ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2020

HTB

Hampshire Trust Bank Plc

Company number: 1311315

Non- Executive Directors

Robert Sharpe (Chairman)

James Drummond Smith
(resigned on 31/01/2021)

Robert East

Astrid Grey

Richard Price

Dominic Slade

Martyn Scrivens
(appointed on 31/01/2021)

Executive Directors

Matthew Wyles (Chief Executive Officer)

Timothy Blackwell (Chief Financial Officer)

Secretary & Registered Office

Scott Southgate (Secretary)

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Independent Auditor

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1. Strategic Report

Key Highlights

Continuing to build our franchises despite lower market activity levels

- Net lending assets grew 13% to £1,328m (2019: £1, 180m)
- New lending volume down 16% year on year (£591m) impacted mainly by lower market activity levels and also tightened underwriting, but quarterly run-rate volumes back above pre-Covid levels in Q4
- Strong momentum in depth and breadth of Deposits & Savings franchise supported deposit growth of 24% to £1, 126m (2019: £904m)
- Award-winning Savings Franchise[1]

Delivering strong margins through disciplined pricing and cost effective funding

- Strong Gross Income Margin of 5.8% (2019: 6.2%).
- Average deposit book cost of funds 1.55% (2019: 1.80%) with new deposit cost in 2020 of 1.37% (2019: 1.82%)
- Strong Net Revenue Margin 4.0% (2019: 4.4%) reflecting pricing discipline and changes in lending asset mix.

Investing in our operating platform to both support customers through uncertain times and future growth

- Growth in HTB Team, up 10% to 242 (2019: 221), to provide additional support to existing customers facing uncertain times and deliver growth
- Continued investment in technology to support remote working by staff and ongoing enhancement to our delivery of customer service
- Cost to Asset Ratio 2.6% (2019: 2.8%), improving underlying efficiency albeit impacted by operational responses to Covid-19, including rapid deployment of remote working by staff and additional staffing to support customers

Impairment charges reflect the forward-looking recognition of potential credit losses under IFRS

- Significant increase in IFRS 9 provisions to £15.4m (2019: £4.5m) resulting in a coverage ratio of 1.2% (2019: 0.3%)
- Underlying credit performance remaining relatively benign with total book arrears of 29bps (2019: 38bps) and credit loss write-offs remaining at low levels £3.8m (2019:£0.8m)

Strong capital and liquidity position providing resilience and support for future growth

- Strong capital position maintained with CET1 Ratio of 19% (2019: 17%) and Total Capital Ratio of 22% (2019: 21%)
- Ongoing changes in portfolio mix to less capital intensive assets with RWA Density 55% (2019: 64%). Conservative liquidity levels maintained with Liquidity Coverage Ratio of 393% (2019: 219%)

1. Feefo independently collects reviews from customers. According to Feefo, the Platinum Trusted Award is its most prestigious accolade and is awarded for maintaining an average score of over 4.5 for three consecutive years, while collecting at least 50 reviews. HTB Savings also achieved the award for best Business Fixed Account Provider, and HTB's Specialist Mortgage business achieved the award for best service from a Buy to let Lender - Business Moneyfacts Awards 2020.

Definitions of key ratios are found in the glossary.

Chairman's Overview

Robert Sharpe
Chairman

2020 has proved to be a uniquely challenging year. It started well, as we benefited from the strong momentum we had built up in 2019. By the end of March, however, it became apparent that our plan for the year was no longer valid and that we were confronting a new and terrible threat to public health and economic growth.

Such was the speed with which the Covid-19 crisis developed, that a rapid and decisive operational response was clearly required. HTB's modern and flexible operating platform proved equal to the challenge. With no significant adverse impact on operational stability, we migrated our entire workforce and all the associated processes into a new working from home (WFH) model over the course of two weeks. At the same time, our customer facing colleagues dealt with a large influx of enquiries from worried customers who could already see the damage which the pandemic could and, in some cases, would do to their businesses. I am very proud of the calm, competent and effective way in which the Bank's management and employees set about engaging with and supporting our customers. The care and concern which we showed to our customers during this troubled time will be reflected, I am certain, in even higher levels of advocacy and loyalty during 2021 and beyond.

The Bank demonstrated high standards of operational resilience during 2020 but we were also pleased by the way our loan portfolios stood up to the economic shock caused by the contraction of both commercial and consumer activity from April onwards. Whilst the IFRS9 accounting standard required us to make significant provisions against our loan books which encumbered much of our 2020 profits, our loan write offs remained relatively low. We enter 2021 with a very substantial buffer of provisions against possible future credit losses.

Since 2008, our regulator, the Prudential Regulation Authority, has progressively raised standards in UK bank solvency, liquidity and operational resilience. It is already apparent that 2020 was the year in which the value of this huge structural recalibration and reinforcement was demonstrated. The UK banking system has, as a result, been able to continue to provide funding and liquidity to businesses and consumers, is one of the success stories of the Covid pandemic. HTB has played its full part.

In particular, we enjoyed strong new business growth during the second half of 2020 which has meant that, despite the economic pressures, we grew our balance sheet again, albeit at a slower rate than the preceding year and we enter 2021 with a very strong pipeline of new business. Whilst our underwriting is, appropriately, more cautious at present we have capitalised on the many opportunities we have found to lend to good customers who, like us, have proved the strength and resilience of both their strategy and business model during 2020.

Whilst we remain confident of a bright future for HTB, we are not complacent about the heightened macro-economic risks which we will face during 2021 and beyond. We expect to see the range of Covid support schemes launched by HM Government gradually withdrawn or tapered down during the coming months. Only then, will we properly understand how much long term damage the UK economy has sustained. At the same we will be learning to live with our new and more arms-length relationship with Europe which will inevitably create additional headwinds for some British businesses.

Our capacity to compete successfully and to grow share in our chosen markets has never been greater. We could not have reached this point of advantage without the wise and skilful guidance of my Board colleagues and the unwavering commitment of our investors. I thank them all, once again, for their indispensable contribution to the Bank's present and future success.

In particular, I want to salute Jamie Drummond-Smith who left the Board in early 2021. Jamie became a Non-Executive Director in 2014 and has ably chaired our Audit Committee ever since. His integrity, intelligence and perceptive analysis have proved invaluable and we can't thank him enough for his contribution. I am delighted to welcome Martyn Scrivens who succeeds Jamie as our new Chair of Audit. Martyn has had a long and distinguished career in banking, most recently with Lloyds Banking Group and Credit Suisse. My colleagues and I are very much looking forward to working with him.

To conclude, HTB enters 2021 with its business model demonstrably valid, its capital base undamaged and its reputation enhanced. Despite the obstacles which may lie ahead, we are well positioned to build on our success and we will maintain our sharp focus on delivering the best possible outcomes for our customers, our communities, our employees and our shareholders.

Robert Sharpe
Chairman

Chief Executive's Report

Matthew Wyles
Chief Executive

Hampshire Trust Bank Plc (HTB) faced exceptionally challenging trading conditions during most of 2020 which will be long remembered as the year of the pandemic. Despite the massive shock to the UK economy, HTB demonstrated conclusively the strength and resilience of its business model and its strategy.

As the Chairman has already highlighted in his statement, in the course of a couple of weeks during March, we were obliged to shift all our people from their office base to working from home. This migration was accomplished seamlessly and without any kind of disruption to customer service. As we executed this challenging manoeuvre, our customer facing colleagues concentrated on looking after our customers, many of whom contacted us for help and advice as they contemplated the serious threat which the pandemic posed to their businesses and their livelihoods. At every level of seniority, HTB people demonstrated great professionalism and a genuine commitment to the welfare of our customers whilst, in tandem, they dealt with their own domestic Covid issues. I would like to place on record my gratitude and my appreciation of everything that my colleagues did for the Bank and its customers during this very difficult year.

The significant investment which we had made in developing and upgrading our operating platform during 2019 was entirely vindicated and our systems proved more than equal to the logistical challenges of managing a bank in lockdown. The marked increase in customer activity to which I have referred, led us to increase our headcount by about 10% as we deployed more skilled people into the customer facing front line. Despite this, our cost to asset ratio fell from 2.8% to 2.6%. We expect to be able to gradually reduce our Covid-related operational costs during 2021.

Whilst we prudently tightened our underwriting criteria at the end of Q1, we continued to lend throughout 2020. This activity stepped up sharply during the last four months of the year and lending assets rose 12% to £1.33bn. Despite the headwinds, our new business volumes were only down 16% on 2019 and our new business run rate in the last quarter of 2020 was well ahead of the corresponding period in 2019. We have adopted a cautious approach to the Government backed loan schemes and, although we joined the Coronavirus Business Interruption Loan Scheme (CBILS) during the year, we did not start to deploy it until early 2021.

I will again reiterate our absolute commitment to pricing discipline and our unswerving determination not to commit capital to assets which fail to clear our minimum risk adjusted return hurdles. Whilst the Bank's Net Interest Margin (NIM) reduced to 4.3% (2019: 4.4%), this was exclusively attributable to a change in business mix as our Specialist Mortgage division continued to grow strongly.

This ongoing shift towards lower risk weighted assets (RWA) resulted in a significant reduction in the Bank's RWA density with the positive implications this has for the Bank's underlying return on capital employed.

Since 2018, we have steadily grown our very successful specialist mortgage business and this comparatively low risk lending class now comprises circa 65% (2019: 54%) of our lending assets. We have proved the important role that HTB can play in this market and we will continue to build on our strong position whilst sticking to our winning formula of a rigorous, analytical credit culture combined with a responsive, can-do approach to our customers and intermediary partners. We were delighted to win the 2020 award from Business Moneyfacts for the Best Service from a Buy to Let Lender.

Our Specialist Mortgages division experienced high demand for payment holidays following the FCA's announcement on the subject in March 2020. Over the course of the year we granted some degree of forbearance to 202 accounts but, at 31 December 2020, only 15 remained in forbearance. We expect most of these remaining cases to return to performing status during early 2021.

Clearly 2020 was a difficult year for commercial real estate (CRE), particularly retail. Having withdrawn from CRE financing in 2018, we had an exposure of just £30m (2019: £31m) to this sector with only 1.5% of this book (2019: 1.6%) in arrears at year end.

Our well established and highly regarded residential Development Finance business concentrated on credit stewardship during the first half of 2021. We were surprised by the strength of the housing market in the second half of the year which was driven by the temporary reduction in Stamp Duty and the division saw a spike in repayments as the proceeds of unit sales poured in. The result was that our portfolio was materially de-risked by the end of 2020 but total loan balances contracted by circa £95m. The division returned decisively to new lending from August onwards and built a very strong pipeline of deals which will draw during 2021 and 2022.

We do, however, recognise that there are risks to the downside for the housing market in 2021 and we will continue to focus on those specific segments of the residential new build market which our credit analysis demonstrates have strong defensive characteristics. In order to drive further risk diversification we also intend to widen our geographical coverage by recruiting more relationship managers across England and Wales.

Turning to the asset finance market, the SME sector was severely impacted by the pandemic although the distress was sharply skewed towards specific industry groups such as hospitality where HTB had limited exposure. Nevertheless, circa 40% of our asset finance loan portfolio was granted some degree of forbearance during the first half of the year although, of these cases, 96% by number had returned to performing status by the year end. The division's arrears position at the end of 2020 is lower than at the end of 2019. Our new lending during 2020 was highly selective and favoured businesses which were demonstrably Covid resilient. The division's continued focus on specialist lines of business paid dividends and its total book yield widened yet again to 7.23% (2019: 6.54%)

The trading environment for UK SMEs remains extremely uncertain and we will continue to lend cautiously in the asset finance market. Demand is muted, unsurprisingly, and the Government's CBIL Scheme is soaking up much of the new business which comes to market.

HTB's deposit taking business (which remains our principal funding source) performed strongly during 2020. Our excellent reputation in the SME market was reconfirmed when we were named the Business Moneyfacts Best Fixed Deposit Account Provider for the fourth year running and the Moneynet Best Overall Business Savings Provider for the third year running.

We continued to diversify the range of customer groups whom we serve, to include medium sized corporates and a small group of aggregator platforms. The total number of active depositors rose by 28.4% and, having piloted ISAs in 2019, we grew the ISA portfolio by 951 % during 2020. We were delighted to win the Feefo Platinum Trusted Service award for the second year running.

The savings market softened markedly during the year and the deposit book's average cost reduced to 1.36% from 1.80%. As is appropriate in troubled times, we maintained a conservative approach to liquidity with a Liquidity Coverage Ratio of 393% (2019: 219%).

Despite the distractions caused by the Covid crisis, we sustained our multi-year change agenda and continued to invest in the technology which has served us so well. During 2020 our investment priorities included enhanced customer experience, lower operational risk and improved operational leverage. We launched an important new cloud based platform for our asset finance division and we built a new broker portal for our specialist mortgage business. We also made excellent progress in the development of our new data warehouse which will help to underpin our data driven rationale to underwriting and risk management.

Turning to credit performance, we were generally pleased with the way our loan books stood up to the economic shock of successive lockdowns. The forward looking nature of the IFRS9 accounting standard, combined with increased economic uncertainty resulted in the increase of total provisions in the balance sheet to £15.4m (2019: £4.5m) which reduced the 2020 PBT to £2.9m (2019: £13.6m) after charges of £14.7m (2019: £3.4m) in losses and provisions. Of this, only £3.8m (2019: £1.9m) related to write-offs. As a consequence we enter 2021 with a very substantial defensive buffer equivalent to 1.2% (2019: 0.4%) of lending assets. Our total book arrears stand at 0.29% (2019: 0.38%).

The Bank's balance sheet remains strongly capitalised with a CET1 ratio of 19% (2019: 17%) and a Total Capital Ratio of 22% (2019: 21%)

Turning to the future, we recognise the uncertainties around the economic climate prevailing during 2021. Based on our current momentum and the trading conditions we are experiencing, we remain cautiously optimistic. Our strategy, which we summarise as Excellence through Specialism, has proved to be effective and durable. We focus with intense clarity on those clearly defined segments of our target markets where we can add value and where we can leverage our experience, expertise, research and analysis to secure and sustain superior risk adjusted returns. HTB's high performance culture is underpinned by our clear, consistent strategy and a small, high calibre workforce of specialists supported by modern, resilient and scalable technology.

Conclusion

2020 was a very tough year for all UK banks but HTB proved equal to the challenge. We were able to care for all our existing customers by maintaining consistently high standards of service whilst continuing to grow our business and expand our market franchise. The quality, skill and commitment of our people shone through and our modern, flexible operating platform proved to be reliable and effective.

The pandemic and its associated consequences are by no means over, but HTB enters 2021 strongly capitalised and well positioned. Our strong new business performance during Q4 2020 will underpin our growth during the first half of the coming year. We have all components in place to deliver another strong performance in 2021.

Matthew Wyles
Chief Executive

Financial and Business Review

	2020 £m	2019 £m
Loans and Advances to Banks	**156.7**	**84.6**
Investment Securities	**20.1**	**-**
Loans at fair value through profit or loss – *Development Finance*	**50.4**	**126.5**
Loans and advances to customers:	**1,277.1**	**1,053.4**
Specialist Mortgages	904.8	632.4
Development Finance	113.4	130.0
Asset Finance	174.4	200.3
Wholesale Finance	84.5	90.7
Other Assets	**18.1**	**19.4**
Total Assets	**1,522.4**	**1,283.9**
Customer deposits	1,125.6	904.2
Central Bank Facilities	180.0	173.0
Tier 2 Capital	30.0	30.0
Other Liabilities	32.7	25.2
Total Liabilities	**1,368.3**	**1,132.4**
Equity	**154.1**	**151.5**
Ratios/KPIs		
Risk weighted assets (“RWA”) (£m)	**725.1**	**757.4**
RWA Density (RWA as % of Loans)	**55%**	**64%**
Common Equity Tier 1 capital (£m)	**144.0**	**137.5**
Tier 2 Capital (£m)	**30.0**	**30.0**
Common Equity Tier 1 Ratio	**19%**	**17%**
Total Capital Ratio	**22%**	**21%**
Leverage Ratio	**10%**	**11%**
LCR	**393%**	**242%**
Loan to deposits Ratio	**118%**	**131%**

Liquidity

The Bank had £156. 7m (2019: £84.6m) in loans and advances to banks as at 31 December 2020. This represented over 13% of total deposits held (2019: 9%), including high quality liquid assets of £134.8m at 31 December 2020 (2019: £77.5m), all in the form of deposits held in the Bank of England Reserve Account. For the first time the Bank also invested in covered bonds with balances of £20.1 m as at 31 December 2020 (2019: nil). The liquidity coverage ratio ('LCR') was 393% (2019: 242%), substantially in excess of the minimum set by the PRA of 100%.

Loans to customers

Despite the challenges imposed by the COVID 19 pandemic net loans and advances to customers continued to grow reaching £1,327m as at 31 December 2020 from £1, 180m as at 31 December 2019. The Bank's principal lending activities are as follows:

Specialist Mortgages provides various forms of mortgage loans to professional property developers and landlords via a panel of specialist brokers. Lending comprises buy to let mortgage loans secured on residential properties, bridging finance for property investors in the residential market, semi-commercial loans (where the property is mainly residential housing) and commercial investment mortgages on commercial premises. The business grew 43% from £632.5m in 2019 to £904.8m in 2020, with £310.2m of originations.

Development Finance provides finance mainly for development to well established UK SME house builders and property developers. The business lends throughout England and Wales and is mostly sourced direct from the market. There was a decrease in the loan book of 36% during the year from £256.5m in 2019 to £163.8m when including loans held at fair value through profit and loss of £50.4m.

The loan book continued to experience a steady flow of maturing loans as developments are successfully completed and marketed for sale. Repayments amounted to £259.4m in 2020 (2019: £185.7m) and new business amounted to £171.8m (2019: £222.1m). A key focus of this business is to undertake repeat business which comprised around 49% of business written.

Asset Finance provides small to middle ticket leasing and hire purchase secured on vehicles and business assets for SMEs. Finance is sourced via a network of specialist finance brokers who are serviced by a regionally based team of broker managers. Originations in the year decreased from £95.6m in 2019 to £70.1 m in 2020 due to the challenges to SMEs posed by the COVID 19 pandemic and therefore selective lending to COVID resilient businesses. As a result of the decrease in originations, the asset finance book has decreased by 12.9% from £200.3m in 2019 to £174.4m in 2020.

Wholesale Finance, provides wholesale finance to non-bank small finance houses secured on the receivables in their own loan books. The Bank employs an experienced team to undertake this specialised activity which is direct to the customer. Loan books are routinely reviewed by an in-house team and the loan agreements allow for defaulting underlying customer loans to be replaced with new security paper. The loan book remained relatively stable given the economic environment, decreasing by 6.8% from £90.7m in 2019 to £84.5m in 2020 with £38.5m of new business in the year.

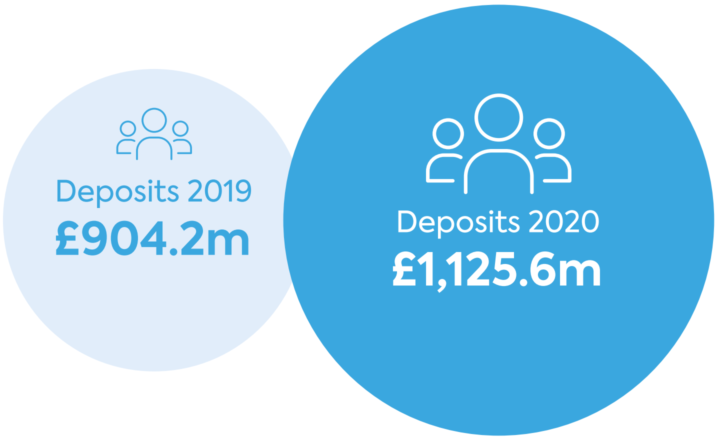
Funding

The main funding for the loan books is sourced from deposits and the Bank's loan to deposit ratio at 31 December 2020 was 118% (2019: 131 %). The Bank is predominantly funded by deposits which are serviced by our in-house team through an online portal alongside traditional post and telephone methods.

	2020 £'000	2019 £'000
Notice deposits	233,558	311,926
Term deposits	892,002	592,245
Total Customer Deposits	**1,125,560**	**904,171**

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

	2020 £'000	2019 £'000
Retail deposits	813,817	623,472
SME deposits	311,743	280,699
Total Customer Deposits	**1,125,560**	**904,171**



Deposit balances increased from £904.2m in 2019 to £1, 125.6m in 2020. Customer numbers have risen from around 17,000 at the start of the year to around 22,000 at the year end. Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme. At 31 December 2020, 86% of deposits with a value of £974m were protected under the Scheme.

In addition to Customer Deposits, the Bank continued to use the Bank of England's four year TFS (Term Funding Scheme) with drawn balances of £135m at 31 December 2020 (2019: £135m). Furthermore, drawings under the Bank of England's Indexed Long-Term Repo scheme ("IL TR") as at 31 December 2020 were £45m (2019: £38m).

Capital

The Bank's Common Equity Tier 1 (CET1) Capital comprises ordinary share capital plus share premium, fair value through other comprehensive income reserve and retained earnings, less intangible assets. Regulatory adjustments to CET 1 consist of Prudential Valuation Adjustments and Securitisation positions.

CET1 on a statutory basis as at 31 December 2020 was £144.0m (2019: £137.5m). The statutory CET1 ratio as at 31 December 2020 was 19% (2019: 17%). The CET1 ratio remains above our target minimum and our risk-weighted asset (RWA) density (RWA divided by customer loans) for the Bank at 31 December 2020 was 55% (2019: 64%). This resulted in a leverage ratio of 10% (2019: 11 %).

Financial Review

	2020 £'000	2019 £'000
Interest income calculated using the effective interest method	68,926	54,388
Other Interest Income	7,466	10,545
Interest Expense and similar charges	(22,020)	(18,694)
Net interest income	**54,372**	**46,239**
Fees and commissions income	1,548	1,500
Fees and commissions payable	(784)	(295)
Other income	3	6
Net loss on loans at fair value through profit or loss	(5,369)	(1,943)
Operating Income	**49,770**	**45,507**
Impairment losses	(14,671)	(3,375)
Administrative expenses	(32,236)	(28,587)
Profit before Tax	**2,863**	**13,545**
Tax	(309)	(2,746)
Profit for the period	**2,554**	**10,799**

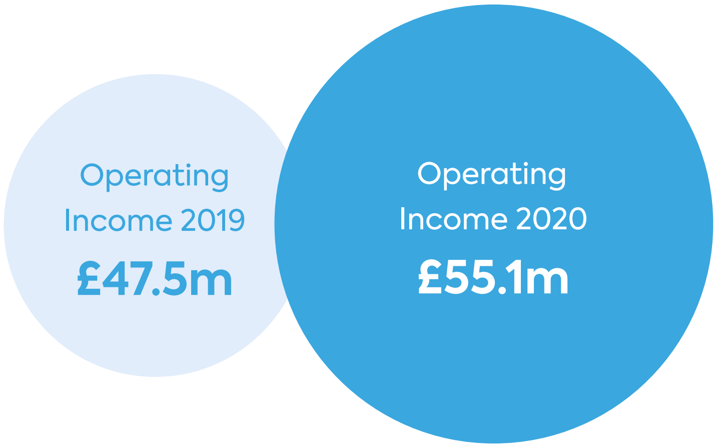
Ratios [1]		
Gross Income Margin	**5.8%**	**6.2%**
Blended cost of funds (after hedging)	**1.6%**	**1.8%**
Net Interest Margin	**4.3%**	**4.4%**
Net Revenue Margin	**4.0%**	**4.4%**
Cost to Asset Ratio	**2.6%**	**2.8%**
Cost Income Ratio	**60%**	**61%**
Cost of Risk	**1.60%**	**0.51%**
Return on Required Equity (post tax)	**2.8%**	**11.4%**
Return on Equity (post tax)	**1.7%**	**7.8%**

1. Definitions of key ratios are found in the glossary. To provide a clear comparison between 2019 and 2020 metrics, Net Revenue Margin has been defined to exclude Fair Value losses on Loans and Advances to customers. Cost of Risk is defined to include the Fair Value losses on Loans and Advances to customers as this best represents the underlying asset quality.

Operating income

Operating income, excluding the net loss on loans at fair value, increased by £7.6m to £55.1 m (2019: £47.5m). This principally reflects the growth in average lending assets and the effect of the change in lending mix on the Net Revenue Margin generated from those assets.

The Net Revenue Margin was 4.0% in 2020 down from 4.4% in 2019 principally driven by the change in lending asset mix, with stronger growth in Specialist Mortgages (43% of overall loan growth) relative to Asset Finance and Wholesale Finance (11 % decline) and Development Finance (12.8% decline).



Administrative expenses

In 2020, the Bank delivered strong operating jaws with an increase in operating income, excluding net loss on loans held at fair value, of 16% compared to an increase in administrative expenses of 13%.

The main expense drivers during the year were:

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

Impairments

The cost of risk was 1.60% (2019: 0.51%). Economic uncertainty during COVID 19 resulted in a significant increase in credit impairment charges of 332%, £14. 7m in 2020 compared to £3.4m in 2019. Of this £10.9m (2019: £2.6m) relates to a net increase in IFRS9 provisions with the remaining £3.8m (2019 £0.8m) relating to realised losses.

The total cost of risk of £20.1 m (2019: £5.3m) includes an additional decrease in fair value of loans held at fair value through profit and loss of £4.4m (2019: £1.5m), and losses on hedging activity of £1.0m. Fair value of loans is calculated using a discounted cash flow methodology and is sensitive to changes in discount rates and timing of cash flows (refer to note 25). Adverse movements in these estimates can cause losses in the fair value, as seen in 2020 and 2019.

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

Impact of IFRS 9

The application of IFRS 9 (from 2018), introduced some changes to the measurement and classification in respect of a portion of property development loans within our Development Finance business line. Under IAS 39, these loans were measured at amortised cost. However, with the implementation of IFRS 9, classification was based on both the Bank's business model to hold financial assets in order to collect contractual cash flows and the contractual cash flow characteristics of those financial assets.

Certain property development loans, originated prior to November 2018, have contractual features which introduce exposure to risks or volatility. Thus, they do not give rise on specified dates, to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. As a result, these loans can no longer be measured at amortised cost, instead they are measured at fair value through profit and loss ("FVTPL"). This means they are measured at fair value with no loan impairment measurement in the Statement of Comprehensive Income.

Amortised Cost basis

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

For information purposes, the following tables set out the statutory financial statements' presentation of the numbers for 2020 and 2019 and the amortised cost presentation with the adjustments between the two bases. Further, a table is presented on page 117 and 118 that sets out 2020 alongside 2019 on a statutory and amortised cost bases.

This table below shows a summarised income statement and balance sheet setting out the key adjustments to the statutory basis financial statements contained in pages 51 to 53 and the amortised cost.

	2020 (£'000)			2019 (£'000)		
	Statutory	Adjustment [1]	Amortised Cost View	Statutory	Adjustment [1]	Amortised Cost View
Net interest income	54,372	1,625	55,997	46,239	2,846	49,085
Other Net Revenue	(4,602)	3,771	(831)	(732)	1,253	521
Total Revenue	**49,770**	**5,396**	**55,166**	**45,507**	**4,099**	**49,606**
Administrative expenses	(32,236)	–	(32,236)	(28,587)	–	(28,587)
Impairment	(14,671)	(5,823)	(20,494)	(3,375)	(2,829)	(6,204)
Profit Before Taxation	**2,863**	**(427)**	**2,436**	**13,545**	**1,270**	**14,815**

1. Adjustments in the table relate solely to the fair value of the Development Finance book and the associated imputed tax implications.
   - Net interest income decreases by £1,625k (2019: £2,846k) due to the treatment of fees on FVTPL loans under IFRS 9, of which £2,691 k (2019: £2,835k) is recognised as fees and commission income under the statutory basis and the remaining balance reversed.
   - Other Net Revenue decreases by £3,771 k (2019: £1,253k) under the statutory basis due to the £2,691 k of fees and commission income mentioned above, offset by a £6,462k (2019: £4,088k) fair value loss on loans and advances held at FVTPL.
   - Impairment falls by £5,823k (2019: £2,829k) from the amortised cost view due to the release of provisions on loans held at fair value.

	2020 (£'000)			2019 (£'000)		
	Statutory	Adjustment [2]	Amortised Cost View	Statutory	Adjustment [2]	Amortised Cost View
Loans and advances to customers	1,327,526	(46)	1,327,480	1,179,896	381	1,180,277
Other assets	194,836	–	194,836	104,008	–	104,008
Total Assets	**1,522,362**	**(46)**	**1,522,316**	**1,283,904**	**381**	**1,284,285**
Customer deposits	1,125,560	–	1,125,560	904,171	–	904,171
Other liabilities	242,744	–	242,744	228,258	–	228,258
Total Liabilities	**1,368,304**	**–**	**1,368,304**	**1,132,429**	**–**	**1,132,429**
Shareholders' Equity	**154,058**	**(46)**	**154,012**	**151,475**	**381**	**151,856**

2. Statutory loans and advances are held at £46k higher (2019: £381k lower) than the amortised cost view due to a £381k cumulative difference brought forward from 2019 less the £427k profit before tax adjustment explained above.

Risk Management

The Bank's approach to risk

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

Risk Culture

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

Risk Strategy

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

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

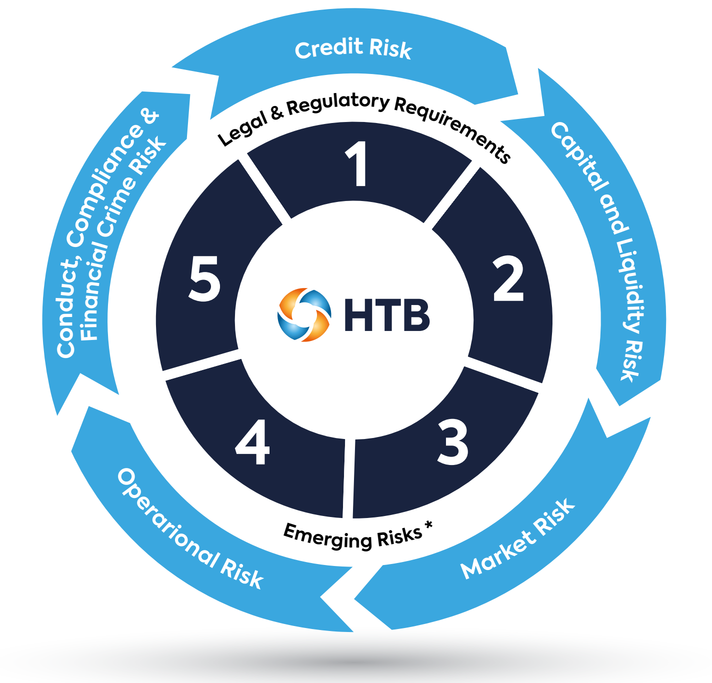
Risk Management Framework

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

The RMF addresses the legal and regulatory risks the Bank is exposed to, together with the Principal and Emerging Risks. The design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee on a regular basis and at least annually.

The structure of the RMF is set out in Figure 1 below.

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



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

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

Figure 1 – Risk Management Framework

Risk Appetite Framework

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

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

The RAF is structured around the Principal Risks agreed by the Board from time to time with each Principal Risk being supplemented by a suite of more granular Supporting Risks. For each Supporting Risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics and Key Risk Indicators ("KRIs"). The Risk Appetite metrics are clearly measurable against the Corporate Plan, are actionable and have an assigned limit to monitor performance against the Risk Appetite. The KRIs are outcome driven with negative trends reported monthly to the relevant risk committees.

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

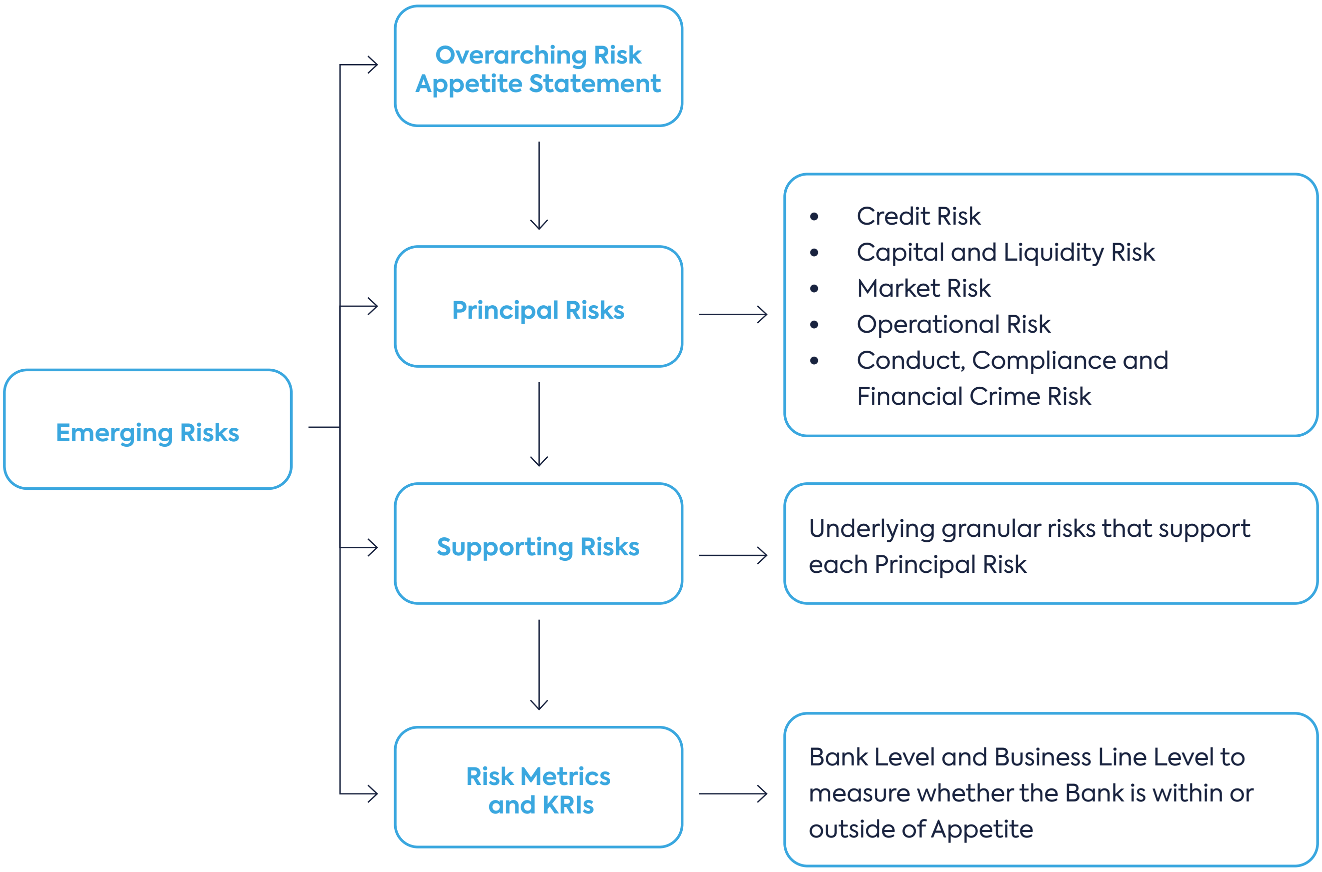


Figure 2 - Structure of the Risk Appetite Framework

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

Risk Governance and Oversight

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

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

Front Line Business Units (1st line of defence)

The business lines and central functions have primary responsibility for the day to day management of Principal Risks, and the implementation of approved policies, frameworks, processes and procedures. They use the Bank's Risk & Control Self Assessment ("RCSA") process to identify and measure risks and ensure that these are managed within agreed Risk Appetite. They will also test key controls, providing regular reporting of testing output.

Risk and Compliance Function (2nd line of defence)

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

Internal Audit (3rd line of defence)

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

Stress Testing

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

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

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

The Board is responsible for reviewing and approving the scenarios that are used for each type of stress testing on at least an annual basis. The scenarios and the results of each stress test are reviewed by an appropriate committee (e.g. ALCO, Credit Committee) before being agreed by ExCo. They will then be reported to Board Risk Committee which will provide further challenge and independent review prior to recommending to the Board for approval.

Stress testing is an ongoing requirement but may be updated, for example, by changes to the Bank's business model, changes in risk appetite, changes in economic conditions or assumptions and changes in regulatory requirements. With the onset of the Covid-19 pandemic the Bank undertook specific stress testing to inform its approach to dealing with the situation both from a capital and liquidity perspective.

The stress scenarios developed as part of the ICAAP are used to size a stress loss buffer which ensures that the Bank can withstand a range of adverse economic scenarios over the term of its planning horizon. The ICAAP incorporates all principal risks that will impact on capital. The CFO and CRO are accountable for the ICAAP. Similar stress scenarios are developed to support the ILAAP. These scenarios are used to size a liquidity buffer such that the Bank can withstand a range of stressed liquidity scenarios in the short to medium term. The ILAAP incorporates all principal risks that will impact on Liquidity. The CFO is accountable for the ILAAP.

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

Key Risks

Principal Risks and Risk Mitigation

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

Principal Risk	Definition	How we mitigate the risk
Credit Risk	The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time. In relation to the Bank's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part .	• We evidence affordability (ability to repay from cash flow) • We take security and where appropriate, guarantees, to support our lending • We maintain a diversified portfolio of loans by limiting concentrations by size, asset class, collateral types, geography and sector • We focus on sectors where we have specific expertise • We determine credit decisions using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process • We undertake regular reviews of our loan portfolios and ongoing assurance testing of our processes • We operate a Treasury policy that only allows for surplus liquidity and swaps to be placed with large banks or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings • Lending performance against Risk Appetite is monitored regularly
Covid-19 The economic outlook has continued to be volatile introducing uncertainty as to the likely credit impacts and timings of those impacts. IFRS9 credit models have increased HTB's provisions appropriately, although this has not yet fully fed through into arrears and ultimately write-offs. Other counterparty exposures remain in HQLA eligible assets.		• We have stress tested our lending books, and substantially increased our capability and capacity to address a higher level of stress within our customer base • We have been flexible and nimble in supporting our customers during the crisis and will continue to be so • We have reviewed our capital and liquidity plans to ensure we are prepared for an elongated period of disruption to the economy

Principal Risk	Definition	How we mitigate the risk
Capital and Liquidity Risk	**Capital** – The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans **Liquidity** – The risk that the Bank is unable to meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence	• We operate a Capital Planning Framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios • We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually • We monitor current and forecast levels of capital and liquidity against our Risk Appetite and report to Asset and Liability Committee ("ALCO") and the Board regularly • We forecast and monitor capital which forms an integral part of the budgeting process • We maintain liquidity buffers based on various stressed liquidity scenarios • We monitor our liquidity position on a daily basis • We meet, as a minimum, all regulatory prescribed coverage and liquidity ratios
Covid-19 Covid-19 has affected capital generation due to lower than expected profits although slower asset growth than planned, and therefore lower capital requirements, has mitigated the impact. In response to Covid-19, the Treasury and Deposits teams successfully moved to a remote working model.		• HTB is well capitalised and we have stress tested our lending to ensure capital solvency is maintained • At the beginning of the pandemic, we increased funding through an uplift in customer deposits which enabled us to increase liquid treasury assets and HTB's liquidity level above our normal levels
Market Risk	The risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments	• We match, wherever possible, the interest rate structure of assets with liabilities or deposits to create a natural hedge • We enter into swap agreements where required to minimise basis and repricing risks within appetite • We capture pipeline risk (where actual movements in assets and liabilities do not match expectations) and Optionality risk (where early terminations can worsen mismatch positions) and actively monitor and report via ALCO. Early repayment charges are used to mitigate the risk of early terminations.
Covid-19 The macroeconomic environment has raised the likelihood of negative interest rates		• The Bank has tested its ability to support negative interest rates both from an operational perspective and interest rate risk modelling perspective.

Principal Risk	Definition	How we mitigate the risk
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk	• We ensure all staff understand and follow the Operational Risk Management Framework • We have processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using the RCSA process • We have a defined Operational Resilience Policy • We have defined our recovery time and objectives for our business processes where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives • We place an emphasis on ensuring that the Bank has an IT infrastructure that meets its security and operational resilience needs which are regularly reviewed • We seek to ensure our systems continue to deliver a secure and reliable service to our customers and staff by identifying cyber security threats and putting in place measures to address those threats • We seek to keep our operating infrastructure up to date and complete regular contingency plan checks to ensure that we can maintain our business under stressed conditions • We operate a change control process through our Investment Committee to ensure that major change programmes are delivered on time and on budget • We monitor the operational risk profile alongside proactive recording and management of events, losses and incidents • We make use of independent expert legal advice where appropriate • New and emerging legislation driven changes are overseen through our horizon scanning process • We seek to maintain an engaged and diverse workforce with the right mix of skills to be able to deliver our strategy • We set a very low risk appetite for breaches of information security whether from internal leakage or external attack
Covid-19	HTB has moved all colleagues to a full working from home model in a very short timescale. The protracted nature of the pandemic means that a significant number of our colleagues have joined HTB as home workers. The pandemic has placed an additional burden on our processes, people and systems.	• We have invested in IT systems and hardware to support home working • We have optimised system solutions to provide operational capability and resilience • We continue to enhance the operational risk framework • We have invested in training existing colleagues and new joiners

Principal Risk	Definition	How we mitigate the risk
Conduct, Compliance and Financial Crime Risk	**Conduct** – The risk that the business strategy, the culture, and the manner in which the business is run, creates unfair customer outcomes or detriment to customers, clients or counterparties and/or undermines market integrity **Compliance** – The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable regulations, codes of conduct or standards of good practice **Financial crime** – The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to obtain or launder funds through illegal means and/or for illegal purposes	• We operate a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how we manage these risks and the minimum standards that we expect. • Our Business lines are primarily responsible for the management of these risks, but with strong oversight from the 2nd Line Compliance function • Senior Management identify and assess conduct, compliance and financial crime risks across their businesses and assess the effectiveness of controls that mitigate those risks using the Risk and Control Self Assessment (RCSA) process • New and emerging regulatory driven changes are overseen through our horizon scanning process • We design our products and services so that they consistently deliver fair outcomes for our customers • We complete regular assurance testing of our activities to check that we are operating within our Board approved risk appetite • We operate a programme of staff training and awareness via our regulatory training schedule • We complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle • The Senior Managers and Certification Regime is fully implemented to drive adherence to the Conduct Rules and a culture of accountability and diligence.
Covid-19 Government schemes to support the population such as emergency payment holidays place an operational requirement on the financial services sector. The situation is fast moving and the Bank has invested to ensure customer requests can be appropriately addressed.		• We continue to work closely with regulatory authorities and industry bodies, and respond to the evolving regulatory environment. • We have continued to focus on integrity of data and invest in availability of systems in order to serve our customers

Emerging Risks

The Bank has a continuous process for identifying and managing its emerging risks which could have a significant negative impact on its ability to operate or meet its strategic objectives. In addition to implementing its response to the Covid-19 situation the Bank continues to focus on other areas as follows.

Brexit Transition

The UK left the EU on 31 January 2020 with the subsequent transition period ending on 31 December 2020. There remains a heightened level of economic uncertainty as to the exact nature of the impact of the separation on the domestic economy. There are also unresolved economic and political issues between the UK and the EU on which agreement is yet to be reached. As a UK-focused Bank, we are sheltered from the more direct impacts to our business model such as access to European markets, but we are exposed to the wider economic impacts on our UK customer base.

Economic Uncertainty

The pandemic has had a very marked economic impact on the UK and Global economies. The uneven impact of Covid-19 restrictions on industry segments and support mechanisms have led to different levels of financial pressure on our customers depending on their area of economic activity. Government support such as CBILs, BBLs and CJRS have been instrumental in enabling businesses and individuals to weather lockdown. However, the ability of businesses to rebound and the speed at which they can do so when restrictions permit are unproven, as is the sustainability of the jobs protected. The success to date of the vaccination programme and the government plan to move out of Covid-19 restrictions are positive, although downside risks remain. We have stress-tested our book and continue to plan for a range of different economic and business scenarios.

Climate Change

The Bank recognises that Climate Change is a significant risk and a major challenge for the global economy and society. Extreme weather events and the impacts of transitioning to a low-carbon economy have the potential to disrupt business activities, damage property, and otherwise affect the value of assets, and affect our suppliers and our customers' ability to repay loans.

The Bank's approach to developing its approach to Climate Change has been informed by supervisory guidelines. A plan is in place to design and deliver the Bank's climate change risk assessment capabilities with Board oversight. As part of implementing this plan the Bank has engaged a third party to assist with understanding physical risks (flood, subsidence and coastal erosion) in relation to its Buy-to-let mortgage portfolio.

Competitive Environment

The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products or software solutions potentially affecting both lending and deposit taking activities. The effect of this could result in lower lending and deposit volumes, higher customer attrition and/or lower net interest margins. This has increased particularly in the savings space with the launch of savings platforms allowing access to multiple banks.

The Bank continues to monitor the external competitive environment and the impact this has on pricing. The Bank businesses continue to take a disciplined approach to pricing with the aim of maintaining stable margins and an appropriate risk profile.

Discontinuation of LIBOR

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform LIBOR with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank has exposure to LIBOR through variable rate lending and through derivatives that have been transacted to mitigate the interest rate risk generated by fixed rate products.

The Bank's LIBOR transition working group has made good progress in transitioning away from the LIBOR benchmark. New loan products no longer reference LIBOR and we are working through our back book of LIBOR loans with a view to transitioning the remaining LIBOR reference loans to an alternative rate by the end of 2021.

Energy and carbon disclosure

Streamlined Energy and Carbon Reporting ("SECR") requirements come into place for all unquoted large companies for periods beginning on or after 1 April 2019. These requirements are intended to complement Task Force on Climate-related Financial Disclosures ("TCFD") disclosures.

In accordance with the Greenhouse Gas ("GHG") Protocol framework, we have calculated the GHG emissions associated with our Scope 1, 2 and 3 as follows:

- Scope 1: includes emissions from activities under the Bank's control i.e. fuel combustion on site
- Scope 2: includes emissions from consumption of purchased electricity, heat, steam and cooling
- Scope 3: business travel not owned or controlled by the Bank.

In 2020, our total GHG emissions were 42.81 tonnes of carbon dioxide equivalent ("tCO2e"), equating to 0.2 tCO2e per employee, down 18.15 tCO2e overall and 0.12 per employee since 2019.

Our Scope 2 electricity consumption is the largest source of GHG emissions but continues to reduce on previous years, Scope 3 emissions are those related to employee vehicles.

A full breakdown of our annual GHG emissions and energy consumption, together with corresponding data for 2019, is shown in the table below.

Scoope	Source	2020	2019
Scope 1 (Direct emission)	Activities for which the company is responsible for gas combustion or fuel consumption for transport (in tonnes of carbon dioxide*)	-	-
	Activities for which the company is responsible for gas combustion or fuel consumption for transport (in kWh)	-	-
Scope 2 (Indirect emission)	Consumption of purchased electricity** (in tonnes of carbon dioxide)	42.39	60.16
	Consumption of purchased electricity (in kWh)	181,824	235,373
Scope 3 (Other indirect emission)	Emissions from business travel/transport (in tonnes of carbon dioxide)	0.42	0.8
	Emissions from business trave/transport (in kWh)	1,813	3,142
Total	Total energy usage (kWh)	183,637	238,515

* Carbon dioxide values above are calculated based on the Department of Business, Energy and Industrial Strategy guidelines published in August 2019.

** Electricity usage are based on consumption recorded on purchase invoices.

Corporate Governance

Section 172 (1) statement

This section of the strategic report describes how the Board has had regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006 when performing its duty.

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Board gives careful consideration to the factors set out above in discharging their duties under section 172 with respect to our stakeholders:

- ***Customers*** – The Board recognises that building a sustainable and enduring business franchise is dependent on delighting the Bank's customers and delivering for them consistently, transparently and with integrity. Across the Bank's various specialist lending businesses, customers include professional landlords, property developers, and SME and Corporate borrowers. Across the Savings and Deposits business, customers are the Retail, SME and Corporate customers placing deposits with us. The Board seeks to ensure that the key priority of positive customer outcomes is embedded in the way the Bank conducts its business. Specifically, the Board places great emphasis on the development of strong relationships with customers built on trust and that customers benefit from products that are straightforward, fit for purpose and reflect their particular needs. The Board ensures that the Bank listens to its customers by collecting impartial feedback to understand what customers think of our products and service. For example, this is evidenced through customer satisfaction scores which are collated after every account opening with our Savings and Deposits business to ensure the Bank continues to meet the expectations of our customers.

  Covid-19 has had a dramatic effect on our customers over the year. The Bank engaged closely with its customers, ensuring payment holiday requests were assessed and granted promptly to those struggling to make repayments. The Board regularly monitors payment holiday metrics (at least on a weekly basis), ensuring customers are fully supported, as well as assisting them when each payment holiday period ends.

- ***Employees*** – Employees are fundamental to the delivery of our strategy as a specialist bank. The Board wants the Bank's employees to have challenging and fulfilling careers in a values orientated culture. As the Bank continues to build its franchise, the Board is committed to attracting talented people and investing in them.

  During 2020, the Board had to deal with issues that arose from the Covid-19 pandemic including the Bank's response to the lockdowns, supporting employees to work from home and subsequent planning when a return to the workplace was seen as feasible. The safety of all the Bank's staff has been of the up most importance and as such support has been given to each employee to ensure they have been able to work remotely and flexibly during these challenging times. To ensure the Bank's approach to the pandemic was effective, a Covid-19 Staff Satisfaction Survey was carried out in July with strongly positive feedback provided on this. In addition, the Board has ensured that employees have been kept up to date on the performance and progress of the Bank through regular updates. Investment in training needs and supporting staff with their physical and mental well-being has been particularly key during the year.

To monitor more closely progress on various employee related initiatives, management have developed a Monthly People dashboard which is reviewed by the Board.

- ***Regulators*** - The Bank operates in a highly regulated market, and as such are subject to the regulation of both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Board has an intense focus on its own responsibilities and those of the relevant Senior Management Function ("SMF") responsibility holders. The Board is also focused on ensuring that the Bank embeds high standards of conduct into its product design, service delivery and culture, as well as giving regular consideration to correspondence and publications from the regulatory sphere which may have an impact on this. The Board seeks to maintain an open and active dialogue with all of the Bank's regulators.

  As a result of the Covid-19 pandemic, more regular updates have been held between the PRA and the Bank with a focus on Covid-19 related impacts on the Bank's performance, including the status of customer payment holidays, new business activity levels, credit portfolio performance updates, operational resilience and any regulatory developments.

- ***Brokers/Intermediaries*** - Intermediaries are vital to the success of the Bank. Our Intermediary panel is continually monitored to ensure that the quality is maintained. Regular contact with our registered Strategic Partners and Intermediaries is crucial and our Business Development Managers manage this contact either via phone or on a face to face basis. At the beginning of the Covid-19 Pandemic the Bank took the approach to over communicate with our broker partners. We wanted to ensure we were the specialist lender known for being transparent and straight talking at a time when our brokers needed us the most. Covid-19 has had minimal impact as phone contact has continued as normal and face to face meetings have been replaced by on line video calls. This regular contact allows brokers to discuss new and existing business proposals as well as maintaining and developing the relationship/knowledge of our products further. Roadshows and networking events are undertaken with brokers to promote the bank products and provide training on our criteria and processes. Our business development managers listen and work with intermediaries, making themselves available to discuss cases and helping to obtain swift and reliable decisions for our customers. To ensure the continuing quality of brokers is maintained, the Board regularly reviews the broker panel numbers.

- ***Shareholders*** - The Bank's shareholders are critical to the success of the Bank as the providers of capital to underpin the growth and development of the business. Representatives of the Bank's shareholders have seats on the Board and attend all Board meetings, ensuring they are kept up-to-date on the performance of the Bank. The shareholders are fully engaged with the key performance metrics provided (including capital, profitability and return on equity) and are pivotal in reviewing and challenging the Bank's annual Corporate Plan. The Board maintains a close working relationship with the shareholders' representatives centred on the development and execution of the Bank's strategy.

- ***Community*** - The Board understands the importance of the Bank's corporate responsibilities to the wider community in which it operates and to the environment. During 2020, the Board supported the plan for addressing the requirements outlined by the PRA with respect to 'Managing the Financial Risks from Climate Change'. A 6 stage plan has been developed to address this and is expected to be fully implemented by 2021. The Bank has also enhanced its disclosures to provide further information on its energy and carbon usage, which is set out in page 27 of the Annual Report & Accounts.

- ***Suppliers*** - Our business is supported by a number of suppliers and as the business continues to grow, the Bank has seen this network expand. As part of our operational resiliency activity, the Board has enhanced our internal controls regarding how we source and manage our supplier relationships. To enable the Board to make informed decisions on these key relationships, it regularly receives management information on the performance of suppliers and distribution partners. An Annual Service Review also takes place every 12 months, and more often where appropriate, with results documented to monitor and ensure a high standard of service is continuing to be received. The Board recognises that our suppliers are a key part of the service we provide to our customers and are committed to treating them fairly, through a clear policy on payments, and continuing to support them through the Covid-19 pandemic. The Bank has engaged with our key suppliers before, during and after the lockdowns to understand any issues associated with Covid-19 related operational impacts in order to work with them on any issues identified. No material issues have been identified to date.

Decision-making Case study

We set out below examples of how the Directors have had regard to the matters set out in section 172(1)(a-f) when discharging their duties under section 172 and the effect of the decisions taken by them.

The long term strategy of the Bank is to grow a sustainable business in a market that is underserved by large Banks. Our strategy on being able to deliver a high standard of customer service has been possible through our investment in technology and people. Our significant investment in technology means that the Bank is well positioned to address the challenges and take advantage of the many opportunities the future will bring. All of the decisions the Board has made considers the regulatory context and the full range of stakeholders as mentioned above. Some examples of Board approved investments include:

- The new partnership with Alfa Systems, a cloud based administration platform in our Asset Finance division, is part of our strategic commitment to scale-ability and operational resilience, as well as enhancing the customer experience. This went live in March 2020 with all new business being booked to the system. In addition, we migrated all customers who requested and received payment holidays to the Alfa System as it was better able to support the process for the rescheduling of payments with customers.

- The SM Broker Portal is an essential part of the Specialist Mortgages strategy of growing the business, upscaling the broker distribution and providing an improved customer experience whilst supporting the principle of being easy to do business with. It also reduces costs by the delivery of process efficiencies. This in-house built system allows mortgage brokers to manage their applications over a secure online portal. The portal enables them to submit their customer applications electronically as well as track progress of their portfolio of mortgage applications. It was developed with engagement with brokers to ensure that its design and functionality would support them in the delivery of their service to customers.

- During 2020 the Bank completed the integration of all of its key systems into a new enterprise data warehouse utilising the latest cloud technology to provide a single source of truth. This new architecture delivers multi-dimensional data analysis and integration using internal and external data sources, enabling the Bank to become more 'data driven' through actionable insights to enhance our service to customers and our support for other stakeholders

The Strategic Report has been reviewed and approved by the Board and signed on its behalf by:

Timothy Blackwell
Chief Financial Officer
Date 11 May 2021

2. Governance framework

Governance Framework

The Wates Corporate Governance Principles

The Bank has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") published by the Financial Reporting Council in 2018.

Applying the Wates Principles has ensured that the Bank has continued to enhance its corporate governance standards for the benefit of all of its stakeholders; ensuring that it is well managed and aligned behind a clear purpose.

The table below sets out how the Bank has complied with all six Wates Principles in 2020.

Principle	Explanation of how it is applied
Purpose and Leadership - an effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose	• Primary role of the Board is to provide leadership and set direction on the Bank's purpose, values, strategy and culture • The Board delegates the day to day responsibility for the implementation of the strategy, development of the culture and the management of the Bank to the Executive Committee, led by the Chief Executive • The Board monitors and challenges delivery by the Executive through appropriate reporting • In 2020, the Board and the Executive Committee continued to build upon its Specialist Bank proposition of being 'the go-to bank in our chosen markets' and 'Excellence through Specialism'. This means that the Bank will carefully select its chosen markets and ensure that it becomes the first choice for its brokers and customers by being open, responsive, consistent, clear, trustworthy, expert, pragmatic, flexible and innovative • This clarity of purpose and approach is set out on page 5 of the strategic report of the Bank's Vision, Values and Culture statements which link the Bank's vision and proposition to its values and the expected behaviours that underpin these • The vision, proposition, values and expected behaviours have been communicated from the Board and the Executive Committee throughout the organisation. They are embedded in the Bank's decision making processes, the way that the Bank conducts its business and engages with its customers and other stakeholders. They are built into staff objectives and staff performance is assessed against achievement of objectives aligned to values
Board Composition - effective board composition requires an effective Chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company	• The Board consists of four Independent Non-Executive Directors (including the Chairman), two Shareholder Non-executive Directors and two Executive Directors • The Board has an appropriate mix of Executive and Non-executive Directors, who have the requisite skills, knowledge and understanding of the Bank's business itself and of banking more generally. The Non-Executive Directors bring a wealth of outside experience across a broad range of areas, including finance, banking, risk, strategy, communications and brand • The Nomination and Remuneration Committee is responsible for all senior appointments including all Board Directors and the Bank's senior management • The Bank recognises and values diversity of its Board • The Nomination and Remuneration Committee also considers both senior management and Board succession plans at least annually • The effectiveness of the Board and its Committees is formally evaluated on an annual basis. The assessments are undertaken internally for two years and then every third year external consultants are employed to bring independent challenge to the assessment process and to carry out an independent assessment • In 2020, as a result of the 2019 effectiveness review, the Board recruited a specialist technology adviser to the Board to supplement the technology expertise of the Board

Principle	Explanation of how it is applied
Board Composition - effective board composition requires an effective Chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company	• In 2020, the effectiveness review was carried out by way of an internal self-assessment questionnaire completed by each Board member followed by review meetings between the Chairman and each Board member. The effectiveness review sought to establish the effectiveness of the Board as a committee as well as the effectiveness of individual Board members. The evaluation covered the Board agenda, composition and competence, culture and behaviours, process, the Chairman and the effectiveness of each of the Boards committee. This assessment concluded that, notwithstanding the challenges of remote meetings, the Board and each of its individual directors have been effective over the year. In addition, the review highlighted areas for future focus, including in relation to strategy, our customers, our people and diversity
Board Responsibilities - the board and individual directors should have a clear understanding of their accountability and responsibilities. The board's and procedures support effective decision-making and independent challenge	• The Board is chaired by an independent Non-Executive Chairman who ensures that there is effective input, appropriate balance of views from Executive and Non-Executive Directors and constructive debate, challenge and structure in the decision making process • The Bank operates within a robust set of governance and risk management frameworks, including clear and detailed Terms of Reference for the Board and each of its Committees. The Board and Committee Terms of Reference are reviewed annually • The Board has delegated certain responsibilities to a Risk Committee, an Audit Committee, a Nominations and Remuneration Committee and the Executive Committee. Each of these Committees reports back to the Board on matters considered, and decisions made, by those Committees and considers any matters escalated by those Committees. The role and responsibilities of the Board and its Committees are set out in more detail on pages 35-36 of the Corporate Governance section of this Report • The Board receives regular reports on business, financial performance, employee engagement, stakeholders and material risks affecting the business. The Board considers whether systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable through the assurance actioned within the three lines of defence model • The Board usually meets 11 times a year, however, given the exceptional circumstances arising as a result of Covid-19 during 2020, the Board met 18 times. Further details on key matters discussed in those meetings are provided in pages 35-36
Opportunity and Risk - a board should promote the long-term sustainable the company by identifying opportunities to preserve and create value and preserve and establishing oversight for the identification and mitigation of risks	• The Board seeks opportunity for growing existing business lines as well as opportunities for adding additional complementary business lines which are aligned with its Specialist Bank proposition (described above). The Strategic Report (pages 4-27) provides details of how the Bank creates and preserves long term value including future growth opportunities • The Board's Risk Committee is delegated with responsibility for the oversight of the Bank's current and future risks and the performance of the Bank against its approved risk appetite through information reported through the Bank's Risk Management Framework. The Risk Management section of this Report provides detailed information on the framework set by the Board Risk Committee for the management of the Bank's risks • The Board's Risk Committee is responsible for the Bank's Risk Management Framework, its development, its ongoing effective operation, periodic review of its appropriateness and any required calibration to it • During 2020, the Board Risk Committee met 9 times. Further details on key matters discussed in those meetings are provided in pages 35-36

Principle	Explanation of how it is applied
Remuneration – a board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company	• Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with the role of the Nomination and Remuneration Committee to set and oversee the implementation of the Bank's remuneration policy and processes, including those for the Bank's Executive Directors and other members of its senior management. • The Nomination and Remuneration Committee has clearly defined Terms of Reference and reviews remuneration matters (including remuneration policy), employee benefits and performance related pay structures for the Bank • During 2020, the Nomination and Remuneration Committee met 5 times. Further details on key matters discussed in those meetings are provided in pages 35-36
Stakeholder Relationships and Engagement – directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders including the workforce, and having regard to their views when taking decisions	• The Bank's key stakeholders include customers, regulators, employees, shareholders, brokers and suppliers • The Bank's explicit mission, set out in its Vision, Values and Culture statement, is to deliver positive customer outcomes, rewarding careers and great shareholder value through a high-performing culture grounded in excellence and integrity. The set of expected behaviours underpinning the Bank Vision, Values and Culture are all aligned to supporting Stakeholder relationships • The Section 172(1) statement on pages 28-30 provides further details of how the Board has developed various engagement mechanisms in order to foster effective relationships with all its key stakeholders and to balance their interests in its decision making

Structure of the Board and Board Committees

The Bank is committed to the highest standards of corporate governance and its governance framework is therefore structured to achieve responsibility, accountability, transparency and fairness.

The Bank is led by a Board which is supported by a number of Committees to which the Board has delegated relevant authority; the principle Committees being the Board Risk Committee, the Audit Committee, the Nomination and Remuneration Committee and the Executive Committee.

The Board comprise of an independent Non-Executive Chairman, Non-Executive (Shareholder) Directors, independent Non-Executive Directors and Executive Directors.

The Board approves the strategy and direction of the business, sets the policies and risk appetite, monitors risk management, financial performance and reporting, and ensures that appropriate and effective succession-planning arrangements and remuneration policies are in place. Directors are appointed by the Board. Non-Executive Director Appointments can be terminated at any time, without notice or payment of compensation. Board meetings are held normally eleven times a year although, given the exceptional circumstances arising with Covid-19 in 2020, a number of additional meetings were held. This enables Directors to regularly review corporate strategy, the operations and the results of the business, and to discharge their duties within a framework of prudent and effective controls.

The Board is supported by its Committees, which make recommendations to the Board on those matters delegated to them. These Committees (with the exception of the Executive Committee) comprise only Non-Executive Directors and each is chaired by an independent Non-Executive Director. Matters such as internal and external audit, risk, financial reporting, governance and remuneration policies are delegated to these Committees, in order that the Board can spend a greater proportion of its time on strategic items.

The Committee Chairs report to the Board at the Board meeting following each Committee meeting on the activities of their respective Committees. The Board Chairman undertakes an annual review of performance of each Director. The Board Chairman’s performance is evaluated by the Non-Executive Directors taking account of the views of the Executive Directors.

Role of Chairman and Chief Executive Officer

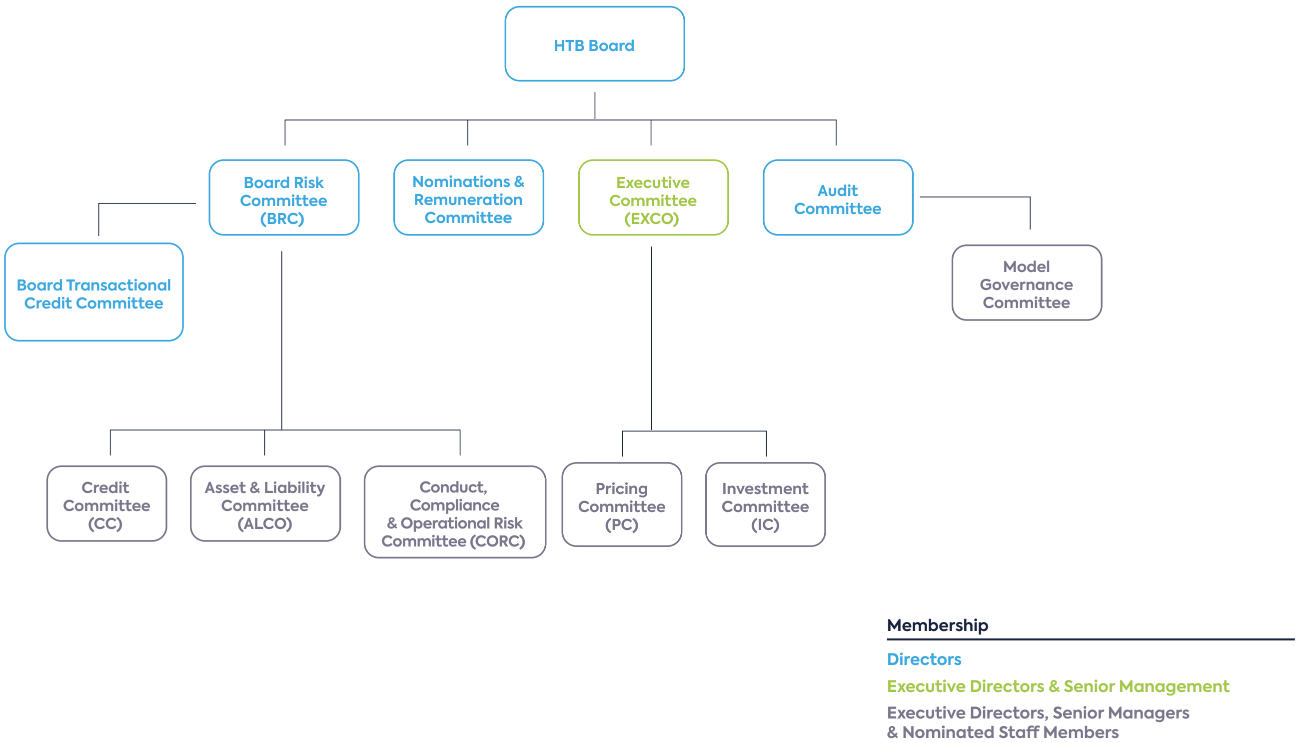
There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman has overall responsibility for the leadership of the Board, its effectiveness on all aspects of its role and setting its agenda. The Chief Executive Officer is responsible for the day to day running of the business and is accountable to the Board for its operational and financial performance.

Compliance with the Senior Managers Regime

The PRA defines a set of prescribed responsibilities (“Responsibilities”), which must be allocated to a senior manager performing a Senior Management Function. The Bank maintains a Senior Management Functions (SMF) Responsibilities Map and a list of SMF Responsibilities which are contained within the documents making up the Corporate Governance Framework. The Board and Committees have their own detailed terms of references which outline their responsibilities and delegations within the Bank.

Structure of the Board and its Committees

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



Board and Committee membership attendance record

Board Member	Board	Risk Co	Audit Co	Nom/Rem Co
Robert Sharpe	18			5
Tim Blackwell	18			
Robert East	17	9	5	5
James Drummond– Smith	18	8	5	5
Astrid Grey	18	9		5
Richard Price	16	9	4	4
Dominic Slade	17			5
Matthew Wyles	18			
Meeting Total	**18**	**9**	**5**	**5**

The key Board committees are as follows.

Audit Committee

The Audit Committee oversees the effectiveness of the Bank's internal control environment, monitors the integrity of the financial statements and risk management systems, involving internal and external auditors in that process, and considers compliance monitoring programmes. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal control is maintained. The Committee recommends to the Board the appointment of both internal and external auditors and approves the annual internal and external audit plans. The Committee also oversees the Model Governance Committee which operates under its own terms of reference. The Committee is chaired by an independent Non-executive Director and comprises solely Non-Executive Directors. The Audit Committee meets at least quarterly. During 2020, the Committee recommended approval to the Board of the 2019 statutory accounts and the appointment of new internal auditors.

Board Risk Committee

The Board has delegated responsibility for oversight of the Bank's principal risks to the Board Risk Committee. This involves reviewing, challenging and recommending to the Board, the aggregate risk profile of the Bank, including performance against risk appetite for all risk types and ensuring both the risk profile and the risk appetite remain appropriate. This Committee oversees the development, implementation and maintenance of the Bank's Risk Management Framework, compliance with relevant regulations and law, whistle blowing and proper functioning of controls over the prevention of money laundering, bribery and fraud. It considers and recommends to the Board the ILAAP, ICAAP, Funding Plan, Recovery Plan, Resolution Pack and Capital Management Plan. The Committee also oversee ALCO, Credit Committee and Conduct, Compliance & Operational Risk Committee which operate under their own terms of reference. The Committee is chaired by an independent Non-executive Director and comprises independent and shareholder appointed Non-Executive Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews remuneration matters (including remuneration policy), employee benefits, performance related pay structures for the Bank and leads the process for identifying and making nomination recommendations to the Board. It is also responsible for considering all senior appointments at Executive levels (including Non-Executive Directors). It reviews and approves succession plans for all Board and Board Committee positions (including the Executive Committee); makes appointments of Committee-Approved staff under recommendation from the CEO; sets remuneration and benefits entitlements of Committee-Approved staff; and, agrees bonus awards for the Bank and Committee-Approved staff. The Committee is chaired by the Chairman of the Board and comprises independent and shareholder-appointed Non-Executive Directors.

Executive Committee

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

Board Transactional Credit Committee

The Board Transactional Credit Committee is the committee charged with approval of transactional credits above limits allocated to the Executive. This includes credit proposals falling outside Board approved policy, credit proposals of large exposures above Board approved credit committee mandate and where the Board requests the Board Transactional Credit Committee to review or oversee a material loan in default. The Committee is chaired by the Chairman of the Risk Committee and comprises of independent and shareholder-appointed Non-Executive Directors.

3. Directors' Report

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2020.

The Strategic Report set out on pages 4-37 of this Annual Report include information that would otherwise need to be included in this Directors' Report

Principal Activities

Hampshire Trust Bank Plc ("the Bank") is a UK Bank, authorised by the Prudential Regulation Authority (PRA) and regulated by both 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 (pages 5-10), key performance indicators (pages 11-15) and principal risks (pages 22-27) is contained in the Strategic report.

Results for the year

The Bank made a profit before tax on continuing activities of £2.9m (2019: £13.5m), and a profit after tax of £2.6m (2019: £10.8m).

Proposed Dividend

The Directors do not recommend the payment of a dividend (2019: £nil).

Business relationships

We have appropriately considered the relevant interests of the various stakeholders as mentioned in pages 28-30 in our Board discussions and decision making during the year ended 31 December 2020.

Greenhouse gas emissions

Information on the Bank's energy consumption is set out on pages 27 of the Strategic Report.

Corporate governance arrangements

The Bank has applied the Wates Corporate Governance Principles for Large Private Companies. There is no obligation on companies to adopt these principles, but the intention is that the Wates Principles provide an approach to corporate governance that offers sufficient flexibility without being too prescriptive.

The Wates Principles are a set of six high level principles of corporate governance. It is a voluntary framework which adopts the "apply and explain" approach. Further details in pages 31-34 of the Corporate Governance section.

Financial Instruments

The Bank uses financial instruments to manage certain types of risk, including interest rate risk. Details of the objectives and risk management of these instruments are contained in pages 22-27 of the risk management section. Details of financial instruments can be found in notes 18 and 19 to the financial statements.

Employee Share Scheme rights

Details of how rights of shares in employee share schemes are exercised are provided in note 6.5 to the financial statements.

Employees

The Bank is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. The Bank is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering into and continuing employment with the Bank. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.

Information on employee involvement and engagement can be found in page 28 of the Corporate Governance section.

Appointment and retirement of Directors

The appointment and retirement of the Directors is governed by the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting.

Board Composition

The directors who held office during the year and at the date of this report were as follows:

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

James Drummond Smith
Independent Non-Executive Director and Chairman of the Audit Committee (resigned on 31/01/2021)

Martyn Scrivens
Independent Non-Executive Director and Chairman of the Audit Committee (appointed on 31/01/2021)

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

Matthew Wyles
Chief Executive Officer

Timothy Blackwell
Chief Financial Officer

Richard Price
Non-Executive Director

Astrid Grey
Independent Non-Executive Director

Dominic Slade
Non-Executive Director

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

Political and Charitable Donations

The Bank made no charitable donations during the year (2019: £205) and did not make any political donations or incur any political expenditure during the year (2019: £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.

Share capital

Details of share capital as at 31 December are provided in note 35 to the financial statements. The Bank did not repurchase any of the issued ordinary shares up to the date of this report.

Going Concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Bank has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements (the going concern period). In making this assessment, the directors have considered the current balance sheet, projections of loan book growth, expected credit losses, profitability, cash flows and capital resources. Under this scenario the Bank continues to maintain capital and liquidity at levels significantly above its minimum regulatory requirements throughout the going concern period.

For each of the business divisions, the directors have also considered the impact of downside stress scenarios. Whilst the Covid-19 impacts are not yet fully known and will depend on many factors including the future management and control of Covid-19 infection rates, the need for continued or reintroduced lockdown restrictions and the Government support measures for businesses and individuals, the Bank has undertaken analysis of forecast capital and liquidity levels subject to severe downside scenarios through the recent ICAAP. These stress scenarios resulted in impacts at least as severe as those under the Bank of England Annual Cyclical Scenario, which assumes the UK economy enters deep and prolonged recession. The analysis of liquidity under these scenarios also includes short term stresses from our recent ILAAP to assess the impact on the Bank's liquidity versus our risk appetite and regulatory requirements. Based on the results of this severe stress scenario analysis, the Directors have concluded that the Bank's capital and liquidity forecasts are above its minimum regulatory requirements throughout the going concern period. Accordingly, the directors are confident that the Bank has adequate resources to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and, therefore, have adopted the going concern basis in preparing the financial statements.

Reappointment of Auditors

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

Disclosure of Information to Auditors

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

Matthew Wyles
Chief Executive Officer

By order of the board, date: 11.05.2021

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether the financial statements are prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and,
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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Independent auditor's report

to the members of Hampshire Trust Bank PLC

1. Our opinion is unmodified

We have audited the financial statements of Hampshire Trust Bank PLC ("the Company") for the year ended 31 December 2020 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes, including the accounting policies in note 6.

In our opinion the financial statements:

— give a true and fair view of the state of Company's affairs as at 31 December 2020 and of its profit for the year then ended;

— have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the shareholders for the year ended 31 December 2006 The period of total uninterrupted engagement is for the 15 financial years ended 31 December 2020.

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£400,000 (2019:£680,000) 4.75% of three-year average of profit before tax (2019: 5% of profit before tax)	
Key audit matters		**vs 2019**
Recurring risks	Expected credit losses on Asset Finance loans and advances to customers	▲
	Unobservable inputs into the fair valuation of loans and advances to customers	▲
Event driven	Going concern	◀▶

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

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

Key audit matter	The risk	Our response
Expected credit losses on Asset Finance loans and advances to customers (Impairment allowance £7.8 million; 2019: £3.2 million) *Refer to pages 62 to 67 (accounting policy) and pages 91 to 97 (financial disclosures).*	**Subjective estimate:** The measurement of expected credit losses ('ECL') involves significant judgements and estimates. There is increased risk of material misstatement of ECL in the current year due to the increased judgement and estimation uncertainty as a result of Covid-19 The Company uses models and qualitative management overlays, where required, to determine the level of ECL required to be recognised on each loan. The Company's ECL is concentrated in the Asset Finance division representing c.50% of total ECL. In particular, there is subjectivity in the determination of the following key assumptions and judgements: — Significant increase in credit risk; — Probability of default; — Loss given default; and — Qualitative overlays; and — Forward-looking economic forecasts. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality and possibly many times that amount. The financial statements disclose the sensitivities estimated by the Company (note 27.1)	Our procedures included: — **Our sector experience:** We critically assessed the assumptions inherent in the model against our understanding of the loan portfolios, their recent performance and industry developments. This included benchmarking certain key assumptions against comparable lenders. — **Our economic expertise:** Our economists evaluated the plausibility of the Company's forward economic guidance and the associated probabilities attached to the alternative scenarios against market data, our own independent assumptions and peer experience. — **Our financial risk modelling experience:** We utilised our financial risk modelling specialists in evaluating the ECL models. We independently reperformed and inspected the model code for certain components of the ECL model and used our knowledge of the Company and our experience of the industry in which the Company operates to challenge the appropriateness of the qualitative management overlay. — **Sensitivity analysis:** We evaluate the sensitivity of changes to judgemental assumptions, to critically assess the impact of alternative assumptions and identify those assumptions most significant to the estimate. — **Tests of details:** For a sample of loans and advances we conducted credit file reviews to assess the appropriateness of the stage allocation and associated ECL estimate. — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results** We found the resulting estimate of the expected credit losses on Asset Finance loans and advances to customers and the associated disclosures made to be acceptable (2019: acceptable).

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

Key audit matter	The risk	Our response
Unobservable inputs into the fair valuation of loans and advances to customers (£50.4 million; 2019: £126.5 million) *Refer to pages 67 to 68 (accounting policy) and pages 89 to 90 (financial disclosures).*	**Subjective estimate:** The Company holds a portfolio of development finance loans which contain a fee linked to gross development value. In accordance with IFRS 9, these loans are measured at fair value through profit and loss. The Company uses a risk adjusted discounted cash flow model (an income based valuation approach) to estimate the fair value of the loans. The fair value model uses unobservable inputs and as such the loans are classified as level 3 in the fair value hierarchy under IFRS 13. A significant audit risk was identified in respect of the unobservable inputs into the valuation. The key unobservable inputs are the timing of forecast cash flows that are based on estimates of the development completion profile, which are subject to increased uncertainty as a result of the Covid-19 pandemic. The effect of these matters is that, as part of our risk assessment, we determined that the unobservable inputs into the fair valuation of loans and advances to customers have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality and possibly many times that amount. The financial statements disclose the sensitivities estimated by the Company (note 25)	Our procedures included: — **Methodology choice:** We challenged management on the appropriateness of the methodology used to value the loans, notably the suitability of the model and the discounting rate methodology. — **Independent repricing:** We engaged KPMG specialists to independently rebuild the model and test the observable inputs. — **Historical forecast accuracy:** We assessed the accuracy of historical cash flow forecasts, and challenged instances of divergence between actual cash flows and those forecasted. — **Challenge of key assumptions:** We challenged management on key assumptions around forecast future cash flows and whether they are appropriate. — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results:** We found the resulting estimate of the unobservable inputs into the fair value of loans and advances to customers and the associated disclosures made to be acceptable (2019: acceptable).

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

Key audit matter	The risk	Our response
Going concern *Refer to page 53 (financial disclosures).*	**Unprecedented levels of uncertainty:** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Company's available financial resources over this period is an increase in the level of expected credit losses due to the impact of Covid-19. This could lead to insufficient capital resources to meet minimum regulatory capital requirements over the course of the next 12 months. There are also less predictable but realistic second order impacts, such as the impact of Covid-19 on liquidity and operational resilience. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Our Covid-19 knowledge:** We considered the directors' assessment of Covid-19 related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Challenge of assumptions:** We inspected the Company's forecasting and liquidity plans to identify the key assumptions within these. We challenged the reasonableness of the assumptions and stresses applied, and compared the accuracy of management prior projections versus actuals. — **Sensitivity analysis:** We considered sensitivities over the level of available capital and liquidity indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. — **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure, including those in the strategic report, by comparing the overall picture against our understanding of the risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and in expected credit losses provisioning, however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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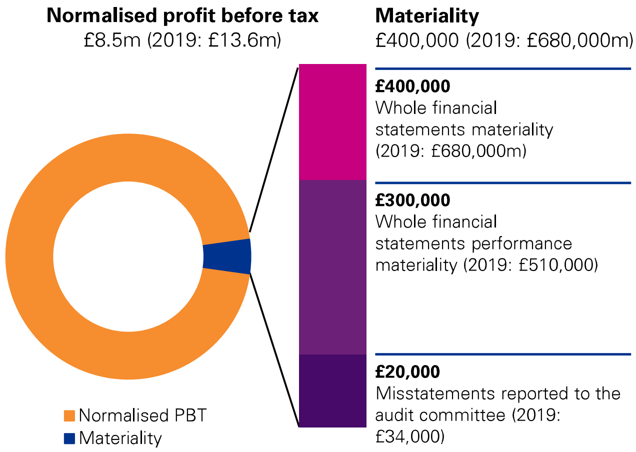
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £400,000 (2019: £680,000), determined with reference to a benchmark of profit before tax, normalised by averaging over the last three years due to the impact of Covid-19 on financial performance, of which it represents 4.75% (2019: 5% of profit before tax).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £300,000 (2019: £510,000). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £20,000 (2019: £34,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.



4. Going concern

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

An explanation of how we evaluated management's assessment of going concern is set out in the key audit matter in relation to Going concern in section 2 of this report.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Review of the Company's internal audit reports, and Board Minutes of the Company; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

5. Fraud and breaches of laws and regulations – ability to detect (cont.)

Identifying and responding to risks of material misstatement due to fraud (cont.)

On this audit we do not believe there is a fraud risk related to revenue recognition due to the non-judgemental nature of the majority of the company's revenue streams, the limited estimation uncertainty in EIR recognition and the lack of perceived pressure and opportunity to manipulate revenue.

We also identified fraud risks relating to ECL provisioning and unobservable inputs into the valuation of level 3 loans and advances.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation;
- Evaluating the design and implementation and operating effectiveness of relevant internal controls;
- Assessing significant accounting estimates for bias; and
- Substantive procedures to address the fraud risk.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance.

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate.

We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, specific areas of regulatory capital and liquidity, conduct, money laundering and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

KPMG

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

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 40, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

R Rawstron

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 12 May 2021

4. Financial Statements

Statement of Comprehensive Income

	Note	2020 £000	2019 £000
Interest and similar income			
Interest income calculated using the effective interest method	7	68,926	54,388
Other interest income	7	7,466	10,545
Total interest and similar income		**76,392**	**64,933**
Interest expense and similar charges	7	(22,020)	(18,694)
Net Interest Income		**54,372**	**46,239**
Fees and commissions income	8	1,548	1,500
Fees and commissions payable	8	(784)	(295)
Net (loss) on loans and other financial assets at fair value through profit or loss	9	(5,369)	(1,943)
Other income	10	3	6
Operating Income		**49,770**	**45,507**
Administrative expenses	11	(32,236)	(28,587)
Impairment losses on Loans and Advances to customers	26	(14,671)	(3,375)
Operating profit before tax		**2,863**	**13,545**
Tax (expense)	15	(309)	(2,746)
Profit after tax for the year		**2,554**	**10,799**
Other comprehensive income		-	50
Total Comprehensive Income for the year, net of tax		**2,554**	**10,849**

The notes on pages 57 to 115 are an integral part of these financial statements.

Statement of Financial Position

	Note	2020 £000	2019 £000
Assets			
Loans and Advances to Banks	17	156,707	84,644
Derivative Assets held for Risk Management	18	1,763	1,457
Loans and Advances to Customers - FVTPL	20	50,434	126,530
Loans and Advances to Customers – at amortised cost	21	1,277,092	1,053,365
Investment Securities	22	20,072	-
Property, Plant and Equipment	28	1,805	2,077
Right-of-Use Assets	29	2,535	3,463
Intangible Assets	30	6,701	5,976
Other Assets	31	4,196	6,146
Deferred tax asset	16	1,057	246
Total Assets		**1,522,362**	**1,283,904**
Liabilities			
Derivative Liabilities held for Risk Management	18	14,562	4,599
Central Bank Facilities	23	180,000	173,000
Customer Deposits	24	1,125,560	904,171
Finance Lease Liability	29	3,086	4,525
Other Liabilities	32	14,971	16,086
Subordinated Liabilities	33	30,125	30,048
Total Liabilities		**1,368,304**	**1,132,429**
Equity			
Share Capital	35	126,288	126,288
Share Premium		196	196
Fair Value through Other Comprehensive Income Reserve		-	-
Retained Earnings		27,574	24,991
Total Equity		154,058	151,475
Total Equity and Liabilities		**1,522,362**	**1,283,904**

The notes on pages 57 to 115 are an integral part of these financial statements

These financial statements were approved by the Board of Directors and signed on its behalf on 11 May 2021.

Matthew Wyles
Director

Timothy Blackwell
Director

Company Number: 1311315

Statement of Changes in Equity
For the year ended 31 December 2020

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2020	126,288	196	24,991	151,475
Comprehensive Income for the year				
Profit for the year	-	-	2,554	2,554
Total Comprehensive Income for the year	-	-	2,554	2,554
Contributions by and distributions to owners				
Equity Settled Share-Based Payment	-	-	29	29
Total contributions by and distributions to owners	-	-	29	29
Balance at 31 December 2020	**126,288**	**196**	**27,574**	**154,058**

Statement of Changes in Equity
For the year ended 31 December 2019

	Share Capital £000	Share Premium £000	Retained Earnings £000	FVTOCI Reserve £000	Total Equity £000
Balance at 1 January 2019	111,288	196	14,316	(50)	125,750
Adjustment on Initial application of IFRS 16	-	-	(108)	-	(108)
Restated Balance at 1 January 2019	111,288	196	14,208	(50)	125,642
Comprehensive Income for the year					
Profit for the year/ Other Comprehensive Income	-	-	10,799	(50)	10,849
Total Comprehensive Income for the year	-	-	10,799	(50)	10,849
Contributions by and distributions to owners					
Equity Settled Share-Based Payment	-	-	(16)	-	(16)
Issue of shares	15,000	-	-	-	15,000
Total contributions by and distributions to owners	15,000	-	(16)	-	14,984
Balance at 31 December 2019	**126,288**	**196**	**24,991**	**-**	**151,475**

Statement of Cash flows

	Note	2020 £000	2019 £000
Cashflows from operating activities			
Profit before tax for the year		2,863	13,545
Adjustments for:			
Depreciation and amortisation		3,524	2,885
Foreign Exchange Gains/(Losses)		3	6
Increase/(Decrease) in impairment of Loans and Advances		3,753	776
Increase/(Decrease) in provisions		10,918	2,599
Equity-settled share based payment transactions		30	(16)
Bond premium/discount amortisation		(67)	-
(Increase)/Decrease in Fair Value of Derivative Assets		10,120	3,574
(Increase)/Decrease in Fair Value of loans and advances designated as hedged items		(9,116)	(3,243)
(Increase)/Decrease in Fair Value of Loans and Advances held at FVTPL		6,463	4,088
(Increase)/Decrease in Fair Value of GILT's		-	61
Repayment of the interest accrued on finance lease liabilities		(187)	(240)
Corporation Tax paid		(2,091)	(2,230)
Changes in:			
(Increase) in Loans and Advances to Customers		(158,211)	(278,881)
Decrease/(Increase) in Other Assets		1,950	(3,324)
Increase in Central Bank Facilities		7,000	38,000
Increase in Customer Deposits		219,961	183,827
Increase in Other Liabilities		(685)	3,068
Decrease/(Increase) in Debt Securities		-	15,098
Net cash flow from operating activities		**96,228**	**(20,407)**
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(278)	(280)
Purchase of Intangible Assets		(2,772)	(3,400)
Purchase of Investment Securities		(84,984)	-
Sale of Investment Securities		65,000	-
Net cash flow from Investing Activities		**(23,034)**	**(3,680)**
Cash flows from Financing Activities			
Repayments of the principal portion of finance lease liabilities		(1,131)	(1,078)
Proceeds from the issue of share capital		-	15,000
Net decrease in Cash and Cash Equivalents		72,063	(10,165)
Cash and cash equivalents at 1 January		84,644	94,809
Cash and Cash Equivalents at 31 December		**156,707**	**84,644**
Cash in hand		-	-
Loans and advances to Banks	17	156,707	84,644
Cash and Cash Equivalents at 31 December		**156,707**	**84,644**

Notes to the financial statements

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

1. Reporting entity

Hampshire Trust Bank Plc (the 'Bank') is domiciled in the United Kingdom, a company limited by shares.

2. Basis of Preparation

The Bank's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (as defined in section 474(1) of that Act).

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

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

Going concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Bank has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements (the going concern period).

For the year ended 31 December 2020, the Bank recognised a net profit of £2.6m. The Bank's net current assets as at 31 December 2020 were £1,522m. The Bank has £176.8m of resources comprising cash and cash equivalents, and other highly liquid assets as at 31 December 2020.

In making their assessment, the directors have considered the current position, as detailed above, together with projections of loan book growth, expected credit losses, profitability, cash flows and capital resources. Under this scenario the Bank continues to maintain capital and liquidity at levels significantly above its minimum regulatory requirements throughout the going concern period.

For each of the business divisions, the directors have also considered the impact of downside stress scenarios. Whilst the Covid-19 impacts are not yet fully known and will depend on many factors including the future management and control of Covid-19 infection rates, the need for continued or reintroduced lockdown restrictions and the Government support measures for businesses and individuals, the Bank has undertaken analysis of forecast capital and liquidity levels subject to severe downside scenarios through the recent ICAAP. These stress scenarios resulted in impacts at least as severe as those under the Bank of England Annual Cyclical Scenario, which assumes the UK economy enters deep and prolonged recession. The analysis of liquidity under these scenarios also includes short term stresses from our recent ILAAP to assess the impact on the Bank's liquidity versus our risk appetite and regulatory requirements. Based on the results of this severe stress scenario analysis, the Directors have concluded that the Bank's capital and liquidity forecasts are above its minimum regulatory requirements throughout the going concern period.

Accordingly, the directors are confident that the Bank has adequate resources to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and, therefore, have adopted the going concern basis in preparing the financial statements.

3. Changes in significant accounting policies

The Bank applied the following standards and amendments to standards from 1 January 2020:

- Elected to early adopt the Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7).
- Definition of material (Amendments to IAS 8 and IAS 1)

A number of other amendments are also effective from 1 January 2020 but they do not have a material effect on the Bank's financial statements.

Interest rate benchmark reform

The Bank applied the Phase 2 amendments retrospectively. However, in accordance with exceptions provided in the Phase 2 amendments, the Bank has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2019. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

The Phase 2 amendments (policy applied from 1 January 2020)

The amendments adopted by the Bank are described below:

- Under a temporary exception, changes to the hedge designation and hedge documentation due to the interest rate benchmark reform would not constitute the discontinuation of the hedge relationship nor the designation of a new hedging relationship.
- In respect of the retrospective hedge effectiveness assessment, the Bank may elect on a hedge-by-hedge basis to reset the cumulative fair value changes to zero when the exception to the retrospective assessment ends (Phase 1 relief).
- In respect of whether a risk component of a hedged item is separately identifiable, the amendments provide temporary relief to meet this requirement when an alternative risk free rate (RFR) financial instrument is designated as a risk component. These amendments allow the Bank upon designation of the hedge to assume that the separately identifiable requirement is met if the Bank reasonably expects the RFR risk will become separately identifiable within the next 24 months. This relief applies to each RFR on a rate-by-rate basis and starts when the Bank first designates the RFR as a non-contractually specified risk component.

The details of the accounting policies are disclosed in Note 6.13. See also Note 27 for related disclosures about risks and hedge accounting.

Phase 1 amendments (policy applied from 1 January 2019)

The reliefs provided by the amendments that apply to the Bank are:

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Bank has assumed that the GBP LIBOR interest rate on which the cash flows of the interest rate swap that hedges fixed-rate mortgages is not altered by IBOR reform.
- The Bank will not discontinue hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80-125% range.
- The Bank will cease to apply the amendments to its retrospective and prospective effectiveness assessment of the hedging relationship when the uncertainty arising from interest rate benchmark is no longer present with respect to the timing.
- The Bank has assessed whether the hedged GPB LIBOR risk component is a separately identifiable risk only when it first designates a mortgage as included in its macro hedge and not on an ongoing basis.

4. Use of judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The significant estimates and judgements made by management in applying accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the results and financial position, are presented within the notes to the accounts as shown below:

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Notes 6.8:** classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- **Note 6.10:** establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

- **Note 6.1:** the effective interest rate is an estimate 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.
- **Note 6.6:** estimation of the lease term; determination of the appropriate rate to discount the lease payments; assessment of whether a right-of-use asset is impaired. Estimation of the provision for present value of future costs of restoration of the leased premises.
- **Notes 6.10:** allowance for credit impairment losses on financial assets at amortised cost: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- **Note 6.11:** measurement of the fair value of financial instruments with significant unobservable inputs.
- **Notes 6.16:** estimation of useful lives and related depreciation for PPE and finite intangible assets.

5. Future accounting developments

Minor amendments to IFRSs effective for the Bank from 1 January 2021 have been issued by the IASB.
These amendments are expected to have no or an immaterial impact on the Bank.

6. Significant accounting policies

6.1. Interest income and expense on instruments measured at amortised cost

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

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 EIR is the rate that exactly discounts estimated future cash flows through the expected lives of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the same EIR as applied at the initial recognition of the financial asset but applied to the book value of the financial asset net of any impairment allowance.

6.1.1. Significant judgement & estimates: Effective Interest Rate

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

Interest income and expenses presented include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on EIR basis.
- Interest on FVOCI.
- Interest on FVTPL.
- Interest expense on lease liabilities.
- Interest income from Finance Leases and Hire Purchase is recognised over the period of the agreement so as to give a constant rate of return.

6.2. Fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised when the service has been provided and the Bank has satisfied its performance obligations per IFRS 15 and collection is considered probable.

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

Fees and commission income include customer service fees, wholesale facility fees, placement fees, which are recognised as the related services are performed (at a point in time or over time).

Fees and commission income include non-refundable commitment fees charged in advance for Development Finance loans held at FVTPL these are accounted for under IFRS 9 and are recognised in full on receipt of the fee.

Fees and commission expense include transaction and service fees, which are expensed as the services are received. None of the fees and commission charged arose from variable consideration and fees charged are generally not refundable unless under exceptional circumstances.

6.3. Net income from other financial instruments at FVTPL

6.3.1. Development Finance ("DF") loans

- Certain DF Loans are measured at FVTPL because the contractual cash flows are not SPPI.
- Income from those DF Loans will be shown within this line and excludes the interest income on such loans. The related interest income is presented as part of other interest income. Interest income is the contractual interest charged on the loan when held at amortised cost.

6.3.2. Derivatives

Net income from derivatives relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedging arrangement:

- The fair value movement on derivatives held for economic hedging where hedge accounting is not applied are presented in 'Net income from other financial instruments at FVTPL. However, for designated and effective fair value hedge accounting relationships the gains and losses on the hedging instrument are presented in the same line in the profit and loss as the hedged item.

6.4. Employee benefits

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

6.4.1. Short-term employee benefits

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

6.4.2. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as pension costs in the income statement.

6.5. Share based payments

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

The grant date fair value of a share-based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the vesting period of the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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.

6.5.1. Scheme Details

The Incentive Share scheme, comprising 'B' Ordinary shares issued by Hoggant Ltd (HTB's parent company), was introduced for directors and senior employees of the Bank on 21 May 2014. All shares were issued at a price of £0.01 p 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.

The Bank's long-term incentive share scheme is subject to two conditions. A service and a nonmarket performance condition. Employees must remain in service until the exit event happens (exit being the non-market performance condition). Therefore, there is a variable vesting period. The exit condition influences the length of the estimated vesting period.

6.5.2. Valuation method

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

	2020	2019	2018
Expected volatilty	28.9 to 30.2%	28.9 to 30.2%	29.1% to 30.2%
Risk free rate	-0.1% to 1.3%	0.8% to 1.3%	0.9% to 1.3%
Dividend yield	0.0%	0.0%	0.0%
Expected life	4 years	3 years	3 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.

6.5.3. Significant estimates: Share Based Payments

The fair value of shares in the employee share scheme was determined using a Black Scholes valuation model. The significant inputs into this model were expected term, risk free interest rate, expected dividend yield, equity value at grant date and volatility. Management has estimated the vesting period over which these shares will vest.

6.6. Leases

6.6.1. As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The incremental borrowing rate is determined by analysing borrowings from/to external sources adjusted to reflect the terms of the lease and the type of asset leased.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments with these leases as an expense on a straight-line basis over the lease term.

For property leases, the Bank has elected to separate the non-lease and lease component.

6.6.2. As a lessor

At lease inception, the lessor determines whether the lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Assets leased to customers are finance leases per IFRS 16. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised within interest income.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

6.6.3. Significant judgement & estimates: Lease term

The Bank has made a judgement on extending the lease term of Leeds office to 2023 and terminating the term of London office in 2023. This will be reassessed at each reporting period.

The discount rate used in the calculation of lease liability, is an estimation. For the property leases, the rate implicit in the Bank's property leases cannot be determined and it is unclear what a market rate for a secured loan provided to a Bank would be. In practice, banks do not enter into mortgage contracts with other lenders, particularly ones with such short terms, therefore, a rate of 5.0% would be an equivalent market rate to borrow a similar amount, on a secured basis, over a similar term, given the Bank's current credit standing.

The Bank uses two data centre providers where the Bank has the right to direct the use of the asset and obtain all economic benefits relating to the asset i.e. access to physical cabinets and therefore within the scope of IFRS 16. Due to the nature of the rolling contracts, we have taken the exemption of short-term leases on those two data centre agreements.

6.7. Income tax

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.

6.8. Financial assets & liabilities

Loans and advances include:

- loans and advances measured at amortised cost – they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL – these are measured at fair value with changes recognised immediately in profit or loss.
- lease receivables.

Investment Securities include:

- covered bonds measured at amortised costs. These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

6.8.1. Classification

A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated at FVTPL:

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

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

- the asset is held within a business model where the objective is achieved by both collecting its contractual cash flows and selling the financial asset.
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.

All other financial assets are classified as measured at FVTPL.

6.8.2. Business model assessment

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

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

The Bank's current business model for all financial assets is to hold to collect contractual cash flows.

6.8.3. Significant judgement: Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows.
- leverage features.
- prepayment and extension terms.
- terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse loans).
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

6.8.4. De-recognition

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income (“OCI”) is recognised in the income statement.

6.9. Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs.

6.10. Impairment

The impairment model in IFRS 9 is an expected loss model, which means that it is not necessary for a loss event to occur before an impairment loss is recognised. The impairment allowance is more forward-looking.

The impairment requirements apply to all financial assets at amortised cost, debt financial assets at FVOCI and loan commitments but not those measured at FVTPL (some Development Finance loans as mentioned above). IFRS 9 requires assets to be classified into three stages. The Bank applies this three-stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages.

Stage 1	Financial assets determined to have low credit risk at the reporting date, financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date..
Stage 2	Financial assets that have experienced a significant increase in credit risk since initial recognition, are placed on the Bank's Watchlist, are in Forbearance but still performing or trigger the 30 days past due backstop. For these assets, lifetime ECL are recognised, but interest income is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial asset.
Stage 3	Financial assets that have defaulted and are otherwise considered to be credit impaired, including having triggered the 90 days past due backstop. For these assets, specific impairment provisions will be raised where there is a reasonable expectation of an actual or potential loss. Interest income is calculated on the net carrving amount.

6.10.1. Significant estimates: ECL

IFRS 9 impairment involves several important areas of judgement, including estimating forward looking modelled parameters, developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk, based on the Bank's experience of managing credit risk.

Stages 1 and 2 ECLs as defined in the accounting policy are the product of the ECL model. Model governance, including validation both at inception and periodically, manual overlays, inputs and outputs, is covered by the Model Governance Committee.

Stage 3 impairments are assessed manually. Loans move to stage 3 when a specific event has occurred where there is objective evidence of impairment. In any case, the back-stop position is loans that are in default (90 days+ past due) automatically go into stage 3. When determining specific provisions and recoverability, macro-economic assumptions will also be taken into account.

6.10.2. Measurement of ECL/ECL Model

ECL are a probability-weighted estimate of credit losses. Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. The impairment model calculates ECL at an individual loan level by multiplying probability of default (PD), loss given default (LGD) and the exposure at default (EAD). These variables are derived from internally developed statistical models adjusted to reflect forward looking information and are discussed below. Management adjustments are made to modelled output to account for situations where known or expected risk factors have not been considered in the modelling process. The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

PD	PD represents the likelihood of a customer defaulting on their loan. The 12-month PD is either taken from a point-in-time reporting or application PD model or manually assessed via the 'Watch' process. Application PD models utilise qualitative and quantitative factors that are indicative of the risk of default e.g. arrears status and loan applications scores. This is then extrapolated using historic industry data, where available, or expert judgement to calculate the lifetime PD. The lifetime PD is calculated on a weighted basis across all scenarios. These factors vary for each loan portfolio. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The forecast changes in economic conditions are considered for all portfolios. As the Bank's performance data does not go back far enough to capture a full economic cycle, the Bank selected a proxy series that best represents each business line to build economic response models ('ERM') to capture the effects of a recession. For Specialist Business Finance it is the Finance and Leasing Association's Business Finance Balances in Arrears; for Development Finance it is the Bank of England's Write-offs of Lending to Companies Involved in the Development of Buildings; and for Specialist Mortgages it is UK Finance's Mortgages Over Three Months in Arrears for the Buy-to-Let Market. .
EAD	EAD is based on the amount expected to be owed at default over the next 12 months (stage 1 accounts) or over the remaining lifetime (stage 2 accounts). EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure and potential changes to the current amount allowed under the terms of the contract, including amortisation, overpayments and early terminations. The EAD of a financial asset is its gross carrying amount. For loan commitments, the EAD includes the amount drawn as well as potential future amounts that may be drawn under the terms of the contract, estimated based on historical observations and forward-looking forecasts.
LGD	LGD is the magnitude of the likely loss in the event of default. This takes into account recoveries either through curing or, where applicable, through auction sale of repossessed collateral and debt sale of the residual shortfall amount. For loans secured by property and property developments, loan to value ('LTV') and gross development values ('GDV') ratios are key parameters in determining LGD. LGDs are calculated on a discounted cash flow basis using the financial instrument's effective interest rate origination as the discount factor.

6.10.3. Determining a significant increase in credit risk since initial recognition

The impairment model utilises both relative and absolute criteria to identify increases in credit risk:

- Loans 30 days past due but with less than 90 days of arrears
- Loans moved to the Watchlist. Numerous quantitative and qualitative watch list factors are monitored including changes in bureau behavioural score, formal credit actions (e.g. winding up orders, CCJs, meeting of creditors), changes in customer behaviour, and requests for payment holidays, adverse changes in financial performance, significant changes in Directors and cost over runs and timing delays experienced by borrowers. Current and forecast adverse changes in the customer's geography and sector are also considered.
- Deterioration of lifetime PD since origination (either doubling or increasing by 5% i.e. + 500bps). In addition, for all portfolios, these increases are subject to a de minimis floor to ensure that the accounts with the lowest credit risk do not move into stage 2 due to a minimal change in the absolute level of PD. For the AF portfolio this de minimis threshold changes based on the remaining term of the loan whereas for all other portfolios the threshold is 50bps.

Due to a lack of historic trading data, the Bank's stage transition criteria were set using industry level data and expert judgement. Going forward the criteria will be refined once sufficient HTB specific credit data is available and can further develop its quantitative tests.

6.10.4. Definition of default and credit impaired assets
A financial asset is credit impaired (or defaulted) when an event or events that have a detrimental impact on estimated future cash flows have occurred. The triggers that will help identify this are explained below.

Loan accounts are classified as in default if any of the following criteria has been met:
- 90 days past due
- Customer is bankrupt, in administration or liquidation
- Significant decline in the credit quality of a credit obligation
- Material breach of documented terms and conditions which the Bank has considered appropriate to enforce
- Stage 3 exposures
- Forborne non-performing exposures
- Sale of credit obligations (not currently done by the Bank)
- Distressed restructuring

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

6.10.5. Forecast economic data
IFRS 9 requires ECL to reflect a range of possible outcomes and to consider future economic conditions. The Bank incorporates forward looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. This is achieved by developing a number of potential economic scenarios and modelling ECL for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability-weighted expected credit loss. The scenarios adopted and probability weighting applied are approved by the Model Governance Committee and then submitted to the Audit Committee as part of year end approval.

To achieve this the model uses five economic forecasts: one base; two upside; and two downside scenarios. All of the scenarios have been sourced from an independent economic consultancy currently Oxford Economics. The upside and downside scenarios are calculated from a range of economic variables that are stressed around the base case. The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described above. The probability-weighted amount is typically a higher number than would result from using only the base economic scenario. Credit losses and defaults typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce expected losses as much as less favourable macroeconomic factors increase expected losses.

6.10.6. Movement between stages
Watchlists are reviewed monthly by the Business Support & Recoveries Team and presented to the monthly Provisions Forum to ensure that the strategies remain appropriate and up to date. Performing assets which have experienced a significant increase in credit risk since initial recognition are reclassified from stage 1 (12 month ECL) to stage 2 (lifetime ECL).

A renegotiated loan is derecognised, and a new agreement is made on a substantially different term. These renegotiated loans are classified as modified loans and can be transferred out of stage 3 if they no longer exhibit evidence of being credit impaired. The decision to move a customer from ‘Watch’ to ‘Performing’ status can only be made by an individual/committee with the correct level of authority as per the Bank’s Delegated Authorities Policy.

6.10.7. Cure methodology

The credit risk of a financial asset may improve such that it is no longer considered to have experienced a significant increase in credit risk if it meets the Bank's cure methodology.

The Bank's cure methodology for all portfolios requires sufficient payments to be made to bring an account back within less than 30 days past due and for such payments to be maintained for two consecutive months.

To comply with IFRS 9 a customer will remain in default for 90 days even if cured. There is a 3-month probation period for both stage 2 and 3 (expressed for loans under distressed restructuring that require a longer probation period as per the Definition of Default policy). This also includes accounts that are removed from the Watchlist.

6.10.8. Write-off

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

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of comprehensive income and OCI.

6.10.9. Definition of Forbearance

Forbearance is deemed to arise where the Bank agrees, either formally or informally, to vary the contractual terms of a Credit Facility Agreement, prompted by:

- Current or anticipated financial difficulty of the borrower; and
- Where concessions provided by the Bank would not otherwise have been considered.

Forbearance is a qualitative stage 2 trigger (as mentioned above).

6.10.10. Governance

Stages 1 and 2 ECLs are the product of the ECL model. Model governance, including validation both at inception and periodically, monitoring, manual overlays, inputs and outputs, is covered by the Model Governance Committee.

Stage 3 impairments are assessed manually. Loans move to stage 3 when a specific event has occurred where there is objective evidence of impairment. In any case, the back-stop position is loans that are in default (90 days+ past due) automatically go into stage 3. When determining specific provisions and recoverability, macro-economic assumptions will also be taken into account.

The Credit Risk Management Framework is a key component of the RMF linking together the requirements for all of the Bank's credit related policies, procedures and practices and setting out how the Bank will develop, implement, monitor and review credit risk. The Board sets its Risk Appetite in respect of Credit Performance and Stewardship, Credit Quality and Credit Concentration and monitors adherence to Risk Appetite using a suite of Risk Appetite Metrics which are reviewed by Board each month. All aspects of credit risk management including maintenance of appropriate frameworks and policies are subject to review by Credit Committee under direct report to Board Risk Committee.

Performance of the loan book is monitored and reported by the 2nd Line Risk Credit Analytics Team, working closely with the Bank's Models Credit Risk Team who manage the Bank's IFRS9 credit grading and loss models.

The Bank has also introduced a stand-alone 2nd Line Business Support and Recoveries unit reporting direct to the Chief Risk Officer, independent of the 2nd Line Credit Risk Team. This unit manages all credit distressed customers with a view to supporting them to return to good health or seek alternative resolution to problem debt management.

All default accounts will be reviewed by the appropriate Delegated Authority holder or Credit Committee on a regular basis (quarterly as a minimum) and monitored monthly via risk data reporting packs. Any adjustment to the level of the provision will be subject to approval at the appropriate Delegated Authority level.

The Bank manages its Model Risk through the Model Governance Committee, which is a subcommittee of the Audit Committee. The committee is chaired by the CFO and is made up of the CRO, CCO, Director of Credit Analytics and Validation and Head of Models Credit Risk. The purpose of this committee is:

- To develop and recommend a framework comprising a set of model governance principles, policies, standards, and practices (including independence standards) that optimally support the Bank's strategic priorities in accordance with the delegations under the Bank's Schedule of Policies and Frameworks
- To ensure that there is robust ongoing monitoring, challenge and assessment of all Models within the Bank's business, including the monitoring of both Credit and Finance models
- To oversee actions necessary to ensure the Bank's Model Governance (MGC) is adhered to and,
- To provide a quarterly summary of progress from the MGC including completed actions and what is upcoming to Audit Committee

COVID-19 Impact

Whilst the Bank has established PD and LGD models feeding into its IFRS9 ECL calculations, the extraordinary circumstances resulting from the Covid-19 pandemic during 2020 have required modification to the way customers requiring temporary support have been managed. Following FCA/PRA guidelines, emergency payment holidays of up to a cumulative maximum of 180 days have been agreed for customers in all of the Bank's lending divisions where appropriate. In line with guidance, these measures have not been recorded as Forbearance however, normal Credit Forbearance policy is applied where support beyond the 180 day period is requested.

In line with the regulatory guidance, emergency payment holidays or extension of payment holidays as a consequence of Covid-19, doesn't necessarily indicate a significant increase in credit risk or credit-impaired for ECL purposes, or triggering a default under CRR.

6.10.11. Post-Model Adjustments

The new suite of Asset Finance PD & LGD models were designed during the year to better reflect the Bank's current strategies in Asset Finance. They were developed with the latest expert judgement and use of statistical analytics and internal data, as applicable. However, as a result of the significant government intervention into the UK economy throughout 2020, several model inputs have been suppressed or are not behaving in the way they would be expected to given the contraction in the economy. As at 31 December 2020, management judgement has resulted in additional ECL allowance of £2.3m (2019: nil). PMAs are subject to formal provisioning governance and is approved by the Model Governance Committee.

6.11. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between markets participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

6.11.1. Significant estimates

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

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

Valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

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

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

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

6.12. Loans and advances to banks

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.

6.13. Derivatives held for risk management purposes and hedge accounting

The Bank designates certain derivatives as hedging instruments in respect to interest rate risk in fair value hedges. The Bank applies fair value hedge accounting for portfolio hedges of interest rate risk. The hedged items are portfolios that are identified as part of the risk management process. The Bank uses the exemption to continue using IAS 39 hedge accounting. Further, during 2020, the Bank has early adopted the amendments to IAS 39 and IFRS 7 issued by the IASB in October 2020 as part of its project on interest rate benchmark reform ('the amendments').

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is effective in offsetting changes in fair values of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument.
- the effect of credit risk does not dominate the value changes that result from that economic relationship.
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

The Bank rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness (80-125%) requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

6.13.1. Fair value hedges

The Bank applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Bank identifies portfolios whose interest rate risk its wishes to hedge. The portfolio comprise either only assets or only liabilities. The Bank analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item is amortised to income statement on a straight line basis over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to income statement by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

In 2019, the Bank early adopted the Phase 1 amendments 'Interest Rate Benchmark Reform: Amendments to IFRS 9/IAS 39 and IFRS 7'. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In 2020, the Bank has chosen to early adopt 'Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9/ IAS 39 and IFRS 7' which was issued in August 2020. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments early enables the Bank to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs). The Bank has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2020.

Both the Phase 1 and Phase 2 amendments are relevant to the Bank because it applies hedge accounting to its interest rate benchmark exposures, details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Bank to manage the risks relating to the reform and the accounting impact, including the impact on hedge accounting relationships, appear in Note 27 Financial Risk.

The Bank will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Bank is exposed ends. The Bank expects this uncertainty will continue until the Bank's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

As a result of the Phase 2 amendments, when changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Bank updates the hedge documentation without discontinuing the hedging relationship. The Bank will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship that is subject to the interest rate benchmark reform fall outside the 80-125 percent range. No individual hedging relationship fell outside this band for the current period.

6.14. Property, Plant and Equipment

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

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

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

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

6.14.1. Subsequent costs

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

6.14.2. Impairment of Property, Plant and Equipment

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

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

The company leases office premises in London and Leeds and these are presented as Right-of-Use assets on a separate line in the statement of financial position.

6.15. 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. They are stated at historical cost.

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

6.15.1. Subsequent costs

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

6.15.2. Significant estimate: Impairment of Intangibles

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

6.16. Deposits

Customer deposits are non-derivative financial liabilities with fixed or determinable payments. Deposits are initially measured at fair value less incremental direct transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

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

6.17. Financial liabilities - Central Bank Facilities

Loans and advances over which the Bank transfers its rights to the collateral thereon to the Bank of England under the TFS and IL TR are not derecognised from the Statement of Financial Position as the Bank retains substantially all the risks and rewards of ownership including all cash flows from the loans and advances and exposure to credit risk.

Financial liabilities are initially measured at fair value and are subsequently measured generally at amortised cost unless it is held for trading. A financial liability will be derecognised when it is discharged or cancelled or expired. Financial liabilities are subsequently measured at amortised cost, interest is accrued over the life of the agreement on an EIR basis.

Drawings under the TFS have a maturity of four years and bear interest at Bank Base Rate. Drawings under the scheme are collateralised using the Bank's loan portfolio and are measured at amortised cost. The volume of funding which can be drawn through central bank facilities is restricted by the volume of assets which the Bank is willing to encumber in the schemes. The Bank has set its risk appetite for asset encumbrance to ensure that the Bank is able to utilise central bank facilities as much as possible, whilst ensuring sufficient availability of 'free' assets, (assets that are unencumbered but that may be encumbered).

Drawings under Indexed Long-term Repo Scheme (IL TR) have a much shorter maturity date and a rate of interest set in auction process. The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits.

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

6.18. Subordinated liabilities

Subordinated liabilities are initially measured at fair value minus incremental direct transaction costs. These instruments are subsequently stated at amortised cost using the effective interest rate method. The subordinated Tier 2 notes are eligible for treatment as regulatory capital. The notes pay interest at a rate of 7.25% per annum, payable semi-annually in arrears. The Bank has the option to redeem these notes on 10 May 2023.

6.19. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that the outflow of the economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

Provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If the levy is subject to a minimum activity threshold, then a provision is recognised when that minimum activity of threshold is reached.

6.20. Financial guarantees and loan commitments

The Bank is the holder of a guarantee offered by the Secretary of State for Business, with the British Business Bank acting as agent.

During 2020, the Bank has entered the Coronavirus Business Interruption Loan Scheme (CBILS) with the British Business Bank. The scheme is in place with Asset Finance, and helps provide funding to SMEs who have been adversely effected by the COVID-19 pandemic. The key attributes of the scheme are that, the UK Government pays the first 12 months interest for the customer, and provide 80% coverage on any losses incurred for loans within the scheme.

Financial guarantee contracts held are recognised as an asset equal to the prepayment of the premium paid and the asset is amortised to profit and loss over the period in which benefit of the guarantee is obtained.

6.21. Shareholders' funds

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Bank to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Bank, or where the instrument will or may be settled in the Bank's own equity instruments but includes no obligation to deliver a variable number of the Bank's own equity instruments, then it is treated as an equity instrument. Accordingly, the Bank's share capital is presented as components of equity. Any dividends, interest or other distributions on capital instruments are also recognised in equity. Any related tax is accounted for in accordance with IAS 12.

7. Interest income and expense

See accounting policy in note 6.1.

	2020 £000	2019 £000
Interest and similar income on Loans and Advances to Customers held at amortised cost	68,476	53,541
Interest and similar income on Loans and Advances to Customers held at fair value through profit and loss	7,466	10,545
Interest on Loans and Advances to Banks and Building Societies	450	680
Interest on other financial assets held at fair value	–	167
Total Interest receivable and similar income	**76,392**	**64,933**
Interest on Derivative Financial Instruments	(2,063)	(628)
Interest on Deposits from Customers, TFS & ILTR	(17,704)	(15,821)
Interest on Subordinated Liabilities	(2,253)	(2,245)
Total Interest expense and similar charges	**(22,020)**	**(18,694)**
Net Interest Income	**54,372**	**46,239**

8. Fees and commission income and expense

See accounting policy in note 6.2.

	2020 £000	2019 £000
Wholesale Facility Fees	211	356
Early Settlement Fees	618	731
Customer Service Fees	125	163
Commitment Fees on Development Finance Loans	594	250
Fees and Commission Income	1,548	1,500
Bank Charges	(606)	(120)
Credit and Identity Searches	(178)	(175)
Fees and Commission Expense	(784)	(295)

Fees and commission income include commitment fees charged for Development Finance loans held at FVTPL. Under IFRS 9 fee income of £594k is recognised upon receipt (2019: £250k).

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

The table below provides a breakdown of fees and commission income and expense in 2020 and 2019.

	2020 £000	Specialist Mortgages £000	Development Finance £000	Asset & Wholesale Finance £000	Savings £000
Wholesale Facility Fees	211	-	-	211	-
Early Settlement Fees	618	-	-	618	-
Option to Purchase Fees	95	-	-	95	-
Other Customer Service Fees	30	20	4	6	-
Commitment Fees	594	-	594	-	-
Fees and Commission Income	**1,548**	**20**	**598**	**930**	**-**
Enable guarantee charges	(606)	-	(606)	-	-
Credit and Identity Searches	(178)	(77)	(6)	(63)	(32)
Fees and Commission Expense	**(784)**	**(77)**	**(612)**	**(63)**	**(32)**

	2019 £000	Specialist Mortgages £000	Development Finance £000	Asset & Wholesale Finance £000	Savings £000
Wholesale Facility Fees	356	-	-	356	-
Early Settlement Fees	731	-	-	731	-
Option to Purchase Fees	108	-	-	108	-
Other Customer Service Fees	55	19	31	5	-
Commitment Fees	250	-	250	-	-
Fees and Commission Income	**1,500**	**19**	**281**	**1,200**	**-**
Enable guarantee charges	(120)	-	(120)	-	-
Credit and Identity Searches	(175)	(44)	(8)	(103)	(20)
Fees and Commission Expense	**(295)**	**(44)**	**(128)**	**(103)**	**(20)**

9. Net gain or loss on financial assets at fair value through P&L

See accounting policy in note 6.3.

	Note	2020 £000	2019 £000
Derivatives held for risk management excluding the effective portion of derivatives held for hedge accounting purposes			
Interest rate risk	**18/19**	(1,005)	(331)
Gain/ (Loss) on loans and advances to customers held at FVTPL	**20**	(4,364)	(1,502)
Fair value gain/ (loss) on UK Gilts realised.		-	(110)
Net (loss)/gain loans & other financial assets at FVTPL		**(5,369)**	**(1,943)**

10. Other income

	2020 £000	2019 £000
Foreign exchange gains	3	6
Other income	**3**	**6**

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

11. Administration Expenses

	Note	2020 £000	2019 £000
Depreciation and amortisation	28/29/30	3,524	2,885
Staff Costs	12	20,964	18,825
Share based payments	13	29	(16)
FSCS costs		57	28
Other Administrative expenses		7,662	6,865
Administrative Expenses		**32,236**	**28,587**

12. Staff numbers and costs

See accounting policy in note 6.4.

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

	2020	2019
Directors	7	7
Lending	111	111
Administrators	98	75
	216	**193**

The analysis includes both full-time and part-time staff including Non-Executive directors.

The aggregate payroll costs of these people were as follows:

	2020 £000	2019 £000
Wages and Salaries	17,576	15,249
Social Security costs	2,164	1,922
Pension costs	1,128	925
Other staff costs	1,320	2,203
	22,188	**20,299**
Of which capitalised as Intangible Assets	1,224	1,474
Of which included within Administration Expenses	20,964	18,825

	2020 £000	2019 £000
Directors' Salaries and Bonus	1,195	974
Directors' Share based payments	11	(5)
	1,206	969

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2019: nil).

There were no directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2019: nil).

The aggregate of emoluments of the highest paid director was £551 k (2019: £380k). No pensions were attributable to the highest paid director and no shares were received or receivable by that director in respect of qualifying services under a long term incentive scheme.

Remuneration for Non-Executive directors consisted of salary payments of £320k (2019: £320k).

13. Employee share-based payment transactions

See accounting policy in note 6.5.

Details of shares issued are shown in the table below:

	2020 No. of Shares	2019 No. of Shares
At 1 January	2,023	1,422
Granted	245	715
Forfeited	(324)	(114)
At 31 December	**1,944**	**2,023**

The average fair value of shares issued was £1,814 per share.
The charge to the Consolidated Income Statement was a debit of £29k (2019: £16k credit).

14. Auditor's remuneration

	2020 £000	2019 £000
Audit of financial statements	489	472
Other non-audit services	31	58
	520	**530**

15. Taxation

See accounting policy in note 6.7.

Recognised in the Statement of Comprehensive Income

	2020 £000	2019 £000
Current tax		
Current tax on profits for the year	**1,120**	**2,984**
Deferred tax:		
Origination and reversal of temporary differences	(568)	(230)
Adjustments in respect of prior periods	(9)	(34)
Effect of tax rate change on opening balance	(234)	26
Total deferred tax charge/(credit)	(811)	(238)
Tax on profit/(loss) on ordinary activities	**309**	**2,746**

Tax reconciliation

	2020 £000	2019 £000
Profit for the year	2,863	13,545
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	544	2,574
Effects of:		
Permanent non-deductible expenses	24	103
Impact of rate differences	(235)	26
Adjustment for prior year tax differences	(22)	53
Share based payments charge	5	(3)
Effects of Group Relief/ other reliefs	(7)	(7)
	309	**2,746**

In 2020 profit for the year includes profit before tax on continuing activities only of £2.8m (2019: profit before tax on continuing activities £13.5m)

The corporation tax liability at 31 December 2020 is £334k (2019: £1,305k). This is disclosed within other tax and social security in note 32 Other Liabilities.

16. Deferred Tax Asset (Liability)

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

	2020 £000	2019 £000
Accelerated capital allowances	915	248
Short term timing differences	214	74
IFRS16 adjustment	18	18
IFRS 9 Adjustment	(90)	(94)
Deferred Tax Asset / (Liability)	**1,057**	**246**

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

	2020 £000	2019 £000
Balance brought forward	246	(13)
Adjustments in respect to the prior periods	9	64
(Debit) / Credit to the income statement	802	195
Deferred Tax Asset/ (Liability)	**1,057**	**246**

The Bank has calculated the UK deferred tax asset as at 31 December 2020 using a blended forecast future tax rate of 23%. This blended rate is calculated based on the main rate of corporation tax enacted at the 31 December as well as an expectation that the Bank will be liable to pay the 8% banking surcharge on forecast profits after 1 April 2022.

In the March 2021 Budget it was announced that the UK rate of corporation tax will increase from 19% to 25%. The deferred tax balances included within the accounts have been calculated with reference to the rate of 19%, as the change was not substantively enacted or enacted at the balance sheet date. The banking surcharge is set to be reviewed in 2021 following the announcement of the planned increase of the main rate to 25% in 2023. It is unclear at the time of signing the accounts how the surcharge will be revised and therefore the potential impact this may have on the deferred tax asset.

17. Loans and Advances to Banks

See accounting policy in note 6.8.

	2020 £000	2019 £000
Placements with other Banks included in Loans and Advances to Banks		
Repayable on demand	156,707	84,644
	156,707	**84,644**

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £134.8m (2019: £77.5m).

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.

	2020 £000	2019 £000
Aa3	319	254
A1	21,610	–
A2	–	6,855
	21,929	**7,109**

18. Derivative financial instruments held for risk management

See accounting policy in note 6.13.

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

	Notional amount £000	Fair value of assets £000	Fair value of liabilities £000
At 31 December 2020			
Interest rate swaps:			
Interest rate designated in fair value hedges of loans and advances	1,528,000	1,694	(14,562)
Other risk management derivatives	89,000	69	-
	1,617,000	**1,763**	**(14,562)**
At 31 December 2019			
Interest rate swaps:			
Interest rate designated in fair value hedges of loans and advances	1,074,650	1,452	(4,599)
Other risk management derivatives	101,400	5	-
	1,176,050	**1,457**	**(4,599)**

Gains and losses from derivatives are as follows:

	2020 £000	2019 £000
Net loss on derivatives designated as fair value hedges	(9,721)	(3,147)
Fair value adjustments from hedge accounting	9,116	3,243
Ineffectiveness of fair value hedges	(605)	96
Movements on other derivative financial instruments	(400)	(427)
Fair Value gains/(loss) on derivative financial instruments	**(1,005)**	**(331)**

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided in Note 19. The Bank uses other derivatives, not designated in a qualifying hedging relationship ('other risk management derivatives'), to manage its exposure to interest rate risk. The instruments used principally include interest rate swaps.

For more information about how the Bank manages its market risks, see Note 27.3.

19. Hedge accounting

See accounting policy in note 6.13.

At 31 December the company held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

As at 31 December 2020	not more than 3 months £000	over 3 but not more than 6 months £000	over 6 but not more than 1 year £000	over 1 but not more than 3 years £000	over 3 but not more than 5 years £000	over 5 but not more than 10 years £000	Total £000
Nominal value of derivatives held for hedging purposes	201,500	155,500	219,700	444,400	477,000	29,900	1,528,000
Average fixed interest rate	0.76%	0.71%	0.62%	0.71%	0.52%	0.39%	0.65%

As at 31 December 2019	not more than 3 months £000	over 3 but not more than 6 months £000	over 6 but not more than 1 year £000	over 1 but not more than 3 years £000	over 3 but not more than 5 years £000	over 5 but not more than 10 years £000	Total £000
Nominal value of derivatives held for hedging purposes	-	68,400	223,200	350,600	428,650	3,800	1,074,650
Average fixed interest rate	-	0.71%	0.89%	0.82%	1.06%	0.77%	0.87%

Amounts recognised in the statement of profit and loss in respect of fair value gains and losses on hedged items and hedged instruments are as follows:

	2020 £000	2019 £000
(Losses)/gains on the hedged items attributable to the hedged risk	9,116	3,243
Gains/(losses) on the hedging instruments	(9,721)	(3,147)
Fair value in-effectiveness	6%	3%

The amounts relating to items designated as hedged items at 31 December were as follows:

As at 31 December 2020	Carrying amount 2020		Accumulated Fair value adjustments on the hedged item included in the carrying amount		Line item in balance sheet	Change in value used for calculating hedge ineffectiveness
	Assets (FV) £000	Liabilities (FV) £000	Assets £000	Liabilities £000		
Loans and advances	761,365		14,160		Loans and advances to customers	10,543
Customer deposits		648,715		1,802	Customer deposits	1,427

As at 31 December 2019	Carrying amount 2019		Accumulated Fair value adjustments on the hedged item included in the carrying amount		Line item in balance sheet	Change in value used for calculating hedge ineffectiveness
	Assets (FV) £000	Liabilities (FV) £000	Assets £000	Liabilities £000		
Loans and advances	596,708		3,617		Loans and advances to customers	3,617
Customer deposits		493,625		374	Customer deposits	374

The amounts relating to items designated as hedged instruments at 31 December were as follows:

As at 31 December 2020	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffectiveness	Line item in profit or loss
Interest rate swap – Hedge of loans and advances							
Assets							
Interest rate risk	750,900	1,694	-	Derivative assets held for risk management	242	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	777,100	-	14,562	Derivative Liabilities held for risk management	9,962	24%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

As at 31 December 2019	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffectiveness	Line item in profit or loss
Interest rate swap – Hedge of loans and advances							
Assets							
Interest rate risk	491,850	1,452	-	Derivative assets held for risk management	1,452	1%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	582,800	-	4,599	Derivative Liabilities held for risk management	4,599	13%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

Of the total nominal amounts mentioned above, as at 31 December 2020, nominal value of £1,187.5m of LIBOR-linked swaps will be directly impacted by the IBOR reform.

For more information about how the Bank manages its market risks, see Note 27.3.

20. Fair value of loans and advances to customers

See accounting policy in note 6.8.

The following table summarises the carrying values of financial assets presented on the Bank's balance sheet and the fair value of these financial instruments.

	2020 £000	2019 £000
Development Finance	**50,434**	**126,530**

21. Loans and advances to customers at amortised cost:

See accounting policy in note 6.8.

	2020 £000	2019 £000
Development Finance	116,632	130,195
Less: allowance for impairment	(3,270)	(288)
	113,362	**129,907**
Specialist Mortgages	895,748	630,149
Less: allowance for impairment	(4,317)	(953)
	891,431	**629,196**
Asset Finance		
Hire Purchase	141,045	156,086
Finance Leases	40,388	47,088
Less: allowance for impairment	(7,775)	(3,216)
	173,658	199,958
Wholesale finance	84,497	90,700
Less: allowance for impairment	(16)	(13)
	84,481	90,687
	258,139	**290,645**
Fair value adjustments from portfolio hedging	**14,160**	**3,617**
	1,277,092	**1,053,365**

Hire Purchase

See accounting policy in note 6.6.

The table below provides an analysis of Hire Purchase receivables.

	2020 £000	2019 £000
Gross investment in hire purchase receivables:		
Less than one year	61,494	58,806
Between one and five years	94,598	95,786
Between five and ten years	3,056	1,694
	159,148	156,286
Unearned finance income	(18,103)	(200)
Net investment	141,045	156,086
Less impairment allowance	(5,176)	(2,133)
	135,869	**153,953**

Finance Lease Receivables

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

	2020 £000	2019 £000
Gross investment in finance lease receivables:		
Less than one year	18,896	17,558
Between one and five years	26,243	29,410
Between five and ten years	190	274
	45,329	47,242
Unearned finance income	(4,941)	(154)
Net investment in finance leases	40,388	47,088
Less impairment allowance	(2,599)	(1,083)
	37,789	**46,005**

22. Investment securities held at amortised cost

See accounting policy in note 6.8.

The value of investment securities held at amortised cost as at 31 December is as follows:

	2020 £000	2019 £000
Covered bonds	20,072	-
Debt Securities	**20,072**	**-**

The following table sets out the credit quality of Investment Securities as at 31 December.
The analysis has been based on Moody's long term ratings.

	2020 £000	2019 £000
A1	11,498	-
A2	2,787	-
A3	5,787	-
	20,072	**-**

23. Central Bank Facilities

See accounting policy in note 6.17.

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

	2020 £000	2019 £000
TFS and ILTR	180,000	173,000
Central Bank Facilities	**180,000**	**173,000**

24. Customer Deposits

See accounting policy in note 6.16.

	2020 £000	2019 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	66,392	20,768
Not more than three months	506,562	260,750
More than three months but not more than one year	342,668	396,325
More than one year but not more than five years	208,136	225,954
	1,123,758	**903,797**
Fair value adjustments for portfolio hedging	1,802	374
Customer deposits	**1,125,560**	**904,171**

25. Fair value of financial instruments

See accounting policy in note 6.11.

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

At 31 December 2020	Hierarchy level	Amortised Cost £000	Total carrying amount £000	Fair Value £000
Assets				
Loan and Advances to Banks	Level 2	156,707	156,707	156,707
Loans and Advances to Customers - FVTPL	Level 3	-	50,434	50,434
Loans and Advances to Customers – at amortised cost	Level 3	1,277,092	1,277,092	1,257,237
Investment Securities	Level 2	20,072	20,072	20,072
Derivative Financial Instruments	Level 2	–	1,763	1,763
Other Assets	Level 3	22,579	22,579	22,579
Total		**1,476,450**	**1,528,647**	**1,508,792**
Liabilities				
Customer Deposits	Level 3	1,125,560	1,125,560	1,127,900
Central Bank Facilities	Level 3	180,000	180,000	180,000
Subordinated Liabilities	Level 2	-	30,125	30,762
Derivative Financial Instruments	Level 2	-	14,562	14,562
Finance Lease Liability	Level 3	3,086	3,086	3,086
Other Liabilities	Level 3	14,919	14,919	14,919
Share Capital	Level 2	-	126,288	126,288
Share Premium	Level 2	-	196	196
Total Liabilities		**1,323,565**	**1,494,736**	**1,497,713**

At 31 December 2019	Hierarchy level	Amortised Cost £000	Total carrying amount £000	Fair Value £000
Assets				
Loan and Advances to Banks	Level 2	84,644	84,644	84,644
Loans and Advances to Customers - FVTPL	Level 3	-	126,530	126,530
Loans and Advances to Customers – at amortised cost	Level 3	1,053,365	1,053,365	1,052,220
Derivative Financial Instruments	Level 2	-	1,457	1,457
Other Assets	Level 3	4,264	4,264	4,264
Total		**1,142,273**	**1,270,260**	**1,269,115**
Liabilities				
Customer Deposits	Level 3	904,171	904,171	900,762
Central Bank Facilities	Level 3	173,000	173,000	173,000
Subordinated Liabilities	Level 2	-	30,048	30,000
Derivative Financial Instruments	Level 2	-	4,599	4,599
Finance Lease Liability	Level 3	4,525	4,525	4,525
Other Liabilities	Level 3	16,066	16,066	16,066
Share Capital	Level 2	-	126,288	126,288
Share Premium	Level 2	-	196	196
Total Liabilities		**1,097,762**	**1,258,893**	**1,255,436**

Level 3 fair value measurements

i. Reconciliation

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

	2020 £000	2019 £000
Loans and advances to customers		
Balance at 1 January	**126,530**	**166,804**
Total gains or losses:		
In profit or loss	3,699	9,291
Drawdowns on existing facilities	38,008	45,382
Repayments	(117,803)	(94,947)
Balance at 31 December	**50,434**	**126,530**

ii. Unobservable Inputs used in measuring fair value

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

The valuation technique used for these loans is discounted cash flow and the significant unobservable inputs are the risk-adjusted discount rate and the timing of expected cash flows.

The range of estimates for the discount rate are 0.0% to 6.0% above the contractual interest margin on those loans. A significant increase or decrease in that margin would result in a lower or higher fair value. An average increase of 1 % in the discount rate will result in a drop in fair value of £220k.

Significant unobservable inputs include timing of expected cash flows from the sale of completed properties. These cash flows can fluctuate due to changes in construction schedules and consumer demand for the completed units. Projected cash flows are derived from the business line's best estimates.
An average delay of 4 months in sales will result in a £198k drop in fair value.

26. Allowance for credit impairment losses on financial assets at amortised cost

i. IFRS 9

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

As at 31 December 2020

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Development Finance	92,632	16,243	7,757	116,632
Specialist Mortgages	818,061	72,342	5,345	895,748
Asset Finance	119,539	57,445	4,449	181,433
Wholesale finance	83,112	1,385	–	84,497
Total Exposure	**1,113,344**	**147,415**	**17,551**	**1,278,310**
Off Balance Sheet				
Loan Commitments	268,309	–	–	268,309
Total Gross Exposure	**1,381,653**	**147,415**	**17,551**	**1,546,619**
Add FV gains from portfolio hedging	12,801	1,324	35	14,160
Less: allowance for impairment	(2,061)	(6,924)	(6,392)	(15,377)
Total Net Exposure	**1,392,393**	**141,815**	**11,194**	**1,545,402**

As at 31 December 2019

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Development Finance	121,064	8,961	170	130,195
Specialist Mortgages	603,286	23,356	3,507	630,149
Asset Finance	189,735	8,753	4,686	203,174
Wholesale finance	90,693	7	–	90,700
Total Exposure	**1,004,778**	**41,077**	**8,363**	**1,054,218**
Off Balance Sheet				
Loan Commitments	203,090	–	–	203,090
Total Gross Exposure	**1,207,868**	**41,077**	**8,363**	**1,257,308**
Add FV gains from portfolio hedging	3,487	121	8	3,616
Less: allowance for impairment	(1,115)	(860)	(2,494)	(4,469)
Total Net Exposure	**1,210,240**	**40,338**	**5,877**	**1,256,455**

Gross Carrying Value	2020			
	Stage 1	Stage 2	Stage 3	Total
Development Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**121,064**	**8,961**	**170**	**130,195**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(12,325)	12,325	-	-
Transfer to Stage 3	-	(7,109)	7,109	-
Drawdowns/(Repayments)	(16,107)	2,066	495	(13,546)
Write offs			(17)	(17)
Balance at 31 December	**92,632**	**16,243**	**7,757**	**116,632**

	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	**603,286**	**23,356**	**3,507**	**630,149**
Transfer to Stage 1	4,273	(4,273)	-	-
Transfer to Stage 2	(47,141)	47,141	-	-
Transfer to Stage 3	(2,731)	(2,392)	5,123	-
Drawdowns/(Repayments)	260,374	8,510	(2,975)	265,909
Write Offs	-	-	(310)	(310)
Balance at 31 December	**818,061**	**72,342**	**5,345**	**895,748**

	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**280,428**	**8,760**	**4,686**	**293,874**
Transfer to Stage 1	1,578	(1,558)	(20)	-
Transfer to Stage 2	(66,139)	66,482	(343)	-
Transfer to Stage 3	(7,490)	(2,626)	10,116	-
Drawdowns/(Repayments)	(5,726)	(12,228)	(6,553)	(24,507)
Write Offs	-	-	(3.437)	(3.437)
Balance at 31 December	**202,651**	**58,830**	**4,449**	**265,930**

	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	**1,004,778**	**41,077**	**8,363**	**1,054,218**
Transfer to Stage 1	5,851	(5,831)	(20)	-
Transfer to Stage 2	(125,605)	125,948	(343)	-
Transfer to Stage 3	(10,221)	(12,127)	22,348	-
Drawdowns/(Repayments)	238,541	(1,652)	(9,033)	227,856
Write Offs	-	-	(3,764)	(3,764)
Balance at 31 December	**1,113,344**	**147,415**	**17,551**	**1,278,310**

Gross Carrying Value — 2019

Development Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**95,786**	**1,874**	**1,005**	**98,665**
Transfer to Stage 1	533	(533)	-	-
Transfer to Stage 2	(5,871)	5,871	-	-
Transfer to Stage 3	(623)	-	623	-
Drawdowns/(Repayments)	31,239	1,749	(1,458)	31,530
Balance at 31 December	**121,064**	**8,961**	**170**	**130,195**

Specialist Mortgages	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**340,537**	**7,086**	**509**	**348,132**
Transfer to Stage 1	1,041	(1,041)	-	-
Transfer to Stage 2	(11,556)	11,556	-	-
Transfer to Stage 3	(3,720)	(501)	4,221	-
Drawdowns/(Repayments)	276,984	6,256	(1,223)	282,017
Balance at 31 December	**603,286**	**23,356**	**3,507**	**630,149**

Asset and Wholesale Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**282,163**	**3,585**	**2,519**	**288,267**
Transfer to Stage 1	1,723	(1,298)	(425)	-
Transfer to Stage 2	(5,646)	5,687	(41)	-
Transfer to Stage 3	(4,198)	(583)	4,781	-
Drawdowns/(Repayments)	6,386	1,369	(835)	6,920
Write Offs	-	-	(1,313)	(1,313)
Balance at 31 December	**280,428**	**8,760**	**4,686**	**293,874**

Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**718,485**	**12,545**	**4,033**	**735,064**
Transfer to Stage 1	3,297	(2,872)	(425)	-
Transfer to Stage 2	(23,073)	23,114	(41)	-
Transfer to Stage 3	(8,541)	(1,084)	9,625	-
Drawdowns/(Repayments)	314,609	9,374	(3,516)	320,467
Write Offs	-	-	(1,313)	(1,313)
Balance at 31 December	**1,004,778**	**41,077**	**8,363**	**1,054,218**

Loss allowance	2020			
	Stage 1	Stage 2	Stage 3	Total
Development Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**121**	**96**	**70**	**287**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(12)	12	-	-
Transfer to Stage 3	-	(93)	93	-
Net transfers	**109**	**15**	**163**	**287**
Other changes in credit parameters & forward-looking information [1]	131	600	2,154	2,885
Additions and repayments [2]	81	17	17	115
Charge to the Statement of Profit and Loss	212	617	2,171	3,000
Write offs	-	-	(17)	(17)
Balance at 31 December	**321**	**632**	**2,317**	**3,270**

	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	**177**	**448**	**328**	**953**
Transfer to Stage 1	51	(51)	-	-
Transfer to Stage 2	(24)	24)	-	-
Transfer to Stage 3	(4)	(204)	208	-
Net transfers	**200**	**217**	**536**	**953**
Other changes in credit parameters & forward-looking information [1]	532	1,675	1,180	3,386
Additions and repayments [2]	220	89	(22)	287
Charge to the Statement of Profit and Loss	752	1,764	1,158	3,673
Write offs	-	-	(310)	(310)
Balance at 31 December	**952**	**1,981**	**1,384**	**4,316**

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.
2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

Loss allowance	2020			
	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**818**	**316**	**2,095**	**3,229**
Transfer to Stage 1	46	(46)	–	–
Transfer to Stage 2	(280)	333	(53)	–
Transfer to Stage 3	(158)	(217)	375	–
Net transfers	**426**	**386**	**2,417**	**3,229**
Other changes in credit parameters & forward-looking information [1]	(116)	3,508	2,239	5,631
Additions and repayments [2]	479	417	1,472	2,368
Charge to the Statement of Profit and Loss	363	3,925	3,711	7,999
Write offs	–	–	(3,437)	(3,437)
Balance at 31 December	**789**	**4,311**	**2,691**	**7,791**

	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	**1,116**	**861**	**2,493**	**4,470**
Transfer to Stage 1	97	(97)	–	–
Transfer to Stage 2	(316)	369	(53)	–
Transfer to Stage 3	(162)	(514)	676	–
Net transfers	**735**	**619**	**3,116**	**4,470**
Other changes in credit parameters & forward-looking information [1]	546	5,782	5,573	11,901
Additions and repayments [2]	780	523	1,467	2,770
Charge to the Statement of Profit and Loss	1,326	6,305	7,040	14,671
Write offs	–	–	(3,764)	(3,764)
Balance at 31 December	**2,061**	**6,924**	**6,392**	**15,377**

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.
2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

Loss allowance	2019			
	Stage 1	Stage 2	Stage 3	Total
Development Finance	£'000	£'000	£'000	£'000
Balance at 1 January	170	5	90	265
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(6)	6	-	-
Transfer to Stage 3	(1)	-	1	-
Net transfers	**(7)**	**6**	**1**	**-**
Other changes in credit parameters & forward-looking information [1]	28	90	(21)	97
Additions and repayments [2]	(70)	(5)	-	(75)
Charge to the Statement of Profit and Loss	(42)	85	(21)	22
Balance at 31 December	**121**	**96**	**70**	**287**

	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	**91**	**155**	**-**	**246**
Transfer to Stage 1	11	(11)	-	-
Transfer to Stage 2	(5)	5	-	-
Transfer to Stage 3	(1)	(14)	15	-
Net transfers	**5**	**(20)**	**15**	**-**
Other changes in credit parameters & forward-looking information [1]	43	172	313	528
Additions and repayments [2]	38	141	-	179
Charge to the Statement of Profit and Loss	81	313	313	707
Balance at 31 December	**177**	**448**	**328**	**953**

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.
2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

Loss allowance	2019			
	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**550**	**297**	**513**	**1,360**
Transfer to Stage 1	114	(114)	-	-
Transfer to Stage 2	(23)	23	-	-
Transfer to Stage 3	(10)	(59)	69	-
Net transfers	**81**	**(150)**	**69**	**-**
Other changes in credit parameters & forward-looking information [1]	(90)	163	1,846	1,919
Additions and repayments [2]	277	6	705	988
Charge to the Statement of Profit and Loss	187	169	2,551	2,907
Write offs	-	-	(1,038)	(1,038)
Balance at 31 December	**818**	**316**	**2,095**	**3,229**

	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	**811**	**457**	**603**	**1,871**
Transfer to Stage 1	125	(125)	-	-
Transfer to Stage 2	(34)	34	-	-
Transfer to Stage 3	(12)	(73)	85	-
Net transfers	**79**	**(164)**	**85**	**-**
Other changes in credit parameters & forward-looking information [1]	(19)	425	2,138	2,544
Additions and repayments [2]	245	142	706	1,093
Charge to the Statement of Profit and Loss	226	567	2,844	3,637
Write Offs	-	-	(1,038)	(1,038)
Balance at 31 December	**1,116**	**860**	**2,494**	**4,470**

Impairment losses on loans and advances to customers of £14,671k (2019: £3,637k) recognised in the income statement comprise movements in the allowance for credit impairment losses of £10,907k (2019: £2.599k) as set out in the table above and write offs of £3,764k (2019: £1,038k).

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.
2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

Post-Model Adjustments (“PMAs”)

The new suite of Asset Finance PD & LGD models were designed during the year to better reflect the Bank’s current strategies in Asset Finance. They were developed with the latest expert judgement and use of statistical analytics and internal data, as applicable. However, as a result of the significant government intervention into the UK economy throughout 2020, several model inputs have been suppressed or are not behaving in the way they would be expected to given the contraction in the economy. As at 31 December 2020, management judgement has resulted in additional ECL allowance of £2.3m (2019: nil). PMAs are subject to formal provisioning governance and is approved by the Model Governance Committee.

27. Financial Risk

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

- Credit risk.
- Liquidity risk.
- Market risk.
- Capital risk.

27.1. Credit Risk

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

i. Maximum credit exposure

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

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

	2020 £000	2019 £000
Loans and Advances to Banks	156,707	84,644
Loans and Advances to Customers at amortised cost	1,278,310	1,053,365
Loans and Advances to customers at FVTPL (not subject to impairment requirements)	50,435	126,530
Total on-balance sheet exposure	**1,485,452**	**1,264,539**
Contractual loan commitments	268,309	203,090
Maximum credit exposure	**1,753,761**	**1,467,629**

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2020. However, loan facilities of £181 .4m granted by Development Finance are legally drafted as on-demand and are uncommitted.

Quality of credit risk exposures

Internal rating scales

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

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

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

Internal Rating at Origination	12 month PD range	Stage 1 £000	Stage 2 £000	Stage 3 £000	2020 Total £000
1	0.0006-0.0045	152,861	5,965	–	158,826
2	0.0045-0.0105	461,900	32,114	3,588	497,602
3	0.0105-0.0240	407,745	85,045	11,820	504,610
4	0.0240-0.0550	89,072	23,946	2,015	115,033
5	>0.0550	1,756	355	128	2,239
		1,113,334	**147,425**	**17,551**	**1,278,310**

Internal Rating at Origination	12 month PD range	Stage 1 £000	Stage 2 £000	Stage 3 £000	2019 Total £000
1	0.0006-0.0045	70,181	4,807	–	74,988
2	0.0045-0.0105	414,574	5,673	4,954	425,201
3	0.0105-0.0240	467,380	29,476	2,301	499,157
4	0.0240-0.0550	52,019	1,097	1,089	54,205
5	>0.0550	624	24	19	667
		1,004,778	**41,077**	**8,363**	**1,054,218**

The following table sets out an analysis of stage 2 balances as at 31 December, reflecting the reason at that date for inclusion in stage 2.

As at 31 December 2020	Gross carrying amount £000	ECL £000
Quantitative test - PD movement	98,374	2,769
Qualitative test - Forbearance and other support	43,954	4,094
30 days past due back stop	5,087	62
	147,415	**6,925**

As at 31 December 2019	Gross carrying amount £000	ECL £000
Quantitative test - PD movement	21,525	245
Qualitative test - Forbearance and other support	17,720	440
30 days past due back stop	1,832	176
	41,077	**861**

The following table sets out an analysis of the portion of stage 3 ECL in a cure period preceding transfer to stage 2 as at 31 December.

As at 31 December 2020	Gross carrying amount £000	ECL £000
Credit-impaired not in cured period	16,402	5,786
No longer credit-impaired but in cured period that precedes transfer to stage 2	1,149	606
	17,551	**6,392**

As at 31 December 2019	Gross carrying amount £000	ECL £000
Credit-impaired not in cured period	7,952	2,494
No longer credit-impaired but in cured period that precedes transfer to stage 2	411	-
	8,363	**2,494**

Concentrations of credit risk

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

	Loans and advances to Banks and Building Societies		Loans and advances to Customers		Contractual Commitments	
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Carrying amount	156,707	84,644	1,277,092	1,153,365	268,309	203,090
Concentration by sector:						
Corporate	-	-	966,650	825,659	181,391	166,257
Government	135,097	77,534	-	-	-	-
Banks and Building Societies	21,610	7,110	-	-	-	-
Retail	-	-	310,442	227,706	86,918	36,833
	156,707	**84,644**	**1,277,092**	**1,153,365**	**268,309**	**203,090**
Concentration by location:						
UK	156,707	84,644	1,277,092	1,153,365	268,309	203,090

Collateral held and other credit enhancements

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

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

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

The carrying amount and the value of identifiable collateral (mainly residential property) held against loans and advances to corporate customers measured at amortised cost and categorised as stage 3, other than reverse sale and repurchase agreements was £29,250k (2019: £10,686k). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

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

LTV (Indexed)	Buy-to-let	Other lending	2020 Total
Less than 60%	170,444	39,842	210,286
60% to 65%	99,118	23,876	122,994
65% to 70%	168,834	32,281	201,115
70% to 75%	171,762	43,127	214,889
75% to 80%	46,249	19,134	65,383
80% to 85%	1,110	8,931	10,041
Over 85%	39,203	31,837	71,040
Grand Total	**696,720**	**199,028**	**895,748**

Forbearance and loan modifications

The Bank maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. The largest value of forborne loans during 2020 amounted to £33.5m at 31 December 2020 (2019: £26.1 m).

At 31 December 2020, the allowance for loan losses held in respect of forborne loans was £4.4m (2019: £2.3m).

Inputs, assumptions and techniques used for estimating impairment

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank employs five economic scenarios: a base case, which is the central scenario, and four less likely scenarios, one upside and one downside scenario, and one extreme upside and extreme downside scenario. The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered includes economic data from a leading independent economic forecasting consultant. A review is performed at least annually on the design of the scenarios.

The scenario probability weightings applied in measuring ECL are as follows.

	Downside 2	Downside 1	Base	Upside 1	Upside 2
As at 31 December 2020					
Scenario probability weighting	10%	10%	60%	10%	10%
As at 31 December 2019					
Scenario probability weighting	10%	10%	60%	10%	10%

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers of credit risk identified are real GDP, unemployment rates, real estate prices (both residential and commercial), CPI inflation and interest rates. The Bank estimates each key driver of credit risk over the active forecast period of 5 years.

The tables below lists the macroeconomic assumptions used in five scenarios over the 5-year forecast period. The assumptions represent the absolute percentage for interest rates and unemployment rates and average house prices.

As at 31 December 2020	Unemployment rate (%)	GDP Real	House Price Index	Customer Price Index	Customer Real Estate Price	Bank of England Rate
Downside 2 economic assumption						
Average	7.77	504,239.53	88.99	110.54	69.70	(0.46)
Trough	6.53	447,563.70	76.53	107.50	65.69	(0.50)
Downside 1 economic assumption						
Average	7.23	519,837.84	99.35	111.65	73.70	(0.23)
Trough	6.18	462,900.50	90.38	108.27	70.32	(0.25)
Base economic assumption						
Average	4.96	547,947.67	119.94	114.05	81.00	0.15
Peak	6.92	576,313.20	128.28	118.54	83.04	0.42
Upside 1 economic assumption						
Average	4.08	570,985.24	130.90	116.27	85.44	0.83
Peak	5.46	598,646.50	144.67	120.84	87.11	1.25
Upside 2 economic assumption						
Average	2.76	585,412.08	139.05	117.90	88.71	1.24
Peak	4.47	612,737.90	156.47	122.62	89.96	2.00

As at 31 December 2020	Unemployment rate (%)	Annual increase in House prices (%)	LIBOR 3 month (%)
Downside 2 economic assumption			
Average	5.82	79	0.80
Trough	6.55	71	1.70
Downside 1 economic assumption			
Average	5.53	89	0.78
Trough	6.17	83	1.20
Base economic assumption			
Average	3.68	107	1.27
Peak	3.86	114	1.86
Upside 1 economic assumption			
Average	3.32	117	1.97
Peak	3.74	129	2.76
Upside 2 economic assumption			
Average	2.32	124	2.48
Peak	3.58	140	3.45

The base scenario is a recommended base case in which risks to the overall outlook remain skewed to the downside and the range of possible outcomes is wider than under normal times due to the unprecedented nature of the Covid-19 pandemic. Based on the December 2020, the UK economy is expected to be, on average, 2.4% smaller throughout 2023 than originally forecast in January 2020. It is also expected that until Covid-19 vaccines are able to greatly reduce hospitalisation and mortality rates, some economically challenging social distancing measures will continue to be required.

Further economic support in the form of the Coronavirus Jobs Retention Scheme and loose monetary policy in the form of low base rates and quantitative easing have meant that during 2020 unemployment averaged 4.8% and residential property prices increased by 4.1 %. By contrast, during 2021, the Bank's base case forecast has unemployment averaging 6. 7% and house prices decreasing by 5.5% by the end of the year as government support measures begin to unwind.

Whilst the Bank has established PD and LGD models feeding into its IFRS9 ECL calculations, the extraordinary circumstances resulting from the Covid epidemic during 2020 have required modification to the way customers requiring temporary support have been managed. Following FCA/PRA guidelines, emergency payment holidays of up to a cumulative maximum of 180 days have been agreed for customers in all of the Bank's lending divisions where appropriate. In line with guidance, these measures have not been recorded as Forbearance however, normal Credit Forbearance policy is applied where support beyond the 180 day period is requested.

Sensitivity of ECL to future economic conditions

The ECL is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on the Bank's material asset classes.

The table below shows the model of loss allowance on loans and advances to customers assuming each forward-looking scenario (e.g. base, upside and downside) were weighted 100% instead of applying scenario probability weights across the five scenarios.

As at 31 December 2020	**Downside 2**	**Downside 1**	**Base**	**Upside 1**	**Upside 2**
Gross exposure (£'000)	1,278,310	1,278,310	1,278,310	1,278,310	1,278,310
Loss allowance (£'000)	20,778	14,003	4,634	3,156	2,427
Proportion of assets in Stage 2	0.47%	0.30%	0.9%	0.06%	0.04%
As at 31 December 2019	**Downside 2**	**Downside 1**	**Base**	**Upside 1**	**Upside 2**
Gross exposure (£'000)	1,054,218	1,054,218	1,054,218	1,054,218	1,054,218
Loss allowance (£'000)	3,793	2,754	1,628	1,358	1,218
Proportion of assets in Stage 2	0.13%	0.11%	0.09%	0.08%	0.07%

27.2. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due. The Bank measures liquidity risk on a daily basis. Daily liquidity reporting is supplemented by early warning indicators and a Liquidity Contingency Plan. Monthly reporting procedures are in place to update and inform senior management. All liquidity policies and procedures are subject to periodic independent internal oversight.

In March 2020 the Bank took steps to respond to possible future liquidity constraints arising from the COVID-19 pandemic. These included establishing an additional buffer of liquid assets in the form of cash deposits at the Bank of England ("BoE") as well as increasing the level of the Bank's prepositioned assets at the BoE in order to increase our contingent drawing capacity. As the Bank saw no material increase in liquidity requirements during the initial lockdown, the additional liquidity buffer was scaled back by the autumn of 2020. The Bank continues however to have significant contingent liquidity in the form of drawing capacity against eligible assets with the BoE.

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

	Carrying value £000	Net inflow/ (outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 Years £000
At 31 December 2020							
Assets							
Loan and advances to Banks	156,707	156,707	156,707	-	-	-	-
Loans and advances to customers	1,327,526	1,833,735	88,664	52,415	139,221	373,787	1,179,648
Contractual loan commitments	268,309	268,309	116,758	31,990	85,642	33,919	-
Total	**1,752,542**	**2,258,751**	**362,129**	**84,405**	**224,863**	**407,706**	**1,179,648**
Liabilities							
Deposits	(1,125,560)	(1,132,549)	(274,940)	(298,463)	(344,734)	(214,412)	-
Central Bank Facilities	(180,000)	(180,221)	(34)	(45,052)	(20,093)	(115,042)	-
Contractual loan commitments	(268,309)	(268,309)	(116,758)	(31,990)	(85,642)	(33,919)	-
Subordinated Debt	(30,000)	(35,438)	-	-	(2,175)	(33,263)	-
Total	**(1,603,869)**	**(1,616,517)**	**(391,732)**	**(375,505)**	**(452,644)**	**(396,636)**	**-**

At 31 December 2019	Carrying value £000	Net inflow/ (outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 Years £000
Assets							
Loan and advances to Banks	84,644	84,644	84,644	-	-	-	-
Loans and advances to customers	1,179,896	1,555,748	47,651	76,925	224,933	392,235	814,004
Contractual loan commitments	203,090	203,090	37,635	32,095	80,335	53,025	-
Total	**1,467,630**	**1,843,482**	**169,930**	**109,020**	**305,268**	**445,260**	**814,004**
Liabilities							
Deposits	(904,171)	(918,028)	(67,688)	(214,312)	(399,895)	(236,133)	-
Central Bank Facilities	(173,000)	(173,000)	-	-	-	(173,000)	-
Contractual loan commitments	(203,090)	(203,090)	(37,635)	(32,094)	(80,336)	(53,025)	-
Subordinated Debt	(30,000)	(43,051)	-	(1,088)	(1,088)	(40,875)	-
Total	**(1,310,261)**	**(1,337,169)**	**(105,323)**	**(247,494)**	**(481,319)**	**(503,033)**	**-**

Financial assets pledged as collateral

Financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2020 are £387.6m (2019: £359.1 m).

Financial assets are pledged as collateral as part of sales and repurchases under terms that are usual and customary for such activities.

27.3. 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.

ALCO's activities include monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations and changes to exposures arising from IBOR reform. ALCO is responsible for setting the overall hedging strategy of the Bank. Central Treasury is responsible for implementing that strategy by putting in place the individual hedge arrangements. Many of those hedge arrangements are designated in hedging relationships for accounting purposes (see note 19).

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:

	2020 £000	2019 £000
+200 basis points	(3,087)	(779)
-200 basis points	3,412	906

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

At 31 December 2020	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	156,707	-	-	-	-	156,707
Loans and advances to customers	277,287	35,670	117,602	896,967	-	1,327,526
Investment Securities	20,072	-	-	-	-	20,072
Other assets	-	-	-	-	18,057	18,057
Total Assets	454,066	35,670	117,602	896,967	18,057	1,522,362
Liabilities						
Customer Deposits	120,605	185,989	549,904	269,062	-	1,125,560
Central Bank Facilities	180,000	-	-	-	-	180,000
Subordinated Liabilities	-	-	-	30,125	-	30,125
Non-interest bearing liabilities	-	-	-	-	32,619	32,619
Equity	-	-	-	-	154,058	154,058
Total Liabilities	300,605	185,989	549,904	299,187	186,677	1,522,362
Interest rate sensitivity gap	153,461	(150,319)	(432,302)	597,780	(168,620)	-
Cumulative gap	153,461	3,142	(429,160)	168,620	-	-
Notional value of derivatives	188,900	32,200	333,800	(554,900)	-	-

At 31 December 2019	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	84,644	-	-	-	-	84,644
Loans and advances to customers	374,473	28,200	101,253	675,970	-	1,179,896
Other assets	-	-	-	-	19,364	19,364
Total Assets	459,117	28,200	101,253	675,970	19,364	1,283,904
Liabilities						
Customer Deposits	47,023	214,595	407,972	234,581	-	904,171
Central Bank Facilities	173,000	-	-	-	-	173,000
Subordinated Liabilities	-	-	-	30,048	-	30,048
Non-interest bearing liabilities	-	-	-	-	25,210	25,210
Equity	-	-	-	-	151,475	151,475
Total Liabilities	220,023	214,595	407,972	264,629	176,685	1,283,904
Interest rate sensitivity gap	239,094	(186,395)	(306,719)	411,341	(157,321)	-
Cumulative gap	239,094	52,699	(254,020)	157,321	-	-
Notional value of derivatives	30,050	187.800	175,150	(389,200)	(3,800)	-

c. Managing interest rate benchmark reform and associated risks

IBOR Transition

A fundamental reform of major interest rate benchmarks is being undertaken globally including the replacement of some interbank offered rates (IBORs) with alternative risk free rates. This work is known as 'IBOR Reform'. The Bank has exposure to IBORs in the form of LIBOR-referencing fixed/floating interest rate swaps that will be replaced or reformed as part of these market wide initiatives. The Bank has ceased writing any new interest rate derivatives referencing IBORs and plans to replace all existing LIBOR swaps with SONIA referencing swaps by the end of Q3 2021. Although the Bank ceased writing new LIBOR-referencing loans in Q4 2020, the Bank has a backbook of LIBOR-referencing or LIBOR-linked loans. We are currently working through our transition plans with a view to convert the majority of these loans by the end of 2021 .

Derivatives

The Bank holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to LIBOR. The Bank's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA) master agreements.

ISDA has reviewed its standardised contracts in light of IBOR reform and has published an IBOR fall-back supplement to amend the 2006 ISDA definitions. The Bank plans to adhere to this protocol.

Hedge accounting

The Bank holds derivatives for risk management purposes, some of which are designated in hedging relationships (see Note 19). The interest rate swaps have floating legs that are indexed to various IBORs. No derivative instruments have been modified as at the reporting date.

28. Property Plant and Equipment

See accounting policy in note 6.14.

	Equipment £000	Fixtures and fittings £000	Total £000
Cost			
At 1 January 2020	1,636	2,371	4,007
Additions	256	22	278
At 31 December 2020	**1,892**	**2,393**	**4,285**
Depreciation			
At 1 January 2020	1,005	925	1,930
Charge for year	285	265	550
At 31 December 2020	**1,290**	**1,190**	**2,480**
Net book value			
At 31 December 2020	**602**	**1,203**	**1,805**
At 31 December 2019	631	1,446	2,077

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2019: nil).

No impairment charges were incurred during the year (2019: nil).

29. Finance leases

See accounting policy in note 6.6.

The Bank leases office premises in London and Leeds and these are presented as Right-of-Use assets on a separate line in the statement of financial position. The Net book value and accumulated depreciation charge on right of use assets as at 31 December 2020 is as follows:

Right of use asset – Office premise	2020 £000	2019 £000
Net book value at 1 January	3,463	4,386
Net book value at 31 December	2,535	3,463
Depreciation at 31 December	3,854	2,926

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2020 is as follows:

	2020 £000	2019 £000
Year 1	1,318	1,318
Year 2	1,319	1,318
Year 3	660	1,319
Year 4	–	660
Year 5	–	–
	3,297	**4,615**

The discounted lease liability as at 31 December 2020 is £3,086k (2019 : £4,525k).

Amounts recognised within the Statement of Comprehensive income in relation to finance leases are as follows:

	2020 £000	2019 £000
Depreciation expense	(927)	(904)
Interest expense	(187)	(240)
Sublease income	308	209

30. Intangible Assets

See accounting policy in note 6.15.

	Software £000
Cost	
At 1 January 2020	9,670
Additions	2,773
At 31 December 2020	**12,443**
Amortisation	
At 1 January 2020	3,694
Charge for year	2,048
At 31 December 2020	**5,742**
Net book value	
At 31 December 2020	**6,701**
At 31 December 2019	5,976

31. Other Assets

	2020 £000	2019 £000
Other debtors	2,506	4,264
Prepayments	1,690	1,882
Other Assets	**4,196**	**6,146**

32. Other Liabilities

	2020 £000	2019 £000
Other taxation and social security	334	1,305
Other creditors	3,403	4,199
Accruals	11,234	10,582
Other Liabilities	**14,971**	**16,086**

Accruals include interest accruals on customer deposits amounting to £7.6m (2019: £7.0m).

33. Subordinated Liabilities

See accounting policy in note 6.18.

	2020 £000	2019 £000
Tier 2 notes	30,000	30,000
Deferred acquisition costs	(181)	(259)
Accrued interest	307	307
Subordinated Liabilities	**30,126**	**30,048**

34. Capital

In order to protect customers as a regulated bank, the Bank is required to hold a minimum level of capital. To date this has been achieved through equity issuances to our investors, Tier 2 notes, and retained earnings. This also provides the investment to build and grow the Bank. This section provides information on the Bank's share capital, retained earnings and other equity balances. It also provides a breakdown of the Bank's regulatory capital position.

Managing capital risk

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

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. Capital is actively managed with regulatory ratios being a key factor in the Bank's planning processes and stress analysis.
The principal committee at which the Bank's capital is scrutinised and managed is ALCO. The Board and BRC also receive metrics, monthly forecast of capital positions and commentary on capital risk. The Bank refreshes its ICAAP on an annual basis, which includes a 4 year forecast of the Bank's capital position.
The ICAAP is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval. Periodic shorter term forecasts are also undertaken to understand and respond to variations in actual performance against plan.

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

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

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

During 2020, the Bank complied in full with all its externally imposed capital requirements. Note 35 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

35. Share Capital

See accounting policy in note 6.21.

Issued and fully paid.

	Ordinary shares of £1 each	
	2020 £000	2019 £000
In issue at 1 January	126,288	111,288
Issued for cash	-	15,000
In issue at 31 December	**126,288**	**126,288**

No share capital was issued during 2020 (2019: 15,000,000 Ordinary A shares of £1 each for cash at par value).

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

	2020 £000	2019 £000
Share Capital	126,288	126,288
Share Premium	196	196
Retained Earnings	27,574	24,991
Intangible Assets	(2,117)	(5,976)
IFRS9 Transitional Arrangement	7,722	-
Prudential Valuation Adjustments	(51)	(128)
Securitisation positions	(7,875)	(7,875)
Common Equity Tier 1 Capital	**151,737**	**137,496**
Tier 2 Capital	30,000	30,000
Total Capital	**181,737**	**167,496**

36. Related party transactions

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

The compensation of the directors is provided in note 12.

The following Directors directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2020:

	Class A Shares		Class B Shares	
Director	Number	£ Nominal Value	Number	£ Nominal Value
Robert East	125,000	125,000	31	0.31
Matthew Wyles	500,000	500,000	375	3.75
Tim Blackwell	200,000	200,000	165	1.65
James Drummond-Smith	30,000	30,000	31	0.31
Robert Sharpe	150,000	150,000	63	0.63

One deposit, £86k, is held by the Bank from a related party of a Non-Executive Director as at 31 December 2020 (2019: 1 Director, £189k).

37. Investment in subsidiaries

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

	Country of incorporation	Class of shares held	Ownership	Principal activity	Registered address
Hampshire Bank Limited	England	A	100%	Dormant	55 Bishopsgate London EC2N 3AS

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

38. Post balance sheet event

In the March 2021 Budget it was announced that the UK rate of corporation tax will increase from 19% to 25%. The deferred tax balances included within the accounts have been calculated with reference to the rate of 19%, as the change was not substantively enacted or enacted at the balance sheet date. The banking surcharge is set to be reviewed in 2021 following the announcement of the planned increase of the main rate to 25% in 2023. It is unclear at the time of signing the accounts how the surcharge will be revised and therefore the potential impact this may have on the deferred tax asset.

39. Ultimate parent company

The Bank is a subsidiary undertaking of Hoggant Limited, which is incorporated in England and Wales and is the largest company in which the results of the Bank are consolidated. The majority of Hoggant Limited's equity is owned by Hoggant L.P. a limited partnership incorporated in Guernsey. Hoggant L.P. is not controlled by a single party and is majority owned by funds managed by Alchemy Special Opportunities (Guernsey) Limited. The consolidated financial statements of Hoggant Limited are available on request from 55 Bishopsgate, London EC2N 3AS.

5. Other useful information

Other useful information

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

Statutory and Amortised Cost Tables

	2020 £m Statutory	2020 £m Amortised cost	2019 £m Statutory	2019 £m Amortised cost
Loans and Advances to Banks	**156.7**	**156.7**	**84.6**	**84.6**
Investment securities	**20.1**	**20.1**	**-**	**-**
Loans at fair value through profit or loss	**50.4**	**-**	**126.5**	**-**
Loans and advances to customers:	**1,277.1**	**1,327.4**	**1,053.5**	**1,180.4**
Specialist Mortgages	*904.8*	*904.8*	*632.5*	*632.5*
Development Finance	*113.4*	*163.7*	*130.0*	*256.9*
Asset Finance	*174.4*	*174.4*	*200.3*	*200.3*
Wholesale Finance	*84.5*	*84.5*	*90.7*	*90.7*
Other Assets	**18.1**	**18.1**	**19.3**	**19.3**
Total Assets	**1,522.4**	**1,522.3**	**1,283.9**	**1,284.3**
Customer deposits	1,125.6	1,125.6	904.2	904.2
Central Bank Facilities	180.0	180.0	173.0	173.0
Tier 2 Capital	30.0	30.0	30.0	30.0
Other Liabilities	32.7	32.7	25.2	25.2
Total Liabilities	**1,368.3**	**1,368.3**	**1,132.4**	**1,132.4**
Equity	**154.1**	**154.0**	**151.5**	**151.9**
Ratios				
Risk weighted assets ("RWA")	**725.1**	**725.1**	**757.4**	**757.4**
RWA Density (RWA as % of Loans)	**55%**	**55%**	**64%**	**68%**
Common Equity Tier 1 capital	**144.0**	**144.0**	**137.5**	**137.5**
Tier 2 Capital	**30.0**	**30.0**	**30.0**	**30.0**
Common Equity Tier 1 Ratio	**19%**	**19%**	**17%**	**17%**
Total Capital Ratio	**22%**	**22%**	**21%**	**21%**
Leverage ratio	**10%**	**10%**	**11%**	**11%**
LCR	**393%**	**305%**	**242%**	**242%**
Loan to deposits ratio	**118%**	**118%**	**131%**	**131%**

	2020 £'000 Statutory	2020 £'000 Amortised cost	2019 £'000 Statutory	2019 £'000 Amortised cost
Interest income calculated using the effective interest method	68,926	78,017	54,388	67,779
Other Interest Income	7,466	-	10,545	-
Interest Expense and similar charges	(22,020)	(22,020)	(18,694)	(18,694)
Net interest income	**54,372**	**55,997**	**46,239**	**49,085**
Fees and commissions income	1,548	955	1,500	1,250
Fees and commissions payable	(784)	(784)	(295)	(295)
Other Income/ Expenses	3	3	6	6
Net (loss)/gain on loans and other financial assets at fair value through profit or loss	(5,369)	(1,005)	(1,943)	(441)
Operating Income	**49,770**	**55,166**	**45,507**	**49,605**
Impairment losses	(14,671)	(20,494)	(3,375)	(6,204)
Administrative expenses	(32,236)	(32,236)	(28,587)	(28,587)
Profit before Tax	**2,863**	**2,436**	**13,545**	**14,814**
Tax	(309)	(309)	(2,746)	(2,746)
Profit for the period	**2,554**	**2,127**	**10,799**	**12,068**
Ratios				
Gross Income Margin	**5.8%**	**6.2%**	**6.2%**	**6.6%**
Blended cost of funds (after hedging)	**1.6%**	**1.6%**	**1.8%**	**1.8%**
Net Interest Margin	**4.3%**	**4.5%**	**4.4%**	**4.7%**
Net Revenue Margin	**4.0%**	**4.4%**	**4.4%**	**4.8%**
Cost to Asset Ratio	**2.6%**	**2.6%**	**2.8%**	**2.8%**
Cost Income Ratio	**60%**	**58%**	**60%**	**58%**
Cost of Risk	**1.60%**	**1.67%**	**0.51%**	**0.60%**
Return on Required Equity (post tax)	**2.8%**	**2.4%**	**11.4%**	**12.7%**
Return on Equity (post tax)	**1.7%**	**1.4%**	**7.8%**	**8.7%**

Glossary

Average principal employed	Calculated as the average of monthly Loans and Advances to customers held at amortised cost and fair value.
Blended cost of funds (after hedging)	Rate of interest payable on average funding excluding Tier 2 adjusted for interest on interest rate swap liabilities.
CBILS	Coronavirus Business Interruption Loan Scheme
CJRS	Coronavirus Job Retention Scheme
Common Equity Tier 1 Ratio (CET1 Ratio)	The Common Equity Tier 1 ratio is calculated as common equity tier 1 capital divided by risk-weighted assets.
Cost of Risk	Cost of risk is calculated as impairment losses on financial assets and net loss or gain on loans held at fair value through profit or loss divided by average principal employed.
Cost to Asset Ratio	Administrative expenses divided by average principal employed
Cost to Income Ratio	Cost to Income Ratio is calculated as administrative expenses divided by operating income excluding net gain or loss on loans held at fair value through profit and loss.
Coverage Ratio	Calculated as the allowance for impairment expressed as a percentage of gross loans and advances at amortised cost.
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
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.
EAD	Exposure at default
ECL	Expected Credit Losses
Gross income margin	Calculated as interest and similar income, fees and commission receivable and Net loss or gain on loans and other financial assets at fair value through profit or loss divided by average principal employed.
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRSs	International Financial Reporting Standards
ILAAP	Individual Liquidity Adequacy Assessment Process
ILTR	Indexed Long-term repo
ISA	Individual Savings Accounts provided by the Savings division
KMP	Key Management Personnel
Leverage ratio	The leverage ratio is calculated as Common Equity Tier 1 capital divided by the sum of total assets (excluding intangibles).
LGD	Loss given default
LIBOR	London interbank offered rate
Liquidity Coverage Ratio ('LCR')	The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.

Loan to Deposit ratio	Calculated as loans and advances to customers divided by customer deposits.
LTI	Long term Incentive
LTV	Loan-to-value ratio
MRT	Material Risk Taker
Net Interest Margin (NIM)	Calculated as net interest income divided by average principal employed.
Net Revenue Margin	Calculated as operating income excluding net loss or gain on loans held at fair value through profit or loss, divided by average principal employed.
Net Promoter Score	This is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
OCI	Other comprehensive income
PD	Probability of default
PPE	Property, plant and equipment
RAF	Risk Appetite Framework
Return on equity (post-tax)	Return on equity (post-tax) is calculated as profit post tax for the year divided by average equity.
Return on Required Equity	Return on Required Equity is calculated as profit post tax for the year divided by average required equity.
Required Equity	The amount of regulatory equity needed to achieve the required minimum common equity tier 1 ratio.
RFR	Risk-free rate
RMF	Risk Management Framework
Risk-weighted asset (RWA)	A measure of a bank's assets adjusted for their associated risk. Risk weightings are established in accordance with the Basel rules as implemented by CRD IV and local regulators.
Risk-weighted asset (RWA) density	The ratio of RWAs to customer loans provides a measure of riskiness of assets.
SECR	Streamlined Energy and Carbon Reporting
SMF	Senior Management Function
SPPI	Solely Payments of Principal and Interest
T1	Tier 1
T2	Tier 2
Total Capital Ratio	Common Equity Tier 1 plus Tier 2 Equity divided by risk weighted assets.
TFS	Term Funding Scheme
TSR	Total Shareholder Return

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