

RICS
Royal Institution of Chartered Surveyors

RSF
Required Stable Funding

RWEA
Risk Weighted Exposure Amount

S

SREP
Supervisory Review and Evaluation Process

T

TFSME
Term Funding Scheme with additional incentives for Small and Medium Enterprises

HODGE

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