Hampshire Trust Bank

Annual Report and Accounts

2017

For the year ended 31 December 2017

Hampshire Trust Bank PLC

Company number: 1311315

Non- Executive Directors
Robert Sharpe (Chairman)
Robert East
James Drummond Smith
Dominic Slade
Alexander Leicester

Executive Directors
Mark Sismey-Durrant (Chief Executive Officer)
Tim Blackwell (Chief Financial Officer)

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Shilpa Parihar
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KEY HIGHLIGHTS

Growing profitability and increasing shareholder returns

- Profit before tax on continuing activities of £9.9m (2016: £4.4m)
- Return on equity (post tax) on continuing activities of 9.3% (2016: 5.4%)

Building our franchises

- Lending assets growth of 36.4% to £632.3m (2016: £463.5m)
- Originations growth of 20.6% to £478.3m (2016: £396.6m)
- Deposits growth of 13.9% to £596.3m (2016: £523.3m)
- Total customers grew to 19.6k (2016: 16.3k)
- Feefo Gold Trusted Service Award 2018
- Award-winning Savings Franchise

Delivering strong asset returns and cost effective funding

- Gross income margin on continuing activities of 6.51% (2016: 7.19%)
- Blended cost of funds (after hedging) 1.61% (2016: 1.59%)
- Net interest margin on continuing activities of 5.06% (2015: 5.47%)

Strengthening operating efficiency

- Positive JAWs3, revenue growth 62% versus cost growth of 50%
- Cost:Income ratio on continuing activities of 58% (2016: 74%)
- Investment in systems to improve customer experience and efficiency

Maintaining credit quality and low cost of risk

- Total arrears of 28bps on total book (2016: 17bps)
- Adjusted cost of risk on continuing activities of 31bps (2016: 27bps)

1. Feefo independently collects reviews from customers. According to Feefo, the Gold Trusted Award is its most prestigious accolade and is awarded for maintaining an average score of over 4.5, while collecting at least 50 reviews. Hampshire Trust Bank's Personal Savings team has over 300 reviews.
2. HTB Savings achieved the award for best Business Savings – Notice at the Moneynet Personal Finance Awards 2018.
3. Definitions of key ratios are found in the glossary.
4. Adjusted cost of risk uses the impairment charge as per the Income statement of £4.5m (2016 £1.0m) and excludes the impairment charge as per page 7 of £2.8m (2016 £0.2m)

CHAIRMAN'S OVERVIEW

I am pleased to report that 2017 has been a year of continued growth for Hampshire Trust Bank ("the Bank") in terms of assets financed and the level of profitability. This has been achieved alongside ongoing investment in the Bank's capabilities, as well as further development of the Bank's customer propositions and distribution. We continue to operate successfully in the competitive markets of specialist mortgages, asset finance and block discounting for SME customers and residential property development finance.

The Bank has continued to build on its significant strengths, including its expertise and its focus on its chosen business lines and customer segments where it can build a sustainable market presence and generate quality earnings through the cycle. During the last 12 months we have invested in people, systems and in attentive and efficient customer service. We remain focused on delivering compelling products for the customers we serve. The Bank's key strategic priorities are:

- Developing further its customer propositions, people, technology and culture
- Serving its customers brilliantly
- Growing sustainable profitability and providing targeted returns for its shareholders

2017 financial performance

Reported profit before tax of £9.9m on continuing activities which was £5.5m higher compared with the 2016 reported profits of £4.4m. The Bank grew customer assets by 36% in the year to £632m and customer deposits grew to £596m, a growth of 13.9% on 2016. During the year, the Bank was granted access to the "Term Funding Scheme" (TFS) at the Bank of England and made an initial drawdown of £20m. The Bank's capital position remained strong throughout the year with shareholder invested capital increasing by £33m to £111m at year end.

Governance and risk management

During 2017, the Bank maintained its commitment to significant investment in its risk management, governance and risk resources. Investment will continue into 2018 and beyond, commensurate with the Bank's growth in scale and in any increased complexity of the risks to which it is exposed. As the maturity of the Bank and its risk management builds, the Board will continue to review risk appetite across the Bank's operations and, where necessary, refine risk frameworks, policies and oversight.

Board membership

There have been a number of changes in our Board membership over the last year and I would like to thank all my Director colleagues for their valued contributions during 2017.

During the majority of 2017 Robert East acted as Interim Chairman of the Bank. During this time Robert was able to ensure the Bank continued on its upward trajectory and introduced many positive changes and initiatives. I would like to take this opportunity to thank Robert for his significant contribution during the year. He has now resumed his role as Chairman of the Board Risk Committee and valued member of the Board.

Ketan Malde resigned from the Board in April. He was replaced by Tim Blackwell as CFO, who was appointed to the Board on 17 July 2017. It gives me great pleasure to welcome Tim to the Board. Ketan was involved in the formation of the Bank under its new ownership and we wish him well for the future.

For my part, I have very much enjoyed working with the Board since joining as Chairman in October 2017. I look forward to reporting another year of progress in 2018.

Our partners, customers and colleagues

The success of the Bank would not be possible without our customers, our mortgage and asset finance intermediary partners, and the commitment of colleagues. The purpose of being a specialist bank is centred on the behavioural values of doing the right thing first time, differentiating the Bank from the competition, striving for results, succeeding together and putting customers first. If we succeed in these areas the relationship with customers and partners will flourish.

I would like to thank our growing number of customers and our partners for their trust, loyalty and their business. They are the foundations of our success.

Lastly, I would like to give my sincere thanks to the Executive team and all the Bank's people for their contribution, dedication and determination in delivering against the Bank's objectives in 2017. We are all committed to building the Bank to be one of the leading specialist banks in the UK.

Outlook

There is no doubt that there is great potential for a specialist bank concentrating on its key differentiators. In 2018 and beyond we are determined to build on the momentum seen in the last couple of years by making further investments in the business, our customer propositions and risk management. We will increase the focus on cost management and investment in technology that will lead to making a real difference to the business. We recognise the need for increased agility and efficiency to meet customers' changing needs in competitive and dynamic markets and to maintain strong margins whilst offering valued customer propositions. All of this will enable us to deliver targeted returns to our shareholders.

Robert Sharpe
Chairman

CHIEF EXECUTIVE'S REPORT

The past year has been one of considerable progress and transition for the Bank as it has refined its operations in preparation for the next stage of growth. A strong increase in profits has accompanied continued growth in loan assets. We have recruited expertise into our business lines and central functions to reinforce our technical capabilities. We maintain our belief that our reputation for service and expertise in our markets will be sustained by an uncompromising focus on serving our customers.

Strengthening performance

The Bank continued its strong financial performance in 2017, delivering an overall profit before tax on continuing activities of £9.9m and post-tax return on equity on continuing activities of 9.3%. Net revenues of £34.1m compared with £20.6m and reflected continued growth in loan assets, but a slightly lower net interest margin of 5.06% compared to 5.47% in 2016. This in part reflects the increasing proportion of specialist mortgage assets and cash in the balance sheet mix. The expense base has grown at a lesser rate than revenues which has contributed to an improvement in the cost: income ratio to 58% from 74% in 2016. Impairments were affected by an increased provision on a single property development exposure and seasoning of the Asset Finance book. In addition, with an uncertain economic outlook the Bank took the opportunity of increasing its collective provisions. Together these resulted in an uplift to the cost of risk to 0.79%, from 0.34% in 2016. Adjusting for the impairment on the property development exposure due to its exceptional nature, the cost of risk was 0.31% (2016: 0.27% on this adjusted basis).

Strong balance sheet growth with loan assets ending the year at £632m, up 36% from 2016 reflected growth in all business lines, the strongest being in Specialist Mortgages. Deposits increased to £596m, up 14% and the Bank took the opportunity to raise £20m from the TFS at the Bank of England. Additional capital of £33m was supplied by our shareholders to support future growth, producing a CET1 ratio of 21.3% at the year end, up from 16.6% in 2016

Strategic progress

The driving vision for the Bank is to become a leading specialist bank – a bank to be proud of – which is highly valued by:

- **Customers and partners** for the focus on outstanding service, lasting relationships, integrity and expertise
- **People** for rewarding and fulfilling careers
- **Shareholders** for long term superior and sustainable returns

We continue to build on our capabilities and infrastructure to deliver lending and deposit products to our customers through direct and intermediary channels. In 2017 we undertook an evaluation of many processes in our business required to position the Bank for future growth and this has featured in our investment decisions for 2017 and 2018.

Building our specialist lending franchises

We provide finance for property and business assets to UK based SME businesses. Our funding supports the growth of these businesses and contributes to the UK economy. Our lending activities have been selected on the basis that we can build a sustainable market franchise based around the skills and capabilities of our specialist lending teams. During 2017 we have broadened the geographic base of our business across the regions of the UK and reduced its focus in London and the South East.

- The Asset Finance business provides finance to SME customers throughout the UK on short-term hire purchase and leasing facilities for the finance of cars and vehicles, plant and machinery and other assets for use in their businesses. We also provide wholesale finance in the form of block discounting facilities to other finance businesses secured on their finance receivables. The business underwent a significant transformation in 2017 under the leadership of a new senior team. With the objective of preparing the business for further growth, investing in both the further recruitment of experienced people and in front end technology to enable our broker distribution to deal more easily with us. At the same time, the strengthening of our credit capabilities has enabled a deeper understanding of the risk opportunities available to us. In 2017 we provided finance on over 3,500 transactions. We were pleased to receive the award for New Challenger of the Year from Leasing World.
- The Property Finance business has delivered consistently since its inception in 2014, financing the construction of over 2,600 units across the UK. We have expanded our team of property lending professionals and in 2017 commenced the roll out of a regional expansion strategy, increasing the team's presence and coverage in the North and South West of England. We concentrate on financing small and medium sized housebuilders to create everyday homes for everyday people to live in. Repeat business is very important to us as it demonstrates the strength of relationships we develop with our customers – in 2017, 57% of our business was with existing customers. During 2017 we saw the culmination of our lending in the successful sale of many finished units which generated repayments of £193.0m. New originations amounted to £258.3m. We see further growth opportunities in this business where our reputation continues to grow. We were pleased to have been shortlisted for the award for Best Development Finance Provider and Best Service from a Development Finance Provider from Business Moneyfacts.
- The Specialist Mortgages business that we set up and started in 2016 showed significant further growth in 2017. During the year the intermediary base was broadened to access a wider market and the direct business has also been further developed. The business provides a range of types of mortgage finance ranging from short term bridging finance for property purchase or refurbishment, residential and commercial buy-to-let for professional landlords. The credit experience in this business has been very strong to date. However, we have continued to invest in experienced people to strengthen our underwriting team. In 2018 we plan to invest in new technology to assist with business processing and the sourcing of business from intermediaries. We see significant further growth potential in this business.

The markets in which we operate offer significant growth potential. We also see further opportunities to extend our lending activities into areas adjacent to our current specialist business. We will explore opportunities in new markets on the basis that they offer the prospect for sustainable growth and returns and fit into the broad specialist lending context now established.

Developing our savings capability

Our Savings business continues to offer our customers the benefit of traditional and online channel options for opening and operating their accounts. We serve both retail and business customers throughout the UK with a range of fixed rate bonds and notice accounts.

Our success in the savings market is achieved by combining good value products which remain consistently competitive, backed by personal service delivered by our in-house savings team. Our online savings capability has provided retail customers with an efficient and effective means of transacting with us, whilst creating the capacity to support our future growth requirements. We plan to expand our service offering to business savings customers.

Our distribution methods are direct to the public using digital channels and traditional post and telephone methods. Our customers appreciate the opportunity for them to speak to someone in person by phone or to correspond by letter.

Our service levels have been recognised in the awards received from Moneynet and Business Moneyfacts. Also, we continually monitor customer feedback on our service levels using Feefo, where we have been consistently scored highly (average 4.6 out of 5) by our customers when we have transacted business for them.

Risk management

The continued growth of the Bank warrants an accompanying focus on risk management and governance to ensure that the overall business operates within its risk appetite across the range of risks to which it is exposed. During 2017, significant investment has been made in risk capabilities and resources in both the first and second line functions. A review and enhancement has also been undertaken of the Risk Management Framework ("RMF"), including the Committee Structures and Policies that underpin the RMF.

The Bank is exposed to a range of risks with the principal ones being detailed in the Risk Section of this Report. Of these, the most significant for a specialist lender such as ourselves is credit risk. The Bank has sought a balance of credit risk exposures across the loan book it has created, managing concentrations by counter-party, sector, geography and by asset class. Care is exercised in underwriting loans and finance to ensure that risk remains within appetite.

Credit conditions have generally continued to benefit from the effects of low interest rates, and more broadly, a benign macro-economic environment. Apart from the specific factors covered under the Financial Performance section above, all of the Bank's lending portfolios continue to perform well with very few problem loans. The formation of a new credit committee and the recruitment of portfolio credit specialists into first line roles in each of our lending businesses helps support effective monitoring of any emerging risks within the portfolios.

At the same time, the IFRS9 Expected Credit Loss (ECL) project has further advanced our understanding of the expected losses within our portfolios. The models built for this are already being used as the basis for more sophisticated data analysis by newly recruited risk modellers.

We have also invested significantly in the Operational Risk, Conduct and Compliance Risk Management Frameworks with additional skilled resources brought into both first and second lines.

The Bank is committed to continued investment in and refinement of its risk management as it grows. Alongside this, it is committed to ensuring that effective risk management is embedded across all its activities.

Investing in operating platform to support our growth ambitions

The Bank benefits from its core banking system being a single integrated banking system. This is housed in two third party data centres, with high speed optical fibre links between them and the Bank's headquarters. The Bank remains committed to investing in the technology supporting its operations to maintain a secure, stable and resilient platform.

During 2017, investment has continued in the core banking system to enhance its functionality and also in treasury systems, payment and invoice processing.

Consistent with the search for greater efficiency and an enhanced customer experience, a new mobile system was launched in support of the Asset Finance business. This web and app based system delivers benefits to brokers processing finance applications. This system has had a positive effect, but is expected to be further enhanced with additional investment in 2018.

The scoping work has been carried out in 2017 for a similar front end system to support the Specialist Mortgages business. This is planned for implementation in 2018.

In May 2018 the new data protection laws under General Data Protection Regulation (GDPR) come into effect. A project has been conducted to ensure the Bank is GDPR ready. Similarly, the IFRS9 project has successfully delivered in preparation for the implementation of the new standard,

The Bank operates from newly refurbished premises at 55 Bishopsgate in London. The offices house all the operations of the business on one floor. There are tangible benefits from this single location in terms of business development, recruitment and operational efficiency. The Bank also has a number of colleagues in business development functions who work remotely.

Adding new skills and experience

As the business has grown in scale and complexity, so there has been a recognition of the changing needs for experience and skills. Accordingly, new senior appointments have been made in the business lines and major business functions during the year.

Operating environment

In the current uncertain environment, we are prepared for potential macro-economic issues in the year ahead. Following a significant period of growth, the housing market is readying itself for a slowdown, with areas of London and the South East already being impacted. We have anticipated this dip in the housing cycle and have diversified our portfolio accordingly, also strengthening our presence in the North and South West of England. In addition, we have further refined our credit and affordability checks to ensure our book of business continues to perform well in each of our franchises.

While the economic and political environment remains uncertain, with GDP growth slowing, which has impacted on business confidence, there are encouraging signs for the longer term. The Bank of England's Term Funding Scheme (TFS) has given us access to increased levels of liquidity and the Basel III banking reforms mean smaller banks such as ours will be more able to operate and compete in certain areas of lending when they come into effect from 2022. In addition, continued investment in technology in 2018 will contribute efficiency benefits and positions the Bank strongly for future growth.

Summary

We are pleased with the progress being made by the Bank in terms of its growth, development and profitability in 2017. We challenged ourselves in 2017 by examining our processes and systems to strive for greater efficiency, effectiveness and to deliver outstanding customer experience. Whilst we have made good progress, there is still more to be done in pursuit of the highest standards for our business. This must be our goal for 2018.

As we move to the next phase of our growth journey, our business has seen a lot of change and I must acknowledge the patience and support of my colleagues in helping manage through this, whilst still delivering the business results we have seen. We have also received the support and guidance of our Board and financial support of our shareholders in support of our growth.

We remain committed to creating a Bank to be proud of, specialist in our markets, focused on our customers, delivered by experts and with high aspirations for continued growth and shareholder returns.

Mark Sismey-Durrant
Chief Executive.

STRATEGY

Hampshire Trust Bank is a UK bank focussed on providing specialist lending into selected market segments which are typically underserved by the largest UK banks and where the Bank can develop strong customer relationships, including repeat business. By applying expertise and skilled underwriting techniques, the Bank is able to achieve strong returns on its lending. Through a deposit model utilising a centralised in-house administration capability, the Bank is able to achieve cost effective funding. Customer segments selected are those offering sustainable growth and through the cycle earnings potential. This is supported by a commitment to long term customer relationships backed by high quality service delivery.

Our core values for our customers are to be approachable, responsive, dependable and outstanding – these help us answer the key questions of our business through a customer lens and guide us in all our decisions.

BUSINESS MODEL

The Bank has a carefully selected lending portfolio focused on providing secured business finance through:

- Asset finance;
- Block discounting;
- Property finance; and
- Specialist mortgages.

This lending is primarily funded by customer deposits ranging from notice accounts to five year bonds. Deposit accounts are promoted to meet funding needs and to broadly match the maturity profiles of loans and deposits. Lending business is sourced primarily through carefully selected business partners and leverages our unique expertise and specialist underwriting. Our lending customers are typically SMEs, professional landlords and residential property developers with strong track records. Our savings customers are retail and SMEs.

Our model is underpinned by a commitment to strong disciplines of risk management, regulatory compliance and governance. Risk appetite and culture are set by the Board to ensure the appropriate tone from the top. Ours is a people business and it is our people who ultimately differentiate our proposition.

FINANCIAL AND BUSINESS REVIEW

Business review

	2017	2016
	£'000	£'000
Loans and Advances to Banks	**101,619**	136,317
Loans and advances to customers:	**632,275**	463,525
Asset Finance	**154,126**	112,086
Block Discounting	**62,899**	41,656
Property Finance	**222,484**	207,509
Specialist Mortgages	**192,565**	101,301
Asset Backed Lending	**201**	973
Customer deposits	**596,296**	523,315
Central Bank Facilities	**20,000**	-
Risk weighted assets ("RWA")	**529,157**	430,807
Common Equity Tier 1 capital	**112,498**	72,227
Common Equity Tier 1 Ratio	**21%**	17%
Leverage ratio	**15%**	11%
Loan to deposits ratio	**106%**	88%

Liquidity

The Bank had £101.6m (2016: £136.3m) in loans and advances to banks as at 31 December 2017. This represented over 17% of total deposits held (2016: 26%), including high quality liquid assets of £95.6m at 31st December 2017 (2016: £128.8m), all in the form of deposits held with the Bank of England Reserve Account. The liquidity coverage ratio ('LCR') was 467% (2016: 511%), comfortably in excess of the minimum set by the PRA of 80%.

Lending

The Bank's lending operations continued to grow in a controlled way during 2017 with loans and advances to customers increasing from £463.5m at 31 December 2016 to £632.3m as at 31 December 2017. Its principal lending activities performed as follows:

Asset finance provides small ticket leasing and hire purchase secured on vehicles and business assets. Finance is sourced through a network of specialist finance brokers who are serviced by a regionally based team of broker managers. Originations in the year increased from £85.1m in 2016 to £99.4m in 2017 and consequently, the asset finance book increased from £112.1m in 2016 to £154.1m in 2017.

There was some deterioration in asset quality as the book seasoned with cost of risk increasing to 0.8% from 0.3% in 2016. Over 2017, we have strengthened capabilities, people and processes in Asset Finance, including in arrears management.

Block discounting, which is also part of Asset Finance, provides wholesale finance to non-bank small finance houses secured on the receivables in their own loan books. The Bank employs an experienced team to undertake this specialised activity which is direct to the customer. Loan books are routinely audited by an in-house audit team and the loan agreements allow for defaulting underlying customer loans to be replaced with new security paper. The business grew from £41.7m to £62.9m in 2017. All loans were fully performing with no arrears throughout the year.

Property Finance provides finance mainly for development to well established UK SME house builders and commercial property developers. The business lends throughout England and Wales and is mostly sourced direct from the market. The business has financed the construction of over 2,600 residential units since its inception in May 2014. The loan book grew from £207.5m in 2016 to £222.5m in 2017.

The Bank's specialist lenders continue to be well received by the market. The loan book is now experiencing the steady flow of maturing loans as developments are successfully completed and marketed for sale. Repayments for 2017 amounted to £193.0m (2016: £166.4m). This has validated the approach taken in this market. A key focus of this business is to undertake repeat business which comprised around 57% of business written.

An individual impairment was raised first in 2016 in respect of a single property development exposure. This significantly increased in 2017 to £3.0m (2016: £200k). This aside, the overall book performed well.

Specialist Mortgages provides various forms of mortgage loans to SME borrowers via a range of different broker and direct channels in the UK. Lending comprises bridging finance for property investors in the residential and commercial markets, buy to let mortgage loans secured on residential properties for professional landlords and commercial owner-occupied and commercial investment mortgages on commercial premises. The business grew from £101.3m to £192.6m in 2017. There have been no arrears on the loan portfolio since lending commenced.

Asset Backed Lending – the decision was taken during 2016 to discontinue the asset based lending business. The loan book comprising of one loan, stood at £0.2m net of provision at 31 December 2017 (2016: £1.0m).

Funding

The main funding for the loan books is sourced from deposits and the Bank's loan to deposit ratio at 31 December 2017 was 106% (2016: 88%). The Bank is predominantly funded by longer dated deposits which have been serviced by traditional post and telephone methods and an on-line capability.

	2017	2016
	£'000	£'000
Notice deposits	**191,792**	141,377
Term deposits	**404,504**	381,938
Total Customer Deposits	**596,296**	523,315

Deposits are sourced direct from the public and SMEs from a combination of on-line marketing and appearance in product best buy tables. Growth in both retail and business deposits has been steady throughout the year supported by an in-house servicing team. Deposit balances increased from £523.3m in 2016 to £596.3m in 2017. Customer numbers have risen from around 11,000 at the start of the year to over 11,800 at the year end. Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme. At 31st December 2017, 89.7% of deposits with a value of £534.9m were protected under the Scheme.

The Bank also utilised the government's TFS in 2017 with a drawn balance of £20m at 31 December 2017 (2016: £nil).

Capital

The Bank remains strongly capitalised with Common Equity Tier 1 (CET1) Capital of £112.5m as at 31 December 2017 (2016: £77.2m). The CET1 ratio as at 31 December 2017 was 21% (2016:17%). The CET1 ratio remains above our target minimum and our risk-weighted asset (RWA) density (RWAs divided by customer loans) for the Bank at 31 December 2017 was 83.7% (2016 92.9%). This resulted in a leverage ratio of 13% (2016: 11%).

Ordinary share capital increased by £33m in 2017 as the Bank's ultimate principal shareholder, which is funds advised by Alchemy Special Opportunities LLP, provided continued support in the growth of the Bank. In addition, the profitability of the Bank is now providing internally generated capital to further support growth.

Accounting policy and regulatory changes

IFRS 9 Financial Instruments is effective from 1 January 2018. The Bank commenced preparations for the implementation of IFRS 9 in April 2016. The initial development of the Expected Loss Model (ECL) was completed by 31 December 2017 and ongoing review and refinement of the outputs continues in 2018. Note 6(a) describes the likely impact of these changes given current IFRS9 assumptions.

Impairments

Despite prevailing economic uncertainty during the year and a first increase in base rate in 10 years (November 2017), economic growth in the UK economy stayed resilient and the widely anticipated downturn following the UK's decision to leave the EU has yet to materialise. As a result credit conditions remain benign.

The cost of risk on continuing activities in 2017 was 0.79% (2016:0.34%), representing impairment losses of £4.5m. (2016: £1.0m). The impairments include an increased collective provision charge to reflect increased economic uncertainty coupled with an increased specific provision on a single property development exposure. Together these represent 71.5% of the cost of risk.

The Bank's credit appetite remains conservative, with care and diligence continuing to be exercised in loan origination and underwriting.

FINANCIAL REVIEW

	2017 Total £'000	2016 Total £'000
Interest receivable and similar income	**43,479**	26,695
Net interest income	**34,113**	20,625
Operating Income	**34,492**	20,909
Impairment losses	**(4,514)**	(1,001)
Administration and other expenses	**(20,110)**	(15,502)
Profit before Tax	**9,896**	4,406
Tax	**(2,038)**	(963)
Profit on continuing operations	**7,830**	3,443
Profit/(Loss) on discontinued operations	**189**	(1,288)
Profit for the period	**8,019**	2,155

The Bank recorded a full year's profit before tax of £9.9m (2016: £4.4m). This was achieved through increased levels of activity in all key lending sectors. The Bank withdrew from the asset backed lending market in early 2016, which is shown as discontinued operations.

Operating income

Operating income increased by £13.6m from 2016 to £34.5m reflecting lending growth of 36.4%. Net interest margin (NIM) on continuing activities of 5.06% in 2017 was down from 5.47% in 2016. This was due to:

- a changing lending asset mix from 2016 to 2017, with stronger growth in Specialist Mortgages (by 90%), Asset Finance (by 38%) and Block Discounting (by 51%) relative to Property Finance (by 7%);
- increased competition in some of our markets, lowering front book yields; and
- higher cash balances held during 2017 earning lower rates of interest.

Administrative expenses

The cost income ratio fell from 74% in 2016 to 58% in 2017. Despite an increase in administration and other expenses of £4.6m from £15.5m in 2016, the ratio reflected sturdy income growth leveraging off continued operational efficiencies. The main expense drivers in 2017 were:

- People – representative of the continued expansion of the business and recruitment of expertise to underpin capabilities.
- Premises – the Bank moved into its new premises in February 2017 at 55 Bishopsgate, London.
- Risk and compliance – during the year the Bank continued to refine and embed risk management and compliance frameworks across the Bank within an effective governance structure, including readiness for IFRS 9 and GDPR, effective from 2018.
- Systems – the Bank benefits from its selection of a single integrated operating platform for its main activities. It continues to invest in developing and refining this infrastructure and is committed to maintaining resilient, secure, reliable and scalable systems. Third party data centres safely house the Bank's IT and communications infrastructure.

Further investment in 2018 and beyond will continue to drive enhanced customer propositions efficiency and risk management.

RISK

The Bank's approach to risk

Effective risk management plays a key role in the successful execution of the Bank's business strategy as encapsulated within our overarching Risk Appetite Statement – "To run a sustainable, safe and sound business that conducts its activities in a prudent and reputable manner taking into account the interests of our customers and key stakeholders".

Risk culture

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

Risk strategy

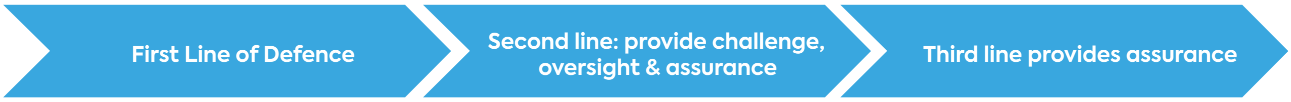
The development and implementation of the Bank's Risk Strategy is the responsibility of the Risk and Compliance team led by the Chief Risk Officer, the Executive Management team and ultimately subject to Board approval. Our risk management strategy:

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

Risk management framework

The Risk Management Framework ("RMF") sets parameters within which all the Bank's activities are executed. This ensures we identify, manage, monitor and report the risks to which the Bank is exposed. The RMF is supported by supplemental frameworks, policies, processes and procedures that, together, ensure that risks are managed in a manner appropriate to the size of the Bank and the complexity of its operations. It is expected that as the Bank grows and matures, so the RMF should grow and mature with it, enabling the Bank to expand its business sustainably and in a controlled manner.

The RMF addresses the legal and regulatory risks the Bank is exposed to, together with the principal and emerging risks. The design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee.



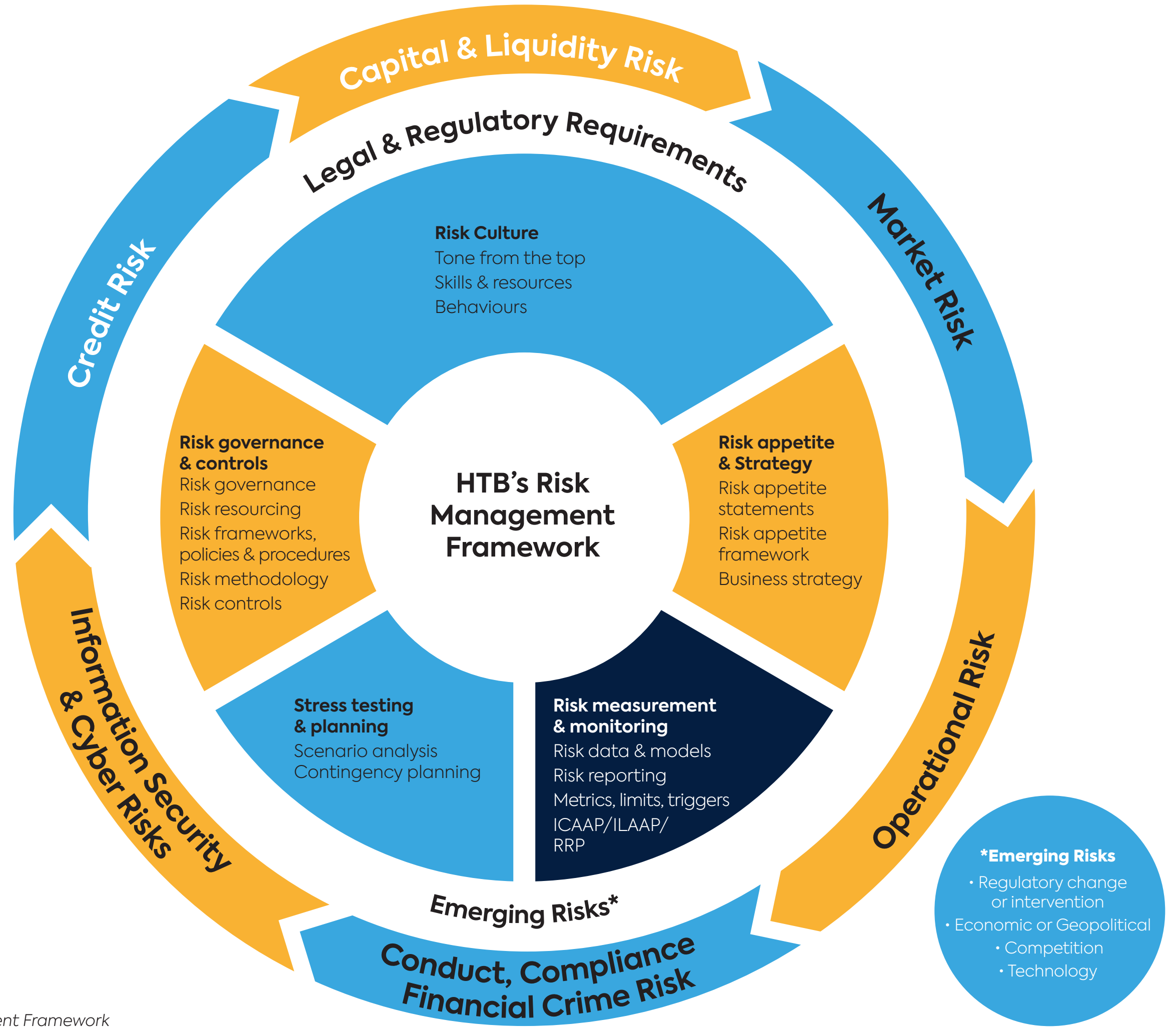


Figure 1
Risk Management Framework

Risk appetite framework

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

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

The RAF is structured around the Principal Risks agreed by the Board from time to time with each Principal Risk being supplemented by a suite of more granular Supporting Risks. For each Supporting Risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics. These are supported by detailed quantitative or qualitative risk metrics, limits and tolerances which are monitored and reported upon to ensure that we remain within appetite.

The structure of the RAF is set out in Figure 2 below.

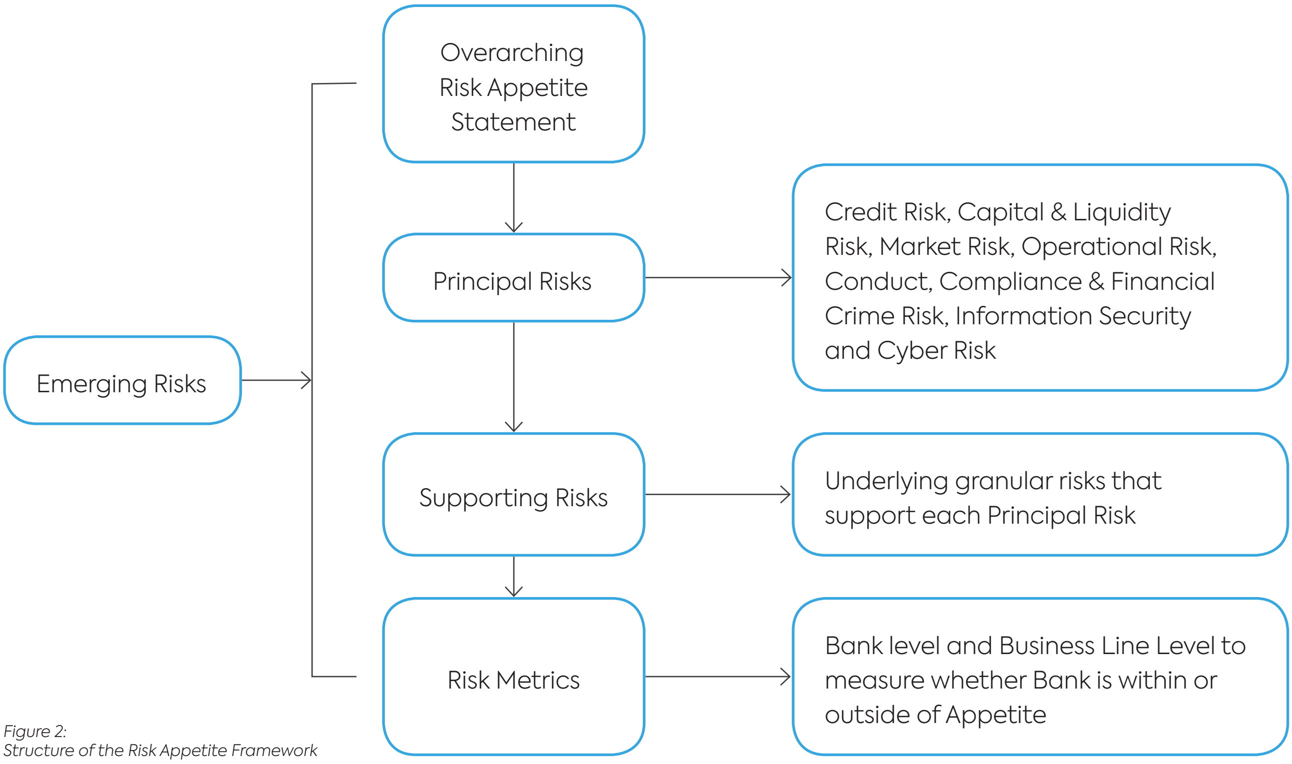


Figure 2:
Structure of the Risk Appetite Framework

Performance against Risk Metrics is regularly reported to the Board and Board Risk Committee via appropriate sub committees.

Risk governance and oversight

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

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

Front Line Business Units (1st line of defence)

The business lines and central functions own primary responsibility for the day to day management of principal risks, and the implementation of approved policies, frameworks, processes and procedures. They manage risks within agreed parameters and are responsible for regular reporting against appetite.

Risk and Compliance Function (2nd line of defence)

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

Internal Audit (3rd line of defence)

Stress testing

Stress testing is an important risk management tool for the Bank and is used to inform the setting of Risk Appetite limits. Stress testing is also used to inform the Bank's key annual assessments and determination of required buffers, the strategy for capital and liquidity management, and certain documents including the Individual Capital Adequacy Assessment Process ("ICAAP") Individual Liquidity Adequacy Process ("ILAAP") and Recovery and Resolution Plan ("RRP").

The Bank undertakes stress testing to assist the Board in understanding its key risks, and the scenarios and sensitivities that may adversely impact on its financial and/or operational performance. Stress testing supports the setting of Risk Appetite and the Bank's business and capital plans. It does this by:

- testing the adequacy of the Bank's capital, funding and liquidity to withstand the emergence of risks under both normal and stressed conditions
- supporting the adequacy of the potential management actions available to mitigate the effect of adverse events
- supporting the identification of any potential gaps in the Risk Management Framework, not readily apparent from the management of day to day risks

The Board is responsible for reviewing and approving the scenarios that will be used for each type of stress testing on at least an annual basis. The scenarios and the results of each stress test will be reviewed by ALCO and Credit Committee prior to being reported to Board Risk Committee which will provide further challenge and independent review prior to recommending to the Board for approval.

Stress testing is an ongoing requirement but may be updated, for example, by changes to the Bank's business model; changes in risk appetite; changes in economic conditions/assumptions or; changes in regulatory requirements.

The stress scenarios developed as part of the ICAAP are used to size a stress loss buffer which ensures that the Bank can withstand a range of adverse economic scenarios over the term of its planning horizon. The ICAAP incorporates all principal risks that will impact on capital. The CFO is accountable for the ICAAP.

Similar stress scenarios are developed to support the ILAAP. These scenarios will be used to size a liquidity buffer such that the Bank can withstand a range of stressed liquidity scenarios in the short to medium term. The ILAAP incorporates all principal risks that will impact on liquidity. The CFO is accountable for the ILAAP.

The Bank's RRP provides an assessment of the Bank's ability to recover financial strength during a period of severe stress. They include a formal assessment of the recovery options available to the Bank in those scenarios, setting out the process and governance for invoking the Recovery Plan and ensuring that those options can be mobilised quickly and effectively. The Resolution Plan will also provide regulatory authorities with information and analysis to enable them to carry out an orderly resolution if required. The CFO is accountable for the Bank's RRP.

The Bank also performs Reverse Stress Testing ("RST") to help it identify events that could cause its business to become unviable. The starting point for RST is assumed to be the point at which failure would occur and a logical approach is then taken to work back to identify the potential sequence of events that could occur to lead to that failure. If the tests reveal a risk of failure that is unacceptably high compared to risk appetite, the Board will take action to mitigate that risk.

Principal risks and risk mitigation

The Principal Risks the Bank faces, and how we mitigate the risks are described below. These should not be regarded as a comprehensive list of all the risk and uncertainties faced by the Bank but rather a summary of the key risks which have the potential to significantly impact the achievement of strategic objectives.

Principal Risk	Definition	How we mitigate the risk
Credit Risk	The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part	• We take security and where appropriate, guarantees, to support our lending • We focus on sectors where we have specific expertise. We limit concentrations by size, geography and sector • We evidence affordability (ability to repay from cash flow) • Credit decisions are made using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies and underwriting mandates which are embedded in all business areas. Portfolios are subject to periodic reviews • We have a defined problem debt management process and ongoing assurance testing processes in place • We operate a Treasury policy that only allows for deposits to be placed with secure counterparties • Lending performance against Risk Appetite is monitored regularly
Capital and Liquidity Risk	***Capital –*** The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans ***Liquidity –*** The risk that the Bank is unable to meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence	• We operate a Capital Planning Framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios • We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually • We monitor current and forecast levels of capital and liquidity against our risk appetite and report to Asset and Liability Committee (ALCO) and the Board regularly • The capital forecast forms an integral part of the annual budgeting process • We maintain liquidity buffers based on various stressed liquidity scenarios • We monitor our liquidity position on a daily basis • We meet, as a minimum, all regulatory prescribed coverage and liquidity ratios
Market Risk	The risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments its holdings of financial instruments	• Wherever possible we match the interest rate structure of assets with liabilities or deposits to create a natural hedge • We enter into swap agreements where required to minimise basis and repricing risks within appetite • We capture pipeline risk (where actual movements in assets and liabilities do not match expectations) and Optionality risk (where early terminations can worsen mismatch positions) and report via ALCO

Principal Risk	Definition	How we mitigate the risk
		Optionality risk (where early terminations can worsen mismatch positions) and report via ALCO
Operational Risk	The risk of loss resulting from inadequate or failed processes or controls, weak or failed governance, adverse people related issues, systems failures or from external events including strategy, legal and regulatory risks	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Change Steering Committee to ensure that major change programmes are delivered on time and on budget • We monitor the Operational Risk Profile alongside proactive recording/management of incidents • We make use of independent expert legal advice where appropriate • We seek to maintain an engaged and diverse workforce with the right mix of skills to be able to deliver our strategy
Conduct, Compliance and Financial Crime Risk	***Conduct–*** The risk that the business strategy, the culture, and the manner in which the business is run, create unfair customer outcomes and detriment to customers and/or undermines market integrity ***Compliance –*** The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable laws, codes of conduct	• We operate a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how we will manage these risks and the minimum standards that we expect • Our Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function • Senior Management identify and assess conduct, compliance and financial crime risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • New and emerging legislative and regulatory driven changes are overseen through our horizon scanning process • We design our products and services so that they consistently deliver fair outcomes for our customers • We complete regular assurance testing of our activities to check that we are operating within our Board approved risk appetite

Principal Risk	Definition	How we mitigate the risk
	or standards of good practice ***Financial crime –*** The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to obtain or launder funds through illegal means and/or for illegal purposes	• We make use of independent legal advice to maintain compliance where required • We operate a programme of staff training and awareness via our regulatory reading programme • We complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle
Information Security and Cyber Risk	The risk of financial loss, reputational damage or operational disruption arising from intentional or accidental loss, damage to or unauthorised disclosure of any business or customer information or systems by internal or external agents.	• We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and resilience needs – this need is regularly reviewed • We operate a series of internal and external tests to confirm the integrity of our systems • We operate with robust business continuity plans • We set a very low risk appetite for breaches of information security whether from internal leakage or external attack • Our staff are required to regularly complete mandatory training around information security

Emergency risks

The Bank recognises the dynamic nature of risk management and follows a structured approach to the identification and monitoring of Emerging Risks that could, in the future, affect the business model. Each Emerging Risk is allocated to one of four categories:

- Regulatory change or intervention – Risks that will emerge from National and/or International regulatory bodies that will require material changes to the way in which the Bank operates
- Economic and political landscape – Risks that will emerge directly or indirectly from changes to the national or global environment in which the Bank operates
- Competitive landscape – Risks that will emerge from both traditional operators utilising different operating strategies and/or new entrants to the markets in which the Bank operates
- Technology – Risks that will emerge from any exploitable weakness in the Bank's infrastructure and/or its ability to withstand targeted attacks

Regulatory change or intervention	
Risk	Mitigating Action
Basel Supervision on Banking Supervision, Dec 2017 revisions to the standardised approach to Credit Risk Proposals. In December 2017 the BCBS issued new guidance (Revisions to the Standardised Approach for Credit Risk) containing, amongst other things, proposals to change the capital treatment of buy-to-let and commercial real estate lending. These changes impact the capital requirements for these market segments and will require the execution of management actions to mitigate their impact.	• We have monitored responses to the consultation on the changes and given that the implementation date for the Bank is 1 January 2022 we will factor the guidance into our forward looking plans.
IFRS9 New reporting requirements under IFRS 9 introduce forward looking credit loss models which will lead to changes in the timing of impairment recognition. The requirement, which comes in to effect from 1 January 2018, requires the development of new risk models. The risk is that the Bank is unable to deliver these before new regulation takes effect.	We completed an IFRS9 programme using external consultants to build scorecards and Expected Credit Loss ("ECL") models. Parallel running with existing risk ratings has been used to test the quality of the output. Initial ECL outputs have been reviewed and approved by the Board Audit Committee and are on track to be compliant when the new accounting standard comes in to effect.
General Data Protection Regulation (GDPR). The GDPR comes into effect in May 2018 and is a new EU regulation intended to strengthen and unify data held on individuals. HTB will be required to comply with the regulation and failure to do so may result in fines and/or reputational damage	The impact of the changes has been assessed in two stages: 1. The assessment of the requirements and the mapping of an implementation plan 2. Implementation of that plan • We have completed stage 1 and alongside our implementation plan we expect to be compliant when the changes come into effect in May 2018

Economic and political enviornment	
Risk	Mitigating Action
Brexit. Heightened economic and political risks following the UK's decision to leave the European Union. As a UK focused Bank, we are sheltered from the more direct impacts of the Referendum, such as access to European markets but we are exposed to the wider economic impacts.	• We have been monitoring the situation but to date, whilst there has been some downward adjustment to UK growth rates, we have not felt material adverse consequences across our businesses • We believe that as Brexit draws nearer, business confidence may reduce and hence demand for our lending products could fall. Appropriate scenario planning will continue to be undertaken to ensure that the Bank's capital, liquidity and business plans can accommodate these impacts

Economic and political enviornment

Risk	Mitigating Action
Geo-political and macros-economic pressures The geopolitical environment presents risks to global markets, including the impact of a new administration in the USA, deflationary concerns in the EU and continued political risks in Russia and the Middle East Risks could manifest themselves as a reduction in consumer and business confidence in the UK. We are similarly mindful of high personal debt levels/low interest rates, and the knock on effect on the SME market and housing markets should these dynamics deteriorate. A faster than forecast rise in interest rates could impact on the affordability of debt levels for some customers	• We have been monitoring these risks and whilst there has been some downward adjustment to UK growth rates, we have not felt material adverse consequences across our businesses. • We will continue to monitor the impact of global events on our target customer markets. We believe, given the medium term uncertainty, there is a possibility that material international events could impact on the UK economy and hence on the demand for new lending. A material adverse change could also affect our existing customer's ability to repay existing loans and hence increases the probability of credit losses

Competitive landscape

Risk	Mitigating Action
New Entrants. The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products/software solutions potentially affecting both lending and deposit taking activities. The effect of this could result in lower volume, higher customer attrition and/or lower net interest margins	• Our planning has incorporated a review of competition from established Banks, challenger Banks and Fin-techs in particular. • We expect competition to remain intense with further new entrants joining the market and more established Banks continuing to seek an increased market share. As a consequence, we could see pressure on margins in both our lending and savings businesses

Technology

Risk	Mitigating Action
Systems Failure and Outsourcing. The Bank has a number of outsource partners and critical supplier relationships who are key elements of the overall supply chain. The failure of one of these key partners could significantly impact the Bank's operations and reputation.	• We have continued to invest in keeping our systems safe and up to date. We have reviewed our risk appetite and frameworks for supplier on-boarding and oversight • As the Bank grows, we would expect to see an increase in our use of third parties. We will continue to improve the diligence frameworks used to ensure that these third parties are robust and can meet our required standards of conduct and security

Corporate governance

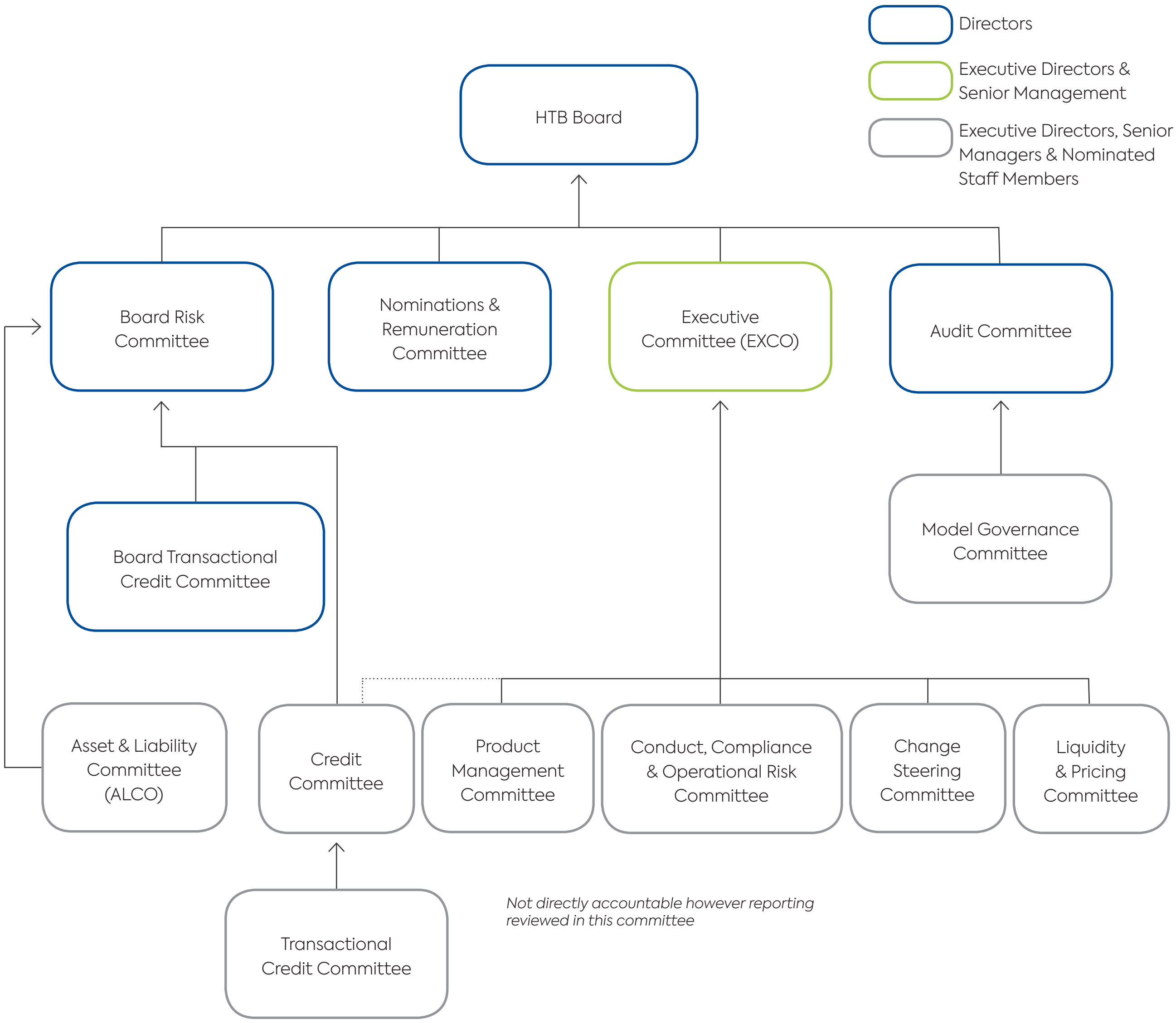
The Board of Directors is the primary governing body and has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders.

The Board has regard to the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council ('FRC') in September 2016. The Code is not mandatory for the Bank, as it applies to listed companies. However the Board considers this as best practice.

The Board's primary role is to provide leadership and to ensure that the bank is appropriately managed and delivers long term shareholder value. It sets the strategic objectives and provides direction. The Board will ensure that there are appropriate controls in place but it delegates day-to-day responsibility for the management of the Bank to the Executive Committee, led by the Chief Executive Officer.

The Board consists of three independent non-executive directors (including the Chairman), two shareholder directors and two executive directors. Board performance is reviewed at least annually. The Chairman meets annually with the non-executive directors. The non-executive directors meet annually to appraise the Chairman's performance.

The Board operates through a number of committees covering certain specific matters, illustrated in the chart below.



The Key Board committees are:

Audit Committee

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

Board Risk Committee (BRC)

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

Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits and performance related pay structures for the Bank. It is also responsible for considering all senior appointments both at Board and executive levels (including non-executive directors). The Committee is chaired by the Chairman of the Bank and comprises solely non-executive directors.

Executive Committee

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

Board Transactional Credit Committee

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

DIRECTOR'S REPORT

The Director's present their report and financial statements for the year ended 31st December 2017.

Principal activities

Hampshire Trust Bank Plc (trading as Hampshire Trust Bank or HTB) is a UK Bank, authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Bank provides bank finance to small and medium sized enterprises in the UK secured against property and business assets, including vehicles. It also provides retail savings products to private individuals and SMEs.

Business review and future developments

Information regarding the business review and future developments, key performance indicators and principal risks is contained in the Strategic report.

Board composition

The directors who held office during the year were as follows:

Robert Sharpe (Chairman appointed 24 October 2017)	Independent Non-Executive Director. Chairman of the Board, and Chairman of the Nomination and Remuneration Committee.
Robert East	Independent Non-Executive Director and Chairman of the Board Risk Committee.
James Drummond Smith	Independent Non-Executive Director and Chairman of the Audit Committee.
Dominic Slade	Non-Executive Director.
Alexander Leicester	Non-Executive Director.
Mark Sismey-Durrant	Chief Executive Officer.
Timothy Blackwell (appointed 17 July 2017)	Chief Financial Officer.
Ketan Malde (resigned 21 April 2017)	Chief Financial Officer.

The Bank maintains liability insurance cover for Directors and Officers as permitted by the Companies Act 2006.

Results of the year

The Bank made a profit before tax on continuing activities of £9.9m (2016: £4.4m), and a profit after tax of £8.0m, (2016: £2.2m).

Proposed Dividend

The Directors do not recommend the payment of a final dividend (2016: £nil).

Political and Charitable Donations

The Bank made £100 of charitable donations during the year (2016: £150) and did not make any political donations or incur any political expenditure during the year (2016: £nil).

Remuneration Matters

The Bank adheres to the requirements of the Remuneration Code as defined by the Regulator. The non-executive directors do not receive variable remuneration. Information on the Bank's Remuneration Code is set out in the Pillar 3 disclosures and will be published on our website www.htb.co.uk.

Going Concern

The financial statements are prepared on a going concern basis as the Directors have a reasonable expectation that the Bank has adequate resources to continue in business for the next 12 months. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources. The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised. For this reason, they continue to adopt a going concern basis in preparing the Bank's financial statements.

Reappointment of Auditors

During the year, following a competitive tender process, the Directors made the decision to reappoint KPMG as external auditors.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this directors' report confirm that so far as each of the Directors are aware, there is no relevant audit information of which the Bank's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Mark Sismey-Durrant
Chief Executive Officer

By order of the board

Date: 29 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

Independent auditor's report

to the members of Hampshire Trust Bank Plc

1. Our opinion is unmodified

We have audited the annual accounts of Hampshire Trust Bank ("the Company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies.

In our opinion the annual accounts:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the year ended 31 December 2006. The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Annual accounts as a whole		£495k (2016:£225k) 5.0% (2016: 8.6%) of profit before tax
Risks of material misstatement		**vs 2016**
Recurring risks	Loan impairment provisions	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
Loan impairment provisions (£0.8 million; 2016: £0.7 million) *Refer to pages 57-58 (accounting policy and financial disclosures)*	Subjective estimate: Impairment provisions cover loans specifically identified as impaired and a collective impairment for all other loans where impairments have been incurred but not yet individually identified. The calculation of certain impairment provisions is inherently judgemental. Individual and collective impairment provisions (identified and unidentified) may not reflect recent developments in credit quality, arrears experience, or emerging macro-economic risks. The directors judge individual impairments by reference to loans that have current or historical arrears or are subject to forbearance arrangements or other indicators that the loans will not be repaid other than through the Company's security. The key assumption for individual provisions is the estimation of recoverable collateral. The collective impairment is derived using the Company's historical experience and, due to the Company's limited loss experience, this is overlaid with management's wider industry experience. The key judgement in the collective provisioning model is the annual loss rate.	Our procedures included: – Controls testing: We tested the key controls over the acceptance, monitoring and reporting of credit risk; – Historical comparison: We assessed the key assumptions used in the collective and individual models against the Company's historical experience for loss given default vs actual losses experienced; – Our credit experience: We examined a risk based sample of business finance and commercial mortgage exposures including impaired and unimpaired loans and formed our own judgement, based on the individual facts and circumstances, as to whether impairment was required. This included an assessment of the supporting evidence for collateral valuations. – Our sector experience: We critically assessed the assumptions inherent in the model against our understanding of the different loan portfolios, their recent performance and industry developments, benchmarking the impairment coverage with comparable lenders; – Sensitivity analysis: We performed sensitivity analysis over the Company's collective provision to assess the reasonableness of the assumptions and identify areas of potential additional focus; – Assessing transparency: We assessed the adequacy of the Company's disclosures about the degree of estimation involved in arriving at the provision; Our results – We found the resulting estimate of the loan portfolio impairment provision to be acceptable (2016: acceptable)

3. Our application of materiality and an overview of the scope of our audit

Materiality

Materiality for the annual accounts as a whole was set at £495,000 (2016: £225,000), determined with reference to a benchmark of profit before tax from continuing operations of which it represents 5.0% (2016: 8.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £25,000 (2016: £11,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

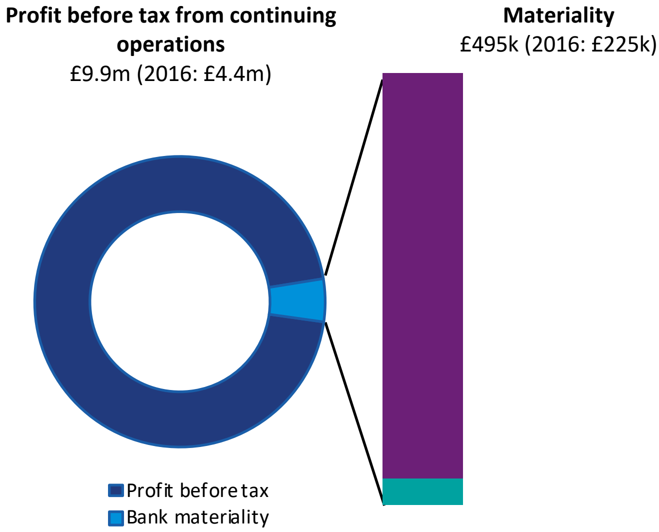
Team structure

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.

Scope – disclosure of IFRS 9 effect

The Company is adopting IFRS 9 Financial Instruments from 1 January 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note [6]. This disclosure notes that the estimate has been prepared under an interim control environment with models that continue to undergo validation. While further testing of the financial impact will be performed as part of our 2018 year end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- considered key classification and measurement decisions, including business model assessments and solely payment of principal and interest outcomes;
- considered the appropriateness of key technical decisions, judgements, assumptions and elections made in determining the estimate;
- involved credit risk modelling and economic specialists in the consideration of credit risk modelling decisions and macroeconomic variables, including forward economic guidance and generation of multiple economic scenarios, for a sample of models used in determining the estimate;
- considered interim controls and governance processes related to the calculation and approval of the estimated transitional impact.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information in the Annual Report. Our opinion on the annual accounts does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in those reports for the financial year is consistent with the annual accounts; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion

— adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
— the annual accounts are not in agreement with the accounting records and returns; or
— certain disclosures of directors' remuneration specified by law are not made; or
— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 31, the directors are responsible for: the preparation of the annual report and accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual report and accounts that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory correspondence.
We had regard to laws and regulations in areas that directly affect the annual accounts including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct, money laundering, and financial crime and certain aspects of company legislation recognising the regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.
We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
29 March 2018

KPMG

STATEMENT OF COMPREHENSIVE INCOME

	Note	**2017**	2016
		£000	£000
Interest receivable and similar income		43,479	26,695
Interest expense and similar charges		(9,366)	(6,070)
Net Interest Income	7	**34,113**	**20,625**
Fees and commissions income		373	413
Fees and commissions payable		(156)	(134)
Net income from derivatives at fair value through profit or loss	28	157	5
Other Income	8	5	–
Operating Income		**34,492**	**20,909**
Administrative expenses	10	(20,110)	(15,491)
Impairment (losses) on Loans and Advances to customers		(4,514)	(1,001)
Other expenses		–	(11)
Operating profit before tax		**9,868**	**4,406**
Tax (expense)	16	(2,038)	(963)
Profit for the year – Continuing activities		7,830	3,443
Profit /(Loss) for the year – Discontinued activities	36	189	(1,288)
Profit after tax for the year		**8,019**	**2,155**
Total Comprehensive Income for the year, net of tax		**8,019**	**2,155**

The notes on pages 40 to 75 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

	Note	**2017**	2016
		£000	£000
Assets			
Loans and Advances to Banks	22	101,619	136,317
Loans and Advances to Customers	19	632,275	463,525
Derivative financial instruments	28	903	622
Other Assets	33	1,858	2,337
Investments in subsidiaries	39	–	–
Property, Plant and Equipment	32	2,013	1,107
Intangible Assets	31	3,097	1,845
Deferred Tax Assets	17	495	907
Total Assets		**742,260**	606,660
Liabilities			
Customer Deposits	23	596,296	523,315
Central Bank Facilities	24	20,000	–
Derivative financial instruments	28	292	526
Other Liabilities	34	9,729	8,711
Provisions for Liabilities	35	303	36
Total Liabilities		**626,620**	532,588
Equity			
Share Capital	30	111,288	78,288
Share Premium	196	196	
Retained Earnings	4,156	(4,412)	
Total Equity		**115,640**	74,072
Total Equity and Liabilities		**742,260**	606,660

The notes on pages 40 to 75 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 29 March 2018 and were signed on its behalf by:

Mark Sismey-Durrant
Director

Timothy Blackwell
Director

Company Number: 1311315

STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Retained Earnings Restated	Total Equity
	£000	£000	£000	£000
Balance at 1 January 2017	**78,288**	**196**	**(4,412)**	**74,072**
Comprehensive Income for the year				
Profit for the year	–	–	8,019	8,019
Total Comprehensive Income for the year	**-**	**-**	**8,019**	**8,019**
Share Based Payments	–	–	549	549
Contributions by and distributions to owners				
Issue of shares	33,000	–	–	33,000
Total contributions by and distributions to owners	33,000	–	–	33,000
Balance at 31 December 2017	**111,288**	**196**	**4,156**	**115,640**
Balance at 1 January 2016	58,288	196	(6,908)	51,576
Comprehensive Income for the year				
Profit for the year	–	–	2,155	2,155
Total Comprehensive Income for the year	**-**	**-**	**2,155**	**2,155**
Share Based Payments	–	–	341	341
Contributions by and distributions to owners				
Issue of shares	20,000	–	–	20,000
Total contributions by and distributions to owners	**20,000**	**-**	**-**	**20,000**
Balance at 31 December 2016	**78,288**	**196**	**(4,412)**	**74,072**

STATEMENT OF CASHFLOWS

	Note	**2017**	2016
		£000	£000
Cashflows from operating activities			
Profit before tax for the year 1		10,104	2,795
Adjustments for:			
Depreciation and amortisation		991	676
Foreign Exchange Gains/(Losses)		5	(34)
Increase in impairment of Loans and Advances		4,078	2,607
Increase/(Decrease) in provisions		267	(9)
Equity-settled share based payment transactions		549	341
(Increase) in Fair Value of Derivative Assets		(157)	(5)
Corporation Tax paid		(1,070)	-
Changes in:			
(Increase) in Loans and Advances to Customers		(173,034)	(288,487)
Decrease/(Increase) in Other Assets		41	(1,098)
Increase in Central Bank Facilities		20,000	-
Increase in Customer Deposits		72,981	336,143
Increase in Other Liabilities		695	4,613
(Increase) in Encumbered Cash		(2,750)	-
Net cash flow from operating activities		**(67,300)**	**57,542**
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(1,329)	(761)
Purchase of Intangible Assets		(1,819)	(1,150)
Net cash flow from Investing Activities		**(3,148)**	**(1,911)**
Cash flows from Financing Activities			
Proceeds from the issue of share capital		33,000	20,000
Net increase in Cash and Cash Equivalents		(37,448)	75,631
Cash and cash equivalents at 1 January		135,705	60,074
Cash and Cash Equivalents at 31 December		**98,257**	**135,705**
Cash in hand		-	-
Loans and advances to Banks	22	98,257	135,705
Cash and Cash Equivalents at 31 December		**98,257**	**135,705**

1. Profit before tax includes profit before tax on continuing activities £9,868k and discontinued activities £236k. See note 37 for further details on discontinued operations

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section describes the Bank's significant policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a particular note, the accounting policy and/or critical accounting estimate is contained within the relevant note.

1. Reporting entity

Hampshire Trust Bank Plc (the 'Bank') is domiciled in the United Kingdom.

2. Basis of accounting

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (as adopted and endorsed by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The Bank is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Bank as an individual undertaking and not about its group.

3. Functional and presentation currency

These financial statement are presented in Pounds Sterling (GBP), which is the Bank's functional currency. All amount have been rounded to the nearest thousand, except when otherwise stated.

4. Going concern

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing its deposit funding sources; it is also required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Bank should be able to operate at adequate levels of both liquidity and capital, for the next 12 months. The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised and is comfortably in excess of liquidity stress tests.

Consequently, after making enquiries, the Directors are satisfied that the Bank has sufficient resources to continue in business for the next 12 months and have therefore continued to adopt the going concern basis in preparing the financial statements.

5. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The key estimates, assumptions and judgements are set out below.

a. Effective interest rate

In determining the expected life of loans and receivables assets, the Bank uses likely redemption profiles. The bank also forecasts the likely level of early repayment charges. At regular intervals throughout the year, the expected lives of loans and receivables assets are reassessed for reasonableness. Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

b. Impairment losses on loans and advances

The Bank regularly reviews its loan portfolios to assess the level of impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

c. Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2017 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which the asset be utilised. In arriving at this conclusion the Directors have estimated the future profit performance for the Bank which is subject to a number of variables.

d. Employee share-based payment transactions

The fair value of shares in the employee share scheme was determined using a Black Scholes valuation model. The significant inputs into this model were expected term, risk free interest rate, expected dividend yield, equity value at grant date and volatility.

6. Future accounting developments

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Bank are as follows:

a. IFRS 9 ‘Financial Instruments’

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

It addresses the areas of recognition, bases of valuation, income recognition methods, impairment and hedging for financial instruments and will become the standard governing the Bank’s accounting for Loans to Customers, Borrowings and Derivative Financial Assets and Liabilities. Only the rules relating to hedging will remain subject to IAS 39.

This standard will come into force with effect from the Bank’s financial statements for the year ending 31 December 2018 and work is well progressed to assess its impact and develop new procedures. In particular, the amortised cost basis of valuation and the related EIR method of income recognition remain largely unchanged. The greatest impact from the new standard is likely to be on impairment provisions.

i) Impairment of financial assets

IFRS 9 changes the basis of recognition of impairment of financial assets from an incurred loss to an expected credit loss ('ECL') approach for financial assets held at amortised cost. This introduces a number of new concepts and changes to the approach to provisioning set out in IAS 39.

ECLs are based on an assessment of the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. This has the effect of recognising losses on loans earlier than at present, as IAS 39 requires provisions to be made only at the point where there is objective evidence of credit impairment.

IFRS 9 divides loans into three classes: those where there has been no significant increase in credit risk since advance; those where there has been a significant increase in credit risk; and loans which are impaired. It is an important feature of the standard that 'increase in credit risk' is not defined solely by the performance of the account, but also by other information available about the customer, such as credit bureau information.

- On initial recognition, and for assets where there has not been a significant increase in credit risk since the date of advance, provisions will be made to reflect the level of expected credit default events within the next year. These accounts would be largely unprovided for under IAS 39, although collective provisions reflect losses incurred but not reported in a portfolio.

- Where a loan has experienced a significant increase in credit risk since initial recognition, even though this may not lead to a conclusion that the loan is credit impaired, provisions will be made based on the expected credit losses over the full life of the loan. This is likely to lead to an increase in provision in general.

- For credit impaired assets, provisions will be made on the basis of lifetime expected credit losses, taking account of forward looking economic assumptions and a range of possible outcomes. Under IAS 39 provisions are based on the asset's carrying value and the present value of the estimated future cash flows. IAS 39 does not explicitly take account of a range of possible economic outcomes including forecasts of any downturn in the economic cycle. However, it is likely that, subject to conditions at the time of implementation, provisions for loans in this condition will be broadly similar to their existing values.

- For assets which were credit impaired at origination or acquisition, the required treatment is largely identical under IAS 39.

Overall, the introduction of IFRS 9 is likely to result in companies carrying a larger provision balance and recognising losses earlier.

Impairment implementation

During the year, the Bank has continued its project to ensure it will be able to comply with the new requirements. The project includes finance, analysis and credit risk personnel, is sponsored jointly by the Chief Financial Officer and the Chief Risk Officer, reporting regularly to the Audit Committee. Model builds are subject to the oversight of the Model Governance Committee.

Project workflows have included analysis of historic internal and external credit performance metrics, prototype model design, internal expert judgements and consideration of how external economic factors should affect IFRS 9 impairments. External consultants and the Bank's auditors have been engaged with as appropriate. Base models have been completed for the Bank's asset classes and have been run in parallel with IAS 39 during 2017.

Impact assessment:

The Bank will apply IFRS 9 on 1 January 2018 and is not obliged to restate comparatives on the initial adoption of IFRS 9. Based on the assessments undertaken to date, the total estimate adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately £0.5m, representing an increase related to impairment requirements. The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions. This includes how changes in economic factors affect Expected Credit Losses (ECLs).

This assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these are still in transition;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank has not finalised the testing and assessment of controls over the new ECL model and changes to the governance framework;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

ii) Classification and measurement

Financial Assets

The classification of financial assets under IFRS 9 is based on the objectives of a company's business model and the contractual cash flow characteristics of the instruments. Financial assets are classified as held at amortised cost, at fair value through other comprehensive income ("FVTOCI"), or at fair value through profit or loss ("FVTPL"). Compared to IAS 39, the FVTOCI and amortised cost categories are added and held-to-maturity, loans and receivables and available-for-sale classification categories have been removed.

In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

i. how the performance of the business model and the financial assets held within that business model are evaluated and reported; and

ii. the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

The Bank will apply the following policies for the newly adopted classification categories under IFRS 9.

Amortised cost
A financial asset will be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

FVTOCI
A financial asset will be measured at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTPL

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL.

Impact assessment:

The standard will affect the classification and measurement of the Bank's financial assets held at 1 January 2018 as follows:

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured as amortised cost under IFRS 9.

The Bank has estimated that, on adoption of IFRS 9 at 1 January 2018, there will be no impact of these changes.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Bank has assessed no impact on adoption of IFRS 9.

iii) Hedge accounting

The hedge accounting requirements of the new standard are designed to create a stronger link with financial risk management, however this does not cover macro hedge accounting. A separate financial reporting standard is to be developed in this area. IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39 until this is implemented.

The Bank has not implemented hedge accounting. The Bank will review the requirements of the new standard on adoption of hedge accounting and the expanded disclosures on hedge accounting introduced by IFRS 9's amendments to IFRS 7 Financial instruments Disclosures.

iv) Impact on capital planning

The European Banking Authority has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

1. Phasing in the full impact over a five year period; or

2. Recognising the full impact on the day of adoption.

The Bank has decided to adopt the first approach. The Bank uses the standardised approach for capital which is calculated on the gross exposures net of specific provisions – the net exposure. IFRS 9 is expected to increase the loss allowances associated with individual assets, and therefore the net exposure and the capital requirement will fall. The Bank's assessment indicated that the impact on capital resources of the implementation of IFRS 9 will be a reduction in CET1 of £0.5m before adjustments for phasing in, and a negligible reduction in CET1 as at 1 January 2018 after adjustments of phasing in.

b. IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2018.

The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, ¬financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based ¬five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is not expected to have a material impact on the Bank.

c. IFRS 16 'Leases'

IFRS 16, 'Leases' (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios).

During 2017 HTB only has one operating lease the future liabilities of which are set out in note 36.

PERFORMANCE

The notes in this section layout how HTB achieved its Profit and Loss performance during the year.

We seek to make profit by earning interest on loans originated to customers and on financial investments we hold, against interest paid to customers on their deposits which funds our lending. We also incur the costs of running a bank, with our primary expenditure being on employees and technology infrastructure.

7. Interest income and expense

Accounting Policy: Interest Income and Expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected lives of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In determining the expected life of loans and receivables assets, the Bank uses likely redemption profiles. At regular intervals throughout the year, the expected life of loans and receivables assets are reassessed for reasonableness. Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

Fee income from Finance Leases and Hire Purchase is recognised over the period of the agreement so as to give a constant rate of return.

	2017 **£000**	2016 £000
Interest and similar income on Loans and Advances to Customers	43,206	26,403
Interest on Loans and Advances to Banks and Building Societies	273	292
Total Interest receivable and similar income	**43,479**	26,695
Interest on Derivative Financial Instruments	(6)	(15)
Interest on Deposits from customers	(9,360)	(6,055)
Total Interest expense and similar charges	**(9,366)**	(6,070)
Net Interest Income	**34,113**	20,625

Interest earned during 2017 on impaired assets as at 31 December 2017 amounted to £621.0k (2016: £188.2k)

8. Other Income

	2017 £000	2016 £000
Foreign exchange gains	5	-
Other Income	**5**	-

9. Fees and commission income and expense

Accounting Policy: Fees and commission income and expense

Fees and commissions which are not considered integral to the effective interest rate are recognised on an accruals basis when the service has been provided or incurred.

	2017 £000	2016 £000
Facility Fees	156	340
Early Settlement Fees	143	54
Other	74	19
Fees and Commission Income	**373**	**413**
Bank Charges	2	11
Credit and Identity Searches	154	123
Fees and Commission Expense	**156**	**134**

10.

	Note	**2017 £000**	2016 £000
Depreciation and amortisation	11	991	676
Staff Costs	12	13,486	10,918
Share based payments	13	549	341
Operating Lease rentals		1,031	634
FSCS costs		81	12
Other Administrative expenses		3,972	2,910
Administrative Expenses		**20,110**	15,491

11. Amortisation and Depreciation

Accounting Policy: Amortisation and Depreciation

Accounting policies relating to amortisation and depreciation are set out in notes 31 and 32 respectively.

	Note	**2017 £000**	2016 £000
Amortisation	30	568	442
Depreciation	31	423	234
Total depreciation and amortisation		**991**	676

12. Staff numbers and costs

Accounting Policy: Staff Costs

The Bank applies IAS 19 Employee benefits in its accounting for components of staff costs.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as Pension costs in profit or loss.

Share based payments

Please see Note 13 – Share based payment arrangements for the accounting policy.

The average number of persons employed by the Bank (including directors) during the year was as follows:

	2017	2016
Directors	2	2
Loan Officers	37	28
Administrators	83	64
	122	94

The analysis includes both full-time and part-time staff but does not include non-executive directors. The aggregate payroll costs of these people were as follows:

	2017 **£000**	2016 £000
Wages and Salaries	9,278	8,081
Social Security costs	1,243	1,005
Pension costs	802	566
Other staff costs	2,163	1,266
	13,486	10,918

	2017 **£000**	2016 £000
Directors' Salaries and Bonus	712	843
Directors' Share based payments	149	191
	861	1,034

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2016: nil).

There were no directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2016: nil).

The aggregate of emoluments of the highest paid director was £509k (2016: £487k). No pensions were attributable to the highest paid director and no shares were received or receivable by that director in respect of qualifying services under a long term incentive scheme. Remuneration for non-executive directors consisted of salary payments of £162k (2016: £177k).

13. Employee share-based payment transactions

Accounting Policy: Share Based Payments

Employees may be entitled to receive remuneration in the form of share options to reward strong long-term business performance and to incentivise growth for the future. These share based payment transactions are accounted for as equity settled share based payments in accordance with IFRS 2. This equity is in the B Ordinary Shares of the Bank's parent company, Hoggant Ltd.

The grant date fair value of a share based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the acquisition is estimated using an appropriate valuation technique.

The amount recognised as an expense in the Income Statement is based on amortising the grant date fair value at a constant rate to the vesting date.

Scheme Details

The Incentive Share scheme, comprising 'B' Ordinary shares issued by Hoggant Ltd (HTB's parent company), was introduced for directors and senior employees of HTB on 21 May 2014. All shares were issued at a price of £0.01p per share. Holders are entitled to receive a return on the shares acquired in the event of a prescribed exit event.

The Incentive Share scheme is governed by Hoggant's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of the Company.

Valuation method

The fair values of the shares at the date of grant were valued using the Black-Scholes valuation model. The assumptions used are as follows:

	2017	2016	2015
Expected volatility	30.4% to 31.2%	31.4% to 32.3%	31.7% to 32.1%
Risk free rate	0.5% to 0.8%	0.2% to 1.0%	1.3% to 1.5%
Dividend yield	0.0%	0.0%	0.0%
Expected life	5 years	5 years	5 years

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over a period commensurate with the expected term.

Details of shares issued are shown in the table below:

	2017 No. of shares	2016 No. of shares
At 1 January	1,036	846
Granted	235	350
Forfeited	(258)	(160)
At 31 December	**1,013**	1,036

The average fair value of shares issued was £3,146 per share.

The charge to the Consolidated Income Statement was £549k (2016: £341k).

14. Allowance for impairment

Accounting Policy: Credit Impairment

See Note 19 for the accounting policy for Loans and advances to customers and any impairment charges.

The table below sets out the balance sheet movement for the year.

	2017 £000	2016 £000
Individual allowance for impairment		
Balance at 1 January	1,885	4
Charge for the year	3,856	2,244
Write offs	(207)	(363)
Balance at 31 December	**5,534**	1,885
Collective allowance for impairment		
Charge for the year	429	362
Balance at 31 December	**892**	463

The balance sheet reconciliation above includes a write-back of a provision on assets classified as discontinued, the income statement write-back is disclosed in note 37.

15. Auditor's remuneration

	2017 £000	2016 £000
Audit of financial statements	147	65
Non-audit taxation compliance services	–	3
Other non-audit services	64	29
Auditor's remuneration	**211**	97

16. Taxation

Accounting Policy: Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Recognised in the Statement of Comprehensive Income

	2017 Continuing operations £000	**2017 Discontinued operations £000**	**2017 Total £000**	2016 Continuing operations £000	2016 Discontinued operations £000	2016 Total £000
Current tax						
Current tax on profits for the year	**1,627**	**47**	**1,674**	537	(322)	215
Deferred tax:						
Origination and reversal of temporary differences	414	–	414	450	–	450
Adjustments in respect of prior periods	(13)	–	(13)	66	–	66
Effect of tax rate change on opening balance	10	–	10	(90)	–	(90)
Total deferred tax charge/(credit)	**411**	–	**411**	426	–	426
Tax on profit/(loss) on ordinary activities	**2,038**	**47**	**2,085**	963	(322)	641

TAX RECONCILIATION

	2017 **£000**	2016 £000
Profit/(Loss) for the year	**10,104**	2,795
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	1,945	559
Effects of:		
Permanent non-deductible expenses	157	106
Impact of rate differences	10	(90)
Adjustment for prior year tax differences	(24)	66
Effects of Group Relief/ other reliefs	(3)	
	2,085	641

Profit before tax includes profit before tax on continuing activities £9,868k and discontinued activities £236k. See note 37 for further details on discontinued operations.

The corporation tax liability at 31st December is £819k (2016 £204k); this is disclosed within other tax and social security in note 34 other liabilities.

17. Deferred Tax Asset

Deferred tax assets are attributable to the following:

	2017 **£000**	2016 £000
Accelerated capital allowances	130	15
Short term timing differences	30	12
Tax losses carried forward and other deductions	335	880
Deferred Tax Asset	**495**	907

The movement in deferred tax during the year is as follows:

	2017 **£000**	2016 £000
Balance brought forward	907	1,333
(Debit) / Credit to the income statement	(412)	(426)
Deferred Tax Asset	**495**	907

The deferred tax asset is recognised based on the Bank's corporate plan which projects sufficient profits. The deferred tax asset at 31 December 2017 has been calculated based on the rate of 19% at the reporting date.

LENDING AND CREDIT RISK

This section provides information on our lending and the provisions held for credit impairment.

As a retail bank we use the funds deposited with us to lend to customers. As the principal risk of lending, disclosure is also provided on how HTB manages and mitigates credit risk.

18. Managing Credit risk

Credit quality analysis

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Impairment provisions are provided for losses that have been incurred at the statement of financial position date.

Accounting Policy: Contractual loan commitments

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

See note 22 for the accounting policy for Loans and advances to Banks and Building Societies

See note 19 for the accounting policy for Loans and Advances to Customers

The Bank's maximum exposure to credit risk is as follows:

		2017	2016
		£000	£000
Loans and Advances to Banks		101,619	136,317
Loans and Advances to Customers		632,275	463,525
Derivative financial instruments		611	96
		734,505	599,938
Contractual loan commitments		154,915	189,838
Total Credit Risk		**889,420**	789,776
Individual	14	5,534	1,885
Collective	14	892	463
Allowances for impairment		**6,426**	2,348

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment:

- Individual impairment is assessed where specific circumstances indicate that a loss is likely to be incurred.
- Collective impairment allowances are calculated for each portfolio given the homogenous nature of the assets in the portfolio.

At 31 December 2017 the total value of arrears amounted to £1.8m (2016: £0.8m), representing 28bps of the total book (2016: 17bps). Of this total value, £507k was over three months in arrears at 31 December 2017 (2016: £453k).

The distribution of assets which are past due but not impaired are disclosed in the following table.

2017	**Property Finance £000**	**Specialist Mortgages £000**	**Asset Finance £000**	**Block Discounting £000**	**Total £000**
Neither past due nor impaired	201,405	192,787	153,406	62,899	610,497
Past due but not impaired					
Up to 30 days	–	–	520	–	520
30-60 days	14,939	–	211	–	15,150
60-90 days	–	–	18	–	18
Over 90 days	729	–	–	–	729
Total Past due but not impaired	**-**	**-**	**-**	**-**	**0**
Impaired Assets	**8,628**	**-**	**1,559**	**-**	**10,187**
Less: allowance for impairment	(3,217)	(222)	(1,588)	–	(5,027)
Net Loans and Advances	**222,484**	**192,565**	**154,126**	**62,899**	**632,074**

The Bank maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. The total value of forborne loans amounted to £5.0m as at 31 December 2017 (2016: £10.8m).

Collateral held and other credit enhancements

Collateral held by the bank includes land, residential and commercial property, and receivables, in the form of finance lease and hire purchase agreements. This collateral exceeds the carrying amount of loans and advances to customers

In addition to the collateral included above, the Bank also holds other types of collateral and credit enhancements such as personal guarantees, second charges and floating charges for which specific values are not generally available.

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2017. However, loan facilities of £130.3m granted under Property Finance are legally drafted as on-demand and are uncommitted.

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, size and by geographical location. An analysis of concentrations of credit risk from loans and advances, investment securities and contractual commitments is shown below.

	Loans and advances to Banks and Building Societies		Loans and advances to Customers		Contractual Commitments	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Carrying amount	101,619	136,317	632,275	463,525	154,915	162,268
Concentration by sector						
Corporate	–	–	396,562	309,783	136,018	162,268
Government	95,601	128,831	–	–	–	–
Banks and Building Societies	6,018	7,486	–	–	–	–
Retail	–	–	235,713	153,742	18,897	–
	101,619	136,317	632,275	463,525	154,915	162,268
Concentration by location						
UK	101,619	136,317	632,275	463,525	154,915	162,268

19. Loan and Advances to customers

Accounting Policy: Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise Loans and Advances to Banks and Building Societies and Loans and Advances to Customers.

Impairment of financial assets

On an ongoing basis the Bank assesses whether there is objective evidence that a loan and receivable or available for sale financial asset, or group of loans and receivables and available for sale financial assets, is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:

Delinquency in contractual payments of principal or interest;

Cash flow difficulties experienced by the borrower; and

Initiation of bankruptcy/administration proceedings.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Bank include:

- reduced monthly payment;
- an arrangement to clear outstanding arrears;
- capitalisation of arrears; and
- extension of term.

Loans and advances to customers at amortised cost:	**2017 £000**	**2017 £000**	2016 £000
Property Finance	225,701		207,709
Less: allowance for impairment	(3,217)		(200)
		222,484	207,509
Specialist Mortgages	192,787		101,428
Less: allowance for impairment	(222)		(127)
		192,565	101,301
Asset Finance			
Hire Purchase	128,318		91,397
Finance Leases	27,396		21,048
Less: allowance for impairment	(1,588)		(359)
	154,126		112,086
Block Discounting	62,899		41,718
Less: allowance for impairment	–		(62)
	62,899		41,656
		217,025	153,742
Discontinued asset backed lending	1,601		2,573
Less: allowance for impairment	(1,400)		(1,600)
		201	973
		632,275	463,525

20. Hire Purchase

The table below provides an analysis of Hire Purchase receivables.

	2017 £000	2016 £000
Gross investment in hire purchase receivables:		
Less than one year	44,404	32,166
Between one and five years	84,283	59,924
Between five and ten years	79	–
	128,766	92,090
Unearned finance income	(448)	(693)
Net investment	128,318	91,397
Less impairment allowance	(886)	(227)
	127,432	91,170
Net investment in hire purchase receivables:		
Less than one year	44,250	31,924
Between one and five years	83,989	59,473
Between five and ten years	79	–
	128,318	91,397

21. Finance lease receivables

The table below provides an analysis of finance lease receivables for leases of equipment in which the Bank is the lessor.

	2017 £000	2016 £000
Gross investment in finance lease receivables:		
Less than one year	9,535	6,402
Between one and five years	18,038	14,800
	27,573	21,202
Unearned finance income	(177)	(154)
Net investment in finance leases	27,396	21,048
Less impairment allowance	(702)	(132)
	26,694	20,916
Net investment in finance lease receivables:		
Less than one year	9,477	6,356
Between one and five years	17,919	14,692
	27,396	21,048

FUNDING AND LIQUID ASSETS

Funding is raised from customers depositing money in their savings accounts. These funds are then used to lend to customers. To ensure the Bank has sufficient cash to repay customers when required, we are required to hold a minimum level of liquid assets. The Bank's Treasury team manage the level of liquid assets and funding to ensure we meet the demands of customers, creditors and regulators.

22. Loans and Advances to Banks

Accounting Policy: Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise loans and advances to banks and building societies and short term highly liquid debt securities with less than 3 months to maturity. Loans to banks and building societies comprise cash balances and call deposits.

	2017	2016
	£000	£000
Placements with other Banks included in Cash and Cash Equivalents		
Repayable on demand	98,257	135,705
Remaining maturity of twelve months or less but over three months*	3,362	612
	101,619	136,317

* relates to amounts charged to Barclays Bank plc regarding the provision of various banking facilities.

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £95.6m (2016: £128.8m).

The table below, excluding the Bank of England reserve account, presents an analysis of Loans and Advances to Banks and Building Societies by rating agency designation as at 31 December, based on Moody's long term ratings.

	2017	2016
	£000	£000
Aa3	331	–
A1	5,585	7,384
A3	102	102
	6,018	7,486

23. Customer Deposits

Accounting Policy: Customer deposits

Customer deposits are non-derivative financial liabilities with fixed or determinable payments. Deposits are carried at amortised cost using the effective interest rate method.

	2017	2016
	£000	£000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	13,507	2,880
Not more than three months	33,575	79,816
More than three months but not more than one year	426,303	228,243
More than one year but not more than five years	122,911	212,376
Customer Deposits	**596,296**	523,315

24. Central Bank Facilities

Central Bank Facilities

During the year, the Bank has utilised the Bank of England's Term Funding Scheme ('TFS').

Drawings under the TFS have a maturity of four years and bear interest at bank base rate. The average remaining maturity of the bank's drawings is 40 months.

Asset Encumbrance

The Bank primarily encumbers assets through positioning loans as collateral to enable it to participate in the 'Term Funding Scheme' (TFS) at the Bank of England. The Bank took the opportunity provided by this preferential funding scheme to make an initial drawdown of £20m in 2017.

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

The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits.

At the 31st December 2017 the bank had a carrying amount of encumbered assets of £114.8m. (2016 £0.6m)

The balances arising from central bank facilities carried in the Bank's accounts are shown below.

	2017	2016
	£000	£000
TFS	20,000	-
Central Bank Facilities	**20,000**	-

25. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due.

The table below analyses remaining contractual maturity undiscounted cash flows of non-derivative assets and liabilities.

	Carrying value £000	Net inflow/ (outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000
At 31 December 2017							
Assets							
Loan and advances to Banks	101,619	101,619	98,257	–	3,362	–	–
Loans and advances to customers	632,275	766,120	33,617	50,585	215,458	245,598	220,862
Contractual loan commitments	154,915	163,669	14,954	20,256	82,522	41,633	4,304
Total	**888,809**	**1,031,408**	**146,828**	**70,841**	**301,342**	**287,231**	**225,166**
Liabilities							
Deposits	(596,296)	(604,209)	(13,761)	(130,949)	(336,425)	(123,074)	–
Central Bank Facilities	(20,000)	(20,000)	–	–	–	(20,000)	–
Contractual loan commitments	(154,915)	(154,915)	(154,915)	–	–	–	–
Total	**(771,211)**	**(779,124)**	**(168,676)**	**(130,949)**	**(336,425)**	**(143,074)**	**–**

	Carrying value £000	Net inflow/ (outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000
At 31 December 2016							
Assets							
Loan and advances to Banks	136,317	136,317	135,704	–	613	–	–
Loans and advances to customers	463,525	547,663	39,488	56,377	136,140	315,658	–
Contractual loan commitments	162,268	166,097	25,929	36,730	62,718	40,720	–
Total	**762,110**	**850,077**	**201,121**	**93,107**	**199,471**	**356,378**	**–**
Liabilities							
Deposits	(523,315)	(534,640)	(12,644)	(70,203)	(230,219)	(221,574)	–
Contractual loan commitments	(162,268)	(162,258)	(160,555)	(1,703)	–	–	–
Total	**(685,583)**	**(696,898)**	**(173,199)**	**(71,906)**	**(230,219)**	**(221,574)**	**–**

26. Accounting for Financial asset and liabilities – fair values

Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active the Bank establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Loans and Advances

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, adjusted for future credit losses if considered material. These have been measured according to level 3 inputs.

Deposits

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. These have been measured according to level 3 inputs.

Derivative Financial Instruments

The fair value of derivative financial instruments is determined by reference to their quoted bid price at the reporting date. These have been measured according to level 1 inputs.

Central Bank Facilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. These have been measured according to level 3 inputs.

The fair values of all financial assets and financial liabilities not disclosed at fair value, are grouped below by class together with their carrying amounts as shown in the statement of financial position.

At 31 December 2017	Hierarchy level	Loans and receivables £000	Total carrying amount £000	Fair Value £000
Assets				
Loan and advances to Banks	Level 1	101,619	101,619	101,619
Loans and advances to customers	Level 3	632,275	632,275	634,896
Total		**733,894**	**733,894**	**736,515**
Liabilities				
Customer Deposits	Level 3	596,296	596,296	596,092
Central Bank Facilities	Level 3	20,000	20,000	20,000
Total Liabilities		**616,296**	**616,296**	**616,092**
At 31 December 2016				
Assets				
Loan and advances to Banks	Level 1	136,317	136,317	136,317
Loans and advances to customers	Level 3	463,525	463,525	464,926
Total		**599,842**	**599,842**	**601,243**
Liabilities				
Customer Deposits	Level 3	523,315	523,315	525,597
Total Liabilities		**523,315**	**523,315**	**525,597**

27. Market risk

Market risk is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank does not engage in any trading operations. The Bank's exposure to foreign currency risk is limited and managed by ALCO on a monthly basis.

(a) Interest rate risk

Interest rate risk is the potential adverse impact on the Bank's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Bank's assets and liabilities. In particular, fixed rate products expose the Bank to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

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

(b) Interest rate sensitivity gap

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

	2017	2016
	£000	£000
+200 basis points	(243)	4,502
-200 basis points	355	(2,369)

The resulting change in equity as shown above is lower for 2017 compared to 2016 due to increased hedging cover of fixed deposits in 2017.

The table below provides an analysis of the re-pricing periods of assets and liabilities. Mismatches in the re-pricing timing of assets and liabilities creates interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the residual maturity date.

At 31 December 2017	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Non-interest bearing £000	TOTAL £000
Assets						
Loan and advances to Banks	101,619	–	–	–	–	101,619
Loans and advances to customers	277,010	102,606	69,073	183,376	210	632,275
Other assets	–	–	–	–	8,366	8,366
Total Assets	**378,629**	**102,606**	**69,073**	**183,376**	**8,576**	**742,260**
Liabilities						
Customer Deposits	48,222	97,905	331,962	118,207	–	596,296
Central Bank Facilities	–	20,000	–	–	–	20,000
Non-interest bearing liabilities	–	–	–	–	10,324	10,324
Equity	–	–	–	–	115,640	115,640
Total Liabilities	**48,222**	**117,905**	**331,962**	**118,207**	**125,964**	**742,260**
Notional value of derivatives	(27,767)	(55,533)	154,200	(70,900)	–	
Interest rate sensitivity gap	330,407	(15,299)	(262,889)	65,169	(117,388)	
Cumulative gap	330,407	315,108	52,219	117,388	–	

At 31 December 2016	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Non-interest bearing £000	TOTAL £000
Assets						
Loan and advances to Banks	136,317	–	–	–	–	136,317
Loans and advances to customers	286,511	10,908	58,139	104,527	3,440	463,525
Other assets	–	–	–	–	6,818	6,818
Total Assets	**422,828**	**10,908**	**58,139**	**104,527**	**10,258**	**606,660**
Liabilities						
Customer Deposits	12,215	69,994	228,547	212,559	–	523,315
Non-interest bearing liabilities	–	–	–	–	9,273	9,273
Equity	–	–	–	–	74,072	74,072
Total Liabilities	**12,215**	**69,994**	**228,547**	**212,559**	**83,345**	**606,660**
Notional value of derivatives	(5,500)	(5,200)	(8,700)	19,400	–	
Interest rate sensitivity gap	410,613	(59,086)	(170,408)	(108,032)	(73,087)	
Cumulative gap	410,613	351,527	181,119	73,087	–	

28. Derivative financial instruments

Accounting Policy: Derivatives

The Bank's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates in the Bank's assets and liabilities.

The Bank uses derivative fi¬nancial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative fi¬nancial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

Netting Agreements

The Bank uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA").

It is the Bank's policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount payable by one party to the other and the agreements terminated.

Margining Agreement

Under margining agreements where the Bank has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Bank in order to cover the position. Similarly, the Bank will place collateral, usually cash, with the counterparty where it has a net liability position.

The fair value of derivatives is set out below:

	Notional Amount £000	Fair value of assets £000	Fair value of liabilities £000
Interest rate swaps:			
At 31 December 2017	530,700	903	(292)
Interest rate swaps:			
At 31 December 2016	303,400	622	(526)

Gains and losses from derivatives are as follows:	**2017 £000**	2016 £000
Gains on derivative financial instruments	909	397
Losses on derivative financial instruments	(752)	(392)
Fair value gains on derivative financial instruments	**157**	5

CAPITAL

In order to protect customers as a regulated bank we are required to hold a minimal level of capital. To date this has been achieved through equity issuances to our investors. This also provides the investment to build and grow the Bank. This section provides information on our share capital, retained earnings and other equity balances. It also provides a breakdown of the Bank's regulatory capital position.

29. Managing capital risk

Capital risk is the risk that the Bank has insufficient capital resources to meet its capital requirements and to absorb unexpected losses if they were to occur. Causes of inadequate capital could include lending origination volumes far exceeding expectations, suffering a high level of default on loans already made by the Bank, or by having large unexpected development/operating costs for the business (including operational risk events).

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. Capital is actively managed with regulatory ratios being a key factor in the bank's planning processes and stress analysis.

The principal committee at which the bank's capital is scrutinised and managed is ALCO. The Board and BRC also receive metrics, monthly forecast of capital positions and commentary on capital risk. The Bank refreshes its ICAAP on an annual basis, which includes a 3 year forecast of the Bank's capital position.

The ICAAP is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval. Periodic shorter term forecasts are also undertaken to understand and respond to variations in actual performance against plan.

In order to avoid breaching a regulatory capital measure, a Board approved 'Management Buffer' of additional capital is imposed above the regulatory threshold. Unlike the regulatory limits, the 'Management Buffer' is designed to be utilised in a controlled manner when required.

The bank's monitors its key capital metrics monthly, these include CET1 Ratio, surplus of capital resources over capital requirements and Leverage Ratio, and these allow the Bank to be able to effectively manage its capital resources.

Capital metrics are produced monthly to assess the current and projected capital. Since baseline projections are based upon future capital raises, an additional, stressed projection is also produced, which shows the potential capital position in the event capital raises were to prove impossible.

During 2017, the Bank complied in full with all its externally imposed capital requirements. Note 30 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

30. Share Capital

Authorised, issued and fully paid

	Ordinary shares of £1 each	
	2017	2016
	£000	£000
In issue at 1 January	78,288	58,288
Issued for cash	33,000	20,000
In issue at 31 December	**111,288**	78,288

During the year the Bank issued 33,000,000 Ordinary shares of £1 each for cash at par value.

The following shows the regulatory capital resources managed by the Bank:

	2017	2016
	£000	£000
Share Capital	111,288	78,288
Share Premium	196	196
Retained Earnings	4,156	(4,412)
Intangible Assets	(3,097)	(1,845)
Common Equity Tier 1 Capital	**112,543**	72,227
Tier 2 Capital – Collective Provision	**892**	463
Total Regulatory Capital	**113,435**	72,690

OTHER ANALYSES

This section contains other mandatory disclosures with additional information regarding the position and performance of the Bank

31. Intangible Assets

Accounting Policy: Intangible assets

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Bank which will generate future economic benefits and where costs can be reliably measured.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between 3 to 7 years. The amortisation periods used are reviewed annually.

Subsequent costs

Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred. Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Impairment of Intangibles

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

	Software £000
Cost	
At 1 January 2017	2,609
Additions	1,819
At 31 December 2017	**4,428**
Amortisation	
At 1 January 2017	764
Charge for year	567
At 31 December 2017	**1,331**
Net book value	
At 31 December 2017	**3,097**
At 31 December 2016	1,845

32. Property Plant and Equipment

Accounting Policy: Property Plant and equipment

Tangible fixed assets are stated at historical cost, which includes direct and incremental acquisition costs less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment at the following rates:

- Equipment 10% – 33%
- Fixtures and fittings 10% – 33%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted accordingly with any adjustments made prospectively.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Impairment of Property Plant and Equipment

At each balance sheet date property, plant and equipment are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount which is the higher of the asset's net selling price and its value in use.

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

	Equipment £000	Fixtures and Fittings £000	Total £000
Cost			
At 1 January 2017	679	929	1,608
Additions	334	995	1,329
At 31 December 2017	**1,013**	**1,924**	**2,937**
Depreciation			
At 1 January 2016	328	173	501
Charge for year	191	232	423
At 31 December 2017	**519**	**405**	**924**
Net book value			
At 31 December 2017	**494**	**1,519**	**2,013**
At 31 December 2016	351	756	1,107

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2016 nil).

No impairment charges were incurred during the year (2016 nil).

33. Other Assets

	2017	2016
	£000	£000
Other debtors	1,309	1,852
Prepayments	549	485
Other Assets	**1,858**	2,337

34. Other Liabilities

	2017	2016
	£000	£000
Other taxation and social security	1,342	707
Other creditors	1,039	1,423
Accruals	7,348	6,581
Other Liabilities	**9,729**	8,711

35. Provisions

	2017	2016
	£000	£000
Remediation Costs	224	–
FSCS Levy	79	36
Provisions for Liabilities	**303**	36

FSCS Levy

	2017	2016
	£000	000
At 1 January	36	45
Adjustment to provision	105	12
Paid during the year	(62)	(21)
At 31 December	**79**	36

Remediation costs represent amounts set aside for redress payments to customers and related outsourced administrative costs in respect of Consumer Credit Act breaches.

The FSCS levy represents the estimated amount payable under the FSCS for the 2017/2018 scheme year, which runs from March 2017 to March 2018, and is calculated with reference to the protected deposits held at 31 December 2016. The Bank, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

36. Operating leases

Accounting Policy: Operating Leases

Payments made under operating leases net of any incentives received from the lessor, are charged to the income statement, within administrative expenses on a straight line basis over the period of the lease.

Non-cancellable operating lease rentals on land and buildings are payable as follows:

	2017	2016
	£000	£000
Less than 1 year	1,291	192
Between 1 and 5 years	5,165	3,877
Over 5 years	5,041	7,472
	11,497	11,541

37. Discontinued operations

In early 2016, the Bank ceased asset backed lending activities. Further, as part of the withdrawal from this lending, the Bank disposed of all but one loan to other lenders.

Details of the discontinued operations profit for the current year and prior year is set out below.

	2017	2016
	£'000	£'000
Interest receivable and similar income	90	375
Net interest income	**42**	234
Operating Income	72	492
Impairment (losses)/ write-back	200	(1,606)
Administration and other expenses	(36)	(496)
Profit/ (Loss) before Tax	236	(1,610)
Tax	(47)	322
Profit for the year – Discontinued operations	**189**	(1,288)
Net cash flow from operating activities	**1,008**	6,883

38. Related party transactions

Related parties of the Bank include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members. Key Management Personnel are defined as the Directors.

The compensation of the directors is provided in note 12

The following Directors directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2017:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	275,000	275,000	175	1.75
Tim Blackwell	200,000	200,000	100	1.00
James Drummond Smith	25,000	25,000	20	0.20

Two directors held deposits with the Bank as at 31 December 2017 amounting to £101k (2016:3 Directors, £100k).

39. Investment in subsidiaries

HTB has the following investments in subsidiaries (amounting to £105 in total):

	Country of Incorporation	Class of shares held	Ownership	Principal Activity
Hampshire Bank Limited	England	A	100%	Dormant

HTB's subsidiaries are unlisted and have an accounting reference date of 31 December. None of HTB's subsidiaries are banking institutions.

40. Ultimate parent company

The Bank is a subsidiary undertaking of Hoggant Limited, which is incorporated in England and Wales and is the largest company in which the results of the Bank are consolidated. The majority of Hoggant Limited's equity is owned by Alchemy Special Opportunities Fund II L.P. The consolidated financial statements of Hoggant Limited are available on request from 55 Bishopsgate, London EC2N 3AS

GLOSSARY

Average principal employed	Calculated as the average of monthly loans and advances to customers.
Common Equity Tier 1 Ratio (CET1 Ratio)	The Common Equity Tier 1 ratio is calculated as common equity tier 1 capital divided by risk-weighted assets.
Cost:income ratio	Cost to Income Ratio is calculated as administrative expenses divided by net operating income.
Cost of funds (after hedging)	Rate of interest payable on Customer Deposits adjusted for interest on interest rate swap liabilities.
Cost of Risk on continuing activities	Cost of risk is calculated as impairment losses on financial assets divided by average principal employed (excluding asset backed lending).
Customer Satisfaction Index	This is a measure of customer satisfaction and the quality of customer service. The index is independently compiled by the Institute of Customer Services.
Gross income margin	Calculated as interest income, fees receivable, net income from derivatives at fair value through profit or loss and other income, divided by average loans to banks and principal employed.
JAWs ratio	A measure used to demonstrate the extent to which an entity's income growth rate exceeds its expenses growth rate.
Leverage ratio	The leverage ratio is calculated as Common Equity Tier 1 capital divided by the sum of total assets (excluding intangible assets and including adjustments for certain off balance sheet items such as pipeline and undrawn collateral).
Loan to Deposit ratio	Calculated as loans and advances to customers divided by customer deposits.
Liquidity Coverage Ratio ('LCR')	The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Net Interest Margin (NIM)	Calculated as net interest income divided by average cash and principal employed.
Net Promoter Score	This is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
Return on equity (post-tax)	Return on equity (pre-tax) is calculated as profit post tax for the year divided by average equity.
Risk-weighted asset (RWA)	A measure of a bank's assets adjusted for their associated risk. Risk weightings are established in accordance with the Basel rules as implemented by CRD IV and local regulators.

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