Hampshire Trust Bank

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Hampshire Trust Bank Plc
Company number: 1311315

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

Executive Directors
Mark Sismey-Durrant *(Chief Executive Officer)*
Ketan Malde *(Chief Financial Officer)*

Secretary and Registered Office
Shilpa Parihar
55 Bishopsgate
London
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Independent Auditors
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Snowhill Queensway
Birmingham
B4 6GH

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Key Highlights

Growing profitability and increasing shareholder returns

- Profitable throughout 2016 delivering an overall profit before tax on continuing activities of £4.4m (2015: loss £3.1m)
- Return on Equity (post tax) on continuing activities of 5.4% (2015: - 6.5%)

Building our franchises

- Lending assets growth of 161% to £463.5m (2015: £177.6m)
- Originations growth of 135% to £396.6m (2015: £168.5m)
- Deposits growth of 180% to £523.3m (2015: £187.2m)
- Total customers grows to 16.3k (2015: 7.5k)
- Top quartile Customer Satisfaction Index Score[1] & Net Promoter Score
- Award-winning Savings Franchise

Delivering strong asset returns and cost effective funding

- Gross Income Margin on continuing activities of 7.19% (2015: 6.21%)
- Blended Cost of funds (after hedging) 1.59% (2015: 1.87%)
- Net Interest Margin on continuing activities of 5.47% (2015: 4.73%)

Improving operating efficiency

- Positive JAWs, revenue growth 245% versus cost growth of 73%
- Cost:income ratio on continuing activities of 74% (2015: 148%)

Maintaining high credit quality and low cost of risk

- Total arrears of 17bps on total book (2015: 1bps)
- Cost of risk on continuing activities of 34bps (2015: 19bps)

1 During the year we asked the Institute of Customer Service to undertake an independent assessment amongst our customers. Our customers awarded us a top quartile Customer Satisfaction score for our lending franchises against members of The Institute who conducted the business benchmarking survey.

Chairman's Overview

Hampshire Trust Bank ("the Bank") is a specialist UK lending and savings bank with a focus on residential property development, asset and commercial mortgage finance for SME customers over the short and long term, and on savings accounts for retail and SME customers. We focus on market segments where we can apply our specialist knowledge to the industries we serve enabling us to give excellent and responsive customer service, and secure competitive advantage.

In 2016, the Bank achieved its first annual profit since it came under new ownership in May 2014 delivering profit before tax on continuing operations of £4.4m, with good market positions, built in property development and asset finance, and early progress made in the commercial mortgage business launched in 2016. Shareholders' capital invested in our business increased from £58.3m at the end of 2015 to £78.3m. Customer lending is now £463.5m up from £177.6m at the end of 2015 and customer deposits up from £187.2m to £523.3m. This early progress since May 2014 demonstrates the attractiveness of the Bank's customer propositions.

From a governance perspective, the Board has been focused on ensuring that the Bank's governance and risk management practices, capital strength and infrastructure are developed such that they serve the needs of our customers, ensure the safeness and sustainability of the Bank and meet the standards of our regulators. During 2016, the Bank commenced work on the IFRS9 accounting standard in readiness for 1 January 2018, launched its online savings portal and in early 2017 moved to larger premises in Bishopsgate, London to accommodate its growing business. We expect these steps and other investments in the Bank's infrastructure to be the foundations for further growth in 2017.

The Board has also been focused on recruiting individuals that are committed to delivering its customer propositions, supporting further growth and who are aligned to our culture. A culture of professionalism and customer focus is critical to the success and sustainability of the Bank and the Board will remain focused on this area in 2017.

The political developments of 2016 have introduced uncertainty into the economic environment. Tax and regulatory changes have been introduced in the property markets served by the Bank and the Board is monitoring carefully the impact that these changes may have. It regularly runs scenario testing to ensure the robustness of its business in a range of different outcomes.

The Board considers that the opportunities available to the Bank to serve its customers with our blend of industry specialist knowledge, customer focus and responsiveness are significant. We have ambitious objectives to capitalise on these opportunities and our team is committed to delivering further progress in 2017.

At the end of 2016, Graham Picken, the Bank's Chairman, stepped down from the Board. I have replaced Graham on an interim basis until a successor is appointed. The Board is very grateful to Graham for his commitment to our business and wise counsel since May 2014.

Banking is a people business and success depends on their hard work and commitment. The Bank's team has been committed to serving our customers and growing our business. I would like to finish by thanking the team that has played such a key role in our successes in 2016. Their hard work, commitment, customer focus and professionalism has delivered these results and they can be proud of what has been achieved.

Robert East
Chairman *(Interim)*

Chief Executive's Report

It has been a very satisfying year given the progress we have made, delivering profits and strong balance sheet growth for our shareholders in only our second full year under new ownership. This has been achieved whilst receiving awards for service to our customers, who in turn have rewarded us with strong customer satisfaction scores. Staff numbers have risen to 115 and we pride ourselves on recruiting people who share our passion for our customers.

FINANCIAL PERFORMANCE

The Bank had a strong financial performance in the year. It was profitable throughout 2016 delivering an overall profit before tax of £4.4m with post tax return on equity on continuing activities of 5.4%. Income grew strongly reflecting balance sheet growth and improved Net Interest Margin (NIM) with costs growing but at a lesser rate, delivering a significantly improved cost:income ratio of 74%. Excluding discontinued activities, impairments expressed as cost of risk on continuing activities were in line with our expectations at 0.34%.

The balance sheet grew strongly with loan assets increasing to £463.5m and total assets to £606.7m. Deposits increased to £523.3m and £20m of additional capital was provided by our shareholders to pre-fund growth with a strong CET1 ratio of 17% at year end.

STRATEGIC PROGRESS

Our vision for the Bank is "to become a **leading specialist bank** to be proud of which is highly valued by:

– Our **Customers** for the focus on outstanding service, lasting relationships, integrity and expertise;
– Our **People** for rewarding and fulfilling careers; and,
– Our **Shareholders** for its long term, superior and sustainable returns."

At this stage of our journey, the focus of our strategy to deliver this vision is on building, developing and scaling the Bank. We have made strong progress on the delivery of this in 2016.

BUILDING OUR SPECIALIST LENDING FRANCHISES TO DELIVER STRONG RETURNS

We provide specialist lending to SME customers in the UK, financing investment in assets supporting their growth and contributing to the UK economy. We have selected and are building our specialist lending franchises on the basis of their potential to deliver strong risk adjusted returns through the cycle and sustainable growth.

Our Property Finance business specialises in financing UK based experienced SME housebuilders. In 2016 new lending financed the construction of 767 units. Repeat custom is an important facet of this business with 47% of new business in 2016 undertaken with existing customers, several of which have undertaken multiple developments with our financial support.

The Asset Finance business specialises in financing small ticket vehicles, equipment, plant and machinery for SME customers throughout the UK. In 2016, a total of 3,531 transactions were completed on leasing and hire purchase contracts and a further 210 were undertaken on Block Discounting agreements.

The Commercial Mortgage business was taken from concept to launch in 2016 and £101.3m of originations were completed by year end. This was significantly above our initial expectations.

During 2016 HTB withdrew from the commercial finance asset based lending market on the basis that this business no longer met our criteria for strong risk adjusted returns and sustainable growth.

Across our lending franchises, we rely on the expertise of our people to differentiate our proposition in the market. The delivery of our ambitious growth plans has been achieved through our focus on recruiting business leaders, teams and individuals with deep experience and networks to support our specialist customer relationship proposition. The commencement of Commercial Mortgage lending in 2016 involved the recruitment of such experienced management and staff at all levels. The development of the Property Finance business to deepen its coverage in the North of England involved recruitment of experienced local expertise. We have similarly recruited, after the year end, expertise to lead the next stage of development of our growing Asset Finance and Block Discounting activities.

Our customers are important to us and their opinions influence the way we develop our business. During the year we asked the Institute of Customer Service to undertake an independent assessment amongst our customers. We were delighted that our customers awarded us top quartile Customer Satisfaction score for our lending franchises against members of The Institute who conducted the business benchmarking survey.

We see substantial opportunities for further profitable growth in our lending franchises. This growth will continue to be based on specialist lending carried out by experienced lenders to selected segments of the SME market.

As well as growth in our current lending franchises, we continue to evaluate new franchise opportunities offering sustainable growth potential, centred on expert teams as well as opportunities for inorganic growth.

DEVELOPING OUR SAVINGS FRANCHISE TO DELIVER COST EFFECTIVE FUNDING

Retail and business deposits have provided a reliable and low cost means of funding the business, despite the low levels of market interest rates where cost of funds could be driven up by competition. We provide a range of fixed rate bonds and notice accounts for retail and business customers throughout the UK.

During the year saw our customer franchise develop with a 134% growth in total savings customers to over 11,000.

Our success in the savings market is achieved by providing good value products which are consistently competitive and backed by a personal and authentic service from our in-house centralised administration team. Since November we have offered retail customers the option to conduct their business over the internet. This delivers wider service options for customers and efficiency and capacity improvements for the Bank. We expect to continue our investment in this capability to deliver web based services to our business saving customers in 2017.

Distribution is direct to the public using digital channels and more traditional post and telephone methods. Many of our customers appreciate the opportunity we offer for them to speak person to person by phone or to correspond by letter.

Our savings franchise has continued to deliver attentive service to our growing customer base. We were also pleased to receive the Award for Customer Service from Savings Champion and Best New Savings Provider in 2016 from Moneynet.co.uk. The Bank was also short-listed in three awards categories by Business Moneyfacts.

INVESTING IN OUR OPERATING PLATFORM TO SUPPORT FUTURE GROWTH

The evolution of the Bank requires progressive investment to ensure an effective platform for future growth. 2016 has seen further significant investment in the Bank as part of this process which creates significant cost leverage.

The Bank benefits from its selection of a single integrated operating platform for all its main activities. Third party data centres safely house the IT and communications infrastructure. We have continued to invest in developing and refining this infrastructure and are committed to maintaining resilient, secure, reliable and scalable systems.

The Bank operates from a single office in central London which houses all of our operating activities. The move to new premises at 55 Bishopsgate in February 2017 supports the continued expansion of the business on the same operating model. We believe that this delivers tangible benefits in terms of location for recruitment of expertise, efficiency for communication within our business and access to important markets for our products.

Alongside the investment in infrastructure, we strengthened the senior executive team with the recruitment of additional expertise in Operations and Corporate Development and recruited to fill specific roles in our central functions.

Our future operating plans are directed to investing in people and systems to enhance the customer experience, develop our processes and enhance our capability.

STRENGTHENING RISK MANAGEMENT AND COMPLIANCE TO KEEP COSTS OF RISK LOW

Of the various risks managed by the Bank, the primary one is credit risk. In growing the balance sheet, the Bank has sought to achieve a balance of assets across its business lines and with carefully managed concentration limits by asset type, by geography, by loan exposure and by sector. Care and diligence have been exercised in loan origination and underwriting, with investment in experienced people and processes.

Continued low interest rates combined with resilient economic growth in the UK economy have contributed to favourable credit conditions. There has been an increase in provisions for loan impairment loss from 2015, but (excluding impairment provisions relating to discontinued activities) these continue at low levels.

During the year our second line risk teams worked with the business to refine and embed risk management and compliance frameworks across the Bank within an effective governance structure. The culture of the Bank is reflected in a behavioural framework created with the involvement of all staff and intended to guide all towards consistently delivering the right conduct for all our stakeholders.

We believe in setting high standards and have invested time and money accordingly.

OPERATING ENVIRONMENT

The continuing political uncertainty following the EU Referendum vote has not yet impacted the real UK economy on which the Bank depends for its business. SME prospects remain positive as the economy operates with low levels of unemployment. However, the prospect of inflationary pressures created by the strong pound and rising levels of consumer indebtedness contribute to a cautionary outlook.

The UK housing market continues to suffer from a supply/demand imbalance, despite government attempts to stimulate affordable housing supply. House prices continued to rise throughout 2016, but indexes have shown some recent weakening in certain areas of London and the South East. These areas remain core markets for our franchises but we have taken steps to broaden our regional distribution. The introduction of Stamp Duty tax changes has impacted transaction levels in London particularly amongst higher priced properties. We only have limited exposures to such properties, typically operating in the more affordable end of the market. Despite, these changes, most forecasters predict modest price inflation in 2017. We remain generally optimistic about the opportunities for our property exposed businesses, but recognise the specific uncertainty regarding regulatory and fiscal changes for Buy to Let.

The regulatory environment continues to place demands on smaller banks which impact their ability to compete on a level playing field with their larger counterparts. We monitor continually the returns we are achieving on our lending in the context of the regulatory capital requirements for different asset classes to ensure that the capital is applied effectively in support of the businesses offering sustainable returns.

OUTLOOK

Despite this uncertain environment, we remain confident that 2017 will be another significant year of strong delivery for the Bank, with continued growth in our business franchises driving towards greater scale, improved operational efficiency and further enhancement in the customer experience. All this will contribute to the continuing upward trajectory in shareholder returns.

SUMMARY

We are pleased with the progress we have made with our strategy, delivering strong growth and rising profitability in 2016. We recognise, however, that we must not become complacent. To compete effectively for customers in a fast changing and competitive world, we have to challenge ourselves constantly to get better every day and to seek improvements for the benefit of our customers and our business.

Our achievements this year have depended on the skill and dedication of an outstanding team of colleagues, the support and guidance of the Board and the financial endorsement of our shareholders. For these contributions I would like to express my sincere thanks.

We remain committed to creating a specialist bank to be proud of, delivered by experts with high aspirations for continued growth and strong shareholder returns. We are well on our way to delivering this vision.

Mark Sismey-Durrant
Chief Executive

Business Model

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

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

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

Business and Financial Review

BUSINESS REVIEW

	2016 £'000	2015 £'000
Loans and Advances to Banks	136,317	60,684
Loans and advances to customers	463,525	177,613
Customer deposits	523,315	187,172
Risk weighted assets ("RWA")	430,807	157,455
Common Equity Tier 1 capital	72,227	50,439
Common Equity Tier 1 Ratio	17%	32%
Leverage ratio	11%	57%
Loan to deposits ratio	88%	94%

LOANS AND ADVANCES TO BANKS

The Bank had £136.3m (2015: £60.7m) in loans and advances to banks as at 31 December 2016. This represented over 26% of total deposits held (2015: 32%), including high quality liquid assets of £128.8m at 31st December 2016 (2015: £30m), all in the form of deposits held with the Bank of England Reserve Account. The liquidity coverage ratio ('LCR') was 816% (2015: 1,246%), comfortably in excess of the minimum set by the PRA of 80%.

LOANS AND ADVANCES TO CUSTOMERS

The Bank's lending operations continued to grow in a controlled way during 2016 with loans and advances to customers increasing from £177.6m at 31 December 2015 to £463.5m as at 31 December 2016. Its principal lending activities performed as follows:

Asset Finance provides small ticket leasing and hire purchase secured on vehicles and business assets. Finance is sourced through a network of specialist finance brokers who are serviced by a regionally based team of broker managers. Originations in the year increased from £54.3m in 2015 to £85.1m in 2016 and consequently, the asset finance book increased from £56.1m in 2015 to £112.1m in 2016. Arrears remain at low levels and asset quality has generally been good.

Block Discounting, which is also part of Asset Finance, provides finance to non-bank small finance houses secured on the receivables in their own loan books. The Bank employs an experienced team to undertake this specialised activity which is direct to the customer. Loan books are routinely audited by an in-house audit team and the loan agreements allow for defaulting underlying customer loans to be replaced with new security paper. The business grew from £12.9m to £41.7m in 2016. All loans were fully performing with no arrears throughout the year.

Property Finance provides mainly development finance to well established UK SME house builders and commercial property developers. The business lends throughout England and Wales and is mainly sourced direct from the market. The business has financed the construction of over 1,500 residential units since its inception in May 2014. The loan book grew from £99.2m in 2015 to £207.5m in 2016. The Bank's specialist lenders continue to be well received by the market. The loan book is now experiencing the steady flow of maturing loans as developments are successfully completed and marketed for sale. This has validated the approach taken by the Bank in this market. A key focus of this business is to undertake repeat business which comprises around 47% of business written.

Commercial Mortgages provides various forms of mortgage loans to SME borrowers via a range of different broker and direct channels in the UK. Lending comprises bridging finance for property investors in the residential and commercial markets, buy to let mortgage loans secured on residential properties for professional landlords and commercial owner-occupied and commercial investment mortgages on commercial premises. This business commenced operations in April 2016 with the loan book finishing the year at £101.3m. There have been no arrears on the loan portfolio since lending commenced.

Commercial Finance – the Bank discontinued the asset-backed lending business during the year. All but one of the loans in this business have been refinanced elsewhere as part of the withdrawal from this market. The loan book, comprising the one loan, stood at £2.6m at 31 December 2016 (2015: £9.4m).

CUSTOMER DEPOSITS

The main funding for the loan books comes in the form of deposits. The strong growth in the loan book has been matched by deposits which have been serviced by traditional post and telephone methods and the recent launch of an on-line capability. The bank's deposit business comprises notice accounts and a range of fixed rate bonds:

	2016	**2015**
	£'000	£'000
Notice deposits	141,377	65,184
Term deposits	381,938	121,988
Total Customer Deposits	523,315	187,172

Deposits are sourced direct from the public and SMEs from a combination of on-line marketing and appearance in best buy tables. Growth in both retail and business deposits has been steady throughout the year supported by an in-house servicing team. Deposit balances increased from £187.2m in 2015 to £523.3m in 2016. Customer numbers have risen substantially from around 4,700 at the start of the year to over 11,000 at the year end. Despite a competitive market and historically low interest rates, the depth of liquidity is more than sufficient to meet the funding needs of the Bank on economic terms.

Deposits with HTB are protected under the terms of the Financial Services Compensation Scheme. At 31st December 2016, 92% of deposits with a value of £481.4m were protected under the Scheme.

CAPITAL

The Bank remains strongly capitalised with Common Equity Tier 1 Capital of £77.2m as at 31 December 2016 (2015: £50.4m). Ordinary share capital increased by £20m in 2016 as Hampshire Trust Bank's ultimate principal shareholder, which are funds advised by Alchemy Special Opportunities LLP, provided continued support in the growth of the Bank. In addition, the profitability of the Bank is now providing internally generated capital for growth.

Financial Review

	2016 Total £'000	2015 Total £'000
Interest receivable and similar income	26,695	7,596
Net interest income	20,625	5,915
Operating Income	20,909	6,065
Impairment losses	(1,001)	(149)
Administration and other expenses	(15,502)	(8,991)
Profit/(Loss) before Tax	4,406	(3,075)
Tax	(963)	506
Profit/(Loss) on continuing operations	3,443	(2,569)
Profit/(Loss) on discontinued operations	(1,288)	(260)
Profit/(Loss) for the period	**2,155**	(2,829)

The Bank recorded a full year's profit before tax of £4.4m (2015: loss before tax £3.1m) in only its second full year of operation following new ownership in May 2014. This was achieved through increased levels of activity in all key lending sectors. The bank withdrew from the asset backed lending market in early 2016, which is shown as discontinued operations. Operating income increased by £14.8m from 2015 to £20.9m reflecting the lending growth.

Administration and other expenses of £15.5m increased from £9m in 2015 with continued investment in the Bank:

People – the continued expansion of the business, including the commencement of commercial mortgage lending in 2016 required recruitment of staff at all levels.

Premises – during the year additional space was taken at the headquarters premises at 131 Finsbury Pavement, London to accommodate growth in the short term. During the year, the Bank signed a 10 year lease for 21,000 sq.ft of office space at 55 Bishopsgate, London and moved into the building in February 2017. These premises should accommodate its anticipated future requirements.

Risk and compliance – during the year we worked to refine and embed risk management and compliance frameworks across the Bank within an effective governance structure. We believe in setting high standards and have invested time and money accordingly.

Systems – the Bank benefits from its selection of a single integrated operating platform for all its main activities. It continues to invest in developing and refining this infrastructure and is committed to maintaining resilient, secure, reliable and scalable systems. Third party data centres safely house its IT and communications infrastructure.

Continued low interest rates combined with resilient economic growth in the UK economy have contributed to favourable credit conditions. Nevertheless, care and diligence have been exercised in loan origination and underwriting. Impairment losses of £1.0m (2015: £0.1m) represented cost of risk on continuing activities of 0.34% (2015: 0.19%).

Risk Management Overview

Effective management of risk plays a key role in the successful execution of HTB'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".*

Embedding the right risk culture is fundamental to good risk management and in recognition of that the Bank has invested significantly in people, processes and training over the course of the last 12 months supported by the continued development and enhancement of frameworks, policies, tools and data to support risk aware decision making in all areas.

The Board alongside Executive management and the Risk function have developed risk appetite and risk management frameworks that are explicitly linked to business strategy. In developing such frameworks care has been taken to ensure that our risk appetite is capable of being understood and articulated at all levels of the Bank. From Board to business level, our aim is to ensure that decisions are made with risk considerations at the forefront with all staff encouraged to highlight and address risk issues promptly.

With an eye to future growth, and in support of the flow of regulatory change, the Bank has bolstered its compliance, operational and data management capabilities via continued people recruitment alongside ongoing investment in data capture and reporting systems. The Bank is also preparing for changes in credit loss recognition and calculation with the formal implementation of the new accounting standard, IFRS9 which is effective from 1st January 2018. A major project which has industry wide implications in terms of the understanding and management of credit risk.

The last twelve months has seen a significant change of pace on the risk management front with investment decisions designed to ensure the Bank is well positioned for future growth whilst retaining the ability to react quickly to changes in the external environment.

Risk Appetite Statement (RAS) and Risk Management Framework

RISK APPETITE STATEMENTS

In support of the above the Board and Executive management have developed a number of Risk Appetite Statements *('RAS')* that give expression to the levels of risk the Bank is willing to take in delivering against strategic plans.

The RAS reflects those risks considered critical to delivery (designated as Principal Risks), with review of appetite and relevant risks undertaken formally on an annual basis as an integral part of the budgetary cycle and medium-term strategy review process. That annual review combines a top-down view of the Bank's overall risk profile with a bottom-up view from the business and Executive supported by relevant data and risk and control self-assessments. Where internal or external circumstances alter significantly an interim review of risk appetite can be instigated by the Board or Executive ensuring that the Bank maintains the ability to react dynamically to changing circumstances.

We will maintain stakeholder confidence – by operating the business in such a way that we deliver against our key objectives, financial and non-financial, and remain within our risk appetite.

We will maintain adequate capital resources – we will maintain a sufficient level of capital to effectively support the business under normal market conditions and a range of stressed scenarios taking into account any emerging economic or business model issues as well as changes to regulatory guidance.

We will maintain adequate liquidity – we will hold sufficient quantity and quality of liquidity to ensure that all liabilities will be met as they fall due under normal market conditions and under a range of stress scenarios and regulatory guidance.

We will protect our reputation – we will be a safe haven for retail and business savers and be seen as an organisation that treats our customers and employees fairly. We have no appetite for material negative or adverse reputational events however caused.

We will limit the potential for credit loss – by being aware of and managing key concentrations, lending in markets where we can demonstrate expertise, to credit worthy borrowers, backed by satisfactory security (or, where assets cannot be readily valued, proven affordability alongside personal recourse) and consistent with risk adjusted return objectives.

We will effectively manage our operational risks – we have a low tolerance for operational risk failures (including IT system failures) and will ensure that our staff are properly trained, procedures are thoroughly documented and supervisory controls and reporting methodologies are in place to manage and minimise the impact of adverse operational risk events that disrupt customer service and/or impact internal service standards.

We will demonstrate high standards of conduct and compliance – we have a low tolerance for material conduct or compliance related adverse events, or breaches of a regulatory or legal nature, and will operate the business in such a way as to minimise the potential for such adverse events to occur.

The Risk Management Framework

HOW WE MANAGE OUR RISKS

The Bank has established an Enterprise Risk Management Framework (ERMF) which provides guidance for cohesive and consistent risk management activity across the whole business. The overarching aim of the ERMF is to ensure that all types of risk are identified and managed in a consistent manner across the Bank. The ERMF sets a standard approach for the management of each Principal risk and comprises consideration of the following key components:

- Risk Culture;
- Risk Governance and Control;
- Risk Strategy and Appetite;
- Risk Measurement and Reporting; and
- Stress Testing and Contingency Planning.

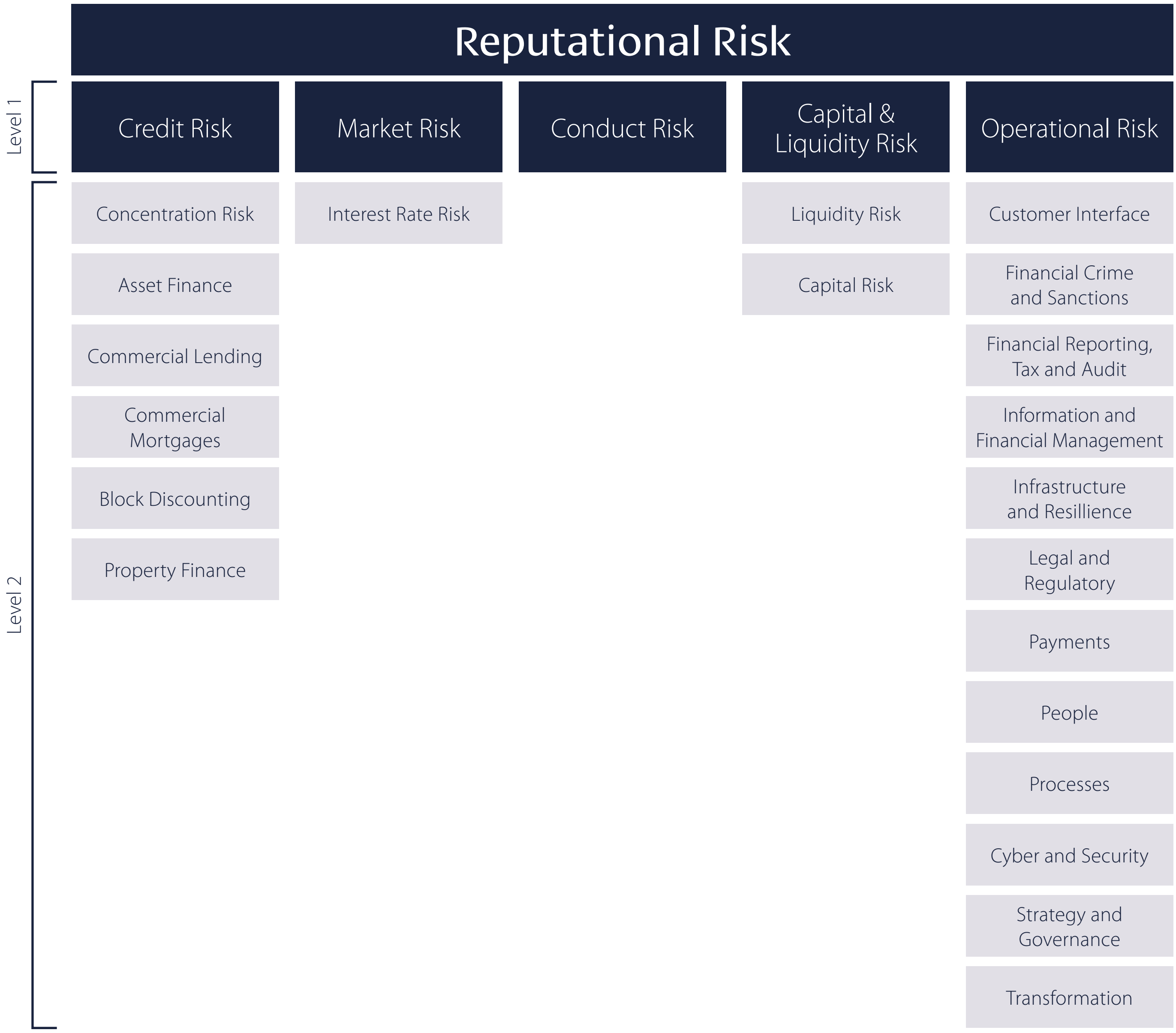
The ERMF is enacted through a range of policies and control frameworks, setting out risk appetite both in qualitative and quantitative terms in respect of each of the principal risks identified. Adherence to policy is monitored by Management through a variety of formal governance processes. Performance is measured for, and reported to, Executive management and the Board Risk Committee, with any material risks or risk appetite deviation reported to the Board on a monthly basis.

We use stress testing as the primary means to understand how risk behaves under stressed conditions, and the implication for capital and liquidity resources.

HOW WE IDENTIFY AND CATEGORISE OUR RISKS

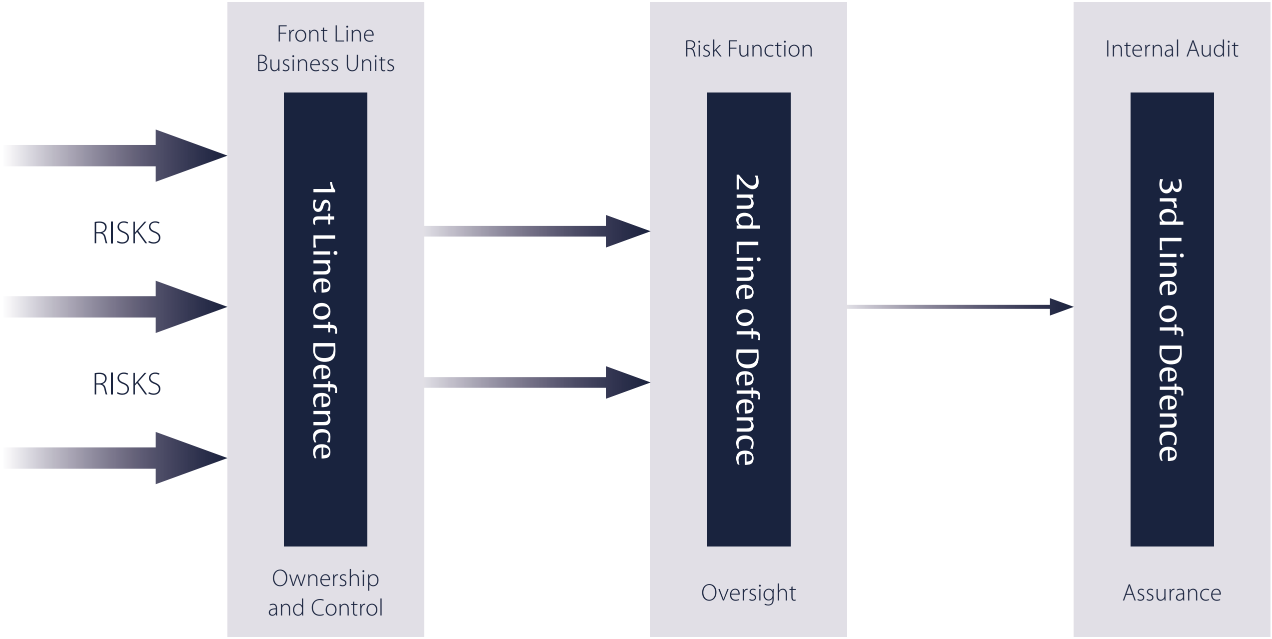
We use the following risk categorisation model as our primary reference point and reflect that categorisation in the matters reviewed under Board and related Committees terms of reference.

Qualitative and/or quantitative statements of Risk Appetite exist for each **Level 1 Principal Risk** and **Level 2 risk category**. Further sub categories and metrics have been developed to ensure the Bank has a detailed understanding of the individual components of each risk category



HOW WE CONTROL OUR RISKS

We employ a 'three lines of defence' model as illustrated below.



FRONT LINE BUSINESS UNITS

The first line of defence (the business lines and related operational functions) own primary responsibility for the day to day management of our principal risks and the implementation of approved policies, frameworks and related methodologies.

RISK FUNCTION

The second line of defence (Risk and Compliance) provides independent challenge, oversight and ongoing assurance of the adequacy and effectiveness of risk management within the business.

AUDIT

The third line of defence provides impartial assurance of our risk control and oversight activities and acts under the direction of the Audit Committee. Risk oversight is performed by the Board and Board Risk Committee.
Internal Audit is outsourced and provided by PwC, an independent third party firm of accountants and business advisers. The work of Internal Audit is designed to provide independent assurance to the Board (via the Board Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

External audit, undertaken by KPMG, also provide independent assurance to the Board and Board Audit Committee on financial controls and the integrity of the financial statements. KPMG's report is to the shareholders.

Risk Governance – is provided by the hierarchy of Board and subordinate forums, Executive and business committees, policies, mandates and supporting processes and procedures.

Risk Reporting – risks are transparently measured, monitored, managed and regularly reported via approved governance structures with all risks (including exceptions and breaches of appetite) reported to the Board Risk Committee via Executive management committees

Risk Stress Testing – the stress testing framework is designed to assess the resilience of the corporate plan projections to 1) changes in key operating assumptions, 2) prescribed stress scenarios and, 3) reverse stress testing. Stress testing helps inform considerations around risk capacity and risk appetite as well as the construction of suitable stress capital and liquidity buffers under the ICAAP and ILAAP. Recovery and Resolution planning considerations and early warning indicators are similarly derived from stress test outputs and consequent risk indicators.

Principal risks and mitigation

In designing the strategic plan the Board and management have identified key vulnerabilities and sensitivities which are reflected in our Principal Risks as described below. The principal mitigants to those risks have also been indicated to provide context. In some circumstances one risk materialising can create risks elsewhere in the Principal Risk categories, referred to as boundary risks e.g., a failure of key lending controls could create credit, reputational and regulatory issues as a consequence of such failure.

As such the Principal Risks and individual components thereof are not considered in isolation, with impacts in one area considered for their potential wider impacts which may ultimately affect considerations around the broader risk profile.

These Principal Risk disclosures should not be regarded as a comprehensive list of the risks and uncertainties faced by the Bank but rather a summary of key risks which the Bank faces and have the potential to significantly impact achievement of strategic objectives.

Risk	Risk mitigation and management	Further Information
Credit Risk		
The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan on time. Impairment provisions are provided for losses that have been incurred at the date of the statement of financial position.	Credit risks associated with lending are managed via a combination of consistent, conservative and prudent underwriting policies and processes, supported by a robust governance, control and assurance framework. HTB will react quickly if specific credit risk issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to client, economic or sector-specific weaknesses. Critically HTB aims to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrations by sector, geography and large single name exposures which can represent higher risk. HTB also seeks to obtain full security cover, and where appropriate, personal guarantees from borrowers. Each business area has its own lending policy and dedicated resources which assess credit risk, supported by senior credit risk management who have oversight of lending activities. A tiered credit approval mandate framework is in place for each business line encompassing first line, second line and Credit Committee mandate thresholds linked to business type and debt quantum. Compliance is monitored via second line monthly assurance review and reporting. Money market investments with eligible counterparties are only made with the prior approval of the Board. The Asset and Liability Committee reviews the list of Treasury counterparty exposures at least monthly against agreed counterparty limits.	Note 5.1.1

Risk	Risk mitigation and management	Further Information
Liquidity Risk		
This is 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	In order to mitigate this risk, firms are required to maintain adequate liquidity resources to ensure that all liabilities can be met, as they become due. The regulatory liquidity regime requires that a firm's liquidity resources contain an adequate 'buffer' of unencumbered High Quality Liquid Assets (HQLA) which can be utilised in a period of liquidity stress. This buffer of HQLA should, at least, meet net expected outflows over a 30-day stressed period. Holding sufficient liquid assets to match these outflows will result in a firm having a Liquidity Coverage Ratio that exceeds the regulatory minimum requirement of 100%. In addition, the Bank holds sufficient liquidity (HQLA and cash placed with other institutions), to survive a range of stress scenarios. The liquidity risk management strategy of the Bank is documented via the Internal Liquidity Adequacy Assessment Process (ILAAP) which records and defines the Bank's approach to management of liquidity risk and compliance with the Overall Liquidity Adequacy Rule (OLAR). The Bank's Treasury function is responsible for the day to day management of the Bank's liquidity and funding. The Board has responsibility for setting and approving the liquidity risk management strategy and risk appetite; it then sets liquidity limits which reflect that risk appetite, ensuring that a robust liquid asset buffer is maintained under normal and stressed conditions.	Note 5.1.2
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.	Interest rate risk is a key element of broader market risk considerations. The Bank manages and controls interest rate risk through its hedging strategy and may enter into swap agreements where internal hedges are not available. Interest rate exposure is managed by Treasury and overseen by the Asset and Liabilities Committee (ALCO) on a monthly basis, and operates within pre-agreed limits.	Note 5.1.3
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.	

Risk	Risk mitigation and management	Further Information
Operational Risk		
Operational risk is the risk of loss resulting from inadequate or failed processes or controls, weak or failed governance, adverse people related issues, system failures or from adverse external events including strategy, legal and regulatory risks.	The first line of defence is responsible for the management of operational risk in accordance with stated policies, governance, agreed processes and controls. The second line of defence provides oversight and challenge supplemented by a programme of regular assurance testing. The third line of defence (via internal audit) provides an independent overview of key operational risk controls and frameworks via an agreed programme of audits. The Bank has established an Operational Risk management framework, underpinned by clear policies which are geared to ensuring the Bank operates within a low risk appetite for operational risk failures. Monitoring and reporting of the overall risk profile is undertaken via a number of key operationally focused committees and second line functions ultimately reporting into Executive Committee and Board Risk Committee. The Bank has placed additional emphasis on operational risk during the course of 2016:- via the recruitment of an experienced Chief Operating Officer; by separating IT core infrastructure and Change Management functions to allocate responsibilities more effectively; through further investment and training in dedicated operational risk management systems, principal of which is 'Magique' – a software application which captures and rates all relevant operational risks and controls across the Bank. Magique is the central repository for all loss incidents and near misses linked to operational risks. The tool is in roll out across the business and will further embed in business as usual processes over the course of 2017. Strategy Risk and Regulatory Risk are treated as Level 2 risks within Operational Risk. In addition operational risk is assessed (inherent, residual and target) for its potential impact on: • Customer Experience • Brand and Reputation • Financial • Employee / Business Disruption • Legal and Regulatory	
Conduct Risk		
Conduct risk is 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.	HTB extends the definition of 'customer' to include both retail and SME commercial customers across all business segments, including both regulated and non-regulated activities, thereby applying its conduct risk policies to all lending and deposit-taking activities. HTB mitigates conduct risk principally via staff training and awareness, ongoing education via the compliance function with support provided via monthly monitoring, reporting and escalation of relevant metrics (particularly customer complaints) through Executive management and ultimately to Board Risk Committee. Customer surveys are seen as a valuable source of conduct and wider performance information with the Bank intent on utilising such information increasingly in 2017 to supplement the above.	

Risk	Risk mitigation and management	Further Information
Financial Crime and Sanctions Risk		
Financial Crime and Sanctions risk is the risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to utilise the financial system to obtain or launder funds through illegal means and / or for illegal purposes.	Financial Crime risk sits within Operational Risk and therefore the first line of defence is responsible for the management of financial crime risk in accordance with stated policies, with the second line providing oversight and challenge. The Money Laundering Reporting Officer is responsible for oversight of HTB's compliance with Anti-Money Laundering (AML) obligations and acts as the focal point for HTB's AML activities. HTB has implemented a number of critical operational controls such as a dedicated customer and company screening solution, a register of all Politically Exposed Persons and a refined training programme. HTB is committed to enhancing controls by completing an enterprise-wide financial crime risk assessment to allow resources to be focused on the areas of highest financial crime risk.	
Cyber Risk		
Cyber risk is the risk of financial loss, disruption or damage to the reputation of the Bank from a failure to adequately control and protect key technology assets and resources	The Bank, through continual investment in its IT infrastructure, resilience and security, maintains appropriate levels of control and ongoing testing to identify and counter the increasing level of threat arising from cyber-crime.	

FURTHER DEVELOPMENTS

The Bank seeks to continually enhance and improve the understanding of risk to help better inform appetite and decision making. Various activities are underway over the near term to support this process and include:

- Development and ongoing enhancement of data analytics and modelling capability via the recruitment of expert resource and deployment of enhanced data capture and manipulation techniques. This work is supported by planned significant investment in front end data capture systems in both the asset finance and commercial mortgage businesses.
- Enhancements to counterparty and collateral risk ratings systems and processes with emphasis on the sourcing and development of benchmarked Probability of Default (PD) and Loss Given Default (LGD) data to derive robust Expected Loss (EL) outputs. This work is closely linked to the development of IFRS9 models over the course of 2017 ahead of mandatory implementation of IFRS9 in 2018.
- Implementation of tools and techniques to enhance understanding of non-credit risk related aspects. 'Magique' is our primary operational risk data capture tool and is in course of deployment across the Bank alongside the development of the Chief Operating Function and associated governance frameworks.
- Further development of the Bank's Compliance, Financial Crime and Sanctions risk management frameworks incorporating enhanced data capture and increased regularity of assurance testing and reporting.

Regular tracking and reporting of progress of the above key activities is undertaken via Executive Committee to support the drive towards better understanding of the broader risk profile of the bank.

2 IFRS9 replaces IAS39 in respect of loss provisioning with effect from 1/1/2018.

Corporate Governance

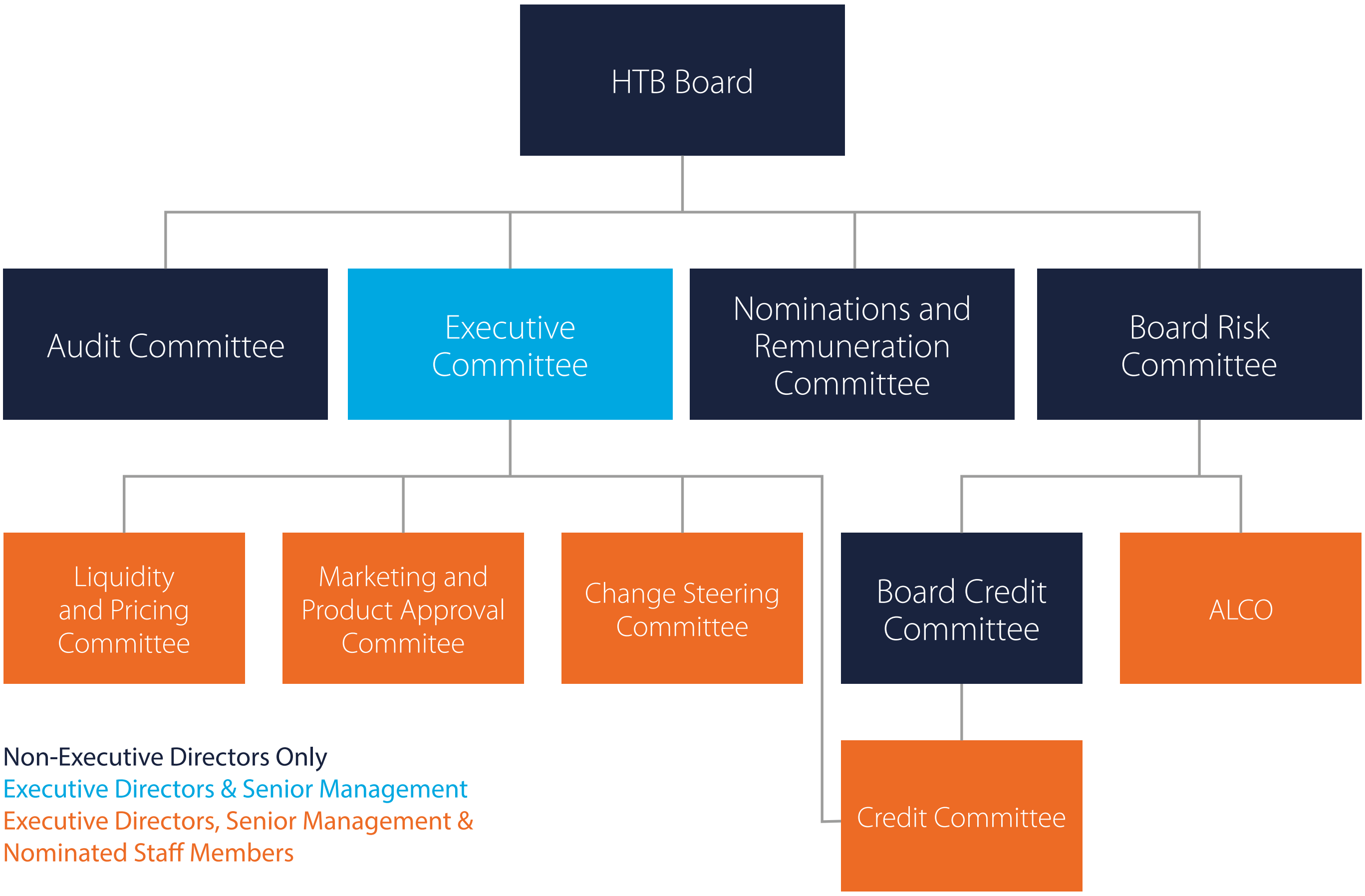
The Board of Directors is the primary governing body and has ultimate responsibility for setting HTB's strategy, corporate objectives and risk appetite. The strategy and risk appetites take into consideration the interests of depositors, borrowers and shareholders.

The Board had regard to the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council ('FRC') in September 2014. The Code is not mandatory for the Bank, as it applies to listed companies, however the Board considers this as best practice.

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

During the year the Board consisted of three independent non-executive directors (including the Chairman who resigned on 31 December 2016), two shareholder directors and two executive directors. Board performance is reviewed at least annually. The Chairman meets annually with the non-executive directors. The non-executive directors meet annually to appraise the Chairman's performance.

The Board operated through a number of committees during 2016 covering certain specific matters, illustrated in the chart below.



AUDIT COMMITTEE

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

BOARD RISK COMMITTEE (BRC)

The Board has delegated responsibility for oversight of HTB'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 HTB's Risk Management Framework, compliance with relevant regulations and law, and whistleblowing and proper functioning of controls over the prevention of money laundering, bribery and fraud. The Committee is chaired by an independent non-executive director and comprises solely of non-executive directors.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits and performance related pay structures for HTB. It is also responsible for considering all senior appointments both at Board and Executive levels (including Non-Executive Directors). The Committee is chaired by the Chairman of the Bank and comprises solely of 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 at the Board and ensures the performance of the business is conducted in accordance with the Board's instructions. It also reviews prudential and regulatory matters of the Bank.

BOARD CREDIT COMMITTEE

The Board Credit Committee is the body charged with the transactional credit responsibility for HTB. These include credit proposals falling outside Board approved policy, credit proposals if advanced resulting in a large exposure above Board approved credit committee mandate and where the Board requests the Board 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.

Directors' Report

The Directors present their report and financial statements for the year ended 31st December 2016.

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 are contained within the Strategic report.

BOARD COMPOSITION

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

Graham Picken (resigned 31 December 2016)	Independent Non-Executive Director. Chairman of the Board and Chairman of the Nomination and Remuneration Committee
Robert East (appointed interim Chairman on 1 January 2017)	Independent Non-Executive Director and Chairman of the Board Risk Committee.
James Drummond-Smith	Independent Non-Executive Director and Chairman of the Audit Committee
Dominic Slade	Non-Executive Director
Alexander Leicester	Non-Executive Director
Mark Sismey-Durrant	Chief Executive Officer
Ketan Malde	Chief Financial Officer

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 £4.4m (2015: loss £3.1m), and a profit after tax of £2.2m, (2015: loss £2.8m).

PROPOSED DIVIDEND

The Directors do not recommend the payment of a final dividend (2015: £nil).

POLITICAL AND CHARITABLE DONATIONS

The Bank made £150 of charitable donations during the year (2015: £575) and did not make any political donations or incur any political expenditure during the year (2015: £nil).

REMUNERATION MATTERS

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

GOING CONCERN

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

Mark Sismey-Durrant
Chief Executive Officer

By order of the board
Date: 30 March 2017

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with 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 the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 the financial statements comply with the Companies Act 2006. They 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.

Independent Auditor's Report to the Members of Hampshire Trust Bank Plc

We have audited the financial statements of Hampshire Trust Bank Plc for the year ended 31 December 2016 set out on pages 28 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date:

Statement of Comprehensive Income

	Note	2016 £000	Restated* 2015 £000
Interest receivable and similar income		26,695	7,596
Interest expense and similar charges		(6,070)	(1,681)
Net Interest Income	3.1	**20,625**	**5,915**
Fees and commission income		413	63
Fees and commissions payable		(134)	(31)
Net income from derivatives at fair value through profit or loss	4.3	5	91
Other Income	3.2		27
Operating income		**20,909**	**6,065**
Administrative expenses	3.3	(15,491)	(8,991)
Impairment gains/ (losses) on Loans and Advances to customers		(1,001)	(149)
Other expenses		(11)	-
Operating profit (loss) before tax		**4,406**	**(3,075)**
Tax (expense)	3.9	(963)	506
Profit/ (Loss) for the year – Continuing activities		3,443	(2,569)
(Loss) for the year – Discontinued activities	4.14	(1,288)	(260)
Profit/ (Loss) post tax for the year		**2,155**	**(2,829)**
Other Comprehensive Income			
Net change in fair value of Investment Securities – Available for Sale		-	(1)
Tax on Other Comprehensive Income		-	-
Total Other Comprehensive Income for the year, attributable to the owners		**-**	**(1)**
Total Comprehensive Income/(Loss) for the year, net of tax		**2,155**	**(2,830)**

The notes on pages 32-57 are an integral part of these financial statements.

**Restated for Discontinued activities for 2015.*

Statement of Financial Position

	Note	2016	2015
		£000	£000
Assets			
Loans and Advances to Banks	4.1	136,317	60,684
Loans and Advances to Customers	4.2	463,525	177,613
Derivative financial instruments	4.3	622	146
Other Assets	4.4	2,337	1,238
Investments in subsidiaries	4.5	-	-
Property, Plant and Equipment	4.6	1,107	580
Intangible Assets	4.7	1,845	1,137
Deferred Tax Assets	4.8	907	1,333
Total Assets		**606,660**	242,731
Liabilities			
Customer Deposits	4.9	523,315	187,172
Derivative financial instruments	4.3	526	55
Other Liabilities	4.10	8,711	3,883
Provisions for Liabilities	4.11	36	45
Total Liabilities		**532,588**	**191,155**
Equity			
Share Capital	4.12	78,288	58,288
Share Premium		196	196
Retained Earnings		(4,412)	(6,908)
Total Equity		**74,072**	**51,576**
Total Equity and Liabilities		**606,660**	**242,731**

The notes on pages 32 to 57 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 March 2016 and were signed on its behalf by:

Mark Sismey-Durrant
Director
Company Number: 1311315

Robert East
Director

Statement of Changes in Equity

	Share Capital £000	Share Premium £000	AFS Reserve £000	Retained Earnings Restated £000	Total Equity £000
Balance at 1 January 2015	**36,663**	**196**	**1**	**(4,488)**	**32,372**
Comprehensive Income for the year					
Loss for the year	-	-	-	(2,829)	(2,829)
Other Comprehensive Income	-	-	(1)	-	(1)
Total Comprehensive Income for the year	**-**	**-**	**(1)**	**(2,829)**	**(2,830)**
Share Based Payments				409	409
Contributions by and distributions to owners					
Issue of shares	21,625	-	-	-	21,625
Total contributions by and distributions to owners	21,625	-	-	-	21,625
Balance at 31 December 2015	**58,288**	196	-	**(6,908)**	**51,576**
Balance at 1 January 2016	58,288	196	-	(6,908)	51,576
		-		-	
Comprehensive Income for the year					
Profit for the year	-	-	-	**2,155**	2,155
Other Comprehensive Income	-	-	-	-	-
		-			
Total Comprehensive Income for the year				**2,155**	**2,155**
Share Based Payments	-	-	-	341	341
Contributions by and distributions to owners					
Issue of shares	20,000	-	-	-	20,000
Total contributions by and distributions to owners	**20,000**	-	-	-	**20,000**
Balance at 31 December 2016	**78,288**	**196**	-	**(4,412)**	**74,072**

Statement of Cashflows

	Note	2016	2015
		£000	£000
Cashflows from operating activities			
Profit/(Loss) before tax for the year		2,795	(3,335)
Adjustments for:			
Depreciation and amortisation		676	409
Foreign Exchange Losses		(34)	(18)
Increase in impairment of Loans and Advances		2,607	65
(Decrease)/Increase in provisions		(9)	18
Equity-settled share based payment transactions		341	409
(Increase) in Fair Value of Derivative Assets		(5)	(91)
Changes in:			
(Increase) in Loans and Advances to Customers		(288,487)	(154,243)
(Increase) in Other Assets		(1,098)	(584)
Increase in Customer Deposits		336,143	163,691
(Decrease) in deposits from banks and building societies		-	(138)
Increase in Other Liabilities		4,613	2,522
Net cash flow from operating activities		**57,542**	**8,705**
Cash flows from Investing Activities			
Net sale of investment securities		-	9,992
Purchase of Property, Plant and Equipment		(761)	(285)
Purchase of Intangible Assets		(1,150)	(909)
Disposal of Property, Plant and Equipment		-	4
Net cash flow from Investing Activities		**(1,911)**	**8,802**
Cash flows from Financing Activities			
Proceeds from the issue of share capital		20,000	21,625
Net increase in Cash and Cash Equivalents		**75,631**	**39,132**
Cash and cash equivalents at 1 January		60,074	20,942
Cash and Cash Equivalents at 31 December		**135,705**	**60,074**
Cash in hand		-	-
Loans and advances to Banks	4.1	135,705	60,074
Cash and Cash Equivalents at 31 December		**135,705**	**60,074**

1. Accounting Policies

1.1 REPORTING ENTITY

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

1.2 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.

1.3 GOING CONCERN

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

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

1.4 FUTURE ACCOUNTING DEVELOPMENTS

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

1.4.1 IFRS 9 'FINANCIAL INSTRUMENTS'

Effective for annual periods beginning after 1 January 2018.

This is the IASB's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The impact of IFRS 9 is likely to be material to the Bank once it becomes effective. The Bank commenced the implementation of IFRS9 in 2016 with delivery of an expected loss model planned for in 2017. Following a parallel run with IAS39 during 2017, the Bank will be ready to apply the standard from 1 January 2018.

1.4.2 IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

Effective from 1 January 2018.

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

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

1.4.3 IFRS 16 'LEASES'

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

1.5. MEASUREMENT CONVENTION

The financial statements are prepared on the historical cost basis as modified by the fair value of available for sale assets and derivatives.

1.6 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.

1.7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank initially recognises loans and receivables on the date that they are originated and customer deposits when cash is received from the depositors. All other financial assets and liabilities are recognised initially on the settlement date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories: loans and receivables, available for sale financial assets and fair value through profit and loss. The Bank's financial liabilities are designated as other financial liabilities. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

The Bank has not classified any assets or liabilities as held to maturity.

1.7.1 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.

1.7.2 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

1.7.3 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees are included within other liabilities.

1.7.4 OTHER FINANCIAL LIABILITIES

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

1.7.5 IMPAIRMENT OF FINANCIAL ASSETS

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy/administration proceedings.

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

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

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

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

The main options offered by the Bank include:
- reduced monthly payment;
- an arrangement to clear outstanding arrears;
- capitalisation of arrears; and
- extension of term.

1.8 DERIVATIVE FINANCIAL INSTRUMENTS

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 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.

1.9 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.

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.

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 5 years. The amortisation periods used are reviewed annually. 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.

1.10 PROPERTY, PLANT AND EQUIPMENT

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

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

- Office equipment 10% - 33%
- Fixtures and fittings 10% - 33%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

1.11 INTEREST INCOME AND EXPENSE

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

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

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

1.12 FEES AND COMMISSION INCOME AND EXPENSE

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

1.13 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.

1.14 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.

1.15 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

Share based payment transactions in respect of services received from certain of the Bank's employees 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.

2. Critical Accounting Estimates and Judgements in applying Accounting Policies

The Bank makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below.

2.1 EFFECTIVE INTEREST RATE

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

2.2 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

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

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

2.3 DEFERRED TAX ASSET RECOGNITION

The deferred tax asset recognised at 31 December 2016 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which they can be utilised. In arriving at this conclusion the Directors have estimated the future profit performance for the Bank which is subject to a number of variables.

2.4 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

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

3. Statement of Comprehensive Income Analyses

3.1 INTEREST INCOME AND EXPENSE

	2016 £000	2015 £000
Interest and similar income on Loans and Advances to Customers	26,403	7,325
Interest on Investment Securities – Available for Sale	-	1
Interest on Derivative Financial Instruments	-	15
Interest on Loans and Advances to Banks and Building Societies	292	255
Total Interest receivable and similar income	**26,695**	**7,596**
Interest on Derivative Financial Instruments	(15)	-
Interest on Deposits from customers	(6,055)	(1,681)
Total Interest expense and similar charges	**(6,070)**	**(1,681)**
Net Interest Income	**20,625**	**5,915**

Interest earned during 2016 on impaired assets as at 31 December 2016 amounted to £188.2k (2015: £nil)

3.2 OTHER INCOME

	2016 £000	2015 £000
Foreign exchange gains	-	20
Gains on disposal of debt securities	-	7
Other Income	**-**	**27**

3.3 ADMINISTRATION EXPENSES

	Note	2016 £000	2015 £000
Staff Costs	3.5	10,918	6,015
Share based payments	3.6	341	409
Depreciation and amortisation	4.6/4.7	676	411
Operating Lease rentals		634	238
FSCS costs		12	33
Other Administrative expenses		2,910	1,885
Administrative Expenses		**15,491**	8,991

3.4 AUDITORS REMUNERATION

	2016 £000	2015 £000
Audit of financial statements	65	55
Non-audit taxation compliance services	3	17
Other non-audit services	29	-
Auditors remuneration	**97**	**72**

3.5 STAFF NUMBERS AND COSTS

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

	2016	2015
Directors	2	2
Loan Officers	28	15
Administrators	64	54
	94	**71**

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:

	2016 £000	2015 £000
Wages and Salaries	8,081	4,264
Social Security costs	1,005	558
Pension costs	566	298
Other staff costs	1,266	895
	10,918	**6,015**

3.6 EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

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.

Detail of shares issued are shown in the table below:

	No. of Shares 2016	No. of Shares 2015
At 1 January	846	805
Granted	350	50
Forfeited	(160)	(9)
At 31 December	**1,036**	**846**

The average fair value of shares issued was £2,909 per share. 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:

	2016	2015	2014
Expected volatility	31.4% to 32.3%	31.7% to 32.1%	32.8% to 36.1%
Risk free rate	0.2% to 1.0%	1.3% to 1.5%	1.1% to 1.6%
Dividend yield	0.0%	0.0%	0.0%
Expected life	5 years	5 years	5 years

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

The charge to the Consolidated Income Statement was £341k (2015: £409k).

3.7 DIRECTORS' REMUNERATION

	2016 £000	2015 £000
Salaries and Bonus	843	755
Share based payments	191	188
	1,034	**943**

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2015: nil).

There were no directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2015: one director received 20 B shares in Hoggant Ltd)

The aggregate of emoluments of the highest paid director was £487k (2015: £431k). 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.

3.8 OPERATING LEASES

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

	2016 £000	2015 £000
Less than 1 year	192	219
Between 1 and 5 years	3,877	91
Over 5 years	7,472	-
	11,541	**310**

3.9 TAX

3.9.1 RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2016 Continuing operations £000	2016 Discontinued operations £000	2016 Total £000	2015 Continuing operations £000	2015 Discontinued operations £000	2015 Total £000
Current tax:						
Current tax on profits for the year	537	(322)	215	-	-	-
Deferred tax:						
Origination and reversal of temporary differences	450	-	450	(583)	-	(583)
Adjustments in respect of prior periods	66	-	66	(6)	-	(6)
Effect of tax rate change on opening balance	(90)	-	(90)	83	-	83
Total deferred tax charge/(credit)	**426**	-	**426**	**(506)**	-	**(506)**
Tax on profit/(loss) on ordinary activities	**963**	**(322)**	**641**	**(506)**	-	**(506)**

3.9.2. TAX RECONCILIATION

	2016 £000	2015 £000
Profit/(Loss) for the year	**2,795**	**(3,335)**
Tax using the UK corporation tax rate of 20.00%/20.25%	559	(675)
Effects of:		
Permanent non-deductible expenses	106	19
Impact of rate differences	(90)	73
Effect in change of deferred tax rate	-	83
Adjustment for prior year tax differences	66	(6)
	641	**(506)**

4. Statement of Financial Position Analyses

4.1 LOANS AND ADVANCES TO BANKS AND BUILDING SOCIETIES

	2016 £000	2015 £000
Placements with other Banks and Building Societies included in Cash and Cash Equivalents		
Repayable on demand	135,705	60,074
Remaining maturity of twelve months or less but over three months*	612	610
	136,317	**60,684**

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

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £128,831k (2015: £30,099K).

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.

	2016 £000	2015 £000
Aa2	-	100
A1	7,384	15,637
A2	-	4,268
A3	102	10,580
	7,486	**30,585**

4.2. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost:	2016 £000	2016 £000	2015 £000
Property Finance	207,709		99,226
Less: allowance for impairment	(200)		-
		207,509	99,226
Commercial Mortgages	101,428		-
Less: allowance for impairment	(127)		-
		101,301	-
Asset Finance			
Hire Purchase	91,397		44,348
Finance Leases	21,048		11,822
Less: allowance for impairment	(359)		(86)
	112,086		56,084
Block Discounting	41,718		12,874
Less: allowance for impairment	(62)		(19)
	41,656		12,855
		153,742	68,939
Asset backed lending	2,573		9,448
Less: allowance for impairment	(1,600)		-
		973	9,448
		463,525	177,613

4.2.1 HIRE PURCHASE

The table below provides an analysis of Hire Purchase receivables.

	2016 £000	2015 £000
Gross investment in hire purchase, receivable:		
Less than one year	32,166	13,273
Between one and five years	59,924	31,476
	92,090	44,749
Unearned finance income	(693)	(401)
Net investments	91,397	44,348
Less impairment allowance	(227)	(68)
	91,170	**44,280**
Net investment in hire purchase, receivable:		
Less than one year	31,924	13,155
Between one and five years	59,473	31,193
	91,397	**44,348**

4.2.2 FINANCE LEASE RECEIVABLES

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

	2016 £000	2015 £000
Gross investment in finance leases, receivable:		
Less than one year	6,402	2,847
Between one and five years	14,800	9,073
	21,202	11,920
Unearned finance income	(154)	(98)
Net investment in finance leases	21,048	11,822
Less impairment allowance	(132)	(18)
	20,916	**11,804**
Net investment in finance leases, receivable:		
Less than one year	6,356	2,824
Between one and five years	14,692	8,998
	21,048	**11,822**

4.2.3 ALLOWANCE FOR IMPAIRMENT

	2016 £000	2015 £000
Individual allowance for impairment		
Balance at 1 January	4	23
Charge for the year	2,244	64
Write offs	(363)	(83)
Balance at 31 December	**1,885**	**4**
Collective allowance for impairment		
Balance at 1 January	101	16
Charge for the year	362	85
Balance at 31 December	**463**	**101**

4.3 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivatives to reduce exposure to market risks, and not for trading purposes. The Bank uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA"). The fair value of derivatives is set out below:

	Notional Amount £000	Fair value of assets £000	Fair value of liabilities £000
Interest rate swaps:			
At 31 December 2016	303,400	622	(526)
Interest rate swaps:			
At 31 December 2015	127,400	146	(55)

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.

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

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and those that are subject to collateral arrangements only (e.g. loans and advances).

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting on balance sheet			Related amounts not offset		
	Gross amount 31 Dec £000	Amount offset 31 Dec %	Net amount reported on balance sheet 31 Dec £000	Cash collateral 31 Dec £000	Net amount 31 Dec £000	Amounts not subject to enforceable netting arrangements 31 Dec £000
2016						
Derivative financial instruments – assets	622	-	622	-	-	-
Derivative financial instruments – liabilities	(526)	-	(526)	-	-	-
Total financial instruments	**96**	-	**96**	**-**	**-**	**-**
2015						
Derivative financial instruments – assets	146	-	146	-	-	-
Derivative financial instruments – liabilities	(55)	-	(55)	-	-	-
Total financial instruments	**91**	-	**91**	**-**	**-**	**-**

Gains and losses from derivatives are as follows:	2016 £000	2015 £000
Gains of derivative financial instruments	397	146
Losses on derivative financial instruments	(392)	(55)
Fair value gains on derivative financial instruments	**5**	**91**

4.4 OTHER ASSETS

	2016 £000	2015 £000
Other debtors	1,852	948
Prepayments	485	290
Other Assets	**2,337**	**1,238**

4.5 INVESTMENTS IN SUBSIDIARIES

The Bank has the following investments in subsidiaries:

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

Shares in the subsidiary are stated at cost less any provision for impairment. Hampshire Bank Limited is unlisted and has an accounting reference date of 31 December. It is not a banking institution.

4.6 PROPERTY, PLANT AND EQUIPMENT

	Equipment £000	Fixtures and fittings £000	Total £000
Cost			
At 1 January 2016	565	282	847
Additions	114	647	761
At 31 December 2016	**679**	**929**	**1,608**
Depreciation			
At 1 January 2016	177	90	267
Charge for year	151	83	234
At 31 December 2016	**328**	**173**	**501**
Net book value			
At 31 December 2016	**351**	**756**	**1,107**
At 31 December 2015	388	192	580

4.7 INTANGIBLE ASSETS

	Software £000
Cost	
At 1 January 2016	1,459
Additions	1,150
At 31 December 2016	**2,609**
Amortisation	
At 1 January 2016	322
Charge for year	442
At 31 December 2016	**764**
Net book value	
At 31 December 2016	**1,845**
At 31 December 2015	1,137

4.8 DEFERRED TAX ASSET

Deferred tax assets are attributable to the following:

	2016 £000	2015 £000
Accelerated capital allowances	15	(39)
Short term timing differences	12	4
Tax losses carried forward and other deductions	880	1,368
Deferred Tax Asset	**907**	**1,333**

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

	2016 £000	2015 £000
Balance brought forward	1,333	826
(Debit) / Credit to the income statement	(426)	506
Credit to other comprehensive income	-	1
Deferred Tax Asset	**907**	**1,333**

The deferred tax asset is recognised based on the Bank's corporate plan which projects sufficient profits. The deferred tax asset at 31 December 2016 has been calculated based on the rate of 20% at the reporting date.

4.9 CUSTOMER DEPOSITS

	2016 £000	2015 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	2,880	1
Not more than three months	79,816	17,085
More than three months but not more than one year	228,243	75,692
More than one year but not more than five years	212,376	94,394
Customer Deposits	**523,315**	**187,172**

4.10 OTHER LIABILITIES

	2016 £000	2015 £000
Other taxation and social security	707	305
Other creditors	1,423	659
Accruals	6,581	2,919
Other Liabilities	**8,711**	**3,883**

4.11 PROVISIONS

FSCS Levy

	2016 £000	2015 £000
At 1 January	45	27
Adjustment to provision	12	36
Paid during the year	(21)	(18)
At 31 December	**36**	**45**

The levy represents the estimated amount payable under the FSCS for the 2016/2017 scheme year, which runs from March 2016 to March 2017, and is calculated with reference to the protected deposits held at 31 December 2015. 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.

4.12 CAPITAL AND RESERVES

4.12.1 SHARE CAPITAL

Authorised, issued and fully paid

	Ordinary shares of £1 each	
	2016	2015
	£000	£000
On issue at 1 January	58,288	36,663
Issued for cash	20,000	21,625
On issue at 31 December	**78,288**	**58,288**

During the year the Bank issued 20,000,000 Ordinary shares of £1 each for cash at par value.

4.13 FINANCIAL INSTRUMENTS

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

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

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

4.13.1 INVESTMENT SECURITIES AVAILABLE FOR SALE

The fair value of Investment Securities Available for Sale is determined by reference to their quoted bid price at the reporting date. These have been measured according to level 1 inputs.

4.13.2 LOANS AND ADVANCES

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

4.13.3 DEPOSITS

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

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are shown in the following table.

	Hierarchy level	Loans and receivables £000	Total carrying amount £000	Fair Value £000
At 31 December 2016				
Assets				
Loan and advances to Banks	Level 1	136,317	136,317	136,317
Loans and advances to customers	Level 3	463,525	463,525	464,926
Total		**599,842**	**599,842**	**601,243**
Liabilities				
Customer Deposits	Level 3	523,315	523,315	525,597
Total Liabilities		**523,315**	**523,315**	**525,597**
At 31 December 2015				
Assets				
Loans and advances to Banks	Level 1	60,684	60,684	60,684
Loans and advances to Customers	Level 3	177,613	177,613	177,762
Total		**238,297**	**238,297**	**238,446**
Liabilities				
Customer Deposits	Level 3	187,172	187,172	186,997
Total Liabilities		**187,172**	**187,172**	**186,997**

4.13.4 DERIVATIVE FINANCIAL INSTRUMENTS

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

4.14 DISCONTINUED OPERATIONS

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

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

	2016 £'000	2015 £'000
Interest receivable and similar income	375	521
Net interest income	**234**	**323**
Operating Income	492	709
Impairment losses	(1,606)	-
Administration and other expenses	(496)	(969)
Profit before Tax	(1,610)	(260)
Tax	322	-
Profit for the year – Discontinued operations	**(1,288)**	**(260)**
Net cash flow from operating activities	**6,883**	**(4,480)**

5. Other Analyses

5.1 RISK MANAGEMENT

The main areas of risk that the business is exposed to are:

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

5.1.1 CREDIT RISK

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

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

	2016	2015
	£000	£000
Loans and Advances to Banks	136,317	60,684
Loans and Advances to Customers	463,525	177,613
	599,842	238,297
Financial guarantees	-	506
Contractual loan commitments	189,838	116,405
Total Credit Risk	**789,620**	**355,208**

Fair value of security is £755.0m (2015: £285.6m) in the form of land, residential and commercial property, £9.1m (2015: £29.2m) in the form of receivables and £154.2m (2015: £63.2m) in the form of finance lease and hire purchase agreements.

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

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2016. However, loan facilities of £178.5m granted under Property Finance are legally drafted as on-demand and are uncommitted.
Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment:

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

At 31 December 2016 the total value of arrears amounted to £767k (2015: £9.6k), representing 17bps of the total book (2015: 1bps). Of this total value, £453k was over three months in arrears at 31 December 2016 (2015: £nil).

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 £10.8m as at 31 December 2016 (2015: £nil).

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, financial guarantees and contractual commitments is shown below.

	Loans and advances to Banks and Building Societies		Loans and advances to Customers		Financial Guarantees and Contractual Commitments	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Carrying amount	136,317	60,684	463,525	177,613	162,268	116,911
Concentration by sector						
Corporate	-	-	309,783	108,674	162,268	116,911
Government	128,831	30,099		-		-
Banks and Building Societies	7,486	30,585		-		-
Retail		-	153,742	68,939		-
	136,317	60,684	463,525	177,613	162,268	116,911
Concentration by location						
UK	136,317	60,684	463,525	177,613	162,268	116,911

5.1.2 LIQUIDITY RISK

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

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

At 31 December 2015	Carrying value £000	Net inflow / (outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000
Assets						
Loan and advances to Banks	136,317	136,317	135,704	-	613	-
Loans and advances to customers	463,525	547,663	39,488	56,377	136,140	315,658
Contractual loan commitments	162,268	166,097	25,929	36,730	62,718	40,720
Total	**762,110**	**850,077**	**201,121**	**93,107**	**199,471**	**356,378**
Liabilities						
Deposits	(523,315)	(534,640)	(12,644)	(70,203)	(230,219)	(221,574)
Contractual loan commitments	(162,268)	(162,258)	(160,555)	(1,703)	-	-
Total	**(685,583)**	**(696,898)**	**(173,199)**	**(71,906)**	**(230,219)**	**(221,574)**
At 31 December 2015						
Assets						
Loan and advances to Banks	60,684	60,684	60,073	-	611	-
Loans and advances to customers	177,613	192,200	13,630	7,331	74,435	96,804
Contractual loan commitments	116,405	129,871	23,205	1,219	36,621	68,826
Total	**354,702**	**382,755**	**96,908**	**8,550**	**111,667**	**165,630**
Liabilities						
Deposits	(187,172)	(192,179)	(2)	(17,139)	(76,285)	(98,753)
Contractual loan commitments	(116,405)	(116,405)	(23,205)	(1,200)	(35,368)	(56,632)
Total	**(303,577)**	**(308,584)**	**(23,207)**	**(18,339)**	**(111,653)**	**(155,385)**

5.1.3 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.

(a) Interest rate risk

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

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

(b) Interest rate sensitivity gap

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

	2016 £000	2015 £000
+200 basis points	4,502	1,486
-200 basis points	(2,369)	(1,570)

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

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

	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Non-interest bearing £000	TOTAL £000
At 31 December 2015						
Assets						
Loan and advances to Banks	60,684	-	-	-	-	60,684
Treasury Bills	-	-	-	-	-	-
Loans and advances to customers	11,309	102,961	15,398	46,530	1,415	177,613
Other assets	-	-	-	-	4,434	4,434
Total Assets	**71,993**	**102,961**	**15,398**	**46,530**	**5,849**	**242,731**
Liabilities						
Customer Deposits	1,179	16,080	75,046	94,867	-	187,172
Non-interest bearing liabilities	-	-	-	-	3,983	3,983
Equity	-	-	-	-	51,576	51,576
Total Liabilities	**1,179**	**16,080**	**75,046**	**94,867**	**55,559**	**242,731**
Notional value of derivatives	12,800	(15,000)	(15,400)	17,600		
Interest rate sensitivity gap	83,614	71,881	(75,048)	(30,737)	(49,710)	
Cumulative gap	83,614	155,495	80,447	49,710	-	

5.2 CAPITAL MANAGEMENT

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

	2016 £000	2015 £000
Share Capital	78,288	58,288
Share Premium	196	196
Retained Earnings	(4,412)	(6,908)
Intangible Assets	(1,845)	(1,137)
Common Equity Tier 1 Capital	**72,227**	**50,439**
Tier 2 Capital - Collective Provision	**463**	**101**
Total Regulatory Capital	**72,690**	**50,540**

5.3 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 3.7.

The following Directors directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2016:

	Class A Shares		Class B Shares	
Director	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	250,000	250,000	175	1.75
Ketan Malde	200,000	200,000	125	1.25
James Drummond Smith	25,000	25,000	20	0.20

Three directors held deposits with the Bank as at 31 December 2016 amounting to £100k (2015: £nil).

5.4 ULTIMATE PARENT COMPANY

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

Glossary

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