ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2018

HTB

Hampshire Trust Bank Plc

Company number: 1311315

Non- Executive Directors

Robert Sharpe (Chairman)

James Drummond Smith

Robert East

Astrid Grey

Richard Price

Dominic Slade

Executive Directors

Matthew Wyles (Chief Executive Officer)

Tim Blackwell (Chief Financial Officer)

Secretary & Registered Office

Audrey Morrison
55 Bishopsgate,
London
EC2N 3AS

Independent Auditor

KPMG LLP
15 Canada Square,
Canary Wharf,
London
E14 5GL

1. Strategic Report

Key Highlights

Increasing profitability, supporting investment and strong shareholder returns

- Growth in profit before tax of 13.0% to £11.1m (2017: £9.9m)
- Return on Required Equity, 10.7% (2017: 11.1%)

Building our franchises

- Lending assets growth of 42% to £900.0m (2017: £632.3m)
- Originations growth of 31% to £626.3m (2017: £478.3m)
- Deposits growth of 21% to £720.7m (2017: £596.3m)
- Total customers grew to 25.6k (2017: 19.7k)
- Feefo Gold Trusted Service Award 2018 [1]
- Award-winning Savings Franchise [2]

Delivering strong asset returns and cost effective funding

- Gross Income Margin of 6.8% (2017: 7.7%) [3]
- Blended cost of funds (after hedging) 1.62% (2017: 1.60%)
- Net Interest Margin of 4.9% (2017: 6.0%)
- Net Revenue Margin 5.2% (2017 6.1%) [3]

Investing in our operating platform to support future growth

- Building the team in advance of future growth, employees up 35% to 202 (2017: 150)
- Investment of £2.7m in systems and infrastructure
- Cost to Asset Ratio 3.3% (2017: 3.5%)
- Cost to Income ratio of 63% (2017: 58%)

Maintaining credit quality and low cost of risk

- Total arrears of 19bps on total book (2017: 28bps) [4]
- Cost of Risk of 45bps (2017: 79bps) [3]

Holding conservative levels of capital and liquidity

- Liquidity Coverage Ratio of 335% (2017: 467%)
- CET1 ratio of 16% (2017: 21%)
- Tier 2 capital of £30m raised
- Total Capital Ratio of 20% (2017: 21%)

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 800 reviews.
2. HTB Savings achieved the award for best Business Fixed Account Provider – Business Moneyfacts Awards 2019.
3. Definitions of key ratios are found in the glossary. To provide a clear comparison between 2017 and 2018 KPI;
    - Revenue margin has been defined to exclude Fair Value gains or losses on Loans and Advances to customers.
    - Cost of Risk is defined to include the Fair Value losses on Loans and Advances to customers.
    - Blended cost of funds is calculated excluding Tier 2 and its associated costs.
4. Total book is defined as Loans and Advances to customers at Amortised costs and Loans and Advances to customers at FVTPL.

Chairman's Overview

Robert Sharpe
Chairman

"2018 was an important year for HTB as the Bank continued to strengthen its infrastructure and resources in preparation for a further period of growth and business development."

Our principal points of focus remain unchanged:

- To deliver outstanding customer service with consistently positive outcomes.
- To manage our balance sheet and the risks to which our capital is exposed prudently and responsibly.
- To construct and develop a robust, scalable operating model.
- To generate stable, high quality earnings and build enduring shareholder value.
- To operate to the best standards of regulatory and governance requirements.

People

Our previous Chief Executive Officer, Mark Sismey-Durrant, retired at the end of April 2018 and the Board was delighted to secure Matthew Wyles as the Bank's new CEO. Matthew brings significant experience in our core markets and is a seasoned financial services professional having served as an Executive Director at Nationwide Building Society for many years.

Matthew's brief is clear – to increase the Bank's scale whilst maintaining HTB's firm commitment to rigorous risk management, sound credit principles and strong profitability. On behalf of the Board and shareholders, I would like to thank Mark Sismey-Durrant for his important contribution to the re-launch of the Bank in 2014 and its transformation into a modern financial institution built on sound foundations. I wish him a long and enjoyable retirement.

One of our non-executive directors, Alex Leicester, who is a Partner in the private equity investment firm, Alchemy (our principal shareholders) and who was closely involved in Alchemy's acquisition of the Bank in 2014, retired from the Board in October 2018. He was succeeded by Richard Price, a former KPMG partner, who brings an impressive range of skills and highly relevant experience to the Board. We were also delighted to welcome Astrid Grey to the Board as a new independent non-executive director. Astrid recently left Lloyds Banking Group and we were very fortunate to secure her services. Astrid has deep and broad experience in both commercial and investment banking with particular reference to risk and audit. Both she and Richard Price have had an immediate and beneficial impact on the range and quality of the Board's discussions and output.

We recognise that an exceptional business requires exceptional people. As the Bank's scale and reputation grows, our ability to attract and retain high quality people grows with it. Our base in the City of London gives us access to a deep pool of highly skilled labour and we have continued to recruit talented specialists and managers as part of the Bank's strategy of continuous improvement.

These appointments have encompassed a range of disciplines including risk, distribution, customer experience, technology, business development and operations.

Outlook

Whilst the Bank has a clear, pragmatic strategy and a strong balance sheet, the Board is only too aware of the downside risks which the UK economy will face during 2019 and beyond. At the time of writing, it is not clear how Britain will leave the European Union and this absence of clarity has inevitably tended to undermine confidence in the business sector.

Accordingly, we have used 2018 to refine our Brexit contingency planning and the Board will continue to review the Bank's risk appetite and its credit strategy on a regular basis to ensure that we manage our business prudently and with due regard to any emerging macro-economic risks.

Not withstanding the uncertainties which lie ahead, however, we are confident that HTB is strongly positioned to weather any storm and to take full advantage of business opportunities as they arise. Whilst the market remains competitive, there is demonstrable and sustained demand for the services of a specialist bank such as HTB which brings deep expertise, powerful insights and consistently outstanding customer service to the SME sector.

We never forget that our success is fundamentally dependent on retaining the confidence, advocacy and loyalty of both our customers and our distribution partners. I would also like to offer my warmest thanks to our shareholders for their unstinting support and, finally, to my fellow Board members and all our people for their invaluable contribution to the present and future direction and the success of our business.

Robert Sharpe
Chairman

Chief Executives Report

Matthew Wyles
Chief Executive

"HTB delivered a solid performance in 2018. Operating Income rose by 9.0% to £37.6m as loans and advances to customers grew by £267.7m to £900.0m. The balance sheet as a whole exceeded £1bn for the first time."

The rise in lending assets was supported by our strong retail savings franchise which also grew by 21% to £720.7m. Profit before tax rose by 13.0% to £11.1m despite the substantial investment in our resources made during the year which I have described in more detail below.

The relatively high cost income ratio of 63% reflects the Bank's strategy of investing ahead of growth to protect customer service and reduce operational risk. The investment in the business will enable us to increase our operational leverage progressively by bearing down on cost inflation as our balance sheet grows.

With the macro-economic uncertainties created by Brexit, we took the decision to bring forward our raise of £30m of Tier 2 capital to mid-2018 to ensure that we could trade into 2019 and beyond with a very strong balance sheet. As part of our plan to drive up capital efficiency we also concluded an innovative £150m transaction with the British Business Bank under its Enable Guarantee Scheme to support the growth of our very successful development finance business during 2019 and beyond.

Our business model

HTB is a small and specialised bank based in the City of London. Our lending is principally to small and medium sized UK based enterprises (SME) to support a range of business needs with a bias towards residential property development & investment.

The Bank is a regulated UK deposit taker and this is also its principal funding source. We provide savings/cash investment products to both private individuals and SMEs. We do not give advice. On taking up my role as CEO on 23rd April, I undertook a review of HTB's strategy and we have now implemented a set of measures designed to drive clear focus on the Bank's key strategic imperatives. That focus can be summarised with three words: excellence through specialism. We recognise that HTB's success depends upon the Bank's ability to differentiate itself by carving out resilient and enduring franchises within the market segments in which it chooses to operate.

The customer

HTB's customers fall into a number of distinct categories and we are careful to align our understanding of their needs and expectations with the propositions, service and distribution strategy employed by each division.
In the case of our Specialist Mortgage and Asset Finance divisions professional intermediaries play a central role in our distribution strategy and we understand that executing well for them enables them in turn to deliver great outcomes for their clients.

"We are entirely clear that the goodwill and support of our intermediary partners is as key to our success as that of the end customers whom they serve."

Significant investment was committed by the Bank during 2018 to developing systems, metrics and reporting infrastructure to underpin our commitment to high standards of service and great outcomes for all our customers. We never forget that the sustainable and enduring business franchise which we are building is dependent on delighting our customers and delivering for them consistently, transparently and with integrity. We are committed to a virtuous circle of continuous improvement - for us, better never stops.

Business performance

Our Development Finance division funds SME developers and house builders which are engaged in constructing, as we define it, "everyday homes for everyday people". Established in 2014, the division has already financed the completion of over 2,000 new homes with more than 2,000 currently in course of construction. We offer genuine relationship banking and our watch words are competence, consistency, reliability and integrity. A key performance metric in this division is repeat business – 50% of our new lending is to existing customers. I am pleased to report that we had a record year for new business activity with £369m of new facilities credit approved.

Whilst the initial focus of our development finance activity was principally on London & the South East markets, we have now diversified our lending across a broader geographical footprint. We reduced our exposure to the London market from 33% to 21% by year-end 2018 and we have no exposure whatsoever to prime Central London. We opened a new office in Leeds in the Autumn of 2018 to underpin and sustain this commitment to geographical diversification and our exposure to the North and Midlands increased during 2018 from 12% to 27%. The average life of a Development Finance facility is circa 18 months so the book is constantly turning over as completed developments sell off and are replaced by new starts. Despite this natural cycle of attrition, the Development Finance assets grew by 19% during the year to a closing balance of £265.2m.

The Specialist Mortgage division at HTB concentrates on segments of the residential property finance market where customers' requirements are more complex and where we can leverage our structuring skills and the experience and judgement of our underwriters. We have invested heavily in this division since I joined the business and we are now fortunate in having assembled an outstanding team with deep and relevant experience in our target markets. Specialist mortgage intermediaries are central to our distribution strategy and we are focused on rapidly building our broker partner panel to a size which will sustain our commercial ambitions – we tripled the size of our intermediary panel during 2018. As its distribution expanded, new lending by this division also increased significantly in H2 to £135m, up 155% on the same period in 2017. During 2018, Specialist Mortgages grew by 81% and is now the largest business in the Bank (by assets) with £347.9m in principal outstanding. Despite this significant growth (albeit off a small base), we maintained our uncompromising approach to asset quality. 2018 was a year of investment and transformation for our Asset Finance division and, as a result of my strategic review at the end of H1, the division shifted its focus away from vanilla flow business towards specialist lines. We have no appetite to deploy scarce and valuable capital into lending which fails to clear our risk adjusted return (RaR) hurdles, especially when we have attractive alternative uses for that capital. During the second half of 2018, through rigorous yield discipline, we increased our new business margins in Asset Finance by circa 100 basis points. We expect this trend towards wider margins to continue as our new focus on specialty lines starts to bear fruit during 2019.

Finally the customers of our Wholesale Finance division are typically lenders which fund principally through the use of secured bank lines. We concentrate on funding clients where we, as lenders, have a good understanding of the relevant underlying markets and the nature of the assets being originated. We only partner with lenders who can demonstrate sound balance sheets, high quality management and a strong track record of credit performance and resilience through the economic cycle.

Most of the Wholesale Division's current client list are active in asset finance but during 2019 we intend to broaden our offering to include other theatres of activity where we consider we have the necessary skills and credit competencies to participate responsibly.

Funding our business

Our Savings business, which is fundamental to our stable low cost funding model, enjoyed a year of steady growth with deposit balances increasing by 21% to £720.7m. We strive to provide products which offer consistently good value and we try to avoid erratic pricing strategies which, in our view, only serve to confuse and irritate existing customers. This approach of steady good value combined with the friendly, personal service delivered by our in-house team earned us a Net Promotor Score of 60 in 2018.

The quality of our service and product proposition was also recognised by independent customer review company Feefo, which awarded us their Gold Trusted Service standard based on our consistently positive customer feedback. We continued to deliver on our commitment to improve our proposition to business savers with the introduction of an online account application service during the year. We were pleased to be named by Moneyfacts as the Best Business Fixed Deposit Provider for the third year running.

Risk management

During 2018 we made further investment in our risk management capabilities and resources, particularly in the second line of defence. This investment was incremental to the additional investment we put in during 2017 and we intend that this pattern of ongoing commitment to ever greater depth and strength in these key competencies will continue during 2019. This is not only fundamental to the protection of our depositors' and shareholders' interests but will also create competitive advantage for HTB as a highly focussed, data rational credit institution.

"A new and improved Risk Management Framework ("RMF") was implemented in 2018 with the new risk committee structures which were introduced during 2017 now firmly embedded in the day to day management of the business."

The Risk Section of this Report details the principal risks to which the Bank is exposed. As a specialist lender, credit risk is, inevitably, our single most significant risk. We continued to monitor the dynamic composition of our loan book and we manage concentrations by counter-party (single name exposure), sector, geography, asset class and product.

We take great care to ensure that our underwriting is disciplined and consistent with our clear and comprehensive risk policies and guidelines which, in turn, are derived from and driven by our Board's pre-determined risk appetite. The Bank's IFRS 9 Expected Credit Loss models were introduced during 2018, and these models were also deployed to help us derive a deeper understanding of the Bank's credit exposures. The Bank also developed a number of other credit risk models including those focussed on stress testing our portfolios to help us better understand the underlying resilience of our business. The governance supporting the development and use of our credit models was also significantly enhanced.

Operational risk was the focus of considerable effort during 2018 as we matured our Operational Risk Management Framework. We will build on that work during the coming year to ensure that our operational resilience develops and strengthens. Additional resources were recruited into both first and second lines of defence to ensure that the management of conduct and compliance risk keep pace with the Bank's growth. Focus on financial crime controls was maintained with the roll out of additional training and systems to assist first line of defence functions.

Investment in operational excellence to deliver competitive edge

The Bank benefits from a robust and reliable core banking platform and we maintained availability in excess of 99.98% throughout the year. We invested further during 2018 to comply with the new GDPR regime and other regulatory requirements, whilst also improving operational effectiveness.

During 2018 we initiated a new strategic partnership with MatsSoft to use its solution for digital development. A number of new platforms were delivered: the most significant was a new internal solution for the Specialist Mortgage division which, amongst a range of benefits delivered, improved processing times and data collection capabilities. It further positioned the division to increase its operational leverage as its portfolio grows whilst maintaining a clear focus on maintaining its reputation for first class service.

We also continued to invest in our Asset Finance originations platform and we were very pleased with the positive feedback we received from intermediaries and clients alike following a number of key enhancements during the year. At the end of 2018 we made an important and strategic commitment to our digital integration capabilities through a new API (Application Programme Interface) service layer. This will enable integration of new digital systems to the core banking platform and external data services in 2019 whilst enabling us to operate with greater agility as we respond to the emerging needs of the business.

Our 2019 strategy will see ongoing investment in digital services across all product sets. Our key deliverables will improve originations through broker portals and networks, enhance credit risk modelling, decisioning and reporting through improved data analysis and insight. The Bank will assess and where appropriate invest in new technologies such as robotic process automation to deliver process efficiency savings.

Conclusion

We know that 2019 may be a challenging year for the UK in general and for the banking sector in particular, but with adversity often comes opportunity.

The Bank is well positioned for the coming year.

Matthew Wyles
Chief Executive

Impact of the introduction of IFRS 9

Overview

The application of IFRS 9 from 1 January 2018 introduces some changes to the measurement and classification of certain financial assets. In accordance with IFRS 9, there is no restatement of prior year comparatives for 2017. This, therefore, complicates the building of an understanding of the year on year performance.

IFRS 9, changes the calculation of loan impairments with a forward looking expected credit loss approach. In addition, the standard reassesses classification and measurement categories of financial assets and liabilities (see p.46 for fuller explanation of the change to IFRS 9). The IAS 39 measurement categories of financial assets have, therefore, been replaced while the accounting for financial liabilities remains largely the same.

The main impact of the change in classification and measurement on HTB has been in respect of a portion of property development loans within our Development Finance business line. Under IAS 39, these loans were measured at Amortised cost. However, with the implementation of IFRS 9, classification is now based on both the Bank's business model to hold financial assets in order to collect contractual cash flows and the contractual cash flow characteristics of those financial assets.

Certain property development loans, originated prior to November 2018, have contractual features which introduce exposure to risks or volatility. Thus, they do not give rise on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

As a result, these loans can no longer be measured at Amortised cost, instead they are measured at fair value through profit and loss ("FVTPL"). This means they are measured at fair value with no effective interest rate recognition or loan impairment measurement in the Statement of Comprehensive Income. The financial statements on pages 46 to 93 show the classification and measurement of financial assets under IFRS 9.

Amortised cost basis

For internal governance and business management purposes, the Board and Executive continue to measure and monitor the financial performance of all lending business lines on a consistent classification and measurement basis, this is on an 'Amortised cost' basis.

For information purposes, the following tables set out the statutory financial statement's presentation of the numbers for 2018 and the Amortised cost presentation with the adjustments between the two bases. Further, a table is presented on page 95 that sets out 2018 on statutory and Amortised cost bases alongside 2017 on a statutory basis.

This table below shows a summarised income statement and balance sheet setting out the key adjustments to the statutory basis financial statements contained in pages.41 to 93 and the Amortised cost.

	Statutory	Adjustment [1]	Amortised Cost View
	2018	2018	2018
	£'000	£'000	£'000
Net interest income	36,974	2,101	39,075
Other Net Revenue	616	(261)	355
Total Revenue	**37,590**	**1,840**	**39,430**
Administrative expenses	(24,700)	–	(24,700)
Impairment	(1,742)	(1,103)	(2,845)
Profit Before Taxation	**11,148**	**737**	**11,885**

	Statutory	Adjustment [2]	Amortised Cost View
	2018	2018	2018
	£'000	£'000	£'000
Loans and advances to customers	899,996	(889)	899,107
Other assets	124,177	–	124,177
Total Assets	**1,024,173**	**(889)**	**1,023,284**
Customer deposits	720,718	–	720,718
Other liabilities	177,705	(226)	177,479
Total Liabilities	**898,423**	**(226)**	**898,197**
Shareholders' Equity	**125,750**	**(663)**	**125,087**

1. Adjustments in the table relate solely to the fair value of the development finance book and the associated imputed tax implications.
   - Net interest income decreases by £2.1m due to the treatment of fees on FVTPL loans under IFRS 9, of which £1.9m is recognised as fees and commission income under the statutory basis and £0.2m is reversed.
   - Other Net Revenue increases by £0.3m under the statutory basis due to the £1.9m of Fees and Commission income mentioned above, offset by a £1.6m fair value loss on loans and advances held at FVTPL.
   - Impairment falls by £1.1m from the Amortised cost view due to the release of provisions on loans held at fair value.
2. Statutory loans and advances are held at £0.9m higher than the Amortised cost view due to a £1.6m gain on initial application of IFRS 9 less the £0.7m profit before tax adjustment explained above. See Note 4 of the Financial Statements for more information on the transitional adjustments on application of IFRS 9. In addition the application of IFRS 9 creates a deferred tax liability of £0.2m which reduces the impact on Shareholders Equity from the £0.9m fair value adjustment mentioned above to £0.7m.

Financial and Business Review

	2018 £m	2017 £m
Loans and Advances to Banks	**98.2**	101.6
Debt securities	**15.1**	–
Loans at fair value through profit or loss	**166.8**	–
Loans and advances to customers:	**733.2**	632.3
Asset Finance	*202.1*	*154.1*
Wholesale Finance	*84.8*	*62.9*
Development Finance	*98.4*	*222.5*
Specialist Mortgages	*347.9*	*192.6*
Asset Backed Lending	–	0.2
Other Assets	**10.9**	8.3
Total Assets	**1,024.2**	**742.2**
Customer deposits	**720.7**	596.3
Central Bank Facilities	**135.0**	20.0
Tier 2 Capital	**30.0**	–
Other Liabilities	**12.7**	10.3
Total Liabilities	**898.4**	**626.6**
Equity	**125.8**	**115.6**

Ratios

	2018	2017
Risk weighted assets (“RWA”)	**687.5**	529.2
RWA Density (RWA as % of Loans)	**83%**	86%
Common Equity Tier 1 capital	**121.7**	112.5
Tier 2 Capital	**30.0**	–
Common Equity Tier 1 Ratio	**16%**	21%
Total Capital Ratio	**20%**	21%
Leverage ratio	**12%**	15%
LCR	**335%**	467%
Loan to deposits ratio	**125%**	106%

Liquidity

The Bank had £98.2m (2017: £101.6m) in loans and advances to banks as at 31 December 2018. This represented over 13% of total deposits held (2017: 17%), including high quality liquid assets of £90.9m at 31st December 2018 (2017: £95.6m), all in the form of deposits held with the Bank of England Reserve Account. The liquidity coverage ratio ('LCR') was 335% (2017: 467%), substantially in excess of the minimum set by the PRA of 100%.

Loans to customers

Net loans and advances to customers reached £900.0m as at 31 December 2018 from £632.3m as at 31 December 2017. The Bank's principal lending activities performed are as follows:

Development finance provides finance mainly for development to well established UK SME house builders and 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. New business of £242.5m in 2018 drove growth in the loan book of 19% from £222.5m in 2017 to £265.2m when including loans held at fair value through profit and loss of £166.8m. During 2018, the Bank opened an office in Leeds to expand its presence in Northern England, diversifying concentration from the South and South-East. As at 31 December 2018, the Northern region accounted for 38% of gross loans. The loan book continued to experience a steady flow of maturing loans as developments are successfully completed and marketed for sale. Repayments amounted to £197.4m in 2018 (2017: £193.0m). A key focus of this business is to undertake repeat business which comprised around 50% of business written.

Specialist mortgages provides various forms of mortgage loans to professional property developers and landlords via a panel of specialist brokers. Lending comprises buy to let mortgage loans secured on residential properties, bridging finance for property investors in the residential market, semi-commercial loans (where the property is mainly residential housing) and commercial investment mortgages on commercial premises. The business grew 81% from £192.6m in 2017 to £347.9m in 2018, with £188.5m of originations.

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 £99.4m in 2017 to £129.8m in 2018 and consequently, the asset finance book increased from £154.1m in 2017 to £202.1m in 2018, an increase of 31%.

Wholesale 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 team and the loan agreements allow for defaulting underlying customer loans to be replaced with new security paper. The loan book grew 35% from £62.9m in 2017 to £84.8m in 2018 with £65.5m of new business in the year.

Funding

The main funding for the loan books is sourced from deposits and the Bank's loan to deposit ratio at 31 December 2018 was 125% (2017: 106%). The Bank is predominantly funded by deposits which have been serviced by our in-house team through an online portal alongside traditional post and telephone methods.

	2018	2017
	£'000	£'000
Notice deposits	**207,398**	191,792
Term deposits	**513,320**	404,504
Total customer deposits	**720,718**	**596,296**

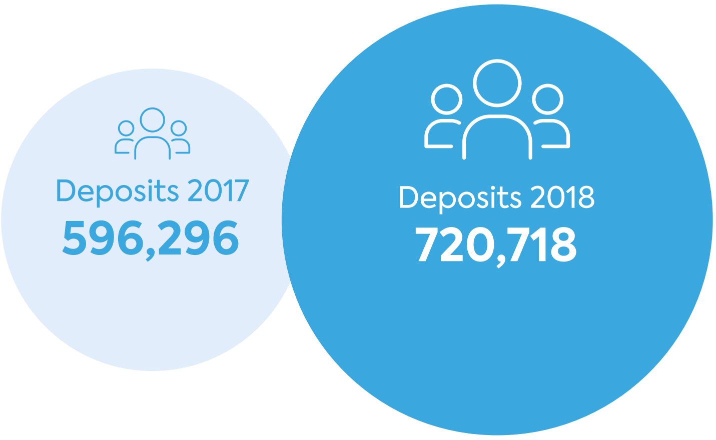
Deposits are sourced direct from the public and SMEs from a combination of on-line marketing and appearance in product best buy tables.

	2018 £'000	2017 £'000
Retail deposits	**543,443**	454,733
SME deposits	**177,275**	141,563
Total customer deposits	**720,718**	**596,296**

Deposit balances increased from £596.3m in 2017 to £720.7m in 2018. Customer numbers have risen from around 11,800 at the start of the year to over 14,500 at the year end.

Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme. At 31st December 2018, 91% of deposits with a value of £654.0m were protected under the Scheme.

The Bank also utilised the Bank of England's four year TFS (Term Funding Scheme) in 2018 with a drawn balance of £135m at 31 December 2018 (2017: £30m). In May 2018 the Bank also raised £30m of subordinated debt which qualifies as Tier 2 capital.



Capital

The Bank's Common Equity Tier 1 (CET1) Capital comprises ordinary share capital plus share premium, fair value through other comprehensive income reserve and retained earnings, less intangible assets. As at 1 January 2018, the transition to IFRS 9 impacted retained earnings through the recognition of expected credit losses (ECLs) and the re-measurement of reclassifying development finance loans held at Amortised cost to FVTPL. The net impact amounted to £0.8m (see note 4).

CET1 on a statutory basis as at 31 December 2018 was £121.7m (2017: £112.5m). The statutory CET1 ratio as at 31 December 2018 was 16% (2017: 21%). 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 2018 was 83% (2017: 86%). This resulted in a leverage ratio of 12% (2017: 15%).

As already mentioned the Bank also raised £30m of funding in 2018 that can be used as Tier 2 Capital.

Financial Review

	2018 £,000	2017 £,000
Interest income calculated using the effective interest method	**38,239**	43,479
Other Interest Income	**12,057**	-
Interest Expense and similar charges	**(13,322)**	**(9,366)**
Net interest income	**36,974**	34,113
Fees and commissions income	**2,554**	373
Fees and commissions payable	**(166)**	(156)
Other Income/ Expenses	**(8)**	5
Net (loss)/gain loans and other financial assets at fair value through profit or loss	**(1,764)**	**157**
Operating Income	**37,590**	34,492
Impairment losses	**(1,742)**	(4,514)
Administrative expenses	**(24,700)**	**(20,110)**
Profit before Tax	**11,148**	9,868
Tax	**(2,118)**	**(2,038)**
Profit on continuing operations	**9,030**	7,830
Profit/(Loss) on discontinued operations	**-**	189
Profit for the period	**9,030**	**8,019**

Ratios [1]

Gross Income Margin	**6.8%**	7.7%
Blended cost of funds (after hedging)	**1.6%**	1.6%
Net Interest Margin	**4.9%**	6.0%
Net Revenue Margin	**5.2%**	6.1%
Cost to Asset Ratio	**3.3%**	3.5%
Cost Income Ratio	**63%**	58%
Cost of Risk	**0.45%**	0.79%
Return on Required Equity	**10.7%**	11.1%
Return on Equity (post tax)	**7.6%**	9.5%

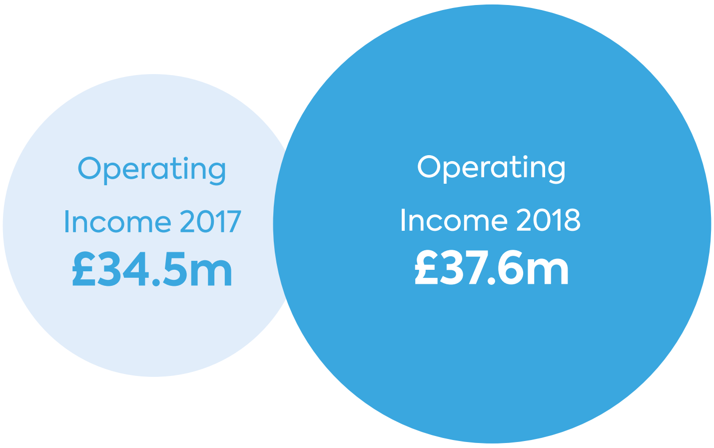
1. Definitions of key ratios are found in the glossary. To provide a clear comparison between 2017 and 2018 metrics. Net Revenue Margin has been defined to exclude Fair Value losses on Loans and Advances to customers. Cost of Risk is defined to include the Fair Value losses on Loans and Advances to customers as this best represents the underlying asset quality.

The Bank recorded a full year's profit before tax of £11.1m (2017: £9.9m). This was achieved through increased levels of activity in all key lending activities.

Operating income

Operating income increased by £3.1m from 2017 to £37.6m reflecting lending growth of 42%. Net revenue margin of 5.2% in 2018 was down from 6.1% in 2017. This was primarily due to:

- Changing lending asset mix from 2018 to 2017, with stronger growth in Specialist Mortgages
- (58% of overall loan growth) and Asset Finance and Wholesale Finance (26% of growth) relative to Development Finance (16% of growth).
- Increased competition in some of our markets, lowering front book yields.
- Addition of Tier 2 funding in 2018, increasing interest payable.



Administrative expenses

The cost income ratio rose from 58% in 2017 to 63% in 2018. As well as an increase in administration and other expenses reflective of increasing scale, the ratio reflected ongoing investment in the business.
The main expense drivers in 2018 were:

- **People** – significant recruitment of skilled resource has been undertaken to strengthen our capabilities, delivery and support future growth.
- **Risk and compliance** – during the year the Bank continued to strengthen and deepen it's risk management capabilities as well as regulatory developments such as GDPR.
- **Systems** - the impact of the Bank's continuing investment in infrastructure to drive enhanced customer propositions, efficiency and risk management.

Impairments

IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL (Expected Credit Loss) approach. From 1 January 2018, the Bank has been recording an allowance for expected credit losses for all loans. Note 16 describes the Bank's approach and policy to ECLs and the transition from IAS 39 to IFRS 9 is shown in note 4.

Credit conditions remained benign during 2018 despite prevailing economic uncertainty surrounding the UK's decision to leave the EU. The Bank's credit appetite remains conservative, with care and diligence continuing to be exercised in loan origination and underwriting.

The cost of risk was 0.45% (2017: 0.79%). Total cost of risk is £3.3m (2017: £4.5m) includes impairment charges of £1.7m on Loans and Advances held at Amortised cost with an additional decrease in fair value of loans held at fair value through profit and loss of £1.6m.

Risk

The Bank's Approach to Risk

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

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

Risk Culture

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

Risk Strategy

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

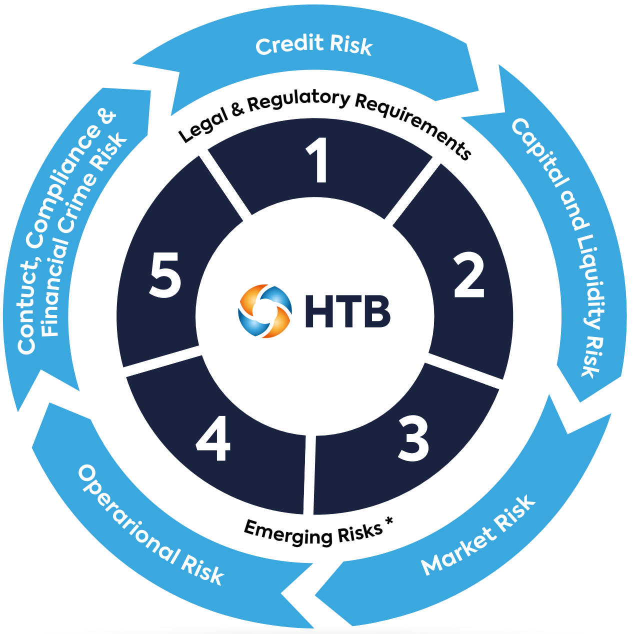
- Identifies the Principal and Emerging Risks the Bank faces and how they are managed
- Defines Risk Appetite
- Confirms that business plans are consistent with Risk Appetite
- Requires the Bank's Risk Profile to be monitored and reported regularly
- Tests the Bank's vulnerabilities to risks under a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

Risk Management Framework

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

The RMF addresses the legal and regulatory risks the Bank is exposed to, together with the Principal and Emerging Risks. The design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee. The structure of the RMF is set out in Figure 1 below.

First Line of Defence → **Second Line of Defence: Oversight & Assurance** → **Third Line of Defence: Assurance**



1. **Risk culture tone from the top skills and resources behaviours**
2. **Risk appetite and strategy, Risk appetite statements, Risk appetite framework Business strategy**
3. **Risk measurement and monitoring, Risk data and models, Risk reporting, Metrics and KRIs, ICAPP / ILAAP / RRP**
4. **Stress testing and planning, Scenario analysis, Contingency planning**
5. **Risk governance and controls, Risk governance, Risk resourcing, Risk frameworks, Risk methodology**

* **Emerging Risks,** Economic and Political Environment, Regulatory Change or Intervention, Competitive Landscape, Technology

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 and Key Risk Indicators (KRIs). The Risk Appetite metrics are clearly measurable against the Corporate Plan, are actionable and have an assigned limit to monitor performance against the Risk Appetite. The KRIs are outcome driven with negative trends reported monthly to the relevant risk committees.

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

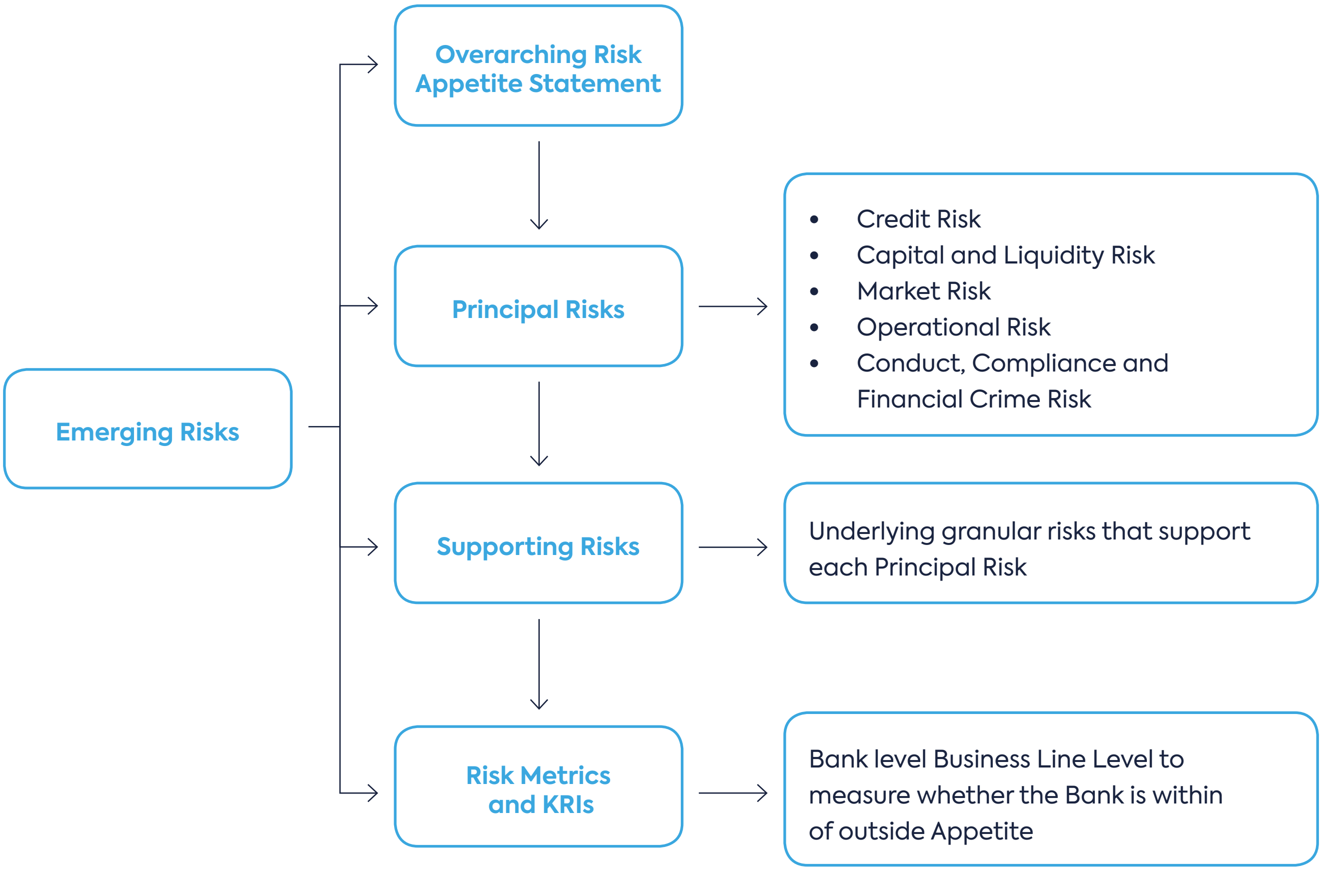


Figure 2 – Structure of the Risk Appetite Framework

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 use the Bank's Risk & Control Self Assessment (RCSA) process to identify and measure risks and ensure that these are managed within agreed Risk Appetite. They will also test key controls, providing regular reporting of testing output.

Risk and Compliance Function (2nd line of defence)

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

Internal Audit (3rd line of defence)

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

Stress Testing

Stress testing is an important risk management tool for the Bank and is used to inform the setting of Risk Appetite limits. Stress testing is also used to inform the Bank's key annual assessments and determination of required buffers, the strategy for capital and liquidity management, and certain documents including the ICAAP, ILAAP and RRP.

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 an appropriate committee (e.g. ALCO, Credit Committee) before being agreed by ExCo. They will then be 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 or assumptions and 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 provide 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.

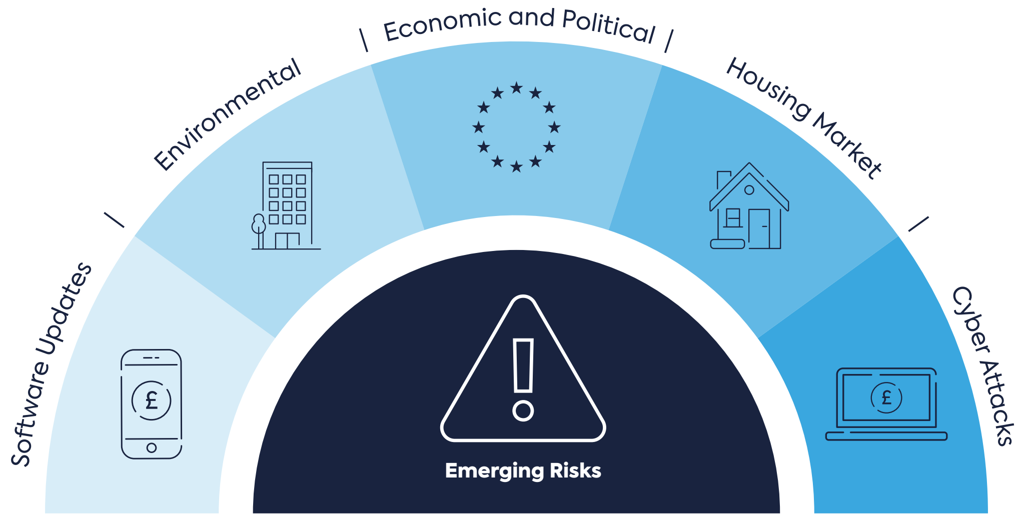
Definition		How we mitigate the risk
Credit Risk	The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part, or that swap counterparty does not perform	• We evidence affordability (ability to repay from cash flow) • We take security and where appropriate, guarantees, to support our lending • We maintain a diversified portfolio of loans by limiting concentrations by size, asset class, collateral types, geography and sector • We focus on sectors where we have specific expertise • We determine credit decisions using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process • We undertake regular reviews of our loan portfolios and ongoing assurance testing of our processes • We operate a Treasury policy that only allows for deposits and swaps to be placed with large banks • We monitor lending performance against Risk Appetite regularly
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 • We forecast capital which forms an integral part of the annual budgeting process • We maintain liquidity buffers based on various stressed liquidity scenarios • We monitor our liquidity position on a daily basis • We meet, as a minimum, all regulatory prescribed coverage and liquidity ratios
Market Risk	The risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments	• We match, wherever possible, the interest rate structure of assets with liabilities or deposits to create a natural hedge • We enter into swap agreements where required to minimise basis and repricing risks within appetite • We capture pipeline risk (where actual movements in assets and liabilities do not match expectations) and Optionality risk (where early terminations can worsen mismatch positions) and report via ALCO

Definition		How we mitigate the risk
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including strategy and legal risk	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • We have a defined Operational Resilience Policy and Framework • We have defined our recovery time objectives for our critical business services where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives • We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and business resilience needs which are regularly reviewed • We seek to ensure our systems continue to deliver a secure and reliable service to our customers and staff by identifying cyber security threats and putting in place measures to address those threats • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Change Steering Committee to ensure that major change programmes are delivered on time and on budget • We monitor the Operational risk profile alongside proactive recording and management of events, losses and incidents • We make use of independent expert legal advice where appropriate • 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 or standards of good practice **Financial crime** The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to obtain or launder funds through illegal means and/or for illegal purposes	• We operate a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how we will manage these risks and the minimum standards that we expect. Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function • We use a Risk and Control Self-Assessment (RCSA) process in which Senior Management identify and assess conduct, compliance and financial crime risks across their businesses and assess the effectiveness of controls that mitigate those risks • We conduct a horizon scanning process to identify new and emerging regulatory driven changes • We design our products and services so that they consistently deliver fair outcomes for our customers • We complete regular assurance testing of our activities to check that we are operating within our Board approved risk appetite • We operate a programme of staff training and awareness via our regulatory reading programme • We complete money laundering and financial fraud checks on our customers at application stage and during the customer life cycle

Emerging Risks

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

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



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

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

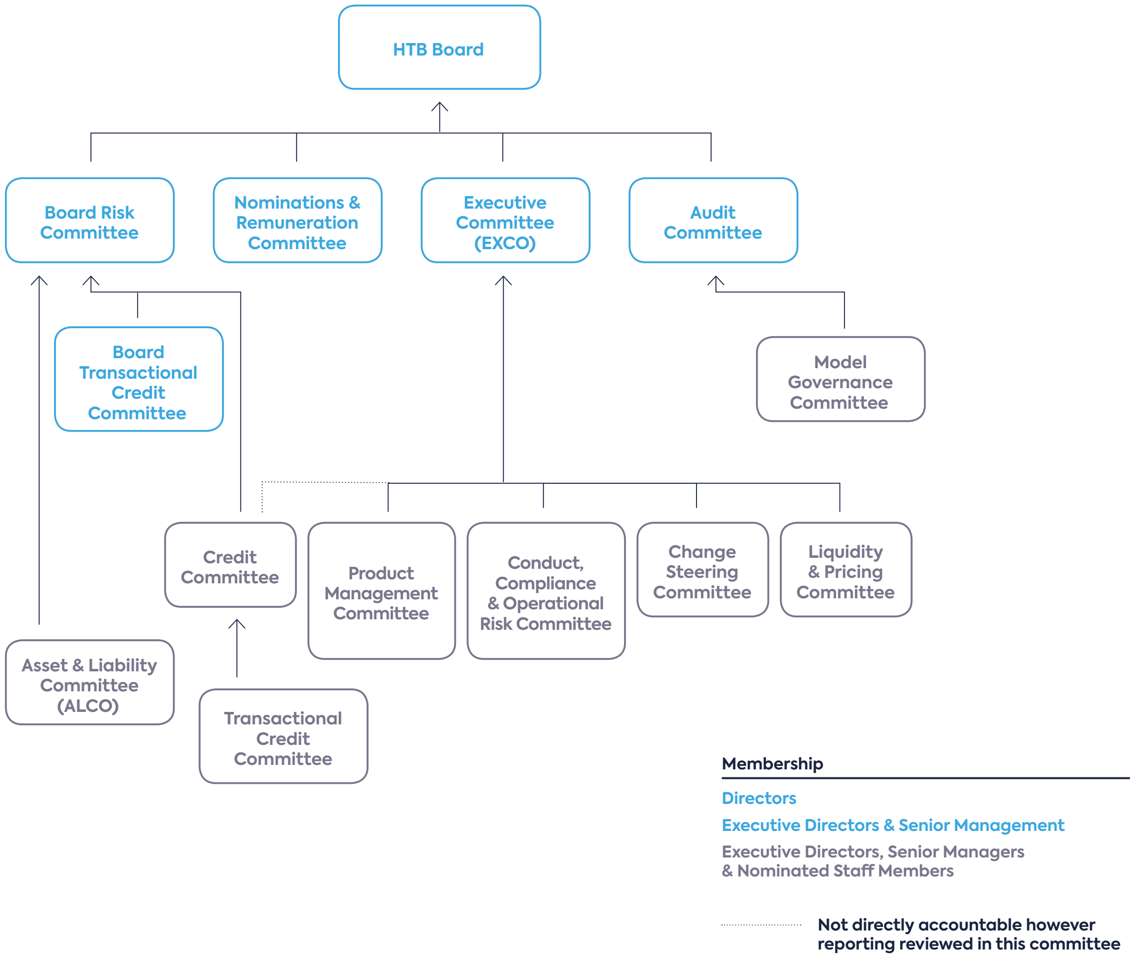
2. Corporate Governance

Corporate Governance

The Board of Directors is the primary governing body and has ultimate responsibility for establishing 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 July 2018. The Code is not mandatory for the Bank, as it applies to listed companies. 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 establishes 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 four independent non-executive directors (including the Chairman), two shareholder directors and two executive directors. The Board has commissioned external consultants to undertake a Board effectiveness review for the year 2018. The Chairman meets regularly 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

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 whistle blowing 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, performance related pay structures for the Bank and leads the process for identifying and making nomination recommendations to the Board. It is also responsible for considering all senior appointments at executive levels (including non-executive directors). The Committee is chaired by the Chairman of the Bank and comprises solely non-executive directors.

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.

3. Directors' Report

Directors Report

The Directors present their report and financial statements for the year ended 31st December 2018.

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

Proposed Dividend

The Directors do not recommend the payment of a final dividend (2017: £nil).

Political and Charitable Donations

The Bank made £582 of charitable donations during the year (2017: £100) and did not make any political donations or incur any political expenditure during the year (2017: £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**.

Board Composition

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

Robert Sharpe (Chairman)
Independent Non-Executive Director. Chairman of the Board, and Chairman of the Nomination and Remuneration Committee

Robert East
Independent Non-Executive Director, Chairman of the Board Risk Committee and Chairman of the Board Transactional Committee

James Drummond Smith
Independent Non-Executive Director and Chairman of the Audit Committee

Timothy Blackwell
Chief Financial Officer

Mark Sismey-Durrant
(resigned 26 April 2018)
Chief Executive Officer

Matthew Wyles
(appointed 23 April 2018)
Chief Executive Officer

Alexander Leicester
(resigned 01 October 2018)
Non-Executive Director

Richard Price
(appointed 24 September 2018)
Non-Executive Director

Astrid Grey
(appointed 01 July 2018)
Non-Executive Director

Dominic Slade
Non-Executive Director

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

Results for the year

The Bank made a profit before tax on continuing activities of £11.1m (2017: £9.9m), and a profit after tax of £9.0m, (2017: £8.0m).

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.

While Brexit uncertainty remains at the time of writing, with high downside risks to the economy for 2019, the Bank's contingency planning and ongoing regular Board monitoring of events as they unfold will ensure a tight management of strategy and economic risks through 2019.

The Bank has also considered a number of stress tests on capital and liquidity 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, see page 22 within the Risk report for further details on the banks stress testing procedures.

Reappointment of Auditors

The Auditors, KPMG LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be presented at the AGM.

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.

Matthew Wyles
Chief Executive

By order of the board, 4 April 2019

4. Financial Statements

Statement of Director's 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.

Independant Auditor's Report

KPMG

Independent auditor's report

to the members of Hampshire Trust Bank Plc

1. Our opinion is unmodified

We have audited the financial statements of Hampshire Trust Bank Plc ("the Company") for the year ended 31 December 2018 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 financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 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; 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 13 financial years ended 31 December 2018 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 as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£520,000 (2017:£495,000) 4.7% (2017: 5%) of profit before tax	
Key audit matters		**vs 2017**
Event driven	**New**: The impact of uncertainties due to Britain exiting the European Union on our audit	▲
Recurring risks	**New:** Expected credit losses on loans and advances to customers	▲
	New: Fair valuation of loans and advances to customers measured at FVTPL	▲

2. Key audit matters: including 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 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
The impact of uncertainties due to Britain exiting the European Union on our audit *Refer to page 24 (emerging risks), page 5 (Strategic Report), page 40 (accounting policy and financial disclosures).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described below in **Expected credit losses on loans and advances to customers**, **Fair valuation of loans and advances to customers measured at FVTPL** and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts. All of these depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Sensitivity analysis** – When addressing expected credit losses on loans and advances to customers, fair valuation of loans and advances to customers measured at FVTPL and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on expected credit losses on loans and advances to customers, fair valuation of loans and advances to customers measured at FVTPL we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under expected credit losses on loans and advances to customers, fair valuation of loans and advances to customers measured at FVTPL, we found the resulting estimates and related disclosures of sensitivity and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

KPMG

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

	The risk	Our response
Expected credit losses on loans and advances to customers (£1,872,000) *Refer to page 54 (accounting policy) and pages 41 and 58 (financial disclosures).*	**Subjective estimate:** Under IFRS 9, the Company's incurred loan impairment models used under IAS 39 are replaced with forward-looking expected credit loss ('ECL') models. The Company uses models to determine the level of ECL required to be recognised on each loan. Given the subjectivity inherent in estimating the recoverability of loan balances on a forward-looking basis, the assessment of ECLs becomes highly judgemental. The Company's modelled ECL is concentrated in the Asset Finance division representing 75% of total ECLs. In particular, there is subjectivity in the following key assumptions and judgements: — The determination of a 'significant increase in credit risk'; — The probability of an account falling into arrears and subsequently defaulting; — Loss given default; and — Forward-looking economic forecasts. Stage 3 provisions are dependent upon individual assessment of recoverability involving a significant degree of management judgement. The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 16.2) disclose the sensitivity estimated by the Company.	Our procedures included: — **Our sector experience:** We critically assessed the assumptions inherent in the model against our understanding of the loan portfolios, their recent performance and industry developments. This included benchmarking certain key assumptions against comparable lenders; — **Our economic expertise:** Our economists evaluated the plausibility of the Company's forward economic guidance and the associated probabilities attached to the alternative scenarios against market data, our own independent assumptions and peer experience. This included considering the potential impacts of Brexit on the market and economy; — **Sensitivity analysis:** We evaluated the sensitivity of changes to judgemental assumptions, to estimate the impact of alternative assumptions and identify those assumptions most significant to the estimate; — **Tests of details:** For a sample of loans and advances we conducted credit file reviews to assess the appropriateness of the stage allocation and associated ECL estimate; and — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results** — We found the resulting estimate of the expected credit losses to be acceptable.

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

	The risk	Our response
Fair valuation of loans and advances to customers measured at FVTPL (£166,804,000) *Refer to page 68 (accounting policy) and page 68 (financial disclosures).*	**Subjective estimate:** The Company holds a portfolio of Development Finance loans which contain a fee linked to the gross development value. The implications of this is that the loans are reclassified and are no measured at fair value through profit and loss. Upfront fee income is also recognised immediately rather than being included in the effective interest rate. The Company uses a risk adjusted discounted cash flow model to estimate the fair value of the loans following an income based valuation approach. Where significant inputs are unobservable management has no reliable relevant market data available in determining the fair value and hence estimation uncertainty is high. These financial instruments are classified as level 3. The most critical areas of estimation are: — the discount rate including the risk free rate and adjustments for credit risk and other premiums; and — the amount and timing of cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the fair valuation of loans and advances to customers measured at fair value through profit and loss has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: — **Methodology choice:** in the context of observed industry practice we challenged the appropriateness of the model and methodology and evaluated the discount rate used in the fair value estimate; — **Model assessment:** we recalculated the fair valuation calculation assessing the accuracy of the model implementation; — **Test of detail:** for a sample of loans we performed tests of detail challenging management on the appropriateness of the cash flow forecasts; — **Historical comparison:** we evaluated the historical accuracy of management's sale forecasts against actual sales experience; — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results** — We found the resulting estimate of the fair value to be acceptable.

The key audit matter reported in 2017 was in respect of 'Loan impairment provisions'. As a result of the Bank's transition to IFRS 9, this key audit matter has been replaced with 'Expected credit losses on loans and advances to customers' in 2018. As a consequent of the transition to IFRS9 we have also identified a new key audit matter in respect of 'fair valuation of loans and advances to customers measured at fair value through profit and loss' following the reclassification of certain loans. These were previously measured at amortised cost and assessed for loan impairment.

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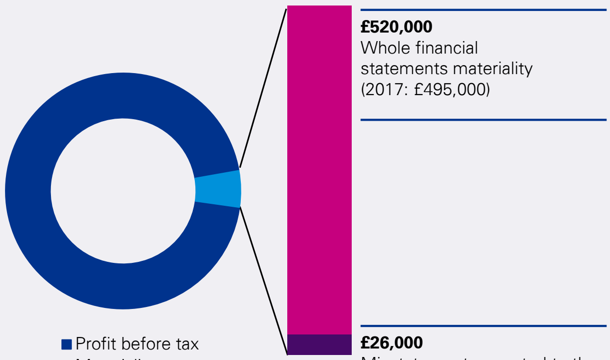
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £520,000 (2017: £495,000), determined with reference to a benchmark of profit before tax, of which it represents 4.7% (2017: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £26,000 (2017: £25,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements 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 the strategic report and the directors' report for the financial year is consistent with the financial statements; 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 financial statements 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.

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7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 29, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 financial statements 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 financial statements.

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 financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

S. Ryder

Simon Ryder
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
04 April 2019

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Statement of Comprehensive Income[1]

	Note	2018 £000	2017 £000
Interest and similar income			
Interest income calculated using the effective interest method	7	38,239	43,479
Other interest income		12,057	-
Total interest and similar income		50,296	43,479
Interest expense and similar charges		(13,322)	(9,366)
Net Interest Income	7	**36,974**	**34,113**
Fees and commissions income	9	2,554	373
Fees and commissions payable	9	(166)	(156)
Net (loss)/gain loans and other financial assets at fair value through profit or loss	18	(1,764)	157
Other Income / Expenses	8	(8)	5
Operating Income		**37,590**	**34,492**
Administrative expenses	10	(24,700)	(20,110)
Impairment (losses) on Loans and Advances to customers	16.2	(1,742)	(4,514)
Operating profit before tax		11,148	9,868
Tax (expense)	14	(2,118)	(2,038)
Profit for the year – Continuing activities		9,030	7,830
Profit /(Loss) for the year – Discontinued activities	26	-	189
Profit after tax for the year		**9,030**	**8,019**
Other Comprehensive Income / (Expense)	17.4	(50)	-
Total Comprehensive Income for the year, net of tax		**8,980**	**8,019**

The notes on pages 45 to 93 are an integral part of these financial statements.

1. The comparative numbers for 2017 in the Statement of Comprehensive Income and the Statement of Financial Position have not been restated for IFRS 9, as explained in Note 4. As a result they are not directly comparable to 2018.

Statement of Financial Position

	Note	2018 £000	2017 £000
Assets			
Loans and Advances to Banks	17.1	98,182	101,619
Financial assets at FVOCI	17.4	15,098	-
Loans and advances to customers - FVTPL	16.3	166,804	-
Loans and Advances to Customers – at Amortised cost	16.1	733,192	632,275
Derivative financial instruments	19.3.1	1,708	903
Other Assets	22	2,822	1,858
Property, Plant and Equipment	21	2,309	2,013
Intangible Assets	20	4,058	3,097
Deferred Tax Assets	15	-	495
Total Assets		**1,024,173**	**742,260**
Liabilities			
Central Bank Facilities	17.3	135,000	20,000
Customer Deposits	17.2	720,718	596,296
Derivative financial instruments	19.3.1	836	292
Other Liabilities	23	11,886	9,729
Subordinated Liabilities	19.5	29,970	-
Provisions for Liabilities	24	-	303
Deferred Tax Liabilities	15	13	-
Total Liabilities		**898,423**	**626,620**
Equity			
Share Capital	19.4.2	111,288	111,288
Share Premium		196	196
Fair value through other comprehensive income reserve		(50)	-
Retained Earnings		14,316	4,156
Total Equity		125,750	115,640
Total Equity and Liabilities		**1,024,173**	**742,260**

The notes on pages 45 to 93 are an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 14th April 2019 and were signed on its behalf by:

Matthew Wyles
Director

Timothy Blackwell
Director

Company Number: 1311315

Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Retained Earnings £000	FVTOCI Reserve £000	Total Equity £000
Balance at 1 January 2018	111,288	196	4,156	–	115,640
Adjustment on Initial Application of IFRS 9 for: ECL adjustment, net of tax	–	–	(506)	–	(506)
Loans mandatorily reclassified as FVTPL, net of tax	–	–	1,301	–	1,301
Restated Balance at 1 January 2018	**111,288**	**196**	**4,951**	**–**	**116,435**
Comprehensive Income for the year					
Profit for the year/					
Other Comprehensive Income	–	–	9,030	(50)	8,980
Total Comprehensive Income for the year	**–**	**–**	**9,030**	**(50)**	**8,980**
Contributions by and distributions to owners					
Equity Settled Share-Based Payment	–	–	335	–	335
Issue of shares		–	–	–	–
Total contributions by and distributions to owners	–	–	335	–	335
Balance at 31 December 2018	**111,288**	**196**	**14,316**	**(50)**	**125,750**
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**
Contributions by and distributions to owners					
Equity Settled Share-Based Payment	–	–	549		549
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**

Statement of Cashflows

	Note	2018 £000	2017 £000
Cashflows from operating activities			
Profit before tax for the year		11,148	10,104
Adjustments for:			
Depreciation and amortisation		1,409	991
Foreign Exchange Gains/(Losses)		(8)	5
Increase/(Decrease) in impairment of Loans and Advances		(1,582)	4,078
Increase/(Decrease) in provisions		(303)	267
Equity-settled share based payment transactions		335	549
(Increase)/Decrease in Fair Value of Derivative Assets		82	(157)
(Increase)/Decrease in Fair Value of Loans and Advances		1,682	-
Corporation Tax paid		(2,077)	(1,070)
Changes in:			
(Increase) in Loans and Advances to Customers		(266,849)	(173,034)
Decrease/(Increase) in Other Assets		(964)	41
Increase in Central Bank Facilities		115,000	20,000
Increase in Customer Deposits		124,422	72,981
Increase in Other Liabilities		2,032	695
(Increase) in Encumbered Cash		(11)	(2,750)
Debt Securities		(15,098)	-
Net cash flow from operating activities		**(30,782)**	**(67,300)**
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(790)	(1,329)
Purchase of Intangible Assets		(1,876)	(1,819)
Net cash flow from Investing Activities		**(2,666)**	**(3,148)**
Cash flows from Financing Activities			
Proceeds from the issuance of subordinated debt		30,000	-
Proceeds from the issue of share capital		-	33,000
Net increase in Cash and Cash Equivalents		(3,448)	(37,448)
Cash and cash equivalents at 1 January		98,257	135,705
Cash and Cash Equivalents at 31 December		**94,809**	**98,257**
Cash in hand		-	-
Loans and advances to Banks	17	94,809	98,257
Cash and Cash Equivalents at 31 December		**94,809**	**98,257**

Notes to the financial statements

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, a company limited by shares.

2. Basis of Preparation

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.

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.

3. Going concern

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing its 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 forecast and business plan, 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.

The Bank has included downside economic scenarios arising from Brexit within its stress testing and ECL modelling. In addition the Bank has refined its Brexit contingency plan in 2018 which together with ongoing regular monitoring of emerging risks and events from Brexit, the Bank will closely manage business strategy and risk.

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.

4. Changes in Accounting Policies

The accounting policies are consistent with those applied in the 2017 Annual Report and Accounts with the exception of new accounting policies in respect of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', both of which were adopted on 1 January 2018.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard includes requirements in three areas: classification and measurement of financial instruments; impairment of financial instruments; and, hedge accounting. Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements. Consequently, for note disclosures, the amendments to IFRS 7 'Financial Instruments: Disclosures' have only been applied to the current year.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

Accordingly, the impact on the comparative information is limited to new disclosure requirements presented in note 9. The effect of initially applying these standards is mainly attributed to the following:

- A change in impairment losses recognised on financial assets (see Note 16);
- Changes to the classification and measurement of certain financial assets (see Notes 4 and 16)
- Additional disclosures related to IFRS 9 (see Notes 4 and 16); and
- Additional disclosures related to IFRS 15 (see Note 9).

IFRS 9 'Financial Instruments'

The new standard, effective for period beginning
1 January 2018, has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. Adoption of the standard has resulted in new accounting policies for interest income and expense, the classification and measurement of financial instruments and the impairment of financial assets and loan commitments which are presented below.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as noted below:

- Comparative periods have not been restated. Information presented for 2017 will not therefore be comparable. Differences in the carrying amounts of financial instruments resulting from adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018;
- The determination of the business model within which the financial asset is held has been assessed based on facts that existed at the date of initial application; and
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that the credit risk of the asset had not increased significantly since initial recognition. A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of investment grade.

As a result of the adoption of IFRS 9, the Bank has made consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has made consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures for 2018, but have not been applied to the comparative information.

Implementation of IFRS 9 resulted in a £0.8m increase in the Bank's opening equity at 1 January 2018. Adjustments have arisen due to a replacement of the IAS 39 incurred loss impairment approach with an expected credit loss (ECL) approach (£0.5m decrease) and the reclassification of a tranche of Development Finance loans which have mandatorily been reclassified as fair value through profit and loss ("FVTPL") (£1.3m increase).

Due to the reclassification of loans FVTPL additional disclosures are required under IFRS 13 Fair Value Measurement, these are included in Note 18. Further details on the transitional adjustments of adopting IFRS 9 are shown below. The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are shown within Note 16.

Transition to IFRS 9

The table below summarises the adjustments arising on adoption of IFRS 9 on the Bank's statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	Ref	IAS 39 Measurement Category	IFRS 9 Measurement Category	IAS 39 Carrying Amount	Reclassification of DF Loans and Fair Value Adjustment	ECL Adjustment	IFRS 9 Carrying Amount
At 1 January 2018				£'000	£'000	£'000	£'000
Loans and Advances to Banks		Loans and Receivables	Amortised cost	101,619			101,619
Loans and Advances to Customers	A	Loans and Receivables	Amortised cost	632,274	(157,952)	(632)	473,690
Loans and Advances to Customers	A	Loans and Receivables	FVTPL		159,578		159,578
Property, Plant and Equipment		N/A	N/A	2,013			2,013
Intangible Assets		N/A	N/A	3,097			3,097
Deferred Tax Assets		N/A	N/A	495	(325)	126	296
Derivative financial instruments		FVTPL	FVTPL	903			903
Other Assets		N/A	N/A	1,859			1,859
Total Assets				**742,260**	**1,301**	**(506)**	**743,055**
Central Bank Facilities		Other Financial assets and Liabilities	Amortised cost	20,000			20,000
Customer Deposits		Other Financial assets and Liabilities	Amortised cost	596,296			596,296
Derivative financial instruments		FVTPL	FVTPL	292			292
Other Liabilities		N/A	N/A	9,729			9,729
Provisions for Liabilities		N/A	N/A	303			303
Total Liabilities				**626,620**	**-**	**-**	**626,620**
Equity		N/A	N/A	111,288			111,288
Share Capital		N/A	N/A	196			196
Retained Earnings		N/A	N/A	4,156	1,301	(506)	4,951
Total Equity				**115,640**	**1,301**	**(506)**	**116,435**
Total Equity and Liabilities				**742,260**	**1,301**	**(506)**	**743,055**

A. As of 1 January 2018, certain Development Finance loans, based on the assessment of the contractual cashflows, did not meet the solely payments of principal and interest (SPPI) criterion. Therefore, the Bank reclassified these as financial assets – loans and advances to customers measured at FVTPL

The following table reconciles the Bank's closing IAS 39 impairment allowance to the opening IFRS 9 allowance as at 1 January 2018:

	Closing IAS 39 balance at 31 December 2017	Collective allowance removal	Reclassification of DF Loans	ECL adjustment	Opening IFRS 9 Balance as at 1 January 2018
	£'000	£'000	£'000	£'000	£'000
Specific allowances for impairment	5,534	-	(3,684)	-	-
Collective allowance for impairment	892	(892)	-	-	-
ECL impairment allowance	-	-	-	1,525	3,375
Impairment against on balance sheet assets	**6,426**	**(892)**	**(3,684)**	**1,525**	**3,375**
Provision for loan commitments	-	-	-	-	-
Total impairment and provision	**6,426**	**(892)**	**(3,684)**	**1,525**	**3,375**

An analysis of the Bank's opening gross loans and advances to customers and ECL impairment allowance by IFRS 9 stages is provided below:

Loans and advances to customers at amortised cost at 1st January 2018:	Stage 1	Stage 2	Stage 3	Total	Provision Cover
	£'000	£'000	£'000	£'000	%
Development Finance	**61,698**	**2,368**	**-**	**64,066**	
Specialist Mortgages	**188,537**	**4,250**	**-**	**192,787**	
Asset Backed Lending	**-**	**-**	**1,601**	**1,601**	
Asset Finance	**151,466**	**2,503**	**1,744**	**155,713**	
Hire Purchase	*125,710*	*1,736*	*872*	*128,318*	
Finance Leases	*25,756*	*767*	*872*	*27,395*	
Wholesale Finance	**62,671**	**227**	**-**	**62,898**	
Total on Balance Sheet	**464,372**	**9,348**	**3,345**	**477,065**	
Loan Commitments	-				
ECL Impairment Allowance					
Development Finance	**62**	**12**	**-**	**74**	**0.1%**
Specialist Mortgages	**76**	**120**	**-**	**196**	**0.1%**
Asset Backed Lending	**-**	**-**	**1,400**	**1,400**	**87.4%**
Asset Finance	**403**	**182**	**1,111**	**1,696**	**1.1%**
Hire Purchase	216	86	469	771	0.1%
Finance Leases	187	96	642	925	3.4%
Wholesale Finance	**9**	**-**	**-**	**9**	**0.1%**
Impairment against on balance sheet assets	**550**	**314**	**2,511**	**3,375**	**0.7%**
Provision for Loan Commitments	-	-	-	-	-
Total Provisions	**550**	**314**	**2,511**	**3,375**	**0.7%**
Provision Coverage	**0.1%**	**3.3%**	**75.1%**	**0.7%**	

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3IAS and IAS 18 'Revenue' and other existing revenue recognition interpretations. It describes the principles an entity must follow to measure and recognise revenue using a five step approach. The standard requires revenue to be recognised when goods or services are transferred to customers and the entity has satisfied its performance obligations under the contract, and at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard does not apply to financial instruments, insurance or lease contracts.

Fees and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contract with customers, including significant payment terms and the related revenue recognition policies.

Type of Service	Nature and timing of satisfaction of performance obligation including significant payment terms	Revenue Recognition under IFRS 15
Customer Service Fee	The bank provides various customer services for which customers pay a one off fee. These include Early settlement fees,Option to Purchase fees, Ban Charges and Notation Fees. These fees are charged t the customer's accounts or settled immediately at the point the service is delivered.	Revenue related to transactions are recognised at the point in time when the transaction takes place.
Wholesale Facility Fee	Facility Fees are non refundable up front fees which are charged at the start of the agreement and renewed annually. The Bank's performance obligations continue over the 12 months covered by the facility fee.	Revenue related to the facility fees are recognised over time as the service is provided.

None of the fees and commission charged arose from variable consideration and fees charged are generally not refundable unless under exceptional circumstances.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements presented in note 9.

5. Standards Issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. The bank has not early adopted them in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an immaterial impact on the bank's consolidated financial statements in the period of initial application.

IFRS 16 Leases

FRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains largely unchanged from IAS 17.

The impact of adopting the standard on 1 January 2019 is set out below. The actual impact of adopting the standard may change due to the following:

- The Bank has not finalised the review of significant contracts which may contain embedded lease relationships, although an initial high level review has not revealed any applicable contracts;
- The new accounting policies are subject to change until the bank presents its first financial statements for which they are effective; and,
- The Bank has used an estimated incremental cost of borrowing, this is currently under review and is therefore subject to change.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of office premises (see Note 25). The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Leases in which the Bank is a lessor

No significant impact is expected for the Bank's finance leases, additionally the bank also operates as lessor within the sub-lease agreement of part of its office premises. This arrangement is currently classed as an operating lease, IFRS 16 is not expected to have a material impact on this arrangement.

Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

We have estimated that an adjustment of £0.3m will be taken to opening reserves as at 1 January 2019.

6. 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 significant estimates and judgements made by management in applying accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the results and financial position, are presented within the notes
to the accounts as shown in the table below:

Significant accounting estimates	Financial statement note
Effective interest rate	Note 7
Expected credit losses	Note 16
Employee share-based payment transactions	Note 12
Determination of fair value of financial assets	Note 18

Significant accounting judgements	Financial statement note
Classification of financial assets: assessment of the business model with which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.	Note 16
Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.	Note 16

7. Interest income and expense

Accounting policy: Interest Income and Expense
Interest Income and expense are recognised n 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 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 of financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of 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 coats and all other premiums or discounts.

In determining the expected life of loan and receivables assets the Bank uses likely redemption profiles. At regular intervals throughout the year, the expected life of loans and receivable 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 e recognition of interest income.
Fee income from Finance Leases and Hire Purchase in recognised of the period of the agreement so as to give a constant rate of return. Interest income is recognised in the Statement of Comprehensive Income for all instruments measure at FVTPL on an accruals basis.

Significant estimates: 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 carnying value in the statement of financial position and the timing of the recognition of interest income.

	2018 £000	2017 £000
Interest and similar income on Loans and Advances to Customers held at Amortised cost	37,446	43,206
Interest and similar income on Loans and Advances to Customers held at fair value through profit and loss	11,953	-
Interest on Loans and Advances to Banks and Building Societies	793	273
Interest on other financial assets held at fair value	104	-
Total Interest receivable and similar income	**50,296**	**43,479**
Interest on Derivative Financial Instruments	(487)	(6)
Interest on Deposits From Customers & TFS	(11,389)	(9,360)
Interest on Subordinated Liabilities	(1,446)	-
Total Interest expense and similar charges	**(13,322)**	**(9,366)**
Net Interest Income	**36,974**	**34,113**

8. Other Income and Expenses

	2018 £000	2017 £000
Foreign exchange gains / loss	(8)	5
Other Income / (Expense)	**(8)**	**5**

Small foreign exchange gains and losses occasionally arise due to timing difference in the exchange rates when the Bank acquires assets for its finance leasing activity from international suppliers. All loans to customers and financial institutions are denominated in pounds sterling.

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 generally recognised when the service has been provided and the Bank has satisfied its performance obligations.

Fees and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The bank recognises revenue when it transfers control over a service to a customer. The following table provides information about the nature and timing of the satisfaction of the performance obligations in contract with customers, including significant payment terms and the related revenue recognition policies.

Type of Service	Nature and timing of satisfaction of performance obligation including significant payment terms	Revenue Recognition under IFRS 15
Customer Service Fee	The Bank provides various customer services for which customers pay a one off fee. These include Early settlement fees, Option to Purchase fees, Bank Charges and Notation Fees. These fees are charged t the customer's accounts or settled immediately at the point the service is delivered.	Revenue related to transactions are recognised at the point in time when the transaction takes place
Wholesale Facility Fee	Facility Fees are non refundable up front fees which are charged at the start of the agreement and renewed annually. The Bank's performance obligations continue over the 12 months covered by the facility fee.	Revenue related to the facility fees are recognised over time as the service is provided

None of the fees and commission charged arose from variable consideration and fees charged are generally non refundable unless under exceptional circumstances.

	2018	2017
	£000	£000
Wholesale Facility Fees	230	156
Early Settlement Fees	280	143
Customer Service Fees	102	74
Commitment Fees on Development Finance Loans	1,942	–
Fees and Commission Income	**2,554**	**373**
Bank Charges	–	2
Credit and Identity Searches	166	154
Fees and Commission Expense	**166**	**156**

2018 fees and commission income includes commitment fees charged for development finance loans held at FVTPL. Under IFRS 9 fee income of £1,942k is recognised upon receipt. These fees in the prior year would have been treated under IAS 39 and formed part of the effective interest rate.

All remaining fee income arose from contractual loan agreements with customers and relates to assets held at Amortised cost.

	2018	Specialist Mortgages	Development Finance	Asset & Wholesale Finance	Savings	2017
	£000	£000	£000	£000	£000	£000
Wholesale Facility Fees	230	–	–	230	–	156
Early Settlement Fees	280	31	–	250	–	143
Option to Purchase Fees	73	–	–	73	–	74
Other Customer Service Fees	29	13	10	6	–	–
Commitment Fees	1,942	–	1,942	–	–	–
Fees and Commission Income	**2,554**	**44**	**1,952**	**559**	**-**	**373**
Bank Charges	–	–	–	–	–	2
Credit and Identity Searches	166	39	7	89	31	154
Fees and Commission Expense	**166**	**39**	**7**	**89**	**31**	**156**

10. Administration Expenses

	Note	2018 £000	2017 £000
Depreciation and amortisation	20/21	1,409	991
Staff Costs	11	16,893	13,486
Share based payments	12	335	549
Operating Lease rentals		1,164	1,031
FSCS costs		17	81
Other Administrative expenses		4,882	3,972
Administrative Expenses		**24,700**	**20,110**

11. 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 12 – 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:

	2018	2017
Directors	2	2
Loan Officers	42	37
Administrators	119	83
	163	**122**

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:

	2018	2017
	£000	£000
Wages and Salaries	12,155	9,278
Social Security costs	1,599	1,243
Pension costs	987	802
Other staff costs	2,152	2,163
	16,893	**13,486**

	2018	2017
	£000	£000
Directors' Salaries and Bonus	894	712
Directors' Share based payments	60	149
	954	**861**

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2017: nil). There were no directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2017: nil).

The aggregate of emoluments of the highest paid director was £343k (2017: £509k). Of this, £137k related to notice payments, and £23k was deferred compensation. 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 £259k (2017: £162k).

12. Employee share-based payment transactions

Accounting Policy: Share Based Payments

Employees may be entitled to receive remuneration in the form of shares to reward strong long-term business performance and to incentive 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:

	2018	2017	2016
Expected volatility	29.1% to 30.2%	30.4% to 31.2%	31.4% to 32.3%
Risk free rate	0.9% to 1.3%	0.5% to 0.8%	0.2% to 1.0%
Dividend yield	0.0%	0.0%	0.0%
Expected life	3 years	3 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.

Significant estimates: Share Based Payments

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.

Details of shares issued are shown in the table below:

	2018	2017
	No. of shares	No. of shares
At 1 January	1,013	1,036
Granted	525	235
Forfeited	(116)	(258)
At 31 December	**1,422**	**1,013**

The average fair value of shares issued was £2,404 per share. The charge to the Consolidated Income Statement was £335k (2017: £549k).

13. Auditor's remuneration

	2018	2017
	£000	£000
Audit of financial statements	146	147
Audit-related Assurance Services	20	-
Other non-audit services	33	64
Auditor's remuneration	**176**	**211**

14. 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

	2018 Continuing operations £000	2018 Discontinued operations £000	2018 Total £000	2017 Continuing operations £000	2017 Discontinued operations £000	2017 Total £000
Current tax:						
Current tax on profits for the year	1,809	-	1,809	1,627	47	1,674
Deferred tax:						
Origination and reversal of temporary differences	329		329	414	-	414
Adjustments in respect of prior periods	(11)	-	(11)	(13)	-	(13)
Effect of tax rate change on opening balance	(9)	-	(9)	10	-	10
Total deferred tax charge/(credit)	309	-	309	411	-	411
Tax on profit/(loss) on ordinary activities	**2,118**	**-**	**2,118**	**2,038**	**47**	**2,085**

Tax reconciliation

	2018 £000	2017 £000
Profit for the year	**11,148**	**10,104**
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	2,118	1,945
Effects of:		
Permanent non-deductible expenses	43	157
Impact of rate differences	(14)	10
Adjustment for prior year tax differences	(24)	(24)
Effects of Group Relief/ other reliefs	(5)	(3)
	2,118	**2,085**

In 2018 profit for the year includes profit before tax on continuing activities only of £11,148k, (2017: profit before tax on continuing activities £9,868k and discontinued activities £236k). See note 26 for further details on discontinued operations.

The corporation tax liability at 31st December 2018 is £551k (2017: £819k); this is disclosed within other tax and social security in note 23 other liabilities.

15. Deferred Tax Asset (Liability)

Deferred tax assets (liabilities) are attributable to the following:

	2018	2017
	£000	£000
Accelerated capital allowances	36	130
Short term timing differences	52	30
Tax losses carried forward and other deductions	-	335
IFRS 9 Adjustment	(101)	-
Deferred Tax Asset / (Liability)	**(13)**	**495**

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

	2018	2017
	£000	£000
Balance brought forward	495	907
IFRS 9 transitional adjustment taken directly to reserves	(199)	-
(Debit) / Credit to the income statement	(309)	(412)
Deferred Tax Asset/ (Liability)	**(13)**	**495**

The deferred tax liability at 31 December 2018 has been calculated based on a rate of 20%.

16. Loan and Advances to customers

Accounting Policy: Financial instruments Policy applicable from 1st January 2018 – IFRS 9

Classification and measurement

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 ("FVOCI"), or at fair value through profit or loss ("FVTPL"). Compared to IAS 39, the FVOCI and Amortised cost categories are added whereas held-to-maturity, loans and receivables and available-for-sale classification categories have been removed. A financial asset is measured at Amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- The asset is held within a business model where the objective is to hold the asset to collect its contractual cash flows; and,
- The contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest ("SPPI") on the outstanding principal amount.

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported; and,
- 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's current business model for all financial assets is to hold to collect contractual cash flows.
All assets held give rise to cash flows on specified dates that represent payments of principal and interest on

the outstanding principal amount. In addition, some Development Finance loans contain contingent fees which are based on the underlying gross development value. Due to the potential volatility in these contingent fees, the Bank considers these loans to fall outside of the SPPI criteria. The applicable Development Finance products have been measured at FVTPL, whereas all other loans and receivables have been measured using the Amortised cost.

The Amortised cost of an instrument is the amount at which it is measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any expected credit loss allowance. The gross carrying amount of a financial asset is the Amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Fair value has been determined using the Discounted Cash Flow model. In this model, the fair value of an asset is determined as the sum of the present value of the future economic benefits, discounted at a rate that reflects the time value of money as well as the risk associated with the cash flows.

A debt instrument would be measured at FVOCI only if both of the below conditions are met and it has not been designated as FVTPL;

- The asset is held within a business model where the objective is achieved by both collecting its contractual cash flows and selling the financial asset; and
- The contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.
- On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election would be made on an investment by investment basis. The Bank currently holds no such investments.

If and when the Bank changes its business model for managing financial assets it will reclassify all affected financial assets based on the criteria set out above. The Bank has made no such changes to its business models during the year.

If the contractual cash flows of a financial asset is renegotiated or otherwise modified and the renegotiation or modification does not result in derecognition, the Bank will recalculate the gross carrying amount and recognise a modification gain or loss. The Bank has not recognised any modification gains or losses during the year.

Business model assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and,
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected).

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of Development Finance loans which have contingent exit fees. As these fees are contingent on the value of the finished development, the Bank deems these loans to fall outside of SPPI and has mandatorily reclassified these assets at FVTPL.

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. The new model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. 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 Bank recognises loss allowances for ECLs on all financial assets carried at Amortised cost, including lease receivables and loan commitments.

- Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:
- Financial assets determined to have low credit risk at the reporting date;
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition; and,
- Financial assets which have experienced a significant increase in credit risk since their initial recognition but have subsequently met the banks cure policy, as set out below.

Such assets are classified as stage 1 assets.
Assets which have experienced a significant increase in credit risk since their initial recognition and have not subsequently met the Bank's cure policy or considered to be credit impaired are classified as stage 2 assets. The Bank's definitions of a significant increase in credit risk and default are set out below. A financial asset is considered to have low credit risk when its credit risk rating is equivalent to the widely understood definition of 'investment grade' assets.

The Bank has assessed all its debt securities which consists of UK Treasury Gilts to be low credit risk.

Definition of default/credit impaired financial assets (Stage 3 loans).
At each reporting date, the Bank assesses whether financial assets carried at Amortised cost are credit impaired (stage 3).

A financial asset is considered to be credit impaired when an event or events that have a detrimental impact on estimated future cash flows have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- Initiation of bankruptcy proceedings;
- Notification of bereavement; or
- Initiation of repossession proceedings.

In addition, a loan that is 90 days or more past due is considered credit impaired for all portfolios. The credit risk of financial assets that become credit impaired are not expected to improve such that they are no longer considered credit impaired.

Significant increase in credit risk (Stage 2 loans).
The Bank may also use its expert credit judgement and where possible relevant historical and current performance data to determine that an exposure has undergone a significant increase in credit risk. The credit risk of a financial asset is considered to have experienced a significant increase in credit risk where certain early warning indicators apply.

These indicators may include:

- Formal Credit action (eg. Notification of county court judgements, meeting of creditors, winding up petition);
- Bureau behavioural score;
- Adverse changes in financial performance;
- Significant changes in Directors;
- Current and forecast adverse changes in the customers geography and sector; and,
- Specifically for the Development Finance portfolio, cost over runs and timing delays experienced by borrowers.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for all portfolios.

Performing assets which have experienced a significant increase in credit risk since initial recognition are reclassified from stage 1, for which loss allowances are measured at an amount equal to 12 month ECL, to stage 2, for which ECL is measured as lifetime ECL.

Expected credit loss
ECLs are probability weighted estimates of credit losses which are measured as the present value of all cash shortfalls. Specifically, this is the difference between the contractual cash flows due and the cash flows expected to be received, discounted at the original effective interest rate.

For undrawn loan commitments, ECL is measured as the difference between the contractual cash flows due if the commitment is drawn and the cash flows expected to be received.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial asset. 12 month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

Further details regarding key inputs into the calculation of ECL are provided in the use of judgments and estimates in note 16.

Loss allowances for ECL are presented in the statement of financial position, as follows with the loss recognised in the Statement of Comprehensive Income:

- Financial assets measured at Amortised cost as a deduction from the gross carrying amount of the assets; and,
- Other loan commitments: generally, as a provision.

Customers' accounts may be modified to assist customers who are in or have recently overcome financial difficulty and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Where the terms of a financial asset have been modified and the modification has not resulted in derecognition, the expected cash flows arising from the modified financial asset are included in calculating any cash shortfalls from the existing asset. Any change in the carrying value of the modified asset would be recognised immediately in the Statement of Comprehensive Income. When a loan is uncollectible, it is written off against the related ECL allowance. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

Cure policy
The credit risk of a financial asset may improve such that it is no longer considered to have experienced a significant increase in credit risk if it meets the Bank's cure policy. The Bank's cure policy for all portfolios requires sufficient payments to be made to bring an account back within less than 30 days past due and for such payments to be maintained for consecutive months.

Write off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the Statement of Comprehensive Income. In addition, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Accounting policies effective for the year ended December 2017 – IAS 39

Loans and receivables
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.

Write off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss. In addition, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

16.1. Loans and advances to customers at Amortised cost:

	2018	2017
	£000	£000
Development Finance	98,665	225,701
Less: allowance for impairment	(265)	(3,217)
	98,400	**222,484**
Specialist Mortgages	348,131	192,787
Less: allowance for impairment	(246)	(222)
	347,885	**192,565**
Asset Finance		
Hire Purchase	165,020	128,318
Finance Leases	38,464	27,396
Less: allowance for impairment	(1,361)	(1,588)
	202,123	**154,126**
Wholesale finance	84,784	62,899
Less: allowance for impairment	-	-
	84,784	62,899
	286,907	217,025
Discontinued asset backed lending	-	1,601
Less: allowance for impairment	-	(1,400)
	-	201
	733,192	**632,275**

Hire Purchase

The table below provides an analysis of Hire Purchase receivables.

	2018	2017
	£000	£000
Gross investment in hire purchase receivables:		
Less than one year	57,552	44,404
Between one and five years	107,109	84,283
Between five and ten years	765	79
	165,426	128,766
Unearned finance income	(406)	(448)
Net investment	165,020	128,318
Less impairment allowance	(719)	(886)
	164,301	**127,432**
Net investment in hire purchase receivables:		
Less than one year	57,415	44,250
Between one and five years	106,842	83,989
Between five and ten years	763	79
	165,020	**128,318**

Finance Lease Receivables

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

	2018 £000	2017 £000
Gross investment in finance lease receivables:		
Less than one year	13,533	9,535
Between one and five years	25,096	18,038
	38,629	27,573
Unearned finance income	(165)	(177)
Net investment in finance leases	38,464	27,396
Less impairment allowance	(642)	(702)
	37,822	**26,694**
Net investment in finance lease receivables:		
Less than one year	13,477	9,477
Between one and five years	24,987	17,919
	38,464	**27,396**

16.2. Allowance for credit impairment losses on financial assets at Amortised cost

i. IFRS 9

The following tables detail the gross carrying value of loans to customers by ECL stage and changes in the loss allowance during the year.

	Stage 1 £'000	Stage 2 *Less than or equal to 30 days past due* £'000	Stage 2 *Greater than 30 days past due* £'000	Stage 3 £'000	Total £'000
Development Finance	**97,112**	**535**	**-**	**1,018**	**98,665**
Specialist Mortgages	**341,319**	**6,474**	**338**	**-**	**348,131**
Asset Finance	**197,576**	**2,723**	**675**	**2,510**	**203,484**
Hire Purchase	*161,428*	*1,613*	*409*	*1,568*	*165,020*
Finance Leases	*36,148*	*1,110*	*266*	*942*	*38,464*
Wholesale finance	**84,669**	**115**	**0**	**0**	**84,784**
Total Exposure	**720,676**	**9,847**	**1,013**	**3,528**	**735,064**
Off Balance Sheet					
Loan Commitments	220,248				220,248
Total Gross Exposure	**940,924**	**9,847**	**1,013**	**3,528**	**955,312**
Less: allowance for impairment	(891)	(264)	(169)	(548)	(1,872)
Total Net Exposure	**940,033**	**9,583**	**844**	**2,980**	**953,440**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Development Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**63**	**12**	**-**	**75**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(7)	7	-	-
Transfer to Stage 3	(1)	-	1	-
Loans Originated	103	-	-	103
Change in Credit Risk	36	-	89	125
Financial Assets Derecognised	(24)	(14)	-	(38)
Write Offs	-	-	-	-
Balance at 31 December	**170**	**5**	**90**	**265**
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	**76**	**120**	**-**	**196**
Transfer to Stage 1	113	(113)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	-	-	-
Loans Originated	9	-	-	9
Change in Credit Risk	(70)	148	-	78
Financial Assets Derecognised	(36)	(1)	-	(37)
Write Offs	-	-	-	-
Balance at 31 December	**91**	**155**	**-**	**246**
Asset Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**411**	**181**	**1,114**	**1,706**
Transfer to Stage 1	42	(42)	-	-
Transfer to Stage 2	(14)	35	(21)	-
Transfer to Stage 3	(15)	(85)	100	-
Loans Originated	382	-	-	382
Change in Credit Risk	(217)	281	1,167	1,231
Financial Assets Derecognised	(39)	(72)	-	(111)
Write Offs	-	-	(1,847)	(1,847)
Balance at 31 December	**550**	**298**	**513**	**1,361**
Discontinued Assets	£'000	£'000	£'000	£'000
Balance at 1 January	**-**	**-**	**1,400**	**1,400**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Loans Originated	-	-	-	-
Change in Credit Risk	-	-	-	-
Financial Assets Derecognised	-	-	-	-
Write Offs	-	-	(1,400)	(1,400)
Balance at 31 December	**-**	**-**	**-**	**-**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Total Book	£'000	£'000	£'000	£'000
Balance at 1 January	**550**	**313**	**2,514**	**3,377**
Transfer to Stage 1	155	(155)	-	-
Transfer to Stage 2	(22)	43	(21)	-
Transfer to Stage 3	(16)	(85)	101	-
Loans Originated	494	-	-	494
Change in Credit Risk	(251)	429	1,256	1,434
Financial Assets Derecognised	(99)	(87)	-	(186)
Write Offs	-	-	(3,247)	(3,247)
Balance at 31 December	**811**	**458**	**603**	**1,872**

Impairment losses on loans and advances to customers of £1,742k recognised in the income statement comprise movements in the allowance for credit impairment losses as set out in the table above.

Significant estimates – measurement uncertainty and sensitivity of expected credit losses
ECLs are calculated by multiplying three main components; the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models adjusted to reflect forward looking information and are discussed below.

Management adjustments are made to modelled output to account for situations where known or expected risk factors have not been considered in the modelling process. The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

Probability of default ('PD') and credit risk grades
PD represents the likelihood of a customer defaulting on their loan. The 12 month PD is either taken from a behavioural or application scorecard. Application scorecards utilise qualitative and quantitative factors that are indicative of the risk of default e.g. arrears status and loan applications scores. This is then extrapolated using historic industry data, where available, or expert judgement to calculate the lifetime PD.

These factors vary for each loan portfolio. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. In monitoring exposures information such as payment records, request for forbearance strategies and forecast changes in economic conditions are considered for Asset Finance and Specialist Mortgages.

As the Bank's performance data does not go back far enough to capture a full economic cycle, the proxy series of the quarterly rates of write offs for UK unsecured lending data is used to build an economic response model ('ERM') to incorporate the effects of recession.

Exposure at default ('EAD')
EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure and potential changes to the current amount allowed under the terms of the contract, including amortisation, overpayments and early terminations. The EAD of a financial asset is its gross carrying amount. For loan commitments, the EAD includes the amount drawn as well as potential future amounts that may be drawn under the terms of the contract, estimated based on historical observations and forward looking forecasts.

Loss given default ('LGD')
LGD is the magnitude of the likely loss in the event of default. This takes into account recoveries either through curing or, where applicable, through auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by property and property developments, loan to value ('LTV') gross development values ('GDV') ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's origination effective interest rate as the discount factor.

Incorporation of forward looking data
The Bank incorporates forward looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. This is achieved by developing a number of potential economic scenarios and modelling ECL for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. The scenarios adopted and probability weighting applied are approved by the Audit Committee.

The key drivers of credit risk and credit losses included in the above scenarios have been identified as annual unemployment rate growth, changes to interest rates and annual house price index growth.

The Bank currently uses five economic scenarios, representative of our view of forecast economic conditions, which are selected in order to capture material non-linearities and calculate an unbiased ECL. They represent a most likely outcome ('base' scenario) and four, less likely, outer scenarios, two 'upside' (Upside and Mild Upside) and two 'downside' scenarios (Downside and Severe Downside). The base scenario is assigned a weighting of 60%, the upside scenarios 10% each and the downside scenarios 10% each. This weighting is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using forecasts from external economists, helping to ensure the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the base scenario, key assumptions are set for house price inflation, unemployment and interest rates, and are benchmarked against Bank of England forecasts. In assessing the severity of the upside and downside scenarios the key variables are considered by the Audit Committee relative to upside and downside scenarios provided by an external economic consultancy. While key economic variables are set with reference to external forecasts, the overall 'shape' of the scenarios is assessed with reference to the macroeconomic risks in Bank's top and emerging risks. This seeks to ensure that scenarios remain consistent with the more qualitative assessment of risks captured in top and emerging risks. Scenarios used for IFRS 9 are formally reassessed twice a year and updated, as necessary. Economic developments and the number of scenarios are reviewed throughout the year to enable significant developments to be taken into account in measuring credit impairment provisions.

Forecast Economic Scenarios
In determining scenarios for inclusion in measuring credit impairment provisions, the following scenarios were considered:

- **Base** - This scenario features a relatively hard, but smooth, Brexit. GDP growth remains consistent with recent experience at around 2%, a lower rate than historically experienced. This scenario features a steady circa 4% unemployment rate with house prices trending gently higher and base rate remaining at historical lows, peaking at 2.3%.
- **Upside** – The most optimistic scenario sees UK GDP growth average 3% over the next 5 years, something achieved since the mid-2000s. Possible drivers for this sort of UK upside scenario might include a further relaxation of fiscal austerity combined with a significant shift toward a "soft" Brexit, where the UK opts to remain a member of the single market. Unemployment falls back to just above 2%. Wage growth supports faster house price growth and the MPC raises rates in a broadly similar pace to the base case.
- **Mild upside** - Relative to the base case, unemployment is lower at around 3.2% and Bank Base Rate rises slightly more quickly than the current base case. The benign probability of default and loss given default mean that loan losses are likely to remain well below long run averages.
- **Downside** – This sees the UK enter recession in mid-2018. GDP falls by less than 1% peak to trough and unemployment rises to 6.2% by mid-2020. As a result wage growth slows and inflation falls quickly below target. As a result the Bank Base Rate remains at 0.25% until 2020 end. Increased unemployment introduces forced sellers into the property market and house prices fall by 17% peak to trough.
- **Severe downside** – UK GDP falls by around 2.6 percentage points peak to trough. This scenario therefore reflects more downside skew to risks in the UK due to the uncertainty over Brexit. Unemployment rises to 6.6% by Q4 2021as the economy enters recession. Firms cancel or postpone investment spending as households cut back spending too. The MPC cuts the Bank rate to 0.1% in 2020 and house prices fall 29% peak to trough.

The table below summarises the forecast economic scenarios applied in measuring ECL at 31 December 2018.

		2018				
		Base case	**Upside**	**Mild upside**	**Downside**	**Severe downside**
Scenario weighting		60%	10%	10%	10%	10%
Unemployment	Peak rate	4.0	2.4	4.0	6.2	6.6
House prices	Peak-to-trough fall	–	–	–	(17%)	(29%)
Interest rates	Most extreme rate	3.2	4.0	3.5	2.5	1.6

Effect of multiple economic scenarios on ECL and sensitivity to alternative assumptions
The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described above. The probability-weighted amount is typically a higher number than would result from using only the base economic scenario. Credit losses and defaults typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce expected losses as much as less favourable macroeconomic factors increase expected losses. The probability-weighted ECLs are 58% higher than the ECL prepared using only base scenario assumptions.

The credit impairment provision is sensitive to reasonably possible alternative economic scenarios and weightings. A 10% increase in the scenario weighting of the two downside scenarios (from 10% each to 20% each), coupled with a 20% decrease in the weighting of the base scenario (from 60% to 40%) would result in an increase of £146k in the impairment provision. Applying a weighting of 100% to the severe downside scenario would result in an increase of £1.9 million in the impairment provision.

Applicable to comparative period
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.

ii. IAS 39

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

16.3. Fair value of loans and advances to customers

The following table summarises the carrying values of financial assets presented on Bank's balance sheet and the fair value of these financial instruments. See Note 18 for fair value accounting policy and valuation modelling.

	2018 £000	2017 £000
Development finance	**166,804**	**-**

17. Funding and liquid assets

Funding is raised from customers depositing money in their savings accounts and central bank facilities. 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.

17.1. 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.

See Note 16 for accounting policy for financial instruments and impairment of financial assets under IFRS 9 for 2018 and IAS 39 for 2017.

	2018 £000	2017 £000
Placements with other Banks included in Loans and Advances to Banks		
Repayable on demand	94,809	98,257
Remaining maturity of twelve months or less but over three months*	3,373	3,362
	98,182	**101,619**

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £90.9m (2017: £95.6m).

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.

	2018 £000	2017 £000
Aa3	477	331
A1	–	5,585
A2	6,830	–
A3	–	102
	7,307	**6,018**

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

17.2. 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.

	2018 £000	2017 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	19,015	13,507
Not more than three months	53,218	33,575
More than three months but not more than one year	448,983	426,303
More than one year but not more than five years	199,502	122,911
Customer deposits	**720,718**	**596,296**

17.3. Central Bank Facilities

Central Bank Facilities
During the year, the Bank has drawn a further £115m through 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. Drawings under the scheme are collateralised using the Bank's loan portfolio and are measured at Amortised cost. The volume of funding which can be drawn through central bank facilities is restricted by the volume of assets which the Bank is willing to encumber in the schemes. The Bank has set its risk appetite for asset encumbrance to ensure that the Bank is able to utilise central bank facilities as much as possible, 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 2018 the bank had a carrying amount of encumbered assets of £227.2m. (2017: £114.8m)

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

	2018 £000	2017 £000
TFS	135,000	20,000
Central bank facilities	**135,000**	**20,000**

17.4. Financial Assets at FVOCI

Financial Assets at FVOCI
During the year, the Bank purchased a UK Gilt with a par value of £15.0m as part of a business model which is to hold the assets to collect the contractual cash flows and to generate cash flows from selling the assets. These assets are carried at fair value through other comprehensive income with gains/losses recognised in the income statement through other comprehensive income.

See Note 16 on accounting policy for financial instruments measured at FVOCI. The accounting policy for fair value measurement is in Note 18. UK Gilts are measured at Level 1 in the fair value hierarchy.

	2018	2017
	£000	£000
UK Gilts	15,098	-
Financial Assets at FVOCI	**15,098**	**-**

The market value of UK Gilts as at 31 December 2018 decreased by £50k from the date of acquisition. This loss is shown as other comprehensive expense in the Income Statement and is held in the fair value through other comprehensive income reserve in the Statement of Equity.

The carrying amount of the UK Gilt is inclusive of £148k of accrued interest and the fair value loss mentioned above.

18. Fair Values of financial instrument

Accounting Policy: Fair value measurement
As a result of the adoption of IFRS 9, and the subsequent reclassification of a tranche of Development Finance loans at FVTPL additional disclosures are required under IFRS 13 Fair Value Measurement.

Valuation models
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between markets participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.
When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.
If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Significant estimates
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.

Valuation techniques 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 objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate swaps, that use only observable market data and require little management and estimation. Observable prices and model inputs are usually available in the market for listed debt securities and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimates based on assumptions. Examples of instruments involving significant unobservable inputs include certain loans and advances. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for determination of timing and size of cash flows, probability of counterparty default and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors such as liquidity risk and model uncertainties to the extent the Bank believes a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument.

The following table analyses financial instruments that are both measured at fair value and not measured at fair value at the reporting date, by the level of fair value hierarchy into which the fair value measurement is categorised. The amounts are based on values recognised in the statement of financial position.

At 31 December 2018	Hierarchy level	Amortised cost	Total carrying amount	Fair Value
Assets		£000	£000	£000
Loan and advances to Banks	Level 1	98,182	98,182	98,182
Financial assets at FVOCI	Level 1	-	15,098	15,098
Loans and advances to customers – FVTPL	Level 3	-	166,804	166,804
Loans and Advances to Customers – at Amortised cost	Level 3	733,192	733,192	736,087
Derivative financial instruments	Level 1	-	1,708	1,708
Total		**831,374**	**1,014,984**	**1,017,879**
Liabilities		£000	£000	£000
Customer Deposits	Level 3	720,718	720,718	719,901
Central Bank Facilities	Level 3	135,000	135,000	135,000
Subordinated Liabilities	Level 3	-	29,970	30,000
Derivative financial instruments	Level 1	-	836	836
Total Liabilities		**855,718**	**886,524**	**885,737**

At 31 December 2017	Hierarchy level	Amortised cost	Total carrying amount	Fair Value
Assets		£000	£000	£000
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		£000	£000	£000
Customer Deposits	Level 3	596,296	596,296	596,296
Central Bank Facilities	Level 3	20,000	20,000	20,000
Total Liabilities		**616,296**	**616,296**	**616,296**

Fair Value gains and losses per the Income Statement

	Note	2018 £000	2017 £000
Gain/ (Loss) on derivative financial instruments	**19.3.1**	(82)	157
Gain/ (Loss) on loans and advances to customers held at FVTPL	**18 (i)**	(1,682)	-
Net (loss)/gain loans & other financial assets at FVTPL		**(1,764)**	**157**

Level 3 fair value measurements

i. Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

2018	Loans and advances to customers £000
Balance at 1 January	158,447
Total gains or losses:	
In profit or loss	(1,682)
Originations	87,356
Repayments	(77,317)
Balance at 31 December	**166,804**

ii. Unobservable Inputs used in measuring fair value

The only financial instruments where significant unobservable inputs have been used are loans and advances measured at FVTPL. These comprise property development loans within the Development Finance business line that do not meet the SPPI criteria.

The valuation technique used for these loans is discounted cash flow and the significant unobservable inputs are the risk-adjusted discount rate and the timing of expected cashflows. The range of estimates for the discount rate are 0.7% to 4.1% above the contractual interest margin on those loans. A significant increase or decrease in that margin would result in a lower or higher fair value. An average increase of 1% in the discount rate will result in a drop in fair value of £1.4m. Significant unobservable inputs include timing of expected cash flows from the sale of completed properties. These cashflows can fluctuate due to changes in construction schedules and consumer demand for the completed units. Projected cashflows are derived from the business line's best estimates. An average delay of 3 months in sales will result in a £621k drop in fair value.

19. Financial Risk

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital. The main areas of financial risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Capital risk and management.

19.1. Credit Risk

Policies relevant to managing credit risk

Forbearance
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.

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

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, and includes the use of various credit risk rating systems to measure the credit risk of loans and advances to customers and banks at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the exposure to the counterparty at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. HTB uses a range of approaches to mitigate credit risk, including policies, obtaining collateral, using master netting agreements. HTB's credit risk exposure, which arises solely in the United Kingdom, is set out below.

i. Maximum credit exposure

The maximum credit risk exposure in the event of other parties failing to perform their obligations is presented below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts.

The maximum exposure to credit risk for financial assets is set out below:

	2018 £000	2017 £000
Loans and Advances to Banks	98,182	101,619
Financial assets at FVOCI	15,098	-
Derivative Financial Instruments	872	611
Loans and Advances to Customers at Amortised cost	733,192	632,275
Loans and Advances to customers at FVTPL (not subject to impairment requirements)	166,804	-
Total on-balance sheet exposure	**1,014,148**	**734,505**
Contractual loan commitments	220,248	154,915
Maximum credit exposure	**1,234,396**	**899,420**

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2018. However, loan facilities of £162.6m granted by Development Finance are legally drafted as on-demand and are uncommitted.

Quality of credit risk exposures

Internal rating scales

In assessing the credit quality of the loan portfolio the Bank uses an internal rating scale based on a customer's 12 month expected default probability.

	Internal grading
Excellent quality	1
Good quality	2
Satisfactory quality	3
Lower quality	4
Below standard	5

The following table sets out the current stage status of the loan portfolio compared with the internal rating at origination

Internal Rating at Origination	Stage 1 £000	Stage 2 £000	Stage 3 £000	2018 Total £000
1	36,336	-	-	36,336
2	310,257	15,826	174	326,257
3	429,511	39,800	2,518	471,829
4	47,566	1,572	6,177	55,315
5	802	6	3,557	4,365
	824,472	**57,204**	**12,426**	**894,102**

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	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Carrying amount	98,182	101,619	899,966	632,275	220,248	154,915
Concentration by sector:						
Corporate	–	–	583,417	396,562	184,464	136,018
Government	90,875	95,601	–	–	–	–
Banks and Building Societies	7,307	6,018	–	–	–	–
Retail	–	–	316,549	235,713	35,784	18,897
	98,182	101,619	899,966	632,275	220,248	154,915
Concentration by location:						
UK	98,182	101,619	899,966	632,275	220,248	154,915

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 at amortised cost and fair value.

The Bank uses external agents to take physical possession of properties or other assets held as collateral and realise the value as soon as practicable to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

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.

An analysis by loan-to-value (LTV) ratio of the Bank's Specialist Mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

LTV	Buy-to-let	Other lending	Total
Less than 60%	38,129	27,192	65,321
60% to 65%	37,268	16,462	53,730
65% to 70%	76,011	21,251	97,262
70% to 75%	54,440	17,730	72,170
75% to 80%	45,833	12,651	58,484
Under 85%	1,164	–	1,164
Grand Total	**252,845**	**95,286**	**348,131**

Forbearance and loan modifications

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 £38.1m as at 31 December 2018 (2017: £5.0m).

At 31 December 2018, the allowance for loan losses held in respect of forborne loans was £103k (2017: £nil). In addition, the Bank is pursuing enforcement activity on 48 written off loans amounting to £346k as at 31 December 2018.

Credit quality of assets – IAS 39 basis

The below table shows the distribution of assets for the comparative period which are past due but not impaired.

2017	Development Finance	Specialist Mortgages	Asset Finance	Wholesale finance	Total
	£000	£000	£000	£000	£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	**15,668**	**-**	**749**	**-**	**16,417**
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**

19.2. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due. The Bank measures liquidity risk on a daily basis. Daily liquidity reporting is supplemented by early warning indicators and a Liquidity Contingency Plan. Monthly reporting procedures are in place to update and inform senior management. All liquidity policies and procedures are subject to periodic independent internal oversight.
The table below analyses remaining contractual maturity undiscounted cash flows of non-derivative financial assets and liabilities.

	Carrying value	Net inflow /(outflow)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2018							
Assets							
Loan and advances to Banks	98,182	98,182	94,820	-	3,362	-	-
Loans and advances to customers	899,996	1,119,423	52,901	94,549	189,777	355,013	427,183
Financial assets at FVOCI	15,098	15,338	-	15,338	-	-	-
Contractual loan commitments	220,248	220,248	40,652	47,944	65,327	66,325	-
Total	**1,233,524**	**1,453,191**	**188,373**	**157,831**	**258,466**	**421,338**	**427,183**
Liabilities							
Deposits	(720,718)	(738,896)	(38,296)	(30,409)	(464,184)	(206,007)	-
Central Bank Facilities	(135,000)	(135,000)	-	-	-	(135,000)	-
Contractual loan commitments	(220,248)	(220,248)	(40,652)	(47,944)	(65,327)	(66,325)	-
Subordinated Debt	(29,970)	(45,225)	-	(1,087)	(1,088)	(43,050)	-
Total	**(1,105,936)**	**(1,139,369)**	**(78,948)**	**(79,440)**	**(530,599)**	**(450,382)**	**-**

	Carrying value	Net inflow /(outflow)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
	£000	£000	£000	£000	£000	£000	£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)**	**-**

19.3. 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.

i. 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.

ii. 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:

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

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.

	Up to 1 month	1 to 3months	3 to 12 months	1 to 5 years	Non-interest bearing	Total
At 31 December 2018	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	98,182	-	-	-	-	98,182
Loans and advances to customers	400,920	23,241	91,864	383,971	-	899,996
Financial Assets at FVOCI	15,098	-	-	-	-	15,098
Other assets	-	-	-	-	10,897	10,897
Total Assets	**514,200**	**23,241**	**91,864**	**383,971**	**10,897**	**1,024,173**
Liabilities						
Customer Deposits	38,503	132,340	354,148	195,727	-	720,718
Central Bank Facilities	-	135,000	-	-	-	135,000
Subordinated Liabilities	-	-	-	29,970	-	29,970
Non-interest bearing liabilities	-	-	-	-	12,735	12,735
Equity	-	-	-	-	125,750	125,750
Total Liabilities	**38,503**	**267,340**	**354,148**	**225,697**	**138,485**	**1,024,173**
Interest rate sensitivity gap	475,697	(244,099)	(262,284)	158,274	(127,558)	
Cumulative gap	475,697	231,598	(30,686)	127,558	-	
Notional value of derivatives	(46,000)	15,400	186,000	(155,400)	-	

	Up to 1 month	1 to 3months	3 to 12 months	1 to 5 years	Non-interest bearing	Total
At 31 December 2017	£000	£000	£000	£000	£000	£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	£000	£000	£000	£000	£000	£000
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**
Interest rate sensitivity gap	330,407	(15,299)	(262,889)	65,169	(117,388)	
Cumulative gap	330,407	315,108	52,219	117,388	-	
Notional value of derivatives	(27,767)	(55,533)	154,200	(70,900)	-	

19.3.1. 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 financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative fi¬financial 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. The Bank is not applying hedge accounting and related disclosures for 2018 and 2017.

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.

Significant estimates: See Note 18 on Fair Value hierarchy

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.

The Bank holds derivative financial instruments in the normal course of its banking business for interest rate risk management and margin stabilisation purposes. The fair values and notional amounts of derivative instruments are presented in the following table:

	Notional amount	Fair value of assets	Fair value of liabilities
	£000	£000	£000
Interest rate swaps: At 31 December 2018	842,500	1,708	(836)
Interest rate swaps: At 31 December 2017	530,700	903	(292)

Gains and losses from derivatives are as follows:

	2018	2017
	£000	£000
Gains on derivative financial instruments	766	909
Losses on derivative financial instruments	(848)	(752)
Fair value gains/(loss) on derivative financial instruments	**(82)**	**157**

19.4. 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, Tier 2 notes, and retained earnings. 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.

19.4.1. 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 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 2018, the Bank complied in full with all its externally imposed capital requirements. Note 19.4.2 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

While the Bank has opted to take advantage of the IFRS 9 transitional capital rules in respect of ECLs (as specified in CRR Article 473a), it is not applying these transitional arrangements because IFRS 9 ECLs are lower than IAS 39 loss impairments. This is because most Development Finance loans are measured at fair value in 2018 under IFRS 9 and not at Amortised cost (as previously in 2017 under IAS 39).

19.4.2. Share Capital

Authorised, issued and fully paid

	Ordinary shares of £1 each	
	2018	2017
	£000	£000
In issue at 1 January	111,288	78,288
Issued for cash	-	33,000
In issue at 31 December	**111,288**	**111,288**

No share capital was issued during 2018 (2017: 33,000,000 Ordinary shares of £1 each for cash at par value). The following shows the regulatory capital resources managed by the Bank:

	2018	2017
	£000	£000
Share Capital	111,288	111,288
Share Premium	196	196
Retained Earnings	14,316	4,156
Fair value through other comprehensive income reserve	(50)	-
Intangible Assets	(4,058)	(3,097)
Prudential Valuation Adjustments	(2)	-
Common Equity Tier 1 Capital	**121,690**	**112,543**
Tier 2 Capital / (Collective Provision 2017)	30,000	892
Total Capital	**151,690**	**113,435**

19.5. Subordinated Liabilities

Subordinated Liabilities

During the year, the Bank issued, in 2018, £30.0 million of fixed rate reset callable subordinated Tier 2 notes. These are eligible for treatment as regulatory capital. The notes pay interest at a rate of 7.25% per annum, payable semi-annually in arrears. The Company has the option to redeem these notes on 10 May 2023.

Subordinated liabilities are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at Amortised cost using the effective interest rate method.

	2018	2017
	£000	£000
Tier 2 notes	30,000	-
Deferred acquisition costs	(336)	-
Accrued interest	306	-
Subordinated Liabilities	**29,970**	**-**

Other Disclosures

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

20. 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 2018	4,428
Additions	1,876
At 31 December 2018	**6,304**
Amortisation	
At 1 January 2018	1,331
Charge for year	915
At 31 December 2018	**2,246**
Net book value	
At 31 December 2018	4,058
At 31 December 2017	**3,097**

21. 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 plantand 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	Fixtures and fittings	Total
	£000	£000	£000
Cost			
At 1 January 2018	1,013	1,924	2,937
Additions	361	429	790
At 31 December 2018	**1,374**	**2,353**	**3,727**
Depreciation			
At 1 January 2018	519	405	924
Charge for year	243	251	494
At 31 December 2018	**762**	**656**	**1,418**
Net book value			
At 31 December 2018	**612**	**1,697**	**2,309**
At 31 December 2017	**494**	**1,519**	**2,013**

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2017: nil). No impairment charges were incurred during the year (2017: nil).

22. Other Assets

	2018	2017
	£000	£000
Other debtors	1,596	1,309
Prepayments	1,226	549
Other Assets	**2,822**	**1,858**

23. Other Liabilities

	2018	2017
	£000	£000
Other taxation and social security	855	1,342
Other creditors	2,484	1,039
Accruals	8,547	7,348
Other Liabilities	**11,886**	**9,729**

Accruals include interest accruals on customer deposits amounting to £5.2m (2017: £4.2m).

24. Provisions

	2018	2017
	£000	£000
Remediation Costs	-	224
FSCS Levy	-	79
Provisions for Liabilities	**-**	**303**

FSCS Levy	2018	2017
	£000	£000
At 1 January	79	36
Adjustment to provision	(13)	105
Paid during the year	(66)	(62)
At 31 December	**-**	**79**

In 2017 remediation costs represented amounts set aside for redress payments to customers and related outsourced administrative costs in respect of Consumer Credit Act breaches. The issues have been fully resolved, with total payments amounting to £226k made during 2018 and no provision is required as at 31 December 2018.

The FSCS levy represents the estimated amount payable under the FSCS for the 2018/2019 scheme year, which runs from March 2018 to March 2019, and is calculated with reference to the protected deposits held at 31 December 2017. 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.

25. Operating leases

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

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.

	2018	2017
	£000	£000
Less than 1 year	1,316	1,291
Between 1 and 5 years	5,267	5,165
Over 5 years	3,596	5,041
	10,179	**11,497**

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

	2018	2017
	£000	£000
Less than 1 year	187	-
Between 1 and 5 years	562	-
Over 5 years	-	-
	749	-

Discontinued operations

In early 2016, the Bank ceased activity in its ABL (asset backed lending) division. Further, as part of the withdrawal from this lending, the Bank disposed of all but one loan to other lenders in 2017.

Full withdrawal from this line of business occurred in July 2018, the Bank does not consider the activity in 2018 to be significant enough to be disclosed separately from continuing operations.

Details of the discontinued operations in the prior year is set out below.

	2018	2017
	£000	£000
Interest receivable and similar income	-	90
Net interest income	-	42
Operating Income	-	72
Impairment (losses)/write-back	-	200
Administration and other expenses	-	(36)
Profit/ (Loss) before Tax	-	236
Tax	-	(47)
Profit for the year – Discontinued operations	-	189
Net cash flow from operating activities	**-**	**1,008**

27. 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 11.

The following Directors directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2018:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	125,000	125,000	25	0.25
Matthew Wyles	-	-	300	3.00
Tim Blackwell	200,000	200,000	100	1.00
James Drummond Smith	30,000	30,000	25	0.25
Robert Sharpe	50,000	50,000	50	0.50

One director held a deposit with the Bank as at 31 December 2018 amounting to £103k (2017: 2 Directors, £101k).

28. 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	Registered address
Hampshire Bank Limited	England	A	100%	Dormant	55 Bishopsgate London EC2N 3AS

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

29. 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 Hoggant L.P. The consolidated financial statements of Hoggant Limited are available on request from 55 Bishopsgate, London EC2N 3AS.

5.
Other Useful Information

Other Useful Information

Information which may be helpful to shareholders and other users of the Annual Report and Accounts, this information does not form part of the Statutory Accounts.

Statutory and Amortised Cost Tables

	2018 Statutory £m	2018 Amortised cost £m	2017 Statutory £m
Loans and Advances to Banks	**98.2**	**98.2**	101.6
Debt securities	**15.1**	**15.1**	–
Loans at fair value through profit or loss	**166.8**	**-**	–
Loans and advances to customers:	**733.2**	**899.1**	632.3
Asset Finance	**202.1**	**202.1**	*154.1*
Wholesale Finance	**84.8**	**84.8**	*62.9*
Development Finance	**98.4**	**264.3**	*222.5*
Specialist Mortgages	**347.9**	**347.9**	*192.6*
Asset Backed Lending	**-**	**-**	*0.2*
Other Assets	**10.9**	**10.9**	8.3
Total Assets	**1,024.2**	**1,023.3**	**742.2**
Customer deposits	**720.7**	**720.7**	596.3
Central Bank Facilities	**135.0**	**135.0**	20.0
Tier 2 Capital	**30.0**	**30.0**	–
Other Liabilities	**12.7**	**12.5**	10.3
Total Liabilities	**898.4**	**898.2**	**626.6**
Equity	**125.8**	**125.1**	**115.6**
Ratios			
Risk weighted assets (“RWA”)	**718.9**	**718.9**	546.8
RWA Density (RWA as % of Loans)	**80%**	**80%**	86%
Common Equity Tier 1 capital	**121.7**	**121.0**	112.5
Tier 2 Capital	**30.0**	**30.0**	–
Common Equity Tier 1 Ratio	**16%**	**17%**	21%
Total Capital Ratio	**21%**	**21%**	21%
Leverage ratio	**12%**	**12%**	15%
LCR	**335%**	**335%**	467%
Loan to deposits ratio	**125%**	**125%**	106%

	2018 Statutory £'000	2018 Amortised cost £'000	2017 Statutory £'000
Interest income calculated using the effective interest method	**46,632**	**52,397**	43,479
Other Interest Income	**3,664**	**-**	-
Interest Expense and similar charges	**(13,322)**	**(13,322)**	(9,366)
Net interest income	**36,974**	**39,075**	34,113
Fees and commissions income	**2,554**	**611**	373
Fees and commissions payable	**(166)**	**(166)**	(156)
Other Income/ Expenses	**(8)**	**(8)**	5
Net (loss)/gain loans and other financial assets at fair value through profit or loss	**(1,764)**	**(82)**	157
Operating Income	**37,590**	**39,430**	34,492
Impairment losses	**(1,742)**	**(2,845)**	(4,514)
Administrative expenses	**(24,700)**	**(24,700)**	(20,110)
Profit before Tax	**11,148**	**11,885**	9,868
Tax	**(2,118)**	**(2,265)**	(2,038)
Profit on continuing operations	**9,030**	**9,620**	7,830
Profit/(Loss) on discontinued operations	**-**	**-**	189
Profit for the period	**9,030**	**9,620**	**8,019**

Ratios			
Gross Income Margin	**6.8%**	**7.0%**	7.7%
Blended cost of funds (after hedging)	**1.6%**	**1.6%**	1.6%
Net Interest Margin	**4.9%**	**5.2%**	6.0%
Net Revenue Margin	**5.2%**	**5.2%**	6.1%
Cost to Asset Ratio	**3.3%**	**3.3%**	3.5%
Cost Income Ratio	**63%**	**63%**	58%
Cost of Risk	**0.45%**	**0.38%**	0.79%
Return on Required Equity	**10.7%**	**11.4%**	11.1%
Return on Equity (post tax)	**7.6%**	**8.1%**	9.5%

Glossary

Average principal employed	Calculated as the average of monthly Loans and Advances to customers held at Amortised cost and fair value.
Blended cost of funds (after hedging)	Rate of interest payable on average funding excluding Tier 2 adjusted for interest on interest rate swap liabilities.
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 of Risk	Cost of risk is calculated as impairment losses on financial assets and net loss or gain on loans held at fair value through profit or loss divided by average principal employed.
Cost to Asset Ratio	Administrative expenses divided by average principal employed
Cost to Income ratio	Cost to Income Ratio is calculated as administrative expenses divided by operating income excluding net gain or loss on loans held at fair value through profit and loss.
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 and similar income, fees and commissions receivable and Net loss or gain on loans and other financial assets at fair value through profit or loss divided by average principal employed.
Leverage ratio	The leverage ratio is calculated as Common Equity Tier 1 capital divided by the sum of total assets (excluding intangibles).
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.
Loan to Deposit ratio	Calculated as loans and advances to customers divided by customer deposits.
Net Interest Margin (NIM)	Calculated as net interest income divided by average principal employed.
Net Revenue Margin	Calculated as operating income excluding net loss or gain on loans held at fair value through profit or loss, divided by average 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.
Return on Required Equity	Return on Required Equity is calculated as profit post tax for the year divided by average required equity.
Required Equity	The amount of regulatory equity needed to achieve the required minimum common equity tier 1 ratio.
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.
Total Capital Ratio	Common Equity Tier 1 plus Tier 2 Equity divided by risk weighted assets.

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