HODGE

Pillar 3
Disclosures

30 September 2022

Registered number 00743437

Our Mission

Our mission, which underpins everything that we do, is to make life better for our customers, colleagues and communities by providing specialist lending, savings and retirement solutions in a manner that is fair, friendly and personal.

Our Strategy

The Board has adopted a strategic plan with the long-term aim of achieving stable and strong returns for our shareholders. At the heart of the Bank's philosophy is a wish to protect its capital base for the benefit of its depositors and shareholders by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking. A rolling five-year strategy is approved by the Board annually, complemented by a detailed business plan for the forthcoming financial year. The Board sets aside specific time during the year to review its strategy and to gauge progress towards achieving the plans agreed within this. The Board's strategy will see the Bank growing its retail mortgage business in specialised areas, including buy-to-let and later life lending and where the changing demographic of the UK mortgage market is not being adequately met by the mainstream lenders. To facilitate this growth, we are expanding our savings capability and product range to add further support to our existing customers as well as attract new savers using both traditional and digital channels. The Bank's commercial business will remain an important aspect, with the objective of maximising the capital supporting this business area through a manageable number of important, long term relationships where our expertise can be fully utilised.

Our Business

Specialist mortgages
The Bank's specialist mortgage business is focused on complex income, later life lending and holiday buy-to-let. We work closely in partnership with our trusted network of intermediaries, serving customers looking to invest in a holiday home through our holiday let mortgage, and personal customers through our complex income and later life mortgages.

Commercial lending
The purpose of our commercial products is to support experienced investors and developers of real estate assets, in commercial residential schemes with a suite of products designed for the end to end lending journey. This means that we impact positively on the communities into which we lend by helping our clients deliver much needed new homes for sale or rent, as well as regenerating areas.

Savings
We continue to manage over £1bn of our customers' savings balances and will continue to grow our presence in the personal savings market, providing an excellent digital experience, attractive interest rates and products and services that meet our customers' needs.

The Bank is also a participant in the Bank of England's Term Funding Scheme ('TFSME'), which provides a cost-effective source of funding in the form of central bank reserves to support additional lending to the real economy. The TFSME balance represents 14% of the overall funding from deposits with banks and customers at 30 September 2022.

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1 Introduction

01 Introduction

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

The purpose of this document is to supplement information and disclosures provided in the 2022 Financial Statements for the use of stakeholders including the Bank's depositors, borrowers and others in relation to the internal procedures and policies adopted by the Bank to manage and mitigate its key risks. These Pillar 3 disclosures also provide additional numerical disclosures about the Bank'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 2022 Annual Report and Financial Statements.

1.1 Background

The Bank's principal lending activities comprise of specialist residential mortgages, later life mortgages, complex 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. The Bank also invests in other financial instruments (for example covered bonds) as a means of managing its liquidity profile. The Bank'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 (CRR) 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 at 30 September 2022 which is the Bank'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 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 the Bank to ensure the long-term viability of the Bank 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 the Bank 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 the Bank's own assessment of additional capital resources needed to cover specific risks that are not covered by Pillar 1. The Bank 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 the Bank.

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 the Bank's key risk exposures and the adequacy of the Bank's risk management processes to mitigate these risks.

Article 434a of the CRR lays down uniform disclosure formats which the Bank is now adopting for all items regarded as material following on-shoring of the UK CRR on 31 December 2021. These disclosures are referred to below 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 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 the Bank.

1.3 Summary of Key regulatory Metrics at 30 September

	2022	2021
Total capital (£m)	177	144
Total risk-weighted assets (RWEA) (£m)	705	711
Common Equity Tier 1 ratio	25.2%	20.2%
Leverage Ratio	10.9%	10.9%
Liquidity Coverage Ratio (LCR)	251.9%	349.6%
Net Stable Funding Ratio (NSFR)	142.7%	168.1%

1.4 Verification of Information

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

These disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank'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 the regulatory exposures has been included within Appendix 1.

1.6 Regulatory Horizon

Disclosures

As noted in Section 1.2 the CRR lays down uniform disclosures and guidance which the Bank has aimed to follow in line with best practice in the quantitative and qualitative disclosures in this report. This document also includes additional qualitative and quantitative disclosures that the Bank considers 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 was open for feedback until the end of March 2023. Implementation is scheduled for 1 January 2025. The Bank will continue to monitor regulatory publications for the final policy statement but has assessed the impact of the proposed changes based on the consultation paper. The Board is satisfied that forecast levels of capital are sufficient to meet the requirements associated with the new regulatory requirements as communicated.

Countercyclical Buffer ("CCyB")

The Bank of England's Financial Policy Committee agreed that the UK's CCyB will increase from its current level of 0% at 30 September 2022 to 2% with effect from 5 July 2023, with an intermediate level of 1% applying from 13 December 2022. The Board is satisfied that forecast levels of capital for the current financial year are sufficient to meet the requirements associated with these changes. The forecast is reassessed regularly and will take account of the latest planned CCyB levels.

2 Risk Management Objectives and Policies

2 Risk Management Objectives and Policies

Hodge 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 ("RMF").

The objectives of the Bank's Risk Management Framework are as follows:

- Delivering against its strategy whilst operating within risk appetite;
- Building greater resilience to organisational threats;
- Protecting its customers from unfair outcomes.

The Bank operates it's RMF through 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.
The Bank has established a 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 Enterprise Risk Management Framework (ERMF) and associated policies;
- Monitoring the Bank'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, and;
- Reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP and the Recovery Plan)

Further detail of the Bank'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

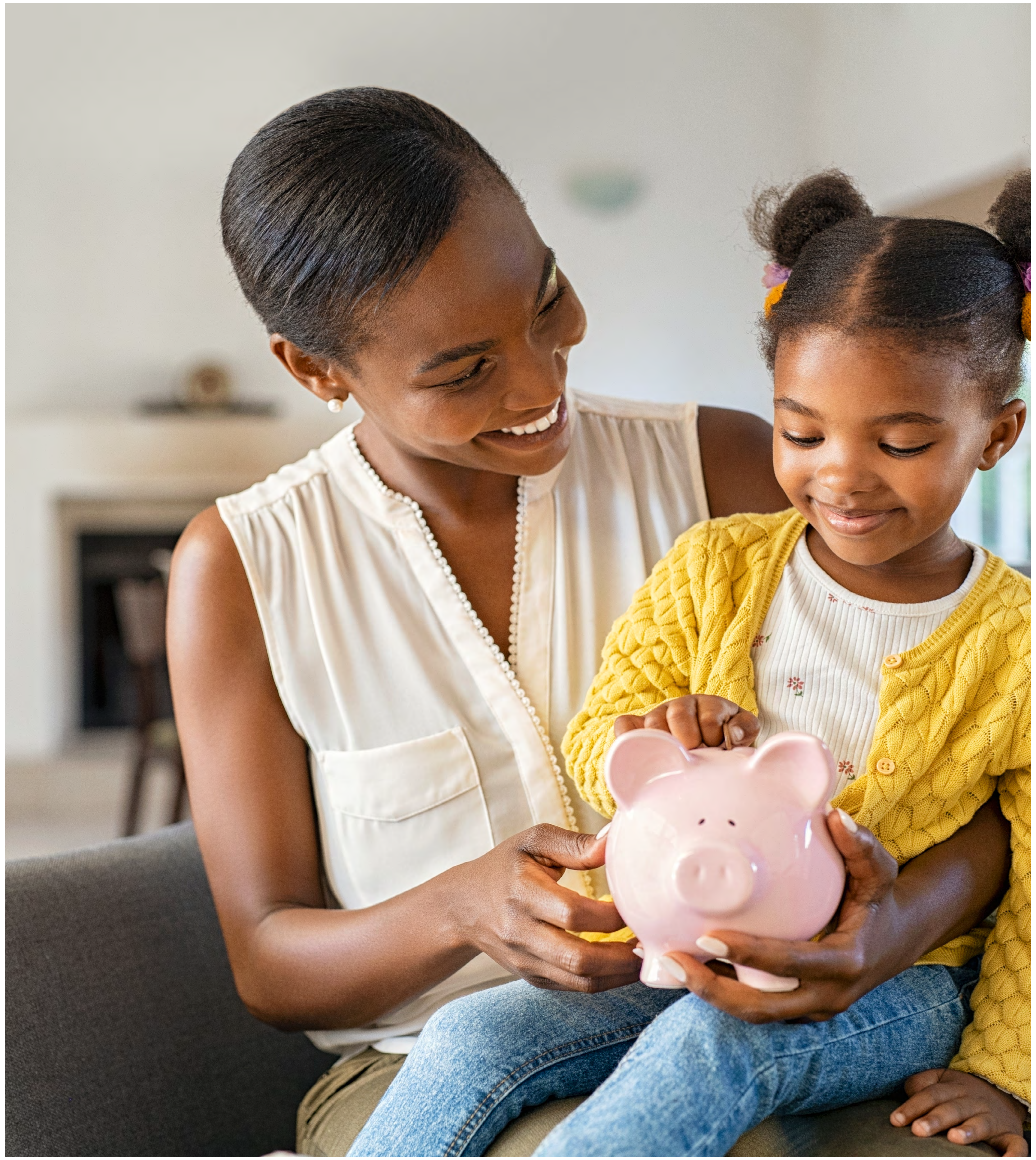
3 Key Regulatory Metrics

Throughout the year ended 30 September 2022 the Bank maintained its capital resources, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio at a level above the minimum regulatory requirements.

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

		2022	2021
Available own funds (amounts) (£m)			
1	Common Equity Tier 1 (CET1)	177	144
2	Tier 1	177	144
	Total capital	**177**	**144**
	Risk-weighted exposure amounts(£m)		
4	Total risk-weighted exposures amounts	705	711
	Capital ratios (as a percentage of Risk-weighted exposure amounts)		
5	Common Equity Tier 1 ratio	25.2%	20.2%
6	Tier 1 ratio	25.2%	20.2%
7	**Total capital ratio**	**25.2%**	**20.2%**
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer	2.5%	2.5%
9	Institution specific countercyclical buffer	0.0%	0.0%
11	Combined buffer requirement	2.5%	2.5%
UK11a	Overall capital requirements	15.9%	15.9%
12	CET1 available after meeting the total SREP own funds requirements	9.3%	4.3%
Leverage Ratio			
13	Total leverage Ratio exposure measure (£m)	1,624	1,320
14	**Leverage Ratio**	**10.9%**	**10.9%**
Liquidity Coverage Ratio*			
15	Total HQLA after haircuts (£m)	334	480
UK16a	Cash outflows – Total weighted value (£m)	137	141
UK16b	Cash inflows – Total weighted value (£m)	4	4
16	Total net cash outflows (adjusted value) (£m)	133	137
17	**Liquidity coverage ratio (%)**	**252%**	**350%**
Net Stable Funding Ratio			
18	Total available stable funding (£m)	1,549	1,551
19	Total required stable funding (£m)	1,085	923
20	**NSFR ratio (%)**	**143%**	**168%**

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. The Bank has complied with all the externally imposed capital requirements to which it is subject during the years ended 30 September 2022 and 30 September 2021

Composition of regulatory own funds at 30 September

		2022 £m	2021 £m
Common Equity Tier 1 Capital: Instruments and Reserves			
1	Capital instruments and the related share premium accounts	130	105
	*of which: ordinary share capital**	130	105
2	Retained earnings	58	55
3	Accumulated other comprehensive income (and other reserves)	(3)	(11)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**185**	**149**
Common Equity Tier 1 capital: regulatory adjustments			
8	Intangible assets (1)	(9)	(7)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant) (2)	1	2
	Valuation adjustment (3)	0	0
28	**Total regulatory adjustments to Common Equity Tier 1**	**(8)**	**(5)**
29	**Common Equity Tier 1 capital**	**177**	**144**
45	**Tier 1 capital (T1=CET1+AT1)**	**177**	**144**
59	**Total capital**	**177**	**144**
60	Total Risk exposure amount	705	711
Capital ratios and buffers			
61	Common Equity Tier 1 (as a % of total risk exposure amount)	25.2%	20.2%
62	Tier 1 (as a % of total risk exposure amount)	25.2%	20.2%
63	Total capital (as a % of total risk exposure amount)	25.2%	20.2%
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)	2.5%	2.5%
65	Of which: capital conservation buffer requirement	2.5%	2.5%
66	Of which: bank specific countercyclical buffer requirement	0.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a % of risk exposure amount)	11.8%	6.8%
	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)	6.3	11.7

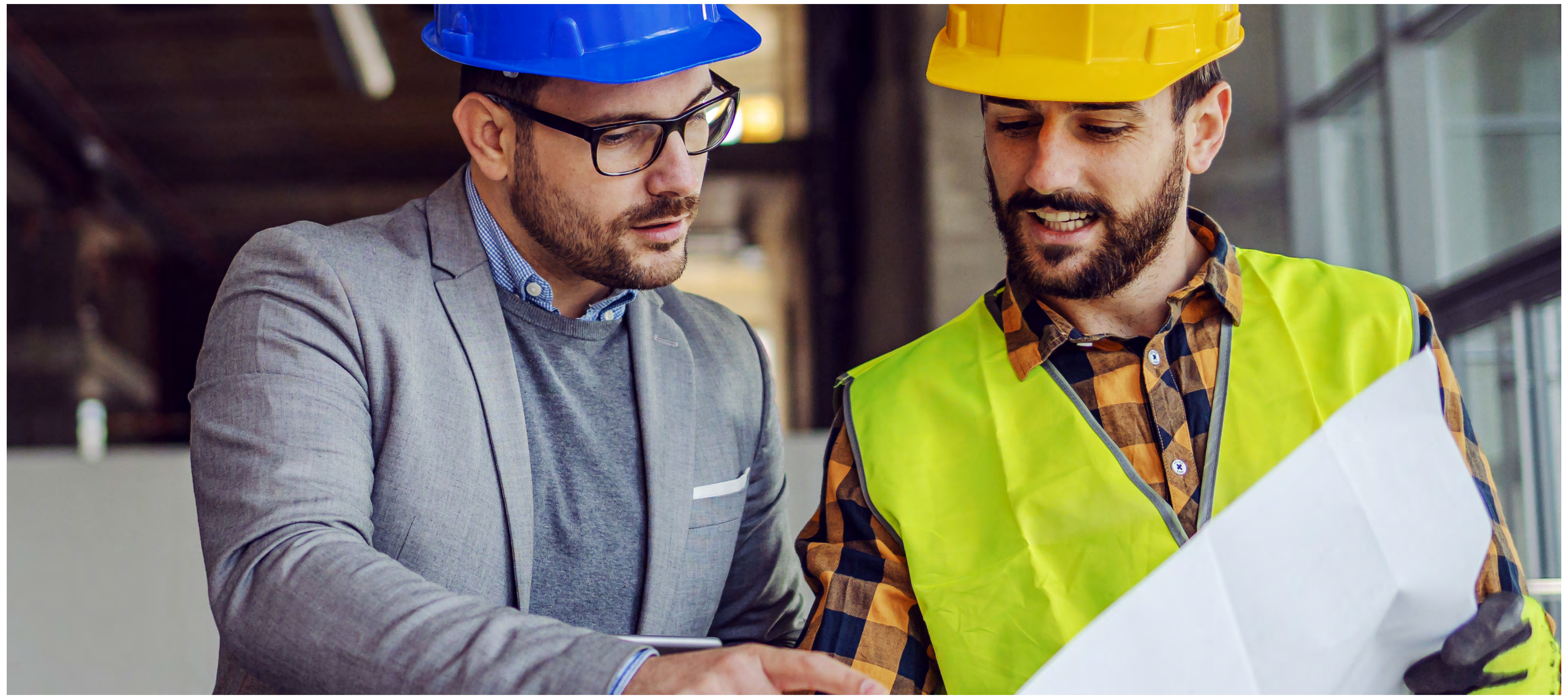
Source: Template UK CC1
(1) An adjustment is required to the Bank's Common Equity Tier 1 capital in respect of intangible assets, as set out in the CRR. For regulatory purposes intangible assets are deducted from capital.
(2) Article 473a of the CRR provides a framework for the transitional adoption of the IFRS 9 standards into the Bank's own funds calculation. Due to the COVID-19 pandemic additional IFRS 9 transitional relief was introduced in 2020. At 30 September 2022, the Bank can recognise transitional relief of 50% of the IFRS 9 Stage 1 and 2 ECL provisions raised to 1 January 2020 and 100% against the Stage 1 and 2 ECL provisions raised post 1 January 2020.
(3) A regulatory adjustment is required to be made to the Bank's Common Equity Tier 1 capital in respect of the Prudent Valuation Adjustment.
(4) As the Bank'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 CRR.
*= In respect of the information that is required by template UK CCA the Bank 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

The Bank'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

	2022 £m	2021 £m
CET1 capital at beginning of period	**144**	**137**
Issue of share capital	25	-
Profit/(loss) for the financial period	5	4
IFRS 9 transitional relief	(0)	(1)
Movement in other reserves	7	4
Movement in Intangible deduction	(4)	0
CET1 Capital at end of period	**177**	**144**



5 Capital Adequacy

05 Capital Adequacy

5.1 Capital Management

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

Pillar 1

The Pillar 1 capital requirements of the CRD set out the minimum capital requirement that the Bank must adhere to and consists of the following components:

- *Credit and Counterparty Credit risk* – reflects the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Bank. The Bank has adopted the standardised approach to determine its Pillar 1 credit risk capital requirement. This involves the application of standard rules applied 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. The Bank has adopted the basic indicator approach to determine its Pillar 1 operational risk capital requirement. This calculation is based on the Bank's average income for the past three years.
- *Market risk* – the Bank does not have a trading book and is not exposed to commodity or foreign exchange risk positions and accordingly it 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

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

5.2 Internal Capital Adequacy Assessment Process

The Bank undertakes an internal assessment of its capital requirements, the Internal Capital Adequacy Assessment Process (ICAAP), at least once a year. 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 and these reflect the Bank's chosen strategy and potential growth prospects together with the results of stress testing this strategic plan. This process is designed to ensure that adequate capital is retained by the Bank to meet its current requirements and to cover any increased risks resulting from the Bank's proposed strategy.

The ICAAP is presented to the Board for challenge and approval with the most recent review being completed in September 2022. In addition to the 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 the Bank's Total Capital Requirement (TCR) and any required PRA buffer. The TCR was last recalibrated by Management and agreed with the PRA during the Bank's Supervisory Review and Evaluation Process (SREP) in 2020. The following SREP review by the PRA started in February 2023.

The amounts and composition of the Bank'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 2022 the Bank's TCR as a proportion of Risk Weighted Exposure Amount (RWEA) equated to 13.4% of which 7.5% must be covered by CET1 capital. This reflected a point-in-time estimate by Management and the PRA which may change over time. The Bank is not permitted by the PRA to provide any further details regarding the individual components in respect of its Pillar 2A assessment.

The Bank manages its capital above the minimum TCR threshold, including a capital buffer at all times (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 2022	Exposure Value £m	RWEAs £m	Pillar 1 Capital* £m
Government and central banks	233	-	-
Multilateral development banks	91	-	-
Financial institutions	2	1	0
Covered bonds	29	3	0
Mortgages secured on residential/commercial real estate	1,450	593	48
Items associated with particularly high risk	14	21	2
Exposures in default	12	12	1
Other items	21	31	2
Total credit risk	**1,852**	**661**	**53**
Operational risk – basic indicator approach	-	44	3
CVA – standardised approach	-	0	0
Total	**1,852**	**705**	**56**

As at 30 September 2021	Exposure Value £m	RWEAs £m	Pillar 1 Capital* £m
Government and central banks	442	-	-
Multilateral development banks	13	-	-
Financial institutions	51	7	1
Covered bonds	29	3	0
Mortgages secured on residential/commercial real estate	1,044	480	38
Items associated with particularly high risk	25	38	3
Exposures in default	14	14	1
Other items	114	131	11
Total credit risk	**1,732**	**674**	**54**
Operational risk – basic indicator approach	-	37	3
CVA – standardised approach	-	1	0
Total	**1,732**	**711**	**57**

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

• **Capital Adaquacy (continued)**

Risk Type Breakdown

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

		RWEA		Total own funds requirement
		2022 £m	2021 £m	**2022 £m**
1	**Credit risk (excluding CCR)**	644	640	**52**
2	Of which standardised approach	644	640	**52**
6	CCR	1	5	**0**
UK 8b	Of which credit valuation adjustment - CVA	0	0	**0**
9	Of which other CCR	1	5	**0**
23	**Operational risk**	44	37	**3**
23a	Of which basic indicator approach	44	37	**3**
24	**Amounts below the threshold for deduction (subject to 250% risk weight)**	**16**	**29**	**1**
29	Total	705	711	**56**

Source: Template UK OV1

Operational risk

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

		2020 £m	2021 £m	2022 £m	Own funds requirement £m	RWEA £m
1	**Banking activities subject to basic indicator approach**	17	20	32	3	44

Source: Template UK OR1

Credit valuation adjustment

The Bank holds additional capital in the form of CVA to address 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

The Bank currently operates with an excess of capital over the regulatory minimum and continues to be able to comfortably meet minimum requirements over the longer-term planning horizon.

The CRR requires the following regulatory capital buffers to be applied to the Bank:

Capital Conservation Buffer ("CCoB")

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

	2022	2021
Total RWEA (£m)	705	711
Institution specific CCoB rate (%)	2.5%	2.5%
Institution specific CCoB requirement (£m)	**18**	18

Countercyclical Capital Buffer ("CCyB")

Institutions are required to calculate an institution-specific countercyclical capital buffer (CCyB) as a weighted average of the countercyclical buffer rates that apply in the countries where the credit exposures are located. Each Basel Committee member state designates an authority responsible for setting the countercyclical buffer rate in that member state on a quarterly basis, taking into account the growth of credit levels and changes to the ratio of credit to GDP. The Financial Policy Committee of the Bank of England is responsible for setting the rate in the UK. In accordance with UK (PRA on-shored) CRR regulation delegated regulation 1152/2014 the Bank has simplified the exposures to non-UK entities and allocated them instead to the UK as the relevant non-UK exposures are less than 2% of exposures. The Bank's institution countercyclical buffer rate at 30 September 2022 was 0%. Further disclosure of the countercyclical capital buffer requirement in accordance with Article 440 of the CRR is included in Appendix 2.

PRA Buffer

As noted in sections 1.2, 5.1 and 5.2 the PRA undertakes periodic SREP reviews to assess the adequacy of the Bank's capital buffers in relation to its perception of 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 these buffers is shown in Section 4 as 11.8%.

6.2 IFRS 9 Transitional Adjustment

As noted in section 4 the PRA advised that all financial institutions could make use of Article 473(a) of the CRR to make transitional adjustments and gradually introduce the capital impact of IFRS 9 during implementation and the Bank elected to make use of these transitional adjustments. As a result of the COVID-19 pandemic, additional transitional measures were introduced and these resulted 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 in determining the IFRS 9 transitional adjustment that is treated as an addition in calculating the Bank's CET1 capital position.

Transitional CET1 Adjustment %	Provisions raised pre 1 January 2020	Provisions raised post 1 January 2020
Financial period ended 30 September 2022	50%	100%
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 provide a summary of the Bank's key regulatory metrics both with and without the transitional relief being applied:

	30 September 2022	
	With Transitional Relief	**Without Transitional Relief**
Common Equity Tier 1 Capital (£m)	177	176
Common Equity Tier 1 ratio (%)	25.2%	24.9%
Basel III Leverage Ratio (%)	10.9%	10.8%

	30 September 2021	
	With Transitional Relief	**Without Transitional Relief**
Common Equity Tier 1 Capital (£m)	144	142
Common Equity Tier 1 ratio (%)	20.2%	19.9%
Basel III Leverage Ratio (%)	10.9%	10.8%

As demonstrated in the September 2022 table above, the Bank 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 into with the Bank. The Bank follows the Standardised Approach in relation to credit risk. The following qualitative disclosures concerning the Bank's exposures to credit risk are made to supplement disclosure that is provided in the published Financial statements.

7.1 Summary of the Bank's Credit Risk Exposures

The exposures are summarised as follows at 30 September:

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	233	-	233	-	-	233	-	0%
Multilateral development banks	91	-	91	-	-	91	-	0%
Financial institutions	2	-	2	-	-	2	1	48%
Covered bonds	29	-	29	-	-	29	3	10%
Mortgages on residential/ commercial real estate	1,437	70	1,437	14	(1)	1,450	593	41%
Items associated with particularly high	15	10	15	2	(3)	14	21	150%
Exposures in default	14	-	14	-	(2)	12	12	100%
Other items *	21	-	21	-	-	21	31	145%
Total	**1,842**	**80**	**1,842**	**16**	**(6)**	**1,852**	**661**	**36%**

2021								
£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	442	-	442	-	-	442	-	0%
Multilateral development banks	13	-	13	-	-	13	-	0%
Financial institutions	51	-	51	-	-	51	7	14%
Covered bonds	29	-	29	-	-	29	3	10%
Mortgages on residential/ commercial real estate	1,026	93	1,026	19	(1)	1,044	481	46%
Items associated with particularly high	28	3	28	1	(4)	25	38	150%
Exposures in default	16	-	16	-	(2)	14	14	100%
Other items *	114	-	114	-	-	114	131	115%
Total	**1,719**	**96**	**1,719**	**20**	**(7)**	**1,732**	**674**	**39%**

*= 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	233	-	-	-	-	-	-	-	-	**233**
Multilateral development banks	91	-	-	-	-	-	-	-	-	**91**
Financial institutions	-	-	-	-	2	-	-	-	-	**2**
Covered bonds	-	29	-	-	-	-	-	-	-	**29**
Mortgages secured on residential/ commercial real estate	-	-	-	1,318	-	-	132	-	-	**1,450**
Items associated with particularly high	-	-	-	-	-	-	-	14	-	**14**
Exposures in default	-	-	-	-	-	-	12	-	-	**12**
Other items	-	-	-	-	-	-	15	-	6	**21**
Total	**324**	**29**	**-**	**1,318**	**2**	**-**	**159**	**14**	**6**	**1,852**

Source: Template UK CR5
Included within the total exposures of £1.9bn are £91m of exposures to supranational banks, £4m in covered bonds issued by a Spanish bank and £4m 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	-	132	242	1,076	-	1,450
	Items associated with particularly high risk	-	9	5	-	-	14
	Exposures in default	-	1	2	9	-	12
	Other items	-	-	-	-	21	21
	Total loans and advances	-	142	249	1,085	21	1,497
2	*Debt securities*						
	Government and central banks	204	-	-	29	-	233
	Multilateral development banks	-	21	69	1	-	91
	Financial institutions	2	-	-	-	-	2
	Covered bonds	-	15	14	-	-	29
	Total debt securities	206	36	83	30	-	355
3	**Total**	**206**	**178**	**332**	**1,115**	**21**	**1,852**

Source: Template UK CR1-A

7.4 Non-performing loans and impairment

As described more fully in the Financial Statements the Bank 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 as follows:

- 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 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 objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.

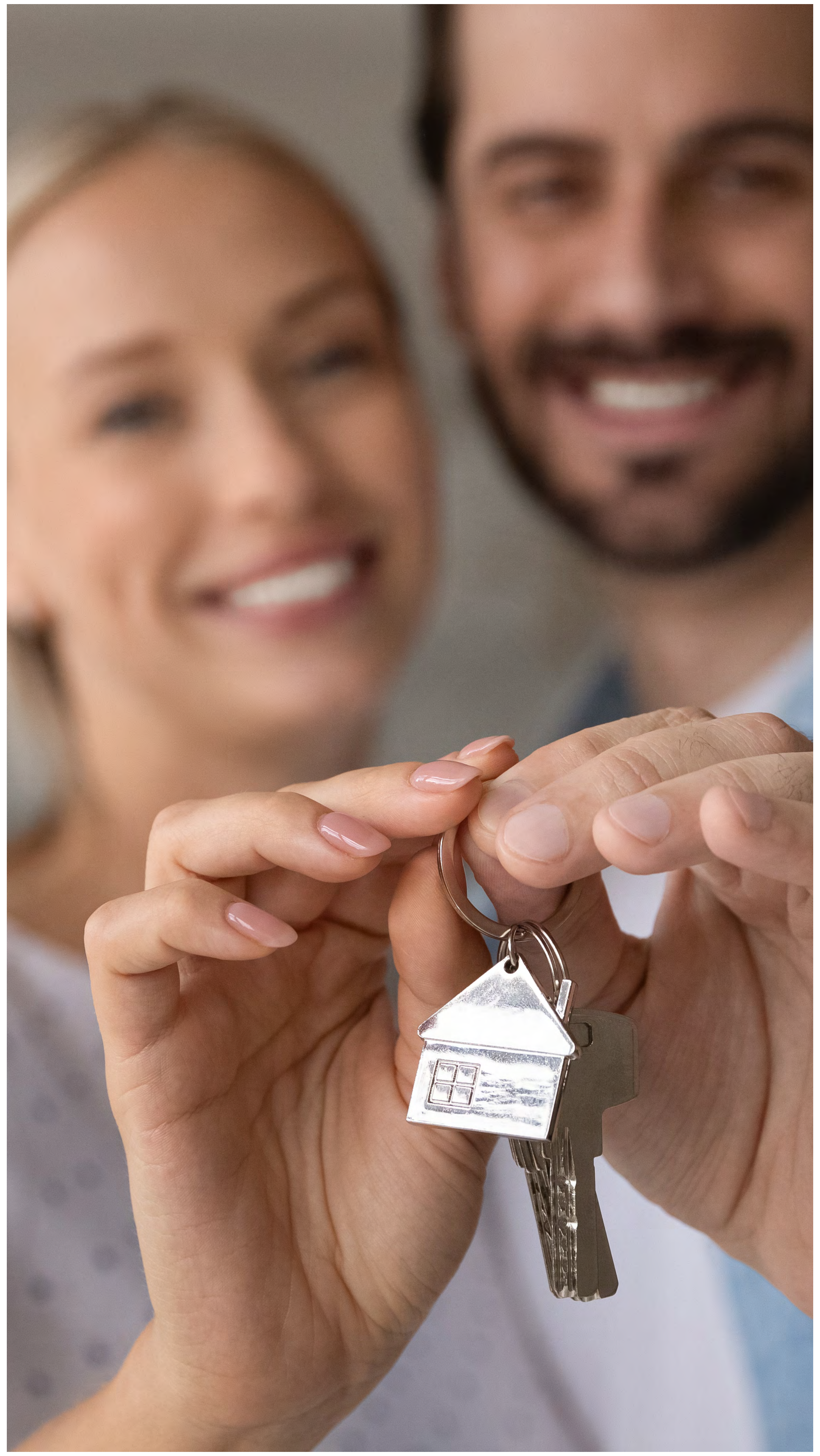
During the year the Bank experienced a low rate of non-performing loans (0.08%) and an even lower rate of forbearance (0.06%). Tables relating to non-performing loans and forbearance are not presented in this report on the grounds of materiality.

7.5 Impairment Provisions on Loans and Advances to Customers

The tables shown summarise the bad debt provisions held against financial assets classified at Amortised Cost and held on the Bank's Balance Sheet by stage classification at 30 September per the Financial Statements:

	2022		
	Residential £m	Commercial £m	Portfolio Buy-to-let £m
Stage 1	1,077	143	71
Stage 2	57	31	7
Stage 3	2	16	-
Gross Loans and Advances	**1,136**	**190**	**78**
Stage 1 provisions	0	(1)	(1)
Stage 2 provisions	0	(1)	-
Stage 3 provisions	0	(5)	-
Loss allowance	**(1)**	**(7)**	**(1)**
Loan fee deferral	5	(1)	-
Loans and advances to customers	**1,140**	**182**	**77**

	2021		
	Residential £m	Commercial £m	Portfolio Buy-to-let £m
Stage 1	655	159	57
Stage 2	21	66	13
Stage 3	1	17	2
Gross Loans and Advances	**677**	**242**	**72**
Stage 1 provisions	(0)	(1)	(0)
Stage 2 provisions	-	(2)	(1)
Stage 3 provisions	-	(5)	-
Loss allowance	**(0)**	**(8)**	**(1)**
Loan fee deferral	3	(1)	(0)
Loans and advances to customers	**680**	**233**	**71**



7.6 Treasury Credit Risk

The treasury portfolio contains a mix of debt securities issued by sovereign states and cash deposits with highly rated banks. The treasury portfolio also includes sterling deposits placed with, or received from, counterparties as collateral supporting the Bank's derivative portfolio.

All the Bank's exposures within the treasury asset portfolio are rated by major credit rating agencies. The Bank 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.

The Bank'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 2022**	**30 September 2021**
AAA to AA-	233	442
Total	**233**	**442**
Multilateral development banks		
Rating	**30 September 2022**	**30 September 2021**
AAA to AA-	91	13
Total	**91**	**13**
Financial Institutions		
Rating – S&P / Fitch	**30 September 2022**	**30 September 2021**
AAA to AA-	-	23
A+ to A-	5	28
Total	**5**	**51**
Covered bonds		
Rating	**30 September 2022**	**30 September 2021**
AAA to AA-	29	29
Total	**29**	**29**

Derivatives and Collateral

The Bank uses financial derivatives to manage interest rate risk. The Bank uses central counterparties (CCPs) in order to clear all but one of these derivative transactions (interest rate swaps) thereby mitigating CCR. Positions are continuously marked to market and margin in the form of collateral 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 2022, 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 2022	30 September 2021
Fair value (inclusive of potential future exposure)	64	(15)
Cash collateral held by financial institutions	(19)	23
Net derivative exposure	**45**	**8**

The Bank 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 derivatives which are not centrally cleared through a central clearing counterparty (CCP).

7.7 Credit Risk Mitigation ('CRM')

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

The Bank takes security in the form of legal charges over the property against which funds are advanced for commercial lending and residential mortgages. This is the primary method used by the Bank to mitigate credit risk, however this does not qualify as CRM under the CRR and therefore no RWEA deduction is available. For this reason 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 the Bank if evidence comes to light that the security may have become impaired, or where the value of the security has been enhanced as a result of development activity. Additionally, there is a rolling review programme whereby valuations are updated on a regular cycle. The Bank 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.

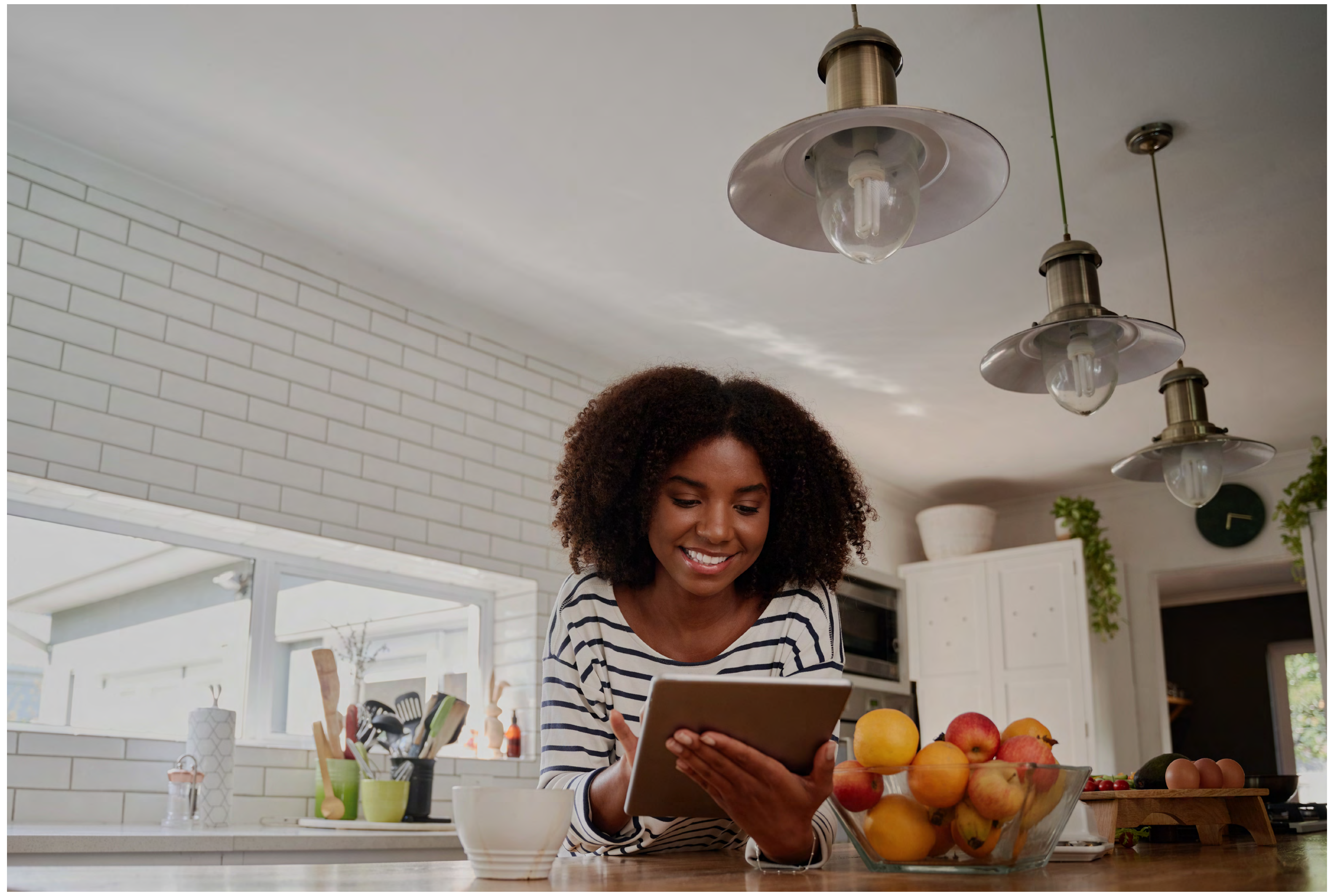
7.8 Counterparty Credit Risk

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. The Bank is exposed to counterparty credit risk as a result 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	1	1.2	94	2	2	1
6 Total				**94**	**2**	**2**	**1**

Source: Template 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 the Bank 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 the Bank are interest rate swaps. The Bank'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).

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:

	EVE	
£m	**30 September 2022**	**30 September 2021**
+250 basis points increase	1.2	(3.9)
-250 basis points decrease (floored at zero)	0	3.5
Steepener (short term rates down and long-term rates up)	(6.5)	(6.8)
Flattener (short term rates up and long-term rates down)	6.5	6.5
Short rate up	6.1	4.0
Short rate down	(6.4)	(1.6)
Maximum	(6.5)	(6.8)

The movement in sensitivity of the Bank's Balance Sheet to interest rate movements is due to fluctuations in the interest rate environment and changes to the structure of the Bank's 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 may change on an annualised basis for one year, as follows:

	NII	
£m	**30 September 2022**	**30 September 2021**
+100 basis points increase	5.0	6.9
-100 basis points decrease (floored at zero)	(6.4)	(1.4)

The movement in sensitivity of the Bank's Balance Sheet to interest rate movements is due to fluctuations in the interest rate environment and changes to the structure of the Bank's Balance Sheet. The Bank 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.

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 the Bank 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 the Bank'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 the Banks Annual Report and Accounts.

9 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.

The Bank 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. The Bank's ratio of 10.9% is well above the minimum requirements and is in line with prior year due to an increase in capital being offset by an increase in Retail balances.

The Bank manages leverage within its Balance Sheet in accordance with the established risk limits set by the Board. Under the 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 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 the Bank's stress testing with the overall aim of maintaining the Bank's leverage within risk appetite.

The following Leverage Ratio disclosures for the year ended 30 September 2022 are laid out in accordance with the requirements of the CRR.

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

		2022	2021
		Applicable Amounts £m	**Applicable Amounts £m**
1	Total assets as per published financial statements	1,861	1,713
4	(Adjustment for exemption of exposures to central Banks)	(228)	(411)
8	Adjustment for derivative financial instruments	(14)	2
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	16	19
12	Other adjustments	(11)	(3)
13	**Total exposure measure**	**1,624**	**1,320**

Source: Template UK LRSum

Leverage Ratio common disclosure at 30 September

		2022	2021
		CRR Leverage Ratio exposures £m	**CRR Leverage Ratio exposures £m**
	On-balance sheet exposures		
1	On-balance sheet items	1,861	1,713
2	Asset amounts deducted in determining Tier 1 Capital	(11)	(3)
7	**Total on-Balance Sheet exposures**	**1,850**	**1,710**
	Derivative exposures		
8	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	(14)	2
13	**Total derivative exposures**	**(14)**	**2**
	Other off-Balance Sheet exposures		
19	Off-Balance Sheet exposures at gross notional amount	80	116
20	Adjustment for conversion to credit equivalent amounts	(64)	(97)
22	**Off-Balance Sheet exposures**	**16**	**19**
	Capital and total exposures		
23	**Tier 1 capital (leverage)**	**177**	**144**
24	Total Leverage Ratio exposure including claims on central banks	1,852	1,731
UK-24a	(-) Claims on central banks excluded	(228)	(411)
UK 24b	**Total exposure measure excluding claims on central banks**	**1,624**	**1,320**
25	Leverage ratio excluding claims on central banks	10.9%	10.9%
UK-25c	Leverage ratio including claims on central banks	9.6%	8.3%

Source: Template UK LRCom

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

		30 September 2022 £m	30 September 2021 £m
UK-1	Total on-balance sheet exposures (excluding derivatives, securities financing transactions and exempted exposures), of which:	**1,850**	1,710
UK-3	Banking Book exposures, of which:	1,850	1,710
UK-4	Covered bonds	29	29
UK-5	Exposures treated as sovereigns	234	442
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	91	13
UK-7	Institutions	2	48
UK-8	Secured by mortgages of immovable properties	1,434	1,050
UK-11	Exposures in default	12	14
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	48	114

Source: Template UK LRSpl

10 Liquidity Management

10 Liquidity Management

The Bank maintained liquidity levels in excess of the regulatory LCR minimum of 100% throughout the entire year. As noted in the risk management section there are detailed disclosures concerning liquidity risk management within the financial statements. Treasury manage liquidity on a daily basis 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 the Bank's liquidity and cash management is supplemented by stress testing and recovery planning whereby a series of worst case scenarios are analysed in order to assess the resilience of the Bank's balance sheet to a stress. This ensures, amongst other things, that the Bank is not overly reliant on sources of funding from a single concentrated source. Management confirm 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 the Bank has sufficient and adequate liquidity resources to meet its obligations in both normal market conditions and also 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 the Bank can survive a 30-calendar day stress event by comparing the quantum of high quality liquid assets held to the net cash outflows the Bank could encounter in such an event.

Approach to management of high-quality liquid assets

The Bank 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 Bank'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.

The Bank maintains liquidity lines with counterparty banks providing the ability to monetise certain liquid assets through transactions such as repurchase agreements. The Bank also has access to the Bank of England's Sterling Monetary framework which allows the Bank 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 Bank'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

		2022 £m
	High Quality Liquid Assets	
1	Total high-quality liquid assets (HQLA)	440
	Cash Outflows	
2	Retail deposits and deposits from small business customers, of which:	34
3	Stable deposits	15
4	Less stable deposits	19
5	Unsecured wholesale funding:	
7	Non-operational deposits (all counterparties)	38
	Additional requirements	19
11	Outflows related to derivative exposures and other collateral requirements	3
14	Other contractual funding obligations	-
15	Other contingent funding obligations	47
16	TOTAL CASH OUTFLOWS	141
	Cash Inflows	
18	Inflows from fully performing exposures	2
19	Other cash flows	4
20	TOTAL CASH INFLOWS	6
UK-20c	Inflows subject to 75% cap	6
UK-21	Liquidity buffer	440
22	Total net cash outflows	135
23	Liquidity Coverage Ratio (%)	326%

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

10.2 Net Stable Funding Ratio

The Bank'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. Per UK KM1 the NSFR as at 30 September 2022 was 142.7%. This was in excess of the minimum level of 100% as required by the PRA. Article 447(g) of the CRR requires disclosure in UK LIQ2 for the NSFR of the average of the end of quarter observations for the previous four quarters, however, per policy statement PS22/21 the NSFR was not required to be reported until 1 January 2022. The Bank has therefore concluded that reporting of UK LIQ2 should commence from the period ended 30 September 2023.

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 following table shows the split of the Bank's encumbered and unencumbered assets at 30 September 2022:

		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	334	-			1,438	-		
030	Equity instruments	-	-	-	-	-	-	-	-
040	Debt securities	-	-	-	-	234	234	222	222
050	of which: covered bonds	-	-	-	-	29	29	29	29
070	of which: issued by general governments	-	-	-	-	115	115	107	107
080	of which: issued by financial corporations	-	-	-	-	91	91	86	86
120	Other assets	334	-			1,089	-		

Source: Template UK AE1.

Note: analysis has shown that the encumbrance ratio was relatively stable throughout the year ended 30 September 2022 being at the end of Q1-FY22:15%, Q2-FY22:16%, Q3-FY22:15%, Q4-FY22:15%. 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

The Bank 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 also 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	335

Source: Template UK AE3.

12 Remuneration

12 Remuneration

The Remuneration policy of the Bank 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 the Bank 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. The Bank 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 was:

			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**	6	12	11	-	29
2		Total fixed remuneration (£m)	0.1	1.6	0.9	-	2.6
3		Of which cash based (£m)	0.1	1.6	0.9	-	2.6
9	Variable remuneration	**Number of identified staff**	-	7	8	-	15
10		Total variable remuneration (£m)	-	0.1	0.1	-	0.2
11		Of which cash based (£m)	-	0.1	0.1	-	0.2
17	Total remuneration		0.1	1.7	1.0	-	2.8

Source: Templates UK REM1 and UK REM5

		MB Management function
6	Severance payments awarded during the financial year – Number of identified staff	1
7	Severance payments awarded during the financial year – Total amount (£m)	0.1
8	Of which paid during the year (£m)	0.1

Source Template UK REM 2

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods
7	MB Management function (£m)	0.1
8	Cash-based (£m)	0.1

Source Template UK REM 3

Note: in accordance with Article 450 the disclosures made concerning Remuneration Policy are those that the Bank 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 2022				
	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	118	118	118	-	-
Treasury bills	111	111	111	-	-
Debt securities	116	116	116	-	-
Loans and advances to customers	1,404	1,477	1,477	-	-
Intangible assets (1)	10	-	-	-	-
Property, plant & equipment	2	2	2	-	-
Investment properties	10	10	10	-	-
Deferred tax assets	6	12	12	-	-
Derivative financial instruments (2)	76	(2)	-	(2)	-
Other assets	8	8	8	-	-
Total assets	**1,861**	**1,852**	**1,854**	**(2)**	**-**
Liabilities					
Deposits from banks	221	-	-	-	-
Deposits from customers	1,425	-	-	-	-
Derivative financial instruments	11	-	-	-	-
Other liabilities	14	-	-	-	-
Pension liabilities	5	-	-	-	-
Total liabilities	**1,676**	-	-	-	-
Share capital and reserves					
Called-up share capital	130	-	-	-	-
Other Reserves	55	-	-	-	-
Total equity	**185**	-	-	-	-
Total equity and liabilities	**1,861**	-	-	-	-

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) Intangible assets have an exposure value of £nil from a regulatory perspective. The Bank deducts the intangible asset in calculating the Bank's Common Equity Tier 1 capital, as set out in CRD.

(2) The derivative regulatory adjustment relates to the CCR adjustment which is made to address the risk of loss as a result of a default of a counterparty before the final settlement of the cash flows.

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	1,852	1,852	56	56	705	0%
020	Total	1,852	1,852	56	56	705	0%

Source: Template UK CCyB1

Notes
(1) For the purposes of the above table in accordance with EU 1152/2014 foreign credit exposures are treated as being UK exposures on the basis that they represent less than 2% of aggregate risk weighted exposures.

(2) CCyB amount as at 30 September 2022 was £0.

Amount of institution specific countercyclical capital buffer

		September 2022
010	Total risk exposure amount (£m)	705
020	Institution specific countercyclical capital buffer rate	0%
030	Institution specific countercyclical capital buffer requirement (£m)	-

Source: Template UK CCyB2

Appendix 3: Glossary of terms used

A

ALCo

Assets and Liabilities Committee

C

CCR

Counterparty Credit Risk

CCoB

Capital Conservation Buffer

CCyB

Countercyclical Capital Buffer

CET1

Common Equity Tier 1

CRD

Capital Requirements Directive

CRR

Capital Requirements Regulation

CSRBB

Credit Spread Risk in the Banking Book

CVA

Credit Valuation Adjustment

E

EVE

Economic Value of Equity

ERP

Executive Reward Plan

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

P

PRA

Prudential Regulation Authority

R

RICS

Royal Institution of Chartered Surveyors

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

Registered Office
One Central Square
Cardiff
CF10 1FS

P30623