ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2021

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)

55 Bishopsgate,
London
EC2N 3AS

Independent Auditor

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

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1. Strategic Report

Key Highlights

Record profitability providing strong shareholder returns, supporting growth and investment

- Growth in operating income of 47% to £73.1m (2020: £49.8m)
- Growth in profit before tax of 855% to £27.3m (2020: £2.9m) reflecting the impact of an improving economic environment on the bank's cost of risk
- Return on CET1 22.8% (2020: 2.8%)
- Return on Equity 12.1% (2020: 1.7%)

Continuing to build our franchises

- Lending assets grew 29% to £1,715m (2020: £1,327m)
- New lending volume up 42% year on year to £840m impacted mainly by higher market activity levels.
- Strong momentum in depth and breadth of Deposits & Savings franchise supported deposit growth of 45% to £1,633m (2020: £1,126m)

Delivering strong margins through disciplined pricing and cost effective funding

- Strong Gross Income Margin of 6.1% (2020: 5.8%), with year on year movement reflecting ongoing changes in overall portfolio mix
- Average deposit book cost of funds 1.22% (2020: 1.55%) with new deposit cost in 2021 of 0.76% (2020: 1.09%)
- Strong Net Revenue Margin 4.8% (2020: 4.0%) reflecting pricing discipline

Investing in our operating platform to support future growth

- Growth in HTB Team, up 16% to 281 (2020: 242)
- Continued investment in technology to support the Bank's ongoing enhancements to deliver exceptional customer service
- Cost to Asset Ratio 3.0% (2020: 2.6%), reflecting ongoing cost discipline alongside investment in franchise growth and costs associated with inorganic growth related activities

Improved credit outlook & robust credit performance supporting significant provision releases

- Significant decrease in forward-looking IFRS9 provisions to £11.2m (2020: £15.4m), resulting in a net credit release within the income statement and a positive cost of risk metric of 0.25% (2020: -1.6%), reflective of an improved economic outlook and robust credit performance
- Underlying credit performance continues to be robust with total book arrears of 43bps (2020: 29bps)

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

- Strong capital position maintained with CET1 Ratio of 19% (2020: 19%) and Total Capital Ratio of 22% (2020: 22%)
- Ongoing changes in portfolio mix to less capital intensive assets with RWA Density 48% (2020: 55%)
- Conservative liquidity levels maintained with Liquidity Coverage Ratio of 314% (2020: 393%)

Chairman's Overview

Robert Sharpe
Chairman

2021 was certainly a much better year for the UK economy than 2020. From the perspective of most of Hampshire Trust Bank's (HTB) customers, the extensive Government support programme hastily introduced in early 2020 and unprecedented in its scale, was a success.

That said, the pain inflicted on British business by the pandemic was unevenly spread and, sadly, no amount of Government support could save every business. Broadly speaking, however, we were favourably surprised by the resilience of UK plc and of our loan portfolios. 2021, despite intermittent lockdowns, witnessed a marked bounce back in economic activity and, with that recovery, a sharp increase in the range of opportunities we saw to support our customers as they rebuilt their commercial momentum.

It is clear, however, that there is still some way to go before we return to pre-pandemic economic conditions. 2021 was characterised by strong price inflation particularly in raw materials and, latterly, by a very sharp upward spike in energy prices. As the cost of living rises for consumers, their employers, who were already facing labour shortages across a broad range of occupations, are experiencing aggressive wage demands which will be difficult to resist and even more difficult to absorb. At the time of writing, the Bank of England had already started raising Sterling interest rates, albeit from virtually zero, in an effort to head off an inflationary spiral. To compound the complexity of the situation, the recent and shocking turn of events in Ukraine combined with the severity of the sanctions imposed on Russia by the West will, at the very least, create recessionary headwinds. It is impossible to anticipate how the crisis in Eastern Europe will develop and the gravity of the situation is difficult to understate.

As it did in 2020 and 2021, HTB will develop its business during the coming year with energy and focus but with an eye to the downside. As our CEO explains in his report, we see many exciting opportunities to exploit during the coming year but we never forget that our long term mission is to deliver a strong, resilient performance through the economic cycle. In our determination to build on our success, we will not lose sight of the macro-economic risks which, today, are self-evident.

On top of our robust financial performance, we were delighted to agree a deal during 2021 to acquire Wesleyan Bank Limited from its parent Wesleyan Assurance which we have finally completed in February 2022. We have long recognised that there is an opportunity for successful specialist banks like HTB to augment their scale through consolidating smaller, similar institutions. The deal was also an opportunity for our acquisition team to hone their skills and add to their experience. The job is, by no means, finished and we are acutely aware that the successful integration of HTB and Wesleyan Bank is fundamental to the ultimate success of the transaction.

HTB is fortunate to be led by a first class team of executives who have done a tremendous job during the last two years in navigating the bank through some very challenging trading conditions with calm assurance. The excellence of our 2021 trading results are testament to their competence and hard work. I also want to thank all our employees for their resilience, patience, commitment and skill in producing such an excellent set of results.

Turning to Board matters, it is with considerable regret that I report that Robert East, who has been an independent non-executive director of HTB and Chairman of the Board Risk Committee since 2014, will retire from the Board during 2022 to take up another important appointment. Robert has made a unique contribution to the success of HTB. We will miss his intellect, his rigour and his balanced, incisive judgement. Team HTB will also miss him as a supportive colleague and counsellor. We wish Robert every success in the future. Sadly, Astrid Grey has also decided to step down from the Board at the end of June after nearly four years serving as a non-executive director of HTB. Astrid has made important contributions to all aspects of the bank's governance with a particular emphasis on risk management and the people strategy. We wish Astrid well with all her other current and future interests.

Finally, I want to thank all my non-executive colleagues on the Board and our shareholders who have, both collectively and individually, provided a skilful mix of scrutiny, challenge and advice. As I observed in my opening remarks, we face yet another year of economic and geo-political uncertainty but I am very confident that HTB, having already proved its resilience and its self-discipline, is strongly positioned to maintain its strong momentum and meet the challenges which lie ahead.

Robert Sharpe
Chairman

Chief Executive's Report

Matthew Wyles
Chief Executive

2021 was characterised by a sharp rebound in UK GDP growth from the depressed conditions of 2020. The economy expanded by circa 7.5% and by the end of the year, the UK's GDP was broadly back to its pre-pandemic levels. Hampshire Trust Bank plc (HTB) shared in that marked recovery and we are pleased to announce a very strong set of results for 2021.

In contrast to the gloomy prognostications of many analysts, the credit loss outturn across the SME banking market appears to have been surprisingly positive. Despite the tapering off of Government support schemes introduced during 2020, our arrears data continue to imply a soft landing. I am proud that the payment holiday support we offered to customers during the pandemic appears to have proved effective and we enter 2022 with a high quality, performant loan portfolio. As a consequence, we were able to write back a proportion of the balance sheet provisions which we had carried forward from 2020 and this provided a tailwind to our profit growth which, on top of an already robust underlying performance, drove a set of record beating results. Profit before tax was £27.3m (2020: £2.9m) which, post tax, represented a return on regulatory CET1 employed of 22.8%.

We reduced our defensive positioning during 2021 and gradually moved our credit risk appetite back up towards pre-pandemic levels as economic conditions stabilised. Underpinned by the continued growth of our highly successful specialist mortgage business, net lending assets rose by 29% to £1.71bn. Despite a reduction in total RWA density, the weighted average NIM (ex cash) rose 10 bps to 4.6% (2020: 4.3%). The shift in our portfolio mix towards lower risk mortgage assets without a corresponding reduction in our NIM was an impressive achievement and demonstrates our commitment to rigorous margin discipline.

HTB does not trade on price. It trades on excellence. Our continuing success demonstrates that customers value flexibility, consistency, high standards of service and a relationship with specialists who demonstrate a clear understanding of their needs. We call this business philosophy: Excellence through Specialism.

Since 2018 we have adopted a strategy of diversification in our Savings business which enabled us to widen the range of depositors whom we serve. This enlarged distribution made an important contribution to our strong NIM performance and will make us more resilient in a rising-rate environment.

A razor-sharp focus on meeting our customers' needs and expectations is a central tenet of our business philosophy and of our strategy. We were very pleased to win a series of prestigious awards during 2021 that recognised the quality of our customer care including:

- Platinum Trusted Service Award, Feefo
- Moneynet Best Overall Savings Provider (for the fourth year running)
- Business Moneyfacts Best Business Fixed Account Provider (for the fifth year running)
- MoneyComms Top Performers Awards, Best Variable Rate Business Savings, 2021
- Business Moneyfacts Best Service from a Buy-to-Let Mortgage Provider (in both 2020 and 2021)
- Specialist Finance Introducer Commercial Lender of the Year, 2021, Winner
- Credit Strategy Lending Awards, Best Specialist Mortgage Lender, Winner

We continued to invest in our modern, flexible operating platform during 2021. The commitment we made to writing many of our front-end origination systems in low code means that our service proposition is underpinned by a highly flexible architecture, which is difficult for our competitors to replicate. Our specialist mortgage broker portal, in particular, has enjoyed extremely positive feedback from our intermediary community following its launch in early 2021.

That said, our technology strategy is hybrid. We do invest in third party solutions where we see that choice as optimal. We have been delighted, for example, with the Alfa platform which we implemented in our Asset Finance business during 2020, which will serve as a scalable foundation for the growth of that business. As our technology estate matures we can see significant opportunities to increase operational leverage and bear down on our cost to serve whilst growing our balance sheet.

During 2021 we continued to focus on improving process efficiency and further mitigating operational risk. Our investment in anti-money laundering and screening has delivered valuable improvements in efficiency, data quality and insights. The ongoing deployment of robotic process automation is driving higher productivity and lower operational risk. We continued to exploit our investment in open architecture by integrating the latest credit, ID and client on-boarding services with our lending platforms.

Our ongoing investment in the Bank's cyber security has focused on the priorities of prevention, detection and recovery and our standards remain aligned with industry best practice.

I am pleased to report that we completed our acquisition of Wesleyan Bank Limited from Wesleyan Assurance Society at the end of February 2022. We have always believed that an element of inorganic growth would be an important feature of HTB's long term development and our ability to originate and complete these transactions is an important core competency. The successful and smooth integration of Wesleyan Bank into the HTB Group will be a key priority in 2022.

A further important objective for HTB during 2022 is a clear and demonstrable focus on our ESG responsibilities. We recognise the need to build a deep competence in managing climate risk but we also intend to sustain and develop HTB's reputation as a socially responsible institution with a clear focus on its environmental responsibilities and its firm commitment to a diverse workforce.

None of HTB's many achievements during 2021 could have been delivered without the relentless hard work and commitment of our people and I want to take this opportunity to thank them all for their individual contributions. We recognise that our success depends on retaining and developing the Bank's outstanding team – our people hold HTB's future in the palm of their hands. Happy colleagues are as vital as happy customers – this will remain a key imperative for us. The pandemic has fundamentally repositioned employees' life priorities and expectations so, during 2022, we will comprehensively redefine our people proposition.

I also want to express my gratitude to HTB's non-executive directors whose counsel and support has proved invaluable in assisting me and my executive team in steering the Bank through another successful year. We continue to enjoy the support, both moral and financial, of our shareholders whose commitment to our mission of excellence is a constant. Again, we owe them our gratitude and thanks.

HTB has emerged stronger than ever from the challenges of the last two years. Our strategy is now proven, and we have demonstrated our ability to deliver impressive returns through the economic cycle whilst maintaining a robust but controlled rate of growth. We will continue to develop HTB's franchise based on our commitment to outstanding customer service underpinned by a resilient infrastructure and the disciplines of rigorous planning, sound lending, prudent investment, responsible behaviour and good governance. We see many exciting new opportunities for our business and we are confident that our distinctive version of the specialist bank model offers a robust and sustainable source of value for the communities we serve, for our customers and our shareholders.

Matthew Wyles
Chief Executive Officer

Financial and Business Review

	2021 £m	2020 £m
Loans and Advances to Banks	**242**	**157**
Investment Securities	**197**	**20**
Loans at fair value through profit or loss – *Development Finance*	**10**	**50**
Loans and advances to customers:	**1,705**	**1,277**
Specialist Mortgages	1,295	905
Development Finance	146	113
Asset Finance	170	174
Wholesale Finance	94	85
Other Assets	**37**	**18**
Total Assets	**2,191**	**1,522**
Customer deposits	1,633	1,126
Central Bank Facilities	295	180
Tier 2 Capital	30	30
Other Liabilities	44	32
Total Liabilities	**2,002**	**1,368**
Equity	**189**	**154**
Ratios/KPIs		
Risk weighted assets ("RWA") (£m)	**816**	**725**
RWA Density (RWA as % of Loans)	**48%**	**55%**
Common Equity Tier 1 capital (£m)	**175**	**144**
Tier 2 Capital (£m)	**30**	**30**
Common Equity Tier 1 Ratio	**19%**	**19%**
Total Capital Ratio	**22%**	**22%**
Leverage Ratio	**8%**	**10%**
LCR	**314%**	**393%**
Loan to deposits Ratio	**105%**	**118%**

Liquidity

The Bank had £242m (2020: £157m) in loans and advances to banks as at 31 December 2021. This represented over 13% of total deposits held (2020: 13%), including high quality liquid assets of £230m at 31 December 2021 (2020: £135m), all in the form of deposits held in the Bank of England Reserve Account. The Bank also significantly increased investment in covered bonds and Gilts with balances of £197m as at 31 December 2021 (2020: £20m). The liquidity coverage ratio ('LCR') was 314% (2020: 393%), substantially in excess of the minimum set by the PRA of 100%.

Loans to customers

Reflective of improved economic conditions and, during the course of the year, the reduction in our defensive credit risk positioning that we put in place in 2020, net loans and advances to customers grew strongly by 29% reaching £1,715m as at 31 December 2021 from £1,328m as at 31 December 2020. A description of the Bank's principal lending activities and their associated lending book movements are set out below:

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. Reflective of buoyant market conditions and the Bank's strengthening franchise in its chosen market segments, the business grew 43% from £905m in 2020 to £1,295m in 2021, with £486m 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 strong net increase of 29% in the loans and advances to customers held at amortised cost during the year from £113m in 2020 to £146m. Reflecting stronger market conditions and the reduction in our 2020 Pandemic related defensive credit risk positioning, new business amounted to £203m (2020: £172m). The loan book continued to experience a steady flow of maturing loans as developments are successfully completed and marketed for sale by our customers with repayments amounting to £178m in 2021 (2020: £224m). The loans held at fair value through profit and loss decreased by 80% to £10m (2020: £50m) reflective of the run-off on that maturing back book of business.

Asset Finance provides small to middle ticket leasing and hire purchase secured on vehicles and business assets. Finance is sourced via a network of specialist finance brokers who are serviced by a regionally based team of broker managers. Despite being a business subject to the slowest reversal in our defensive credit risk positioning during 2021, originations in the year increased by 38% to £97m (2020: £70m). Due to the effect on the book's maturity profile of our cautious stance to new business lending in 2020 and into 2021, repayments on the overall book exceeded originations during the year, resulting in the asset finance book decreasing by 3% to £170m (2020: £174m) .

Wholesale and Block Discounting provides lending facilities to a range of non-bank finance companies secured on their underlying loan receivables. The loan book increased by 11% from £85m in 2020 to £94m in 2021. New business increased from £38m in 2020 to £50m in 2021 with repayments decreasing from £60m to £43m for the respective periods.

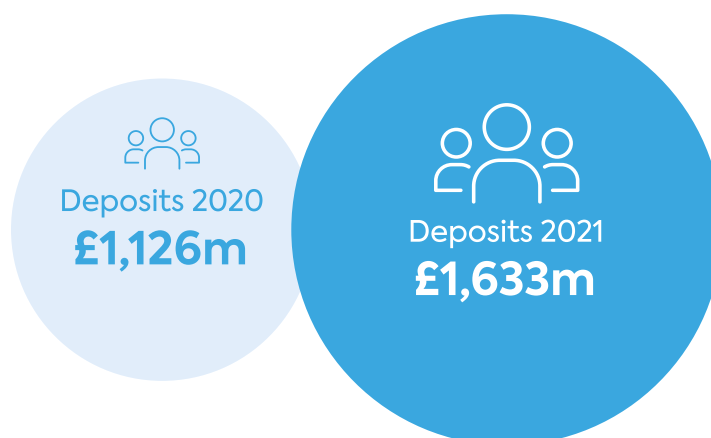
Funding

The main funding for the loan books is sourced from deposits and the Bank's loan to deposit ratio at 31 December 2021 was 105% (2020: 118%). The Bank is predominantly funded by deposits which are serviced by our in-house team principally through an online portal.

	2021 £'000	2020 £'000
Notice deposits	462	234
Term deposits	1,171	892
Total Customer Deposits	**1,633**	**1,126**

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

	2021 £'000	2020 £'000
Retail deposits	1,258	814
SME deposits	375	312
Total Customer Deposits	**1,633**	**1,126**



Deposit balances increased from £1,126m in 2020 to £1,633m in 2021. Customer numbers have risen from around 22,000 at the start of the year to around 29,300 at the year end. Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme. At 31 December 2021, 87% of deposits with a value of £1,417m 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 £295m at 31 December 2021 (2020: £135m).

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 Synthetic Securitisation as a result of the Enable Guarantee Scheme. During 2021 the bank issued an additional 13.54m Ordinary A shares for cash at par value.

CET1 on a statutory basis as at 31 December 2021 was £175m (2020: £152m). The statutory CET1 ratio as at 31 December 2021 was 19% (2020: 19%). 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 2021 was 48% (2020: 55%). This resulted in a leverage ratio of 8% (2020: 10%).

Financial Review

	2021 £m	2020 £m
Interest income calculated using the effective interest method	86	69
Other Interest Income	2	7
Interest Expense and similar charges	(19)	(22)
Net interest income	**69**	**54**
Fees and commissions income	2	2
Fees and commissions payable	(1)	(1)
Other income	0	0
Net gain / (loss) on loans at fair value through profit or loss	3	(5)
Operating Income	**73**	**50**
Impairment gains / (loss)	1	(15)
Administrative expenses	(46)	(32)
Profit before Tax	**28**	**3**
Tax	(7)	0
Profit for the period	**21**	**3**

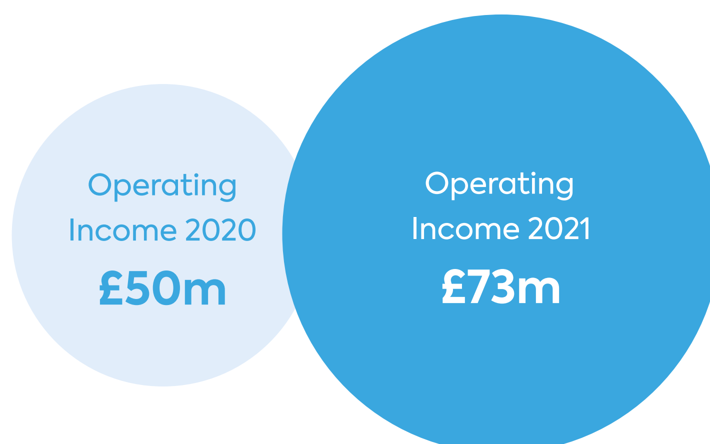
Ratios [1]		
Gross Income Margin	**6.1%**	**5.8%**
Blended cost of funds (after hedging)	**1.2%**	**1.6%**
Net Interest Margin	**4.6%**	**4.3%**
Net Revenue Margin	**4.8%**	**4.0%**
Cost to Asset Ratio	**3.0%**	**2.6%**
Cost Income Ratio	**64%**	**60%**
Cost of Risk	**-0.3%**	**1.60%**
Return on Required Equity (post tax)	**22.8%**	**2.8%**
Return on Equity (post tax)	**12.1%**	**1.7%**

1. Definitions of key ratios are found in the glossary.

Operating income

Operating income increased by £23m to £73m (2020: £50m). 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 4.8% in 2021, an increase from 4.0% in 2020 principally driven by movements in net gains on loan assets held at fair value through profit and loss (2021: £363k gain, 2020: £4.4m loss) and net fair value gains on hedging activity (2021: £2.8m gain, 2020: £1.0m loss). Excluding these effects, the underlying Net Revenue Margin was held at 4.7% across 2020 and 2021.



Administrative expenses

In 2021 operating income, excluding net gain on loans held at fair value, increased by 27% compared to an increase in administrative expenses of 44%.

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. £3.6m (2020: £1.6m) of variable remuneration reflecting financial performance.
- **Acquisition costs** – during the year the bank incurred transaction and transition planning costs, outside the usual course of business, in relation to the acquisition of Wesleyan Bank limited that completed in February 2022.
- **Systems** - the impact of the Bank's continuing investment in infrastructure to drive enhanced customer propositions, efficiency and risk management.

Impairments

Reflective of an improved economic outlook and robust credit performance, there was a significant decrease in forward-looking IFRS9 provisions to £11m (2020: £15m), resulting in a net credit release within the income statement and a positive cost of risk metric of -0.3% (2020: 1.6%). This performance is net of a single large write-off of £3.3m relating to a customer that became insolvent during the year. Despite this significant decrease in provisions the Bank maintains prudent levels of provision coverage given continued economic uncertainties.

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

The Board is responsible for setting the 'tone from the top' and ensuring that a strong risk culture exists across the Bank. Senior Management will support this by leading in the implementation of the Risk Management Framework ("RMF"), ensuring that it is fully embedded with a strong focus in particular on the adherence to risk appetite, monitored through its suite of risk metrics and key risk indicators. The Bank uses a network of Risk Champions as departmental owners of risk related issues, providing training to other team members where required.

By taking a strategic, balanced approach to risk identification and subsequent management, the RMF's aim is to engage colleagues at all levels of HTB, promoting a deep understanding of the Bank's approach to risk.

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, monitor and report the risks to which the Bank is exposed. The RMF is supported by supplemental frameworks, policies 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.

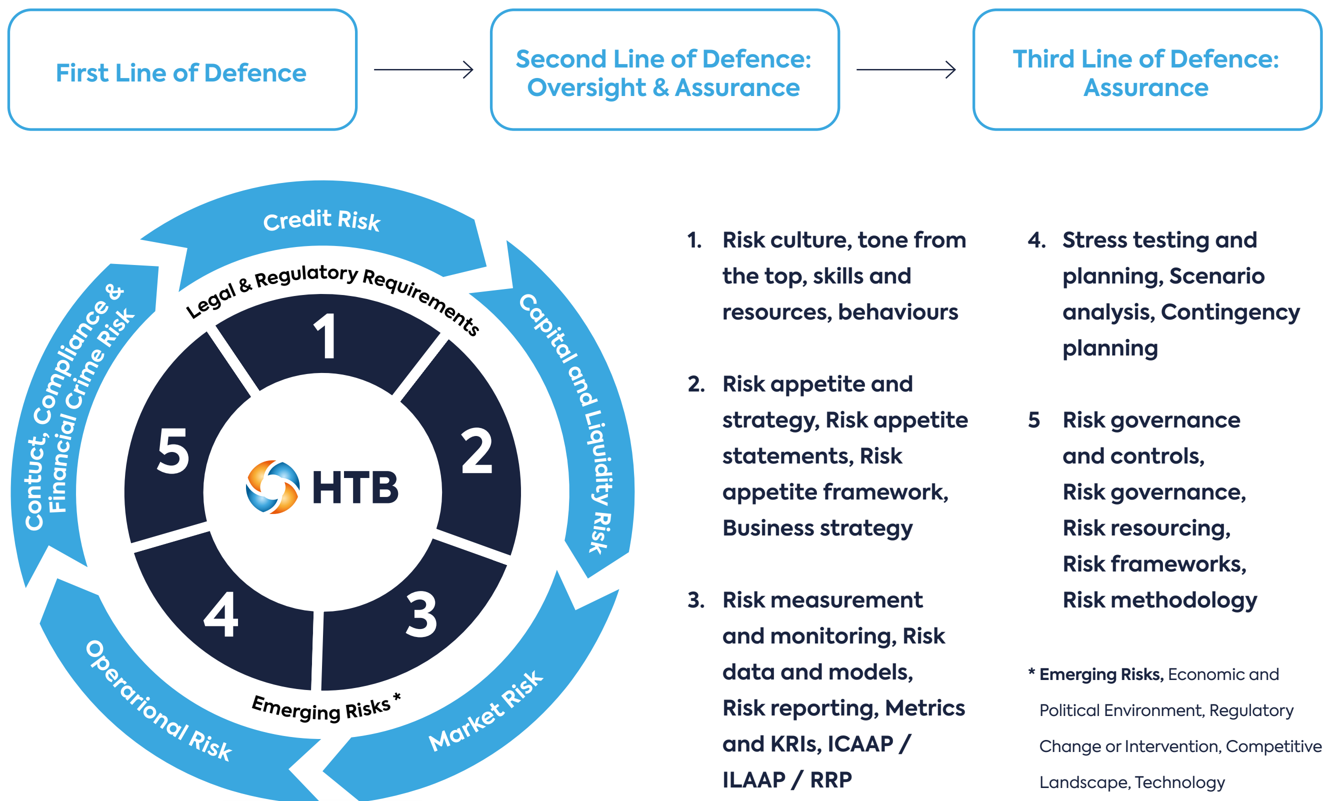


Figure 1 – Risk Management Framework

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 and must take 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 across a range of business drivers (Financial, Customer, Legal and Regulatory and Reputational)
- 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

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, with Key Risk Indicators (KRIs) providing current indication of changing risk profile. 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.

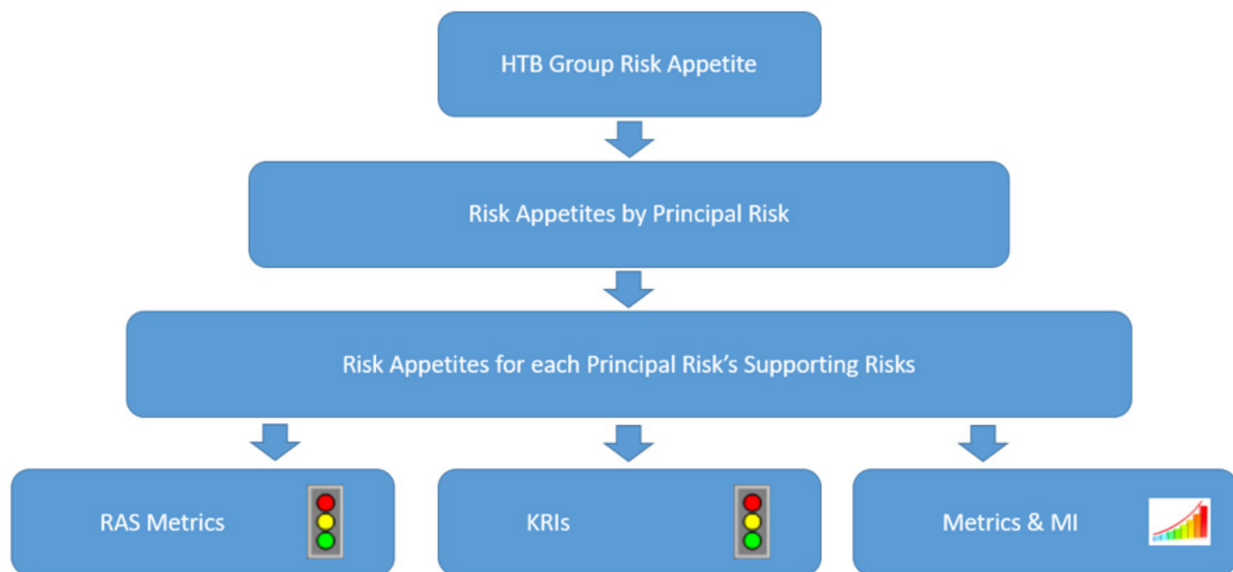


Figure 2 – Structure of the Risk Appetite Framework

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 Bank operates a three lines of defence (3LOD) model to manage its risks. The 3LOD model provides a simple and effective way to segregate activities and enhance communications on risk management and control by clarifying essential roles and duties and enabling the Bank to manage its risks proactively. The separate lines of defence together with their roles are summarised below:

Front Line Business Units (1st line of defence)

The business lines and central functions own primary responsibility for the day to day management of the operational level risks that feed up through the framework, and the implementation of mitigating controls in line with approved policies, frameworks, processes and procedures. They use the Bank's Risk & Control Self-Assessment (RCSA) process to identify and measure risk exposure and to ensure through the application of controls that these are managed within agreed Risk Appetite. They are responsible for risk event identification and early escalation. They will also test key controls, providing regular assurance.

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. 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.

During 2021, Climate Change risk appetite statements have been created and these will form part of the risk appetite framework going forward with relevant metrics developed to support and monitor compliance against the appetite statements.

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 risks:

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 originating in markets we understand and by limiting concentrations by size proportionate to our own balance sheet size and position in the market, by asset class, collateral type, geography, sector and (where appropriate) by sub-sector • Credit decisions are made using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters • We consider threats from climate change (e.g. flood risk and transitional energy performance legislation) in our approach to underwriting • 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 lending decisions and our processes • We operate a Treasury policy that only allows for deposits to be placed with large Groups or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings • Lending performance against Risk Appetite is monitored regularly
Capital and Liquidity Risk	**Capital –** The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans. **Liquidity –** The risk that the Bank is unable to meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence.	• We operate a Capital Planning Framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios • We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually. This considers the necessary time lag for management actions to take place. We meet, as a minimum, all regulatory prescribed ratios • We monitor current and forecast levels of capital and liquidity against our risk appetite and report to Asset and Liability Committee (ALCO) and the Board regularly • The capital and liquidity forecasts, and their compliance with our risk appetite, form an integral part of the annual budgeting process • We maintain liquidity buffers and contingency funding plans against various stressed liquidity scenarios.
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 intend to maintain exposures at a very low level against our capital and earnings positions. • Wherever possible we match the interest rate structure of assets with liabilities or deposits to create a natural hedge • We enter into swap agreements where required to minimise basis and repricing risks within appetite • We capture pipeline risk (where actual movements in assets and liabilities do not match expectations) and optionality risk (where early terminations can worsen mismatch positions) • We monitor asset swap spread risk. • We exchange or swap any FX exposure into GBP.

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 provide training and guidance to first line staff on aspects of the Framework via both the Risk Champions forum and formal training sessions • Senior Management identify and assess operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a Risk and Control Self-Assessment (RCSA) process • We have a defined Operational Resilience Policy • We have defined our recovery time and point objectives for our business processes where a sustained operational failure would result in customer detriment. These are linked to the recovery time objectives and are tested. • Business resilience KRIs with supporting triggers and limits are reported through the Group risk committee structure. • We make use of independent expert legal advice where appropriate • We have a documented third party supplier's policy • We have a CISO team focused on Governance / Protect/ Identify/ Detect/ Respond / Recover • We respond to all risk events, including near misses as soon as they are identified to ensure rapid mitigation of impact and prevention of further crystallisation. • We record and track all corrective actions through a dedicated system with committee oversight and governance.
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 and 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 a 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 and themed assurance testing of our activities to ensure that we are operating within our Board approved risk appetite and prevailing legal and regulatory requirements • We operate a programme of staff training and awareness via our regulatory reading programme • We complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle • The Senior Managers and Certification Regime is fully implemented to drive adherence to the Conduct Rules and a culture of accountability and diligence

Principal Risk	Definition	How we mitigate the risk
Transversal Risks – Reputational and Climate	**Reputational Risk –** the risk that the Bank's people, processes or systems create outcomes that create reputational damage to HTB. **Climate Risk –** the risks, both transitional and physical, that climate change presents to HTB's business.	• Reputational impact is used to quantify risk and impact • Consideration of reputational risk is embedded within our risk management • We have an ESG steering group in place to oversee the development and embedding ESG into our day to day risk management and processes • We monitor exposure to ESG risk, including Diversity, Equal Pay and opportunities via HR and escalate agenda items across the Group's risk committee structure and Board • Our People related policies provide guidance to staff to support local social initiatives and charity organisations via volunteering / involvement in local community projects • We closely monitor Climate Change policy, regulatory guidance and industry advances relating to climate change, considering both transition and physical risks.

Emerging Risks

The Bank recognises the dynamic nature of risk management and follows a structured approach to the identification and monitoring of Emerging Risks that could, in the future, affect the business model. An Emerging risk is an identified risk on the horizon, however, it is not yet clear whether the risk will impact HTB or if it does, to what extent it will impact. Each Emerging Risk is allocated to one of four categories:

- **Economic and Political Landscape** – Risks that will emerge directly or indirectly from changes to the National or Global environment in which the Bank operates, including those emanating from health or environmental root causes
- **Regulatory Change or Intervention** – Risks that will emerge from National and/or International regulatory bodies that will require material changes to the way in which the Bank operates
- **Competitive Landscape** – Risks that will emerge from both traditional operators utilising different operating strategies and/or new entrants to the markets in which the Bank operates
- **Technology Risk** – Risks that will emerge from any exploitable weakness in the Bank's infrastructure and/or its ability to withstand targeted attacks

Emerging Risks are reviewed at least annually by the Board and regularly by the Board Risk Committee. Regulatory Horizon Scanning is maintained and tracked through monthly management committees.

HTB's Main emerging risks comprise of the following:

Climate Change

Climate change represents a material risk to HTB and the financial system within which it operates. Climate risk arises from both the physical effects of climate change, and from the impact of changes associated with the transition of the economy to a lower carbon economy. Please see page 26 for more detailed information on HTB's response to climate change.

Macroeconomic Pressures

Macro-economic uncertainty remains high as the UK economy rebounds following COVID-19 as government economic support measures are withdrawn and unwound, and inflationary pressures are increasing. Additional risks remain around the full impact of Brexit on the UK economy.

HTB has maintained its risk appetite and assesses debt serviceability for all front book lending. We conduct frequent portfolio reviews to assess the credit risk within the portfolio and utilise a range of stress test scenarios to test the resilience of our lending.

Ukraine

Russia's invasion of Ukraine represents a global increase in uncertainty and risk, The full range of impacts have yet to be felt, but this has the potential to be wide-ranging across numerous areas such as energy prices and inflation, energy policy, trade flows, migration, defence spending, cybercrime landscape, and regulatory compliance to sanctions amongst others.

HTB is conducting a specific portfolio review to assess the potential impacts on its customer lending portfolios. We continue to update the lists of sanctioned individuals and screen against our customers to ensure HTB remains compliant with the evolving sanctions environment.

Evolving Working Practices

Technology and social changes have been gradually adjusting workers' expectations with regard to working practices. COVID-19 forced a step change in the working patterns at HTB, across Financial Services and adjacent sectors. There is a risk that labour market expectations regarding work patterns have changed permanently.

HTB has invested in technology to facilitate remote working and has sought to calibrate its expectations of colleagues in terms of presence in the office to ensure HTB is not an outlier. HTB is developing its people strategy to ensure its holistic colleague proposition is appropriate

Competition

The current competitive landscape is impacted by the economic fall-out from the Covid-19 pandemic which has not been equally felt across industry sectors. The effect of the withdrawal of government initiatives and the shape of the economic rebound are similarly having an impact. Margin compression is beginning to be felt across HTB's product offering, driven by the increasing interest rate environment, with little sign of an offsetting increase in asset pricing.

HTB monitors the markets in which it operates closely and manages the performance of its lending and retail savings businesses closely.

Wesleyan Bank Acquisition

HTB purchased 100% of the shares of Wesleyan Bank Limited on 28 February 2022. The successful separation of Wesleyan Bank from its parent and its transition into the HTB Group creates execution risk for HTB. The level of integration planned for Wesleyan Bank is low, and the strategy is to retain it as a stand-alone entity. However, there are new requirements on HTB Group such as Regulatory and Financial reporting that represent new activities to the Group and therefore increased risk.

HTB has added people and consultant resources and has a centrally governed project to enable it to manage the safe integration of Wesleyan Bank into the HTB Group.

Climate Change

The Bank recognises that Climate Change is a significant strategic risk and a major challenge for the global economy and society. During 2021, the Climate Change risk agenda has come into sharper focus and progress against the climate change plan has accelerated during 2021. Advancements have been made in establishing a risk management framework and oversight of progress against the Board approved plan. The Bank's approach to developing its approach to Climate Change has been informed by supervisory guidelines.

We closely monitor Climate Change policy, regulatory guidance and industry advances relating to climate change, considering both transition and physical risks. We assess the impact of these changes/advances on our Business model and risk profile and consider possible impacts on our reporting obligations and our reputation.

Sustainability

HTB is committed to acting in a sustainable and responsible way in respect to all of its business operations. Sustainability encompasses three ESG "Factors" covering a wide range of goals:

- Environmental – reducing our impact on global temperature increases, limiting GHG emissions and reducing pollution
- Social – embracing diversity internally and externally and contributing to charitable activity in both the communities we serve and helping disadvantaged communities
- Governance – following good governance practices, including sound management structures, maintaining positive employee relations, fair remuneration for our employees and complying with all laws and regulations

We monitor exposure to ESG risk, including diversity, equal pay and opportunities via HR and escalate agenda items across the Group's risk committee structure and Board. Our People related policies provide guidance to staff to support local social initiatives and charity organisations via volunteering / involvement in local community projects.

Governance

The Senior Management Function ("SMF") responsibility for management of climate risk lies with our CRO. Delivery of our Climate management framework is coordinated by the Risk function and progressed in collaboration with colleagues from across the business. To support this oversight and management of climate risk, we are in the process of developing climate management information and key metrics which will be regularly reviewed.

Climate Change is a standing Group Executive Committee agenda item and features regularly on the Board and Board Risk Committee agendas. Board Risk Committee discussions this year have included how HTB are strategically positioning themselves towards the impact of climate change on the existing portfolio in the Specialist Mortgage and the Asset Finance businesses; The Board Risk Committee monitors progress against the risk management framework plan where further assessment activity will highlight both physical and transitional risk within existing product portfolios. 2021 saw the first climate change ICAAP scenario included within the scope of the annual ICAAP.

Progress made towards our ESG goals in 2021

During 2021 good progress was made towards HTB's goals and ambitions for ESG:

- Board Training was produced focusing on providing not only insight into what the broader environment pertaining to peers, regulators and government, but also on how HTB should respond to these challenges to ensure we remain within our strategic parameters of maintaining effective climate change risk management and disclosure commitments.
- Establishment of an ESG Steering Group with senior leader membership to ensure ESG factors such as climate change risk are being suitably managed and to provide challenge to material changes to both risk management and the commercial opportunities they represent.
- Business Impact Assessment workshops held with each business line and risks identified to monitor via relevant Risk and Control Self-Assessment (RCSA) registers.
- Business lines have begun to examine their customer portfolios to understand better their exposure to Physical and Transitional risks over the coming years as well as to consider customer expectations of their Bank to inform HTB's strategic direction.
- Flood risk assessment started via a post code matching tool laid across the Specialist Mortgage portfolio, including Buy to Let properties. Results indicate a low match of properties to areas of high flood risk potential. Work on the transitional risk assessment is on-going with the review of EPC ratings across the property portfolio underway to assess the numbers and impacts on properties with a lower than 'C' EPC rating and the opportunities available to help customers or private landlords in this space to improve the efficiency of their properties.
- The 2021 ICAAP round included a Climate Change related scenario, covering the potential impacts for HTB if Early, Late or No action at all is taken to achieve a net zero carbon emissions economy by 2050. The results confirmed HTB has a relatively low level of climate change risk based on customer numbers and impacted assets.
- Climate Change strategy and approach documented and approved.
- Identification of KRIs / Metrics tracking whether transitional and physical risks are heating or cooling as we progress towards 2030 and beyond. These are continuing to develop in support of the agreed climate change risk appetite statement.
- Establishment of a climate change risk appetite.

Risk management

The risks of climate change to HTB are twofold. Firstly, through physical risks associated with changes in climate and weather (such as a greater incidence of storms, floods and sea level rises) and secondly, through the economy's response to climate change and transition to a low carbon economy. These transition risks may be generated through climate-related policy and regulations, technology development and changes in customer sentiment and behaviour.

Climate risks, arising through either one or a combination of these channels, cut across HTB's existing risk types – such as credit risk, market risk, operational risk and reputational risk. HTB has updated its risk management framework policy to include Climate risk as a transversal risk aligned to the Group's Principal risks.

Data sources to inform climate change risk KRIs and metrics from both internal and external sources across the portfolio continue to develop and enhance the existing reporting of such metrics.

Scenario Analysis

Stress test scenarios are included within the 2022 plan, building on the 2021 climate risk ICAAP, these will focus on the potential physical and transitional risks the lending portfolios face.

Our journey towards the TCFD

HTB plan to enhance the disclosure capability, in even closer alignment with the recommendations of the Taskforce for Climate related Financial Disclosures ("TCFD"). We will share a more advanced summary in our 2022 annual reporting and to enhance this year on year, including key metrics beyond our own operational energy consumption and emissions as presented in page 29 of this report.

Future developments

Earlier in 2021 BEIS consulted on proposals to introduce mandatory climate-related financial disclosures for public interest companies, large private companies and LLPs. The regulation will take effect from 1 Jan 2023. In accordance with SS3/19, a number of deliverables have been produced and will continue to be built out in 2022. These include:

- Formulation and introduction of KRIs that will be reported through Management and Board level governance committees to monitor and report on progress towards Climate Change risk management.
- Evolution of the HTB Environmental policy which states how HTB manage their Climate Change commitments and obligations to reduce their carbon footprint. These will include the target of fully offsetting HTB's carbon footprint in 2022.
- Continued refinement of data sources to inform both HTB's current exposure to climate change risk within the portfolio and measurement of progress against the established risk appetite statement.

Energy and carbon disclosure

Streamlined Energy and Carbon Reporting ("SECR") requirements came 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 2021, our total GHG emissions were 45.6 tonnes of carbon dioxide equivalent ("tCO2e"), equating to 0.17 tCO2e per employee, up 2.8 tCO2e overall and down 0.03 per employee since 2020. The bank operates only in the UK. The increase in consumption is due to increased office utilisation as lockdown eased and staff returned back to the office during 2021.
Scope 1 emissions relates to activities for which the Bank is responsible involving combustion of gas and petrol used by cars owned by the Bank. HTB currently have nothing to report under Scope 1 emissions. Our Scope 2 electricity consumption is the largest source of GHG emissions, 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 2020, is shown in the table below.

Scoope	Source	2021	2020
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)	45.14	42.39
	Consumption of purchased electricity (in kWh)	212,590	181,824
Scope 3 (Other indirect emission)	Emissions from business travel/transport (in tonnes of carbon dioxide)	0.46	0.42
	Emissions from business trave/transport (in kWh)	2,158	1,813
Total	Total energy usage (kWh)	214,748	183,637

The transition to net zero starts in 2021 to progress in an orderly and organised manner to comply with a zero carbon economy by 2050.

Given the relative size of HTB and its limited number of site locations (London and Leeds), no specific energy efficiency initiatives have been launched during the year. However, HTB continues to work with the owners of each of their physical locations to ensure the most energy efficient heating, lighting and waste services are provided. CO2 emission data is generated by both building owners that informs HTB's energy consumption impact on the wider environment.

* 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. Vehicle fuel usage is based upon expense claims and recorded mileage.

Corporate Governance

This section of the strategic report describes how the Directors have had regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006 when performing their 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 Directors have given careful consideration to the factors set out above in discharging their duties under section 172 with respect to the Bank's stakeholders and its reputation:

- ***Customer***s – The Board recognises that building a sustainable and enduring business franchise is dependent on providing products and service levels that meet the needs and expectations of the Bank's customers. 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 has ensured that the Bank has regarded the views of its customers by collecting impartial feedback to understand what customers think of the Bank's products and service levels and whether they are meeting their needs and expectations. .

  In 2021, the Bank has launched a dedicated customer experience program in order to enhance customer and broker engagement, which included the recruitment of additional staff focused on delivering the customer experience program as well as engaging independent third party suppliers to obtain independent feedback from customers and brokers. The Board recognises that a greater understanding of the Bank's customers, their needs and their priorities ensures the Bank is equipped to deliver continuous improvement across its processes, procedures, communication and products. The Bank's commitment is reflected in its strong customer satisfaction average scores of 92% with its saver customers based on June-October 2021 customer research.

  Covid-19 has continued to impact the Bank's customers and, following the implementation of CBILS in 2020 which provided valuable support to the Bank's customers, the Board oversaw the early implementation of the Government's Recovery Loan Scheme to ensure that the funding needs of customers impacted by the pandemic could continue to be met, helping to preserve the businesses that support the economy, their employees and families.

- ***Employees*** – Employees are fundamental to the delivery of the Bank's 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.

  Employee information, supported by a dashboard and metrics, is a standing item of the CEO's board report and has been a key focus for Board discussions in 2021.

In 2021 Astrid Grey, an existing Non-Executive Director of the Bank, was appointed as the non-executive director with lead responsibility for ensuring that the interests of employees were being properly considered and reported to the Board.

During 2021, the Board had to deal with issues that arose from the ongoing Covid-19 pandemic including the Bank's response to the further lockdowns, supporting employees to work from home and subsequent planning for a return to the office-based working. The safety of all the Bank's staff has been of the upmost importance and as such support has been given to each employee to ensure they were able work remotely and flexibly as well as supporting them on their return to the office. The transition out of remote working was guided by input from employees via quarterly pulse surveys and a series of 'Listening Sessions' with HR and the newly appointed dedicated employee Non-Executive Director. Based on this feedback, senior management developed a '50%' office / remote working model, which will be implemented in 2022 and, subject to Government guidance and on ongoing review, will see employees attending the office for 50%
of the time (5 days out of every 10), in a format determined among teams that is most suitable to the particular team.

Guided by a Gender Pay Gap analysis carried out in 2021, the Board has sought to increase gender diversity within the Bank through merit based recruitment but encouraging diverse candidate pools and working with external recruitment partners who have a focus on diversity. In addition, the Bank has focused on the development of female leaders and creating a diverse leadership pipeline through the participation by a number of female employees in the 'Women in Leadership' programme, an external programme leading to a management qualification.

In a further measure to build a resilient talent pipeline, a Graduate Programme was designed and implemented in 2021, with the first cohort of graduate hires joining specific businesses, following a bespoke development programme, external qualifications and job rotations. The Board has also encouraged reskilling employees into alternative roles.

During 2021, the CEO and his executive committee have regularly communicated with employees on key financial, strategic and operational matters via email, video updates and Q&A sessions.

- ***Regulator***s – The Bank operates in highly regulated market, and as such is 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 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.

  In 2021 the Bank agreed to purchase Wesleyan Bank Limited (WBL). Ahead of agreeing to purchase WBL and ahead of submitting its formal regulatory business plan to the PRA and FCA, the board oversaw active engagement with both the PRA and FCA to understand their views on the proposed purchase and to ensure that the final regulatory business plan submitted to the PRA and FCA took into account their views.

- ***Brokers*** – Brokers are a key source of business for the Bank and, as such, are vital to the success of the Bank. The Bank undertakes regular and frequent engagement with Brokers to understand their views on the Bank's products and service levels.

  This regular contact allows Brokers to discuss new and existing business proposals as well as maintaining and developing the relationship and their knowledge of the Bank's products and service. Roadshows and networking events are undertaken with Brokers to promote the Bank's products and provide training on its criteria and processes. The Bank's business development managers listen and work with Brokers, making themselves available to discuss cases and helping to obtain swift and reliable decisions for customers.

  In this regard the Bank understands that Brokers, (1) want products that meet the needs of their customers, (2) want clarity of lending criteria so they are confident that they are placing business with the right funders, (3) want the ability to discuss their customer's requirements with experts and clear information on the progress of the transactions they introduce, and (4) want speed of delivery and processes that make the process easy.

  The Bank's business development managers listen and work with Brokers, making themselves available to discuss cases and helping to obtain swift and reliable decisions for customers. This is evident from the satisfaction score of 93% from mortgage brokers based on June-October 2021 broker research.

  In response to views of Brokers, the Board oversaw the implementation of the 'PUMA' Specialist Mortgage broker portal; an in-house built system to allow our mortgage brokers to manage their applications with the Bank over a secure online portal. The portal enables Brokers to submit their customer applications electronically, provide supporting information through the portal as well as track progress of their portfolio of mortgage applications.

- ***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 and to input into the strategy of the Bank. 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 and strategy. The Board maintains a close working relationship with the shareholders' representatives centred on the development and execution of the Bank's strategy.

  In 2021, the Bank introduced its Wholesale lending business line. The Board ensured that the Bank's shareholders were fully engaged and consulted on the proposal and that their views were taking into account in the launch of the new business line.

- ***Community and Environment*** – In recognition of its importance, Climate Change has received greater focus at meetings of the Bank's Board and the Board is closely monitoring developments within the finance industry as well as directions from the PRA.

  Towards the end of 2021, the Bank implemented an internal Climate Change Steering Group and work to enhance its risk management framework to take into account Climate Change risk. Whilst a lot of work is being undertaken across the Bank, the Climate Change Steering Group will undertake a gap analysis to pull together the various work streams that are underway, to identify gaps and assist the Board to determine the key areas of focus for 2022.

- ***Suppliers*** – The Bank's 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 the Bank's operational resiliency activity, the Bank has been enhancing internal controls regarding how the Bank sources and manages its supplier relationships. 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 Bank's supplier onboarding process includes a rigorous risk assessment, financial checks, due diligence on data and security controls as well as human rights policies. The Bank also introduced a European Banking Authority assessment this year to comply with guidelines on outsourcing arrangements with suppliers.

  The Board recognises that the Bank's suppliers are a key part of the service the Bank provides to its customers and are committed to treating them fairly on payments and continuing to support them through the Covid-19 pandemic. The Bank has engaged with its 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, although no material issues were identified.

  The need to foster sustainable business relationships with suppliers is also addressed by obtaining confirmations from suppliers relating to compliance with modern slavery, bribery and corruption laws and the Board has overseen the approval and implementation of the Bank's Modern Slavery Statement and its own Anti-Bribery and Corruption Policy.

- **Reputation.** The desirability for the Bank to maintain a reputation for high standards of business conduct is a core focus of the Board. The Board has approved and overseen the implementation across the Bank of its statement of Vision, Values and Culture which all underpin a desire for high standards of business conduct. The Bank's stated Mission is to deliver positive customer outcomes, rewarding careers and greater shareholder value through a high-performing culture grounded in excellence and integrity. This is supported by a proposition of being open, responsive, consistent, clear, trustworthy, expert, pragmatic, flexible and innovative and is further supported by behaviours including, for example, an expectation that the Bank's staff will approach everything they do with discipline and set high standards.

  As set out above, in 2021 the Board has overseen the launch of a dedicated customer experience program in order to enhance customer and broker engagement, which included the recruitment of additional staff focused on delivering the customer experience program as well as engaging independent third party suppliers to obtain independent feedback from customers and brokers. One of the key objectives of this is to ensure that the Board is able to monitor and ensure that the feedback from its customers and brokers is consistent with maintaining a reputation for high standards of business conduct.

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

Timothy Blackwell
Chief Financial Officer
Date: 13th May 2022

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 2021.

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 Chief Executive who is supported by the Executive Committee • The Board monitors and challenges delivery by the Executive committee through appropriate reporting • In 2021, 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 • The vision, proposition, values and expected behaviours have been communicated from the Board, through the Chief Executive Officer 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 a separate Chairman and Chief Executive Officer • The Board has an appropriate mix of Executive and Non-Executive Directors, who have the requisite skills, knowledge, experience and understanding of the Bank's business and of banking more generally. The Non-Executive Directors bring a wealth of outside experience across a broad range of areas, including audit, 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 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

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, 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. • In 2021, 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 and it was agreed to look to appoint a further Non-Executive Director to reflect the growth of the Bank and broaden the skill base further.
Board Responsibilities -the board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should 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 38-42 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 met 11 times during the year, however as a result of the acquisition of Wesleyan Bank a sub Committee of the Board met a further 4 times in 2021. Further details on key matters discussed in those meetings are provided in pages 34-37.
Opportunity and Risk - a board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value 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 complimentary business lines which are aligned with its Specialist Bank proposition (described above). The Strategic Report (pages 4-33) 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 2021, the Board Risk Committee met 9 times. Further details on key matters discussed in those meetings are provided in pages 38-42.

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 2021, the Nomination and Remuneration Committee met 6 times. Further details on key matters discussed in those meetings are provided in pages 38-42.
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 30-33 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 is comprised 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 four additional Board Sub-Committee meetings were held in 2021 in relation to the acquisition of Wesleyan Bank. 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

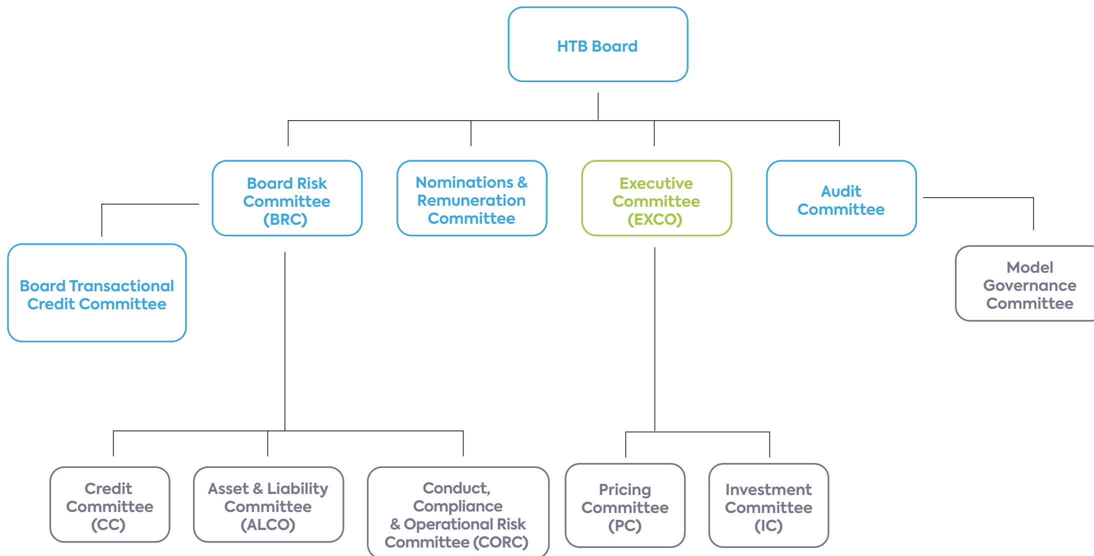
There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman has overall responsibility for the leadership of the Board, its effectiveness on all aspects of its role and setting its agenda. The Chief Executive Officer is responsible for the day to day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



Membership

Directors

Executive Directors & Senior Management

Executive Directors, Senior Managers & Nominated Staff Members

Board and Committee membership attendance record

Board Member	Board	Risk Co	Audit Co	Nom/Rem Co
Robert Sharpe	11			6
Tim Blackwell	11			
Robert East	10	9	5	6
Astrid Grey	10	9		5
Richard Price	11	9	6	6
Martyn Scrivens	11	8	6	5
Dominic Slade	11			4
Matthew Wyles	11			
Meeting Total	**11**	**9**	**6**	**6**

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 2021, the Committee recommended approval to the Board of the 2020 statutory accounts.

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, whistleblowing 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 oversees 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. During 2021 the Committee recommended the appointment of an additional Non-Executive Director to the Board to reflect the growth of the Bank and to further broaden the skills of the Board.

Executive Committee

The Executive Committee supports the Chief Executive in taking 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.

HTB Board

Board

Robert Sharpe, Independent Non-Executive Director and Chairman
SMF 9: Chair of the Governing Body & SMF 12: Chair of the Remuneration Committee
Robert has broad and extensive experience in the retail banking sector. In addition to HTB, Robert is currently Chairman of Metro Bank plc as well as holding positions at Honeycomb Investment Trust PLC and Aspinall Finance Services Limited. Robert has previously held a number of non-executive board positions in the UK (and the Middle East) including Bank of Ireland UK plc, Vaultex Limited (a JV between HSBC and Barclays), Aldermore Bank plc, Barclays Pension Trustees Limited, LSL Properties plc and George Wimpey plc. Robert's previous executive roles include Chief Executive Officer of Portman Building Society and subsequently West Bromwich Building Society.

Robert East, Independent Non-Executive Director
SMF 10: Chair of the Risk Committee
Robert is an Independent Non-Executive Director and chairs the Risk Committee. He was Chief Executive of Cattles Limited, a consumer finance company, where he led the restructuring and wind-down of its operations, and latterly CEO of Welcome Financial Services Ltd from 2010-2019. He was formerly Chief Risk Officer of Absa, the South African subsidiary of Barclays. Robert's career of more than 30 years with Barclays included a number of senior roles in commercial and retail banking. He is the Chair of Skipton Building Society, and was previously the Chair of Vanquis Bank, and a NED at Provident Financial Group. Robert is an Associate of the Chartered Institute of Bankers.

Astrid Grey, Independent Non-Executive Director
FCA CF
Astrid is an Independent Non-Executive Director. She is an experienced senior risk professional with significant expertise across both investment and commercial banking. She served as Chief Operating Officer (Group Internal Audit) at Lloyds Banking Group and between 2011 and 2015 she worked within the commercial banking risk division at Lloyds as Chief Operating Officer. A former Chief Credit Officer at Deutsche Bank, she also held senior positions at CS First Boston (now Credit Suisse) and Moody's Investors Services. Astrid is currently the Chair of the Risk Committee at Danske Bank UK, Deputy Chair and Chair of the Risk Committee for the Charities Aid Foundation Bank (CAF) and a non-executive Director of Silicon Valley Bank UK Ltd. Astrid holds a BA in International Business from the American University in Paris, and a Masters in International Affairs from SAIS – John Hopkins University.

Martyn Scrivens, Non-Executive Director
SMF 11: Chair of the Audit Committee
Martyn's career in audit, risk management and governance spans four decades, including operating at Board level in both the private and public sector. Martyn spent five years at Credit Suisse Group where he was Global Head of Internal Audit and prior to that he oversaw group audit functions at Lloyds Banking Group as Group Audit Director for nine years. Before joining Lloyds, Martyn spent 24 years at international professional services firm Arthur Andersen in the UK, Switzerland and Australia. Martyn also serves Non-Executive Director at Yeovil District Hospital as well as Non-Executive Director at Somerset NHS Foundation Trust. He is a Fellow of the Institute of Chartered Accountants, where he chaired the Institute's Internal Audit Advisory Panel for 10 years.

Dominic Slade, Non-Executive Director
FCA CF
Dominic is a Non-Executive Director and is also the Managing Partner of Alchemy. Dominic joined Alchemy in 1998, became a Partner in 2001 and was elected Managing Partner in 2009. Previously in investment banking at UBS, Dominic has a degree in Social & Political Sciences, an MPhil in International Relations from Cambridge and an MBA from Harvard.

Richard Price, Non-Executive Director
FCA CF
Richard is a Non-Executive Director on the board of HTB. Richard spent the majority of his career with KPMG where he was a partner from January 1997 to July 2012. He is currently also a Non-Executive Director of Alpha Bank London Limited and Brooks Macdonald Group plc. Richard holds a B.Sc. in Economics and Business Economics from the University of Southampton and is a Chartered Accountant.

HTB Board

Board

Matthew Wyles, Chief Executive Officer ("CEO")
SMF 1: Chief Executive
Matthew was appointed as CEO with effect from 23 April 2018. Prior to joining HTB, Matthew was an Executive Director of Castle Trust Capital plc. From 2007 to 2012, Matthew served as an Executive Director of Nationwide Building Society, latterly as Group Distribution Director where his responsibilities included the branch network, contact centres, Nationwide Financial Solutions and the group's operations in the intermediary mortgage market. Matthew was the Chairman of the Council of Mortgage Lenders for two years running in 2009 and 2010.

Tim Blackwell, Chief Financial Officer ("CFO")
SMF 2: Chief Finance
Tim has over 26 years' experience in financial services. Most recently, he was IPO Director for the CYBG float following a similar role for TSB. Prior to that he undertook various roles in LBG Group Finance as Group Financial Controller and BP&A Director and as FD of Asset Finance Divisions. Prior to joining LBG, Tim spent many years in big four accountancy firms providing transaction advisory services to a wide range of FS businesses.

3.
Directors' Report

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2021.
The Strategic Report set out on pages 4-33 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 26-27), key performance indicators (page 5) and principal risks (pages 21-23) is contained in the Strategic report.

Results for the year

The Bank made a profit before tax on continuing activities of £27.3m (2020: £2.9m), and a profit after tax of £20.6m (2020: £2.6m).

Proposed Dividend

The Directors do not recommend the payment of a dividend (2020: £nil).

Business relationships

We have appropriately considered the relevant interests of the various stakeholders as mentioned in pages 30-33 in our Board discussions and decision making during the year ended 31 December 2021.

Greenhouse gas emissions

Information on the Bank's energy consumption is set out on pages 29 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 35-37 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 21-23 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 pages 30-31 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

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 Credit Committee

Astrid Grey
Independent Non-Executive Director

Richard Price
Non-Executive Director

Dominic Slade
Non-Executive Director

Matthew Wyles
Chief Executive Officer

Timothy Blackwell
Chief Financial Officer

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 (2020: £nil) and did not make any political donations or incur any political expenditure during the year (2020: £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.

Post Balance sheet events

The Bank has completed acquisition of Wesleyan Bank Limited from the Wesleyan Assurance Society at the end of February 2022. Further information is set out in note 38

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.

Given the continued economic uncertainties, 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.

During the financial year, the Bank has engaged in the process to acquire WBL and signed a Share purchase agreement ("SPA"). The sale was completed on 28 February 2022 and WBL became a wholly owned subsidiary of HTB. Following the change in ownership, the directors have considered the current position, together with the future projections of WBL as part of its going concern assessment and will complete a strategic review to become better acquainted with the WBL's sales and operating model and to identify how they can best integrate WBL's business lines into HTB's business and capital planning process.

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 Auditor

The Auditor, 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 Auditor

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: 13th May 2022

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 UK-adopted International Accounting Standards.

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 UK-adopted International Accounting Standards;
- 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

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 2021 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 16 financial years ended 31 December 2021. 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	£1,050,000 (2020:£400,000) 3.84% of profit before tax (2020: 4.75% of three-year average profit before tax)	
Key audit matters		**vs 2020**
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	*Removed*: Going concern	Removed for 2021

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 (unchanged from 2020 with the exception of the removal of the going concern key audit matter), 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 (£5.7m; 2020: £7.8m) *Refer to Note 6.10 (accounting policy) and Note 26 (financial disclosures).*	**Subjective estimate:** The measurement of expected credit losses ('ECL') involves significant judgements and estimates. 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 (AF) 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 (SICR); — Probability of default (PD); — Loss given default (LGD); — 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 AF portfolio 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 26).	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 evaluated 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 made judgements in relation to unadjusted audit differences noted in the course of our procedures above. We concluded they did not materially misstate the measurement or disclosures of ECL on the AF portfolio. — We found the resulting estimate of the expected credit losses on AF loans and advances to customers and the associated disclosures made to be acceptable (2020: acceptable).

KPMG

Key audit matter	The risk	Our response
Unobservable inputs into the fair valuation of loans and advances to customers (£10.0m; 2020: £50.4m) *Refer to Note 6.8 (accounting policy) and Note 25 (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 (FVTPL). 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. 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. 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 (2020: acceptable).

We continue to perform procedures over going concern, as outlined on page 3. However, as the uncertainty relating to COVID-19 and its related impacts on the Company's going concern assessment have lessened, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

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

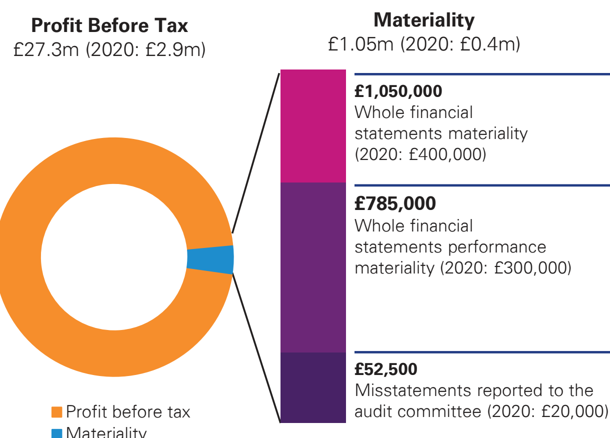
Materiality for the financial statements as a whole was set at £1,050,000 (2020: £400,000), determined with reference to a benchmark of profit before tax, of which it represents 3.84% (2020: 4.75% of three-year average profit before tax).

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% (2020: 75%) of materiality for the financial statements as a whole, which equates to £785,000 (2020: £300,000). 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 £52,500 (2020: £20,000), 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.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



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").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was an increase in the levels of expected credit losses due to estimation uncertainty, which could lead to insufficient capital resources to meet minimum regulatory capital requirements over the course of the going concern period.

We considered whether these risks could plausibly affect the regulatory capital and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

Our procedures also included :

— Inspecting the Company's forecasting and liquidity plans to identify the key assumptions within these, and challenging the reasonableness of the assumptions and stresses applied, and comparing the accuracy of management prior projections versus actuals;

— Considering whether the going concern disclosure in the financial statements gives a full and accurate description of the Directors' assessment of going concern.

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;

— 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; and

— we found the going concern disclosure in note 2 to be acceptable.

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.

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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.

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 to customers held at fair value through profit and loss.

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; and

— Assessing significant accounting estimates for bias.

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.

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.

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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.

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 43, 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.

Richard Rawstron
Richard Rawstron (May 13, 2022 19:41 GMT+1)

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
13 May 2022

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4.
Financial Statements

Statement of Comprehensive Income

	Note	2021 £000	2020 £000
Interest and similar income			
Interest income calculated using the effective interest method	7	86,057	68,926
Other interest income	7	2,451	7,466
Total interest and similar income		**88,508**	**76,392**
Interest expense and similar charges	7	(19,351)	(22,020)
Net Interest Income		**69,157**	**54,372**
Fees and commissions income	8	1,533	1,548
Fees and commissions payable	8	(805)	(784)
Net gain/(loss) on loans and other financial assets at fair value through profit or loss	9	3,175	(5,369)
Other income	10	9	3
Operating Income		**73,069**	**49,770**
Administrative expenses	11	(46,313)	(32,236)
Impairment gains / (losses) on Loans and Advances to customers	26	590	(14,671)
Operating profit before tax		**27,346**	**2,863**
Tax expense	15	(6,784)	(309)
Profit after tax for the year		**20,562**	**2,554**
Other comprehensive income		-	-
Total Comprehensive Income for the year, net of tax		**20,562**	**2,554**

The notes on pages 62 to 121 are an integral part of these financial statements.

Statement of Financial Position

	Note	2021 £000	2020 £000
Assets			
Loans and Advances to Banks	17	242,323	156,707
Derivative Assets held for Risk Management	18	19,458	1,763
Loans and Advances to Customers - FVTPL	20	10,025	50,434
Loans and Advances to Customers – at amortised cost	21	1,704,683	1,277,092
Investment Securities	22	196,712	20,072
Property, Plant and Equipment	28	1,471	1,805
Right-of-Use Assets	29	1,608	2,535
Intangible Assets	30	7,606	6,701
Other Assets	31	4,720	4,196
Deferred tax asset	16	1,925	1,057
Total Assets		**2,190,531**	**1,522,362**
Liabilities			
Derivative Liabilities held for Risk Management	18	4,413	14,562
Central Bank Facilities	23	295,000	180,000
Customer Deposits	24	1,633,046	1,125,560
Finance Lease Liability	29	1,895	3,086
Other Liabilities	32	37,139	14,971
Subordinated Liabilities	33	30,202	30,125
Total Liabilities		**2,001,695**	**1,368,304**
Equity			
Share Capital	35	139,828	126,288
Share Premium		196	196
Retained Earnings		48,812	27,574
Total Equity		188,836	154,058
Total Equity and Liabilities		**2,190,531**	**1,522,362**

The notes on pages 62 to 121 are an integral part of these financial statements

These financial statements were approved by the Board of Directors and signed on its behalf on 13 May 2022.

Matthew Wyles
Director

Timothy Blackwell
Director

Company Number: 1311315

Statement of Changes in Equity
For the year ended 31 December 2021

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2021	126,288	196	27,574	154,058
Comprehensive Income for the year				
Profit for the year	–	–	20,562	20,562
Total Comprehensive Income for the year	–	–	20,562	20,562
Contributions by and distributions to owners				
Equity Settled Share-Based Payment	–	–	676	676
Issue of Share Capital	13,540	–	–	13,540
Total contributions by and distributions to owners	13,540	–	676	14,216
Balance at 31 December 2021	**139,828**	**196**	**48,812**	**188,836**

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	-	-	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 Cash flows

	Note	2021 £000	2020 (Restated) £000
Cashflows from operating activities			
Profit before tax for the year		27,346	2,863
Adjustments for:			
Depreciation and amortisation		3,936	3,524
Foreign Exchange Gains/(Losses)		9	3
Increase/(Decrease) in impairment of Loans and Advances		6,362	3,753
Increase/(Decrease) in provisions		(4,206)	10,918
Equity-settled share based payment transactions		676	30
Bond premium/discount amortisation		1,275	(67)
(Increase)/Decrease in Fair Value of Derivative Assets		(28,408)	10,120
(Increase)/Decrease in Fair Value of loans and advances designated as hedged items		25,595	(9,116)
(Increase)/Decrease in Fair Value of Loans and Advances held at FVTPL		(749)	6,463
Repayment of the interest accrued on finance lease liabilities		(129)	(187)
Corporation Tax paid		(3,709)	(2,091)
Changes in:			
(Increase) in Loans and Advances to Customers		(419,379)	(158,211)
(Increase) / Decrease in Other Assets		(508)	1,950
Increase in Central Bank Facilities		115,000	7,000
Decrease/(Increase) in Collateral Held with Banks		27,594	(9,559)
Increase in Customer Deposits		512,682	219,961
Increase / (Decrease) in Other Liabilities		3,637	(685)
Net cash flow from operating activities		**267,024**	**86,669**
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(231)	(278)
Purchase of Intangible Assets		(3,355)	(2,772)
Purchase of Investment Securities		(172,144)	(84,984)
Sale of Investment Securities		-	65,000
Net cash flow from Investing Activities		**(181,730)**	**(23,034)**
Cash flows from Financing Activities			
Repayments of the principal portion of finance lease liabilities		(1,183)	(1,131)
Proceeds from the issue of share capital		13,540	-
Net increase/(decrease) in Cash and Cash Equivalents		97,651	62,504
Cash and cash equivalents at 1 January		144,672	82,168
Cash and Cash Equivalents at 31 December		**242,323**	**144,672**
Cash in hand		-	-
Loans and advances to Banks	17	242,323	144,672
Cash and Cash Equivalents at 31 December		**242,323**	**144,672**

Note 6.22 provides further detail on the nature and value of the restatement to the prior year statement of cash flows.

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 UK-adopted International Accounting Standards

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 2021, the Bank recognised a net profit of £20.6m. The Bank's total assets as at 31 December 2021 were £2,191m. The Bank has £439m of resources comprising cash and cash equivalents, and other highly liquid assets as at 31 December 2021.

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.

Given the continued economic uncertainties, 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.

During the financial year, the Bank has engaged in the process to acquire WBL and signed a SPA. The sale was completed on 28 February 2022 and WBL became a wholly owned subsidiary of HTB. Following the change in ownership, the directors have considered the current position, together with the future projections of WBL as part of its going concern assessment and will complete a strategic review to become better acquainted with the WBL's sales and operating model and to identify how they can best integrate WBL's business lines into HTB's business and capital planning process.

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 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments) became effective on 1 January 2021. As a result of its decision to early adopt the Phase 2 amendments from 1 January 2020, the Bank's accounting policies are already consistent with the new requirements.

The Bank has no other transactions that are affected by newly effective requirements.

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 are 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 2021 are 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 6.14:** 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 2022 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.

6.4.3. Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

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 £0.01p per share. Holders are entitled to receive a return on the shares acquired in the event of a prescribed exit event.

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

The Bank's long-term incentive share scheme is subject to two conditions. A service and a non-market 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. Significant estimates: Share Based Payments

The fair values of the shares at the date of grant were valued using the 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. The assumptions used are as follows:

	2021	2020	2019
Expected volatilty	28.9 to 30.6%	26.7 to 30.2%	26.7 to 30.2%
Risk free rate	-0.1% to 1.3%	-0.1% to 1.3%	-0.1% to 1.3%
Dividend yield	0.0%	0.0%	0.0%
Expected life	3 years	4 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.

6.6. 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 the Leeds office to 2023 and terminating the term of its 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 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.

6.8.5. Offsetting financial assets and financial liabilities

The Bank receives and gives collateral in the form of cash in respect of its derivative transactions which are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. Under the ISDA, the parties to the agreement have a right of set off collateral against recognised amounts, which only becomes enforceable following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events, and as such these agreements do not meet the criteria for offsetting in the statement of financial position as per IAS 32.
In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously. As such cash collateral pledged is held within Loans and advances to banks and cash collateral received is held within other creditors in the statement of Financial Position.

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 carrying 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 (by a term-dependent relative threshold for AF and SM, doubling or increasing by 5% i.e. +500bps for BD and DF). 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 all portfolios this threshold is 1% .

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 the Bank 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

Watch lists will be reviewed regularly by the Head of Business Support 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.

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 (except for loans under distressed restructuring that require a 12 month probation period). This also includes accounts that are removed from the watch list. Stage 3 loans can be moved to Stage 2 only on the basis of further analysis of the borrower's financial situation and the Bank is satisfied about the likelihood of full and timely repayment of the exposure.

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. 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 sub- committee 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 to the 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 and 2021 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.

6.11. 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, and cash margins pledged in respect of derivative transactions.

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 2021, the Bank has early adopted the amendments to IAS 39 and IFRS 7 issued by the IASB in October 2021 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 2020, 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 2021, the Bank chose to early adopt 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9/IAS 39 and IFRS 7' which was issued in August 2021. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2022. 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 2021.

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.

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.

In 2019 HTB established a LIBOR Transition Steering Committee, chaired by the CFO and reporting to the Board, which, during 2020 and 2021, has overseen the cessation of all new LIBOR business, the transfer of all LIBOR-linked derivatives to SONIA and the transition of LIBOR-linked or LIBOR reverting loans to an alternative benchmark. As at 30 November 2021, HTB had managed to transition all LIBOR-referencing loans with the exception of £124m of 'tough-legacy' balances that continue to reference LIBOR. In addition, the bank has £567m of fixed rate loans which include a reversionary rate tied to LIBOR (although it should be noted that our experience is only a very small percentage of these fixed rate mortgages are expected to revert to a floating rate). At the end of 2021, the bank had successfully transitioned all derivatives to SONIA.

During 2021 the FCA and HMT introduced what is widely known as 'tough legacy' provisions. These provisions apply to customer contracts referencing LIBOR whereby banks have not been able to transition the accounts to an alternative reference rate despite concerted efforts to do so. The legislation means that LIBOR-referencing contracts can continue to perform into 2022 past the cessation of LIBOR. This is achieved by replacing the definition and calculation of LIBOR to one based on SONIA. This is commonly referred to as 'synthetic LIBOR' and requires no adjustment to customer contracts. The tough legacy provisions are due to expire at the end of 2022 (although may be extended by the FCA) and therefore HTB will continue to seek to actively transition as many contracts as possible during 2022.

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 Indexed Long-term Repo Scheme (ILTR) 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 ILTR 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.

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 and 2021, 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 loan within the scheme.

During 2021, the Recovery Loan Scheme (RLS) was announced by HM Treasury on 3 March 2021, available after 6 April 2021. RLS provides lenders with a government-backed guarantee of 80% on losses that may arise on facilities of above £25,000 (£1,000 for asset finance) up to £10 million.

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.

6.22. Prior year adjustment

In 2020 the Bank presented cash collateral posted against derivative exposures with a term exceeding three months within cash and cash equivalents in the statement of cashflows. In 2021 this has been adjusted with cash collateral being excluded from this balance and the movement of cash collateral posted or received during 2020 being presented on a separate line of the cashflow statement. The below table shows the restated balances:

	2020 (as previously reported) £000	2020 (adjustment) £000	2020 (restated) £000
Decrease/(Increase) in collateral held with banks	-	(9,559)	(9,559)
Net cash flow from operating activities	**96,228**	**(9,559)**	**86,669**
Net Increase/(Decrease) in cash and cash equivalents	72,063	(9,559)	(1,502)
Cash and cash Equivalents at 1 January	**84,644**	**(2,476)**	**82,168**
Cash and cash Equivalents at 31 December	**156,707**	**(12,035)**	**144,672**

7. Interest income and expense

See accounting policy in note 6.1.

	2021 £000	2020 £000
Interest and similar income on Loans and Advances to Customers held at amortised cost	85,772	68,476
Interest and similar income on Loans and Advances to Customers held at fair value through profit and loss	2,451	7,466
Interest on Loans and Advances to Banks and Building Societies	285	450
Interest on other financial assets held at fair value	-	-
Total Interest receivable and similar income	**88,508**	**76,392**
Interest on Derivative Financial Instruments	(3,993)	(2,063)
Interest on Deposits from Customers, TFS & ILTR	(13,105)	(17,704)
Interest on Subordinated Liabilities	(2,253)	(2,253)
Total Interest expense and similar charges	**(19,351)**	**(22,020)**
Net Interest Income	**69,157**	**54,372**

8. Fees and commission income and expense

See accounting policy in note 6.2.

	2021 £000	2020 £000
Wholesale Facility Fees	389	211
Early Settlement Fees	615	618
Customer Service Fees	98	125
Commitment Fees on Development Finance Loans	431	594
Fees and Commission Income	**1,533**	**1,548**
Bank Charges	(603)	(606)
Credit and Identity Searches	(202)	(178)
Fees and Commission Expense	**(805)**	**(784)**

Fees and commission income include £431k of commitment fees charged for Development Finance loans held at FVTPL which under IFRS 9 is recognised upon receipt (2020: £594k).

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 2021 and 2020.

	2021 £000	Specialist Mortgages £000	Development Finance £000	Asset & Wholesale Finance £000	Savings £000
Wholesale Facility Fees	389	-	-	389	-
Early Settlement Fees	615	-	-	615	-
Option to Purchase Fees	61	-	-	61	-
Other Customer Service Fees	37	32	5	-	-
Commitment Fees	431	-	431	-	-
Fees and Commission Income	**1,533**	**32**	**436**	**1,065**	**-**
Enable guarantee charges	(603)	-	(505)	(69)	(29)
Credit and Identity Searches	(202)	(73)	(9)	(79)	(41)
Fees and Commission Expense	**(805)**	**(73)**	**(514)**	**(148)**	**(70)**

	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)**

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

See accounting policy in note 6.3.

	Note	2021 £000	2020 £000
Derivatives held for risk management excluding the effective portion of derivatives held for hedge accounting purposes			
Interest rate risk	**18/19**	2,813	(1,005)
Gain/ (Loss) on loans and advances to customers held at FVTPL	**20**	362	(4,364)
Net (loss)/gain loans & other financial assets at FVTPL		**3,175**	**(5,369)**

10. Other income

	2021 £000	2020 £000
Foreign exchange gains	9	3
Other income	**9**	**3**

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	2021 £000	2020 £000
Depreciation and amortisation	28/29/30	3,936	3,524
Staff Costs	12	26,376	20,964
Share based payments	13	676	29
FSCS costs		93	57
Other Administrative expenses		15,232	7,662
Administrative Expenses		**46,313**	**32,236**

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:

	2021	2020
Directors	7	7
Lending	120	111
Administrators	132	98
	259	**216**

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

The aggregate payroll costs of these people were as follows:

	2021 £000	2020 £000
Wages and Salaries	22,661	17,576
Social Security costs	2,849	2,164
Pension costs	1,372	1,128
Other staff costs	871	1,320
	27,753	**22,188**
Of which capitalised as Intangible Assets	1,377	1,224
Of which included within Administration Expenses	26,376	20,964

	2021 £000	2020 £000
Directors' Salaries and Bonus	1,481	1,195
Directors' Share based payments	267	11
	1,748	**1,206**

There were no directors to whom retirement benefits were accruing in respect of qualifying services during the year (2020: nil).

There were no directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2020: nil).

The aggregate of emoluments of the highest paid director was £667k (2020: £551k). No pension costs 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 payments of £355k (2020: £320k).

13. Employee share-based payment transactions

See accounting policy in note 6.5.

Details of shares issued are shown in the table below:

	2021 No. of Shares	2020 No. of Shares
At 1 January	1,944	2,023
Granted	4,555	245
Forfeited	(500)	(324)
At 31 December	**5,999**	**1,944**

The average fair value of shares issued during the year was £977 per share (2020: £1,814).
The charge to the Consolidated Income Statement was a debit of £676k (2020: £29k Debit).

14. Auditor's remuneration

	2021 £000	2020 £000
Audit of financial statements	924	489
Audit-related assurance services	75	-
Other non-audit services	89	31
	1,088	**520**

15. Taxation

See accounting policy in note 6.7.

Recognised in the Statement of Comprehensive Income

	2021 £000	2020 £000
Current tax		
Current tax on profits for the year	**7,652**	**1,120**
Deferred tax:		
Origination and reversal of temporary differences	(388)	(568)
Adjustments in respect of prior periods	-	(9)
Effect of tax rate change on opening balance	(480)	(234)
Total deferred tax charge/(credit)	(868)	(811)
Tax on profit/(loss) on ordinary activities	**6,784**	**309**

Tax reconciliation

	2021 £000	2020 £000
Profit for the year	27,346	2,863
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	5,196	544
Effects of:		
Permanent non-deductible expenses	1,096	24
Effect of tax rate change on opening balance	(480)	(235)
Adjustment for prior year tax differences	-	(22)
Income not taxable	(8)	-
Share based payments charge	128	5
Effects of Group Relief/ other reliefs	(10)	(7)
Surcharge on banking companies	862	-
	6,784	**309**

In 2021 profit for the year includes profit before tax on continuing activities only of £27.3m (2020: profit before tax on continuing activities £2.9m)

The corporation tax liability at 31 December 2021 is £4,277k (2020: £334k). 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:

	2021 £000	2020 £000
Accelerated capital allowances	1,838	915
Short term timing differences	169	214
IFRS16 adjustment	15	18
IFRS 9 Adjustment	(97)	(90)
Deferred Tax Asset / (Liability)	**1,925**	**1,057**

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

	2021 £000	2020 £000
Balance brought forward	1,057	246
Adjustments in respect to the prior periods	–	9
Credit to the income statement	868	802
Deferred Tax Asset/ (Liability)	**1,925**	**1,057**

The Bank has calculated the UK deferred tax asset as at 31 December 2021 using a blended forecast future tax rate of 29% (2020: 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 2023.

Changes to the bank surcharge whereby the allowance on taxable profits will be increased to £100m and the rate levied will be decreased to 3% with effect from 1 April 2023 were substantively enacted post year end. As such the deferred tax balances included within the accounts have been calculated with reference to the surcharge rate of 8%.

17. Loans and Advances to Banks

See accounting policy in note 6.8.

	2021 £000	2020 £000
Placements with other Banks included in Loans and Advances to Banks		
Repayable on demand	242,323	144,672
Margin call receivables	–	12,035
	242,323	**156,707**

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £229.9m (2020: £134.8m).

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

	2021 £000	2020 £000
Aa3	1,138	319
A1	11,236	21,610
	12,374	**21,929**

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 2021			
Interest rate swaps:			
Interest rate designated in fair value hedges of loans and advances	2,150,500	19,365	4,413
Other risk management derivatives	10,500	93	-
	2,161,000	**19,458**	**4,413**
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**

Gains and losses from derivatives are as follows:

	2021 £000	2020 £000
Net gain/(loss) on derivatives designated as fair value hedges	27,820	(9,721)
Fair value adjustments from hedge accounting	(25,595)	9,116
Ineffectiveness of fair value hedges	2,225	(605)
Movements on other derivative financial instruments	588	(400)
Fair Value gains/(loss) on derivative financial instruments	**2,813**	**(1,005)**

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 2021	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	83,100	218,700	369,300	713,000	749,400	17,000	2,150,500
Average fixed interest rate	0.66%	0.48%	0.46%	0.55%	0.39%	0.98%	0.49%

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%

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:

	2021 £000	2020 £000
(Losses)/gains on the hedged items attributable to the hedged risk	(25,595)	9,116
Gains/(losses) on the hedging instruments	27,820	(9,721)
Fair value in-effectiveness	8%	6%

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

As at 31 December 2021	Carrying amount 2021		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	1,084,771		(16,631)		Loans and advances to customers	(30,791)
Customer deposits		843,744		3,394	Customer deposits	5,196

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)

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

As at 31 December 2021	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	1,199,700	19,312	-	Derivative assets held for risk management	17,620	11%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	950,800	-	4,360	Derivative Liabilities held for risk management	10,200	4%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

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

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.

	2021 £000	2020 £000
Development Finance	**10,025**	**50,434**

21. Loans and advances to customers at amortised cost:

See accounting policy in note 6.8.

	2021 £000	2020 £000
Development Finance	148,749	116,632
Less: allowance for impairment	(2,683)	(3,270)
	146,066	**113,362**
Specialist Mortgages	1,314,350	895,748
Less: allowance for impairment	(2,833)	(4,317)
	1,311,517	**891,431**
Asset Finance		
Hire Purchase	140,947	141,045
Finance Leases	34,808	40,388
Less: allowance for impairment	(5,655)	(7,775)
	170,100	173,658
Wholesale finance	96,632	84,497
Less: allowance for impairment	(1)	(16)
	93,631	84,481
	263,731	**258,139**
Fair value adjustments from portfolio hedging	**(16,631)**	**14,160**
	1,704,683	**1,277,092**

Hire Purchase

See accounting policy in note 6.6.

The table below provides an analysis of Hire Purchase receivables.

	2021 £000	2020 £000
Gross investment in hire purchase receivables:		
Year 1	61,494	61,495
Year 2	39,193	42,068
Year 3	28,204	26,658
Year 4	18,211	17,588
Year 5	10,939	8,283
More than 5 years	3,196	3,056
Total future repayments	161,237	159,148
Unearned finance income	(20,290)	(18,103)
Net investment	140,947	141,045
Less impairment allowance	(4,098)	(5,176)
	136,849	**135,869**

Finance Lease Receivables

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

	2021 £000	2020 £000
Gross investment in finance lease receivables:		
Year 1	17,557	18,896
Year 2	10,773	13,072
Year 3	6,457	7,956
Year 4	2,823	3,934
Year 5	990	1,280
More than 5 years	158	190
Total future repayments	38,758	45,328
Unearned finance income	(3,950)	(4,941)
Net investment	34,808	40,387
Less impairment allowance	(1,557)	(2,599)
	33,251	**37,788**

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:

	2021 £000	2020 £000
Covered bonds	20,042	20,072
Gilts	176,670	-
Debt Securities	**196,712**	**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.

	2021 £000	2020 £000
A1	190,937	11,498
A2	-	2,787
A3	5,775	5,787
	196,712	**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:

	2021 £000	2020 £000
TFS and ILTR	295,000	180,000
Central Bank Facilities	**295,000**	**180,000**

24. Customer Deposits

See accounting policy in note 6.16.

	2021 £000	2020 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	182,500	66,392
Not more than three months	475,768	506,562
More than three months but not more than one year	688,446	342,668
More than one year but not more than five years	307,727	208,136
	1,636,440	**1,123,758**
Fair value adjustments for portfolio hedging	(3,394)	1,802
Customer deposits	**1,633,046**	**1,125,560**

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 2021	Hierarchy level	Amortised Cost £000	Total carrying amount £000	Fair Value £000
Assets				
Loan and Advances to Banks	Level 2	242,323	242,323	242,323
Loans and Advances to Customers - FVTPL	Level 3	-	10,025	10,025
Loans and Advances to Customers – at amortised cost	Level 3	1,704,683	1,704,683	1,830,504
Investment Securities	Level 2	196,712	196,712	196,712
Derivative Financial Instruments	Level 2	-	19,458	19,458
Other Assets	Level 3	2,361	2,361	2,361
Total		**2,146,079**	**2,715,562**	**2,301,383**
Liabilities				
Customer Deposits	Level 3	1,633,046	1,633,046	1,626,169
Central Bank Facilities	Level 3	295,000	295,000	295,000
Subordinated Liabilities	Level 2	-	30,202	31,151
Derivative Financial Instruments	Level 2	-	4,413	4,413
Finance Lease Liability	Level 3	1,895	1,895	1,895
Other Liabilities	Level 3	36,929	36,929	36,929
Share Capital	Level 2	-	139,828	139,828
Share Premium	Level 2	-	196	196
Total Liabilities		**1,966,870**	**2,141,509**	**2,135,581**

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	2,506	2,506	2,506
Total		**1,456,377**	**1,508,574**	**1,488,719**
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**

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:

	2021 £000	2020 £000
Loans and advances to customers		
Balance at 1 January	**50,434**	**126,530**
Total gains or losses:		
In profit or loss	1,251	3,699
Drawdowns on existing facilities	16,307	38,008
Repayments	(57,967)	(117,803)
Balance at 31 December	**10,025**	**50,434**

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 6.5% 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 £113k.

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 5 months in sales will result in a £450k 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 2021

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Development Finance	127,228	11,010	10,511	148,749
Specialist Mortgages	1,190,531	104,689	19,130	1,314,350
Asset Finance	154,831	11,672	9,252	175,755
Wholesale finance	93,213	419	-	93,632
Total Exposure	**1,565,803**	**127,790**	**38,893**	**1,732,486**
Off Balance Sheet				
Loan Commitments	311,012	-	-	311,012
Total Gross Exposure	**1,876,815**	**127,790**	**38,893**	**2,043,498**
Add FV gains from portfolio hedging	(15,751)	(872)	(8)	(16,631)
Less: allowance for impairment	(1,431)	(1,475)	(8,265)	(11,171)
Total Net Exposure	**1,859,633**	**125,443**	**30,620**	**2,015,696**

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**

Gross Carrying Value

2021

Development Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**92,632**	**16,243**	**7,757**	**116,632**
Transfer to Stage 1	4,138	(4,138)	-	-
Transfer to Stage 2	(3,179)	3,179	-	-
Transfer to Stage 3	(3,334)	(610)	3,944	-
Drawdowns/(Repayments)	36,971	(3,664)	(1,190)	32,117
Write offs	-	-	-	-
Balance at 31 December	**127,228**	**11,010**	**10,511**	**148,749**

Specialist Mortgages	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**818,061**	**72,342**	**5,345**	**895,748**
Transfer to Stage 1	43,607	(43,359)	(248)	-
Transfer to Stage 2	(105,012)	105,311	(299)	-
Transfer to Stage 3	(5,897)	(6,034)	11,931	-
Drawdowns/(Repayments)	439,772	(23,571)	2,441	418,642
Write Offs	-	-	(40)	(40)
Balance at 31 December	**1,190,531**	**104,689**	**19,130**	**1,314,350**

Asset and Wholesale Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**202,651**	**58,830**	**4,449**	**265,930**
Transfer to Stage 1	29,610	(29,342)	(268)	-
Transfer to Stage 2	(5,500)	5,564	(64)	-
Transfer to Stage 3	(2,754)	(3,203)	5,957	-
Drawdowns/(Repayments)	24,037	(19,758)	3,882	8,161
Write Offs [1]	-	-	(4,704)	(4,704)
Balance at 31 December	**248,044**	**12,091**	**9,252**	**269,387**

Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**1,113,343**	**147,416**	**17,551**	**1,278,310**
Transfer to Stage 1	77,355	(76,839)	(516)	-
Transfer to Stage 2	(113,691)	114,054	(363)	-
Transfer to Stage 3	(11,985)	(9,847)	21,832	-
Drawdowns/(Repayments)	500,780	(46,993)	5,133	458,920
Write Offs [1]	-	-	(4,744)	(4,744)
Balance at 31 December	**1,565,803**	**127,790**	**38,893**	**1,732,486**

1. This includes a single large write-off of £3.3m relating to a customer that became insolvent in November 2021.

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)	(6,454)	(24,408)
Write Offs	-	-	(3,536)	(3,536)
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)	(8,934)	(227,955)
Write Offs	-	-	(3,863)	(3,863)
Balance at 31 December	**1,113,344**	**147,415**	**17,551**	**1,278,310**

Loss allowance — 2021

Development Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**321**	**632**	**2,317**	**3,270**
Transfer to Stage 1	23	(23)	-	-
Transfer to Stage 2	(24)	24	-	-
Transfer to Stage 3	(11)	(263)	274	-
Net transfers	**(12)**	**(262)**	**274**	**-**
Other changes in credit parameters & forward-looking information [1]	(456)	131	(97)	(422)
Additions and repayments [2]	204	(339)	(30)	(165)
Charge to the Statement of Profit and Loss	(252)	(208)	(127)	(587)
Write Offs	-	-	-	-
Balance at 31 December	**57**	**162**	**2,464**	**2,683**

Specialist Mortgages	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**951**	**1,981**	**1,384**	**4,316**
Transfer to Stage 1	690	(690)	-	-
Transfer to Stage 2	(115)	220	(105)	-
Transfer to Stage 3	(37)	(436)	473	-
Net transfers	**538**	**(906)**	**368**	**-**
Other changes in credit parameters & forward-looking information [1]	(1,392)	(465)	(386)	(2,243)
Additions and repayments [2]	542	228	30	800
Charge to the Statement of Profit and Loss	(850)	(237)	(356)	(1,443)
Write Offs	-	-	(40)	(40)
Balance at 31 December	**639**	**838**	**1,356**	**2,833**

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	2021			
	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000
Balance at 1 January	**789**	**4,311**	**2,691**	**7,791**
Transfer to Stage 1	1,858	(1,786)	(72)	-
Transfer to Stage 2	(30)	59	(29)	-
Transfer to Stage 3	(42)	(350)	392	-
Net transfers	**1,786**	**(2,077)**	**291**	**-**
Other changes in credit parameters & forward-looking information [1]	(2,227)	(690)	3,550	633
Additions and repayments [2]	387	(1,069)	2,617	1,935
Charge to the Statement of Profit and Loss	(1,840)	(1,759)	6,167	2,568
Write offs [3]	-	-	(4,704)	4,704
Balance at 31 December	**735**	**475**	**4,445**	**5,655**

	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	**2,061**	**6,924**	**6,392**	**15,377**
Transfer to Stage 1	2,571	(2,499)	(72)	-
Transfer to Stage 2	(169)	303	(134)	-
Transfer to Stage 3	(90)	(1,049)	1,139	-
Net transfers	**2,312**	**(3,245)**	**933**	**-**
Other changes in credit parameters & forward-looking information [1]	(4,075)	(1,024)	3,067	(2,032)
Additions and repayments [2]	1,133	(1,180)	2,617	2,570
Charge to the Statement of Profit and Loss	(2,924)	(2,204)	5,684	538
Write offs [3]	-	-	(4,744)	(4,744)
Balance at 31 December	**1,431**	**1,475**	**8,265**	**11,171**

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.
3. This includes a single large write-off of £3.3m relating to a customer that became insolvent in November 2021.

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	**(12)**	**(81)**	**93**	**-**
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	**23**	**(231)**	**208**	**-**
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**

Loss allowance — 2020

Asset and Wholesale Finance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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	**(392)**	**70**	**322**	**-**
Other changes in credit parameters & forward-looking information [1]	(116)	3,508	2,239	5,631
Additions and repayments [2]	479	417	1,571	2,467
Charge to the Statement of Profit and Loss	363	3,925	3,810	8,009
Write offs	-	-	3,536	(3,863)
Balance at 31 December	**789**	**4,311**	**2,691**	**7,791**

Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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	**(381)**	**242**	**623**	**-**
Other changes in credit parameters & forward-looking information [1]	546	5,782	5,573	11,901
Additions and repayments [2]	780	523	1,566	2,869
Charge to the Statement of Profit and Loss	1,326	6,305	7,139	14,770
Write offs	-	-	(3,863)	(3,863)
Balance at 31 December	**2,061**	**6,924**	**6,392**	**15,377**

Impairment gains on loans and advances to customers of £590k (2020: £14,671k losses) recognised in the Statement of Comprehensive Income comprise of the following balances:

	2021 £000	2020 £000
Increase/(Decrease) in ECL	538	14,770
Bad debt recoveries	(1,128)	(99)
Impairment (gains)/losses on loans and advances to customers	**(590)**	**14,671**

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")

For year-end 2021, management determined that a series of PMAs totalling £0.9m (2020: £2.3m) are required across the Bank's three key portfolios. PMAs are subject to formal provisioning governance and are approved by the Model Governance Committee. Each PMA is reviewed quarterly in line with the release of new macro-economic forecasts for continued applicability.

- **Asset Finance:** Due to the continued effects of the government's Covid-19 response measures, several model inputs have been suppressed or are not behaving in the way they would be expected to. This has resulted in a PMA of £0.5m (2020: £2.3m). This PMA is expected to remain in place until either the economy has sufficiently recovered or the impacts of the government's intervention during the pandemic have worn off.
- **Development Finance:** A PMA of £0.1m (2020: n/a) has been determined based on the latest LGD model monitoring to compensate for the LGD model's under prediction versus experience. The PMA will be reviewed quarterly as new data emerges and is expected to remain in place until the next Generation DF IFRS 9 model suite goes live in 2023.
- **Specialist Mortgages:** Since the 2017 Grenfell fire, building safety regulations have come under scrutiny by the public, the media and government and a clear way forward has yet to be determined though new government guidance is expected during 2022. Meanwhile, the Bank of England has raised concerns that this "cladding crisis" could have severe impacts to financial stability in the UK. As a result, the Bank undertook an exercise to understand the cladding / fire risk in its portfolio and management judgement has resulted in additional ECL allowance of £0.3m (2020: n/a). The PMA will be reviewed quarterly as new data emerges and is expected to remain in place until the next Generation SM IFRS 9 model suite goes live.

27.1. 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.

27.2. 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:

	2021 £000	2020 £000
Loans and Advances to Banks	226,764	156,707
Loans and Advances to Customers at amortised cost	1,732,485	1,278,310
Loans and Advances to customers at FVTPL (not subject to impairment requirements)	10,025	50,435
Total on-balance sheet exposure	**1,969,274**	**1,485,452**
Contractual loan commitments	311,011	268,309
Maximum credit exposure	**2,280,285**	**1,753,761**

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2021. However, undrawn loan facilities of £237.2m granted by Development Finance are legally drafted such that they can be drawn on demand but are uncommitted and can be withdrawn without notice.

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	2021 Total £000
1	0.0006-0.0045	138,350	18,436	1,090	157,876
2	0.0045-0.0105	526,499	58,219	12,927	597,645
3	0.0105-0.0240	640,241	39,336	22,882	702,459
4	0.0240-0.0550	237,881	10,315	1,716	249,912
5	>0.0550	22,832	1,484	278	24,594
		1,565,803	**127,790**	**38,893**	**1,732,486**

Internal Rating at Origination	12 month PD range	Stage 1 £000	Stage 2 £000	Stage 3 £000	2022 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**

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 2021	Gross carrying amount £000	ECL £000
Quantitative test - PD movement	65,208	866
Qualitative test - Forbearance and other support	62,467	597
30 days past due back stop	115	12
	127,790	**1,475**

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**

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 2021	Gross carrying amount £000	ECL £000
Credit-impaired not in cured period	36,901	7,411
No longer credit-impaired but in cured period that precedes transfer to stage 2	1,992	853
	38,893	**8,264**

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**

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	
	2021	2020	2021	2020	2021	2020
	£000	£000	£000	£000	£000	£000
Carrying amount	242,323	156,707	1,704,683	1,277,092	311,011	268,309
Concentration by sector:						
Corporate	–	–	1,335,020	966,650	270,719	181,391
Government	231,087	135,097	-	-	-	-
Banks and Building Societies	11,236	21,610	-	-	-	-
Retail	–	–	369,663	310,442	40,292	86,918
	242,323	**156,707**	**1,704,683**	**1,277,092**	**311,011**	**268,309**
Concentration by location:						
UK	242,323	156,707	1,704,683	1,277,092	311,011	268,309

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 £68,966k (2020: £29,250k). 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.

31 December 2021

LTV (Indexed)	Buy-to-let	Other lending	2021 Total
Less than 60%	269,402	98,831	368,233
60% to 65%	185,338	77,457	262,795
65% to 70%	207,171	94,733	301,904
70% to 75%	157,868	71,791	229,659
75% to 80%	56,261	28,974	85,235
80% to 85%	6,318	6,682	13,000
Over 85%	41,307	12,217	53,524
Grand Total	**923,665**	**390,685**	**1,314,350**

31 December 2020

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 value of forborne loans amounted to £2.8m at 31 December 2021 (2020: £34m).

At 31 December 2021, the allowance for loan losses held in respect of forborne loans was £759k (2020: £4.4m).

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 including a central scenario ("Base case"), and four less likely scenarios: one upside ("Upside 1") and one downside scenario ("Downside 1"); and, one extreme upside ("Upside 2") and one extreme downside ("Downside 2") scenario. The central scenario is aligned with information used by the Bank 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 2021					
Scenario probability weighting	10%	10%	60%	10%	10%
As at 31 December 2020					
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 (Bank of England Base Rate). 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 2021	Unemployment rate (%)	GDP Real	House Price Index	Customer Price Index	Customer Real Estate Price	Bank of England Rate
Downside 2 economic assumption						
Average	6.27	554,663.33	104.33	117.00	75.60	(0.08)
Trough	4.29	535,401.10	90.24	113.62	73.30	(0.25)
Downside 1 economic assumption						
Average	5.96	568,231.82	115.77	118.05	79.22	0.26
Trough	4.29	543,819.40	106.20	114.01	77.39	0.00
Base economic assumption						
Average	3.92	593,776.43	138.12	120.43	85.95	0.82
Peak	4.29	621,089.00	146.33	126.40	87.55	1.50
Upside 1 economic assumption						
Average	3.60	611,326.82	151.09	121.88	90.88	1.51
Peak	4.29	642,410.40	165.80	128.26	92.47	2.00
Upside 2 economic assumption						
Average	2.53	623,054.79	160.38	123.09	94.12	1.78
Peak	4.29	656,328.40	179.40	129.94	96.49	2.25

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

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 2021 forecast, the UK economy is expected to grow by 5% in 2022 but to permanently be 1% smaller due to the long-term impacts of supply-side effects of the Covid-19 pandemic.

As a result of the increase in inflation, by raising interest rates, the BoE is signalling a clear change from pandemic response to a risk management approach, concern about a tight labour market and the need to reinforce inflation-fighting mandate. The base case view is that if Omicron does not lead to a near term slow down, interest rates will continue to rise in 2022.

Now that economic support in the form of the Coronavirus Jobs Retention Scheme has expired and the observed increase in unemployment was minimal, the central case continues to forecast a decreasing unemployment rate, reaching 4.3% during 2022, due to continued robust demand for labour and supply shortages in particular industries. Following the expiry of the Stamp Duty Holiday, it is expected that house price momentum will slow in 2022 with a minor decrease of 0.6% expected.

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 2021	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	1,732,486	1,732,486	1,732,486	1,732,486	1,732,486
Loss allowance (£'000)	14,731	12,639	10,655	10,305	10,109
Proportion of assets in Stage 2	0.20%	0.13%	0.07%	0.06%	0.06%

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%

27.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due or cannot do so without incurring unacceptable losses. The Bank measures liquidity risk on a daily basis to ensure it has adequate liquidity to meet both internal risk appetite and regulatory requirements. Daily liquidity reporting is supplemented by a range of early warning indicators to help identify signs of liquidity risk. The Bank regularly stress tests its liquidity requirements against a number of scenarios, these scenarios and underlying assumptions are reviewed at least annually to ensure they continue to be relevant. As part of the Recovery Plan the Bank maintains a Liquidity Contingency Plan which contains mitigating actions available during a stress. Monthly reporting procedures are in place to update and inform senior management and all liquidity policies and procedures are subject to periodic independent internal oversight.

During 2021 the Bank repaid all outstanding Bank of England (BoE) Term Funding Scheme (TFS) drawings and drew £295m under the Term Funding Scheme with Additional Incentives for SMEs (TFSME) before the scheme closure in October 2021. The Bank continues to maintain 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 2021							
Assets							
Loan and advances to Banks	242,323	242,323	242,323	-	-	-	-
Loans and advances to customers	1,714,708	2,457,599	15,353	36,976	175,888	482,284	1,747,097
Contractual loan commitments	311,012	311,012	93,517	44,743	124,554	48,198	-
Total	**2,268,043**	**3,010,934**	**351,193**	**81,719**	**300,442**	**530,482**	**1,747,097**
Liabilities							
Deposits	(1,633,046)	(1,643,004)	(367,095)	(270,071)	(691,433)	(314,405)	-
Central Bank Facilities	(295,000)	(297,865)	(85)	-	(546)	(297,234)	-
Contractual loan commitments	(311,012)	(311,012)	(93,517)	(44,743)	(124,554)	(48,198)	-
Subordinated Debt	(30,000)	(33,263)	-	-	(2,175)	(31,088)	-
Total	**(2,269,058)**	**(2,285,144)**	**(460,697)**	**(314,814)**	**(818,708)**	**(690,925)**	**-**

	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)**	**-**

Liquidity Reserves

The bank has a strong liquidity position and holds high quality liquid assets comprising cash placed on deposit with the Bank of England, Debt Securities issued by Sovereigns and UK Covered Bonds which can be quickly monetised through repurchase agreements or outright sale.

The following table details the components of the Bank's liquidity reserves as at 31 December:

	2021 Carrying value £000	2021 Fair value £000	2020 Carrying value £000	2020 Fair value £000
Cash and balances at central banks	229,949	229,949	134,778	134,778
Unencumbered debt securities issued by sovereigns	1,543	1,543	-	-
Unencumbered Covered Bonds	20,042	20,042	20,072	20,072
Total liquidity reserves	**251,534**	**251,534**	**154,850**	**154,850**

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 2021 are £378.7m (2020: £387.6m).

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

Offsetting financial assets and financial liabilities

The banks derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. The Bank executes a credit support annex in conjunction with the ISDA agreement, which requires the Bank and its counterparties to post collateral to mitigate counterparty credit risk, and gives the right to each party to terminate the related transactions on the failure to post collateral.

The following table outlines financial assets and liabilities subject to enforceable master netting arrangements as at 31 December

		Related amounts not offset in the statement of financial position		
As at 31 December 2021	Assets/(Liabilities) recognised in the statement of financial position £000	Financial instruments (including non-cash collateral) £000	Cash collateral (received)/ pledged £000	Net amount £000
Derivative assets held for risk management	19,458	(3,899)	(15,559)	-
Derivative liabilities held for risk management	(4,413)	3,899	-	(514)
Total	**15,045**	**-**	**(15,559)**	**(514)**

		Related amounts not offset in the statement of financial position		
As at 31 December 2020	Assets/(Liabilities) recognised in the statement of financial position £000	Financial instruments (including non-cash collateral) £000	Cash collateral (received)/ pledged £000	Net amount £000
Derivative assets held for risk management	1,763	(1,763)	-	-
Derivative liabilities held for risk management	(14,562)	1,763	12,035	(764)
Total	**(12,799)**	**-**	**12,035**	**(764)**

There are no asset and liability balances which are offset within the statement of financial position.

27.4. 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:

	2021 £000	2020 £000
+200 basis points	(1,447)	(3,087)
-200 basis points	1,738	3,412

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 2021	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	242,323	-	-	-	-	242,323
Loans and advances to customers	250,306	29,480	132,816	1,302,106	-	1,714,708
Investment Securities	146,601	-	50,111	-	-	196,712
Other assets	-	-	-	-	36,788	36,788
Total Assets	639,230	29,480	182,927	1,302,106	36,788	2,190,531
Liabilities and Equity						
Customer Deposits	273,567	181,638	825,366	325,475	-	1,633,046
Central Bank Facilities	295,000	-	-	-	-	295,000
Subordinated Liabilities	-	-	-	30,203	-	30,202
Non-interest bearing liabilities	-	-	-	-	43,447	43,447
Equity	-	-	-	-	188,836	188,836
Total Liabilities	568,567	181,638	825,366	382,678	232,283	2,190,531
Interest rate sensitivity gap	70,663	(152,158)	(642,439)	919,428	(195,495)	-
Cumulative gap	70,663	(81,495)	(723,934)	195,494	-	-
Notional value of derivatives	405,300	49,100	436,200	(890,600)	-	-

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)	-	-

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 had exposure to IBORs in the form of LIBOR-referencing fixed/floating interest rate swaps during 2021 that were reformed as part of these market wide initiatives. The Bank ceased writing any new interest rate derivatives referencing IBORs during 2020 and replaced all existing LIBOR swaps with SONIA referencing swaps during Q3 2021. Although the Bank ceased writing new LIBOR-referencing loans in Q4 2020, the Bank has a back-book 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 2022.

The primary risk that the bank has been exposed to in respect of these IBOR reforms are operational including renegotiation of loan contracts, updating contractual terms and updating systems which utilise IBOR curves. Financial risk is limited to interest rate risk.

During 2020 and 2021, the bank had the following principal IBOR exposures in respect of derivative financial assets and loan commitments subject to the reform

- Floating rate loans and advances to customers, GBP LIBOR.
- Loan commitments indexed to GBP LIBOR
- Floating- rate derivatives products indexed to GBP LIBOR.

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 as at 31 December 2021 are indexed to SONIA. 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 has adhered to this protocol.

The following table shows the total amount of unreformed financial assets and loan commitments as at 1 January 2020, 31 December 2020 and 31 December 2021. The amount of trading assets are shown at their carrying amounts and the amounts of loans and advances to customers are shown at their gross carrying amounts The amounts of loan commitments are shows at their committed amounts.

	31 December 2021 £000	31 December 2020 £000	1 January 2020 £000
Loans and advances to customers			
Specialist Mortgages	504,688	668,300	511,810
Development finance	26,541	173,762	258,120
	531,229	**842,062**	**769,930**
Loan commitments	9,343	173,766	147,098
	540,572	**1,015,828**	**917,028**
Derivatives and hedge accounting	-	(10,646)	(2,459)
Interest rate swaps	**-**	**(10,646)**	**(2,459)**

28. Property Plant and Equipment

See accounting policy in note 6.14.

	Equipment £000	Fixtures and fittings £000	Total £000
Cost			
At 1 January 2021	1,892	2,393	4,285
Additions	178	53	231
At 31 December 2021	**2,070**	**2,446**	**4,516**
Depreciation			
At 1 January 2021	**1,290**	**1,190**	**2,480**
Charge for year	294	271	565
At 31 December 2021	**1,584**	**1,461**	**3,045**
Net book value			
At 31 December 2021	**486**	**985**	**1,471**
At 31 December 2020	**602**	**1,203**	**1,805**

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2020: nil).

No impairment charges were incurred during the year (2020: 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 2021 is as follows:

Right of use asset – Office premise	2021 £000	2020 £000
Net book value at 1 January	2,535	3,463
Net book value at 31 December	1,608	2,535
Depreciation at 31 December	4,773	3,854

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2021 is as follows:

	2021 £000	2020 £000
Year 1	1,318	1,318
Year 2	660	1,319
Year 3	–	660
	1,978	**3,297**

The discounted lease liability as at 31 December 2021 is £1,895k (2020: £3,086k)

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

	2021 £000	2020 £000
Depreciation expense	(920)	(927)
Interest expense	(129)	(187)
Sublease income	-	308

30. Intangible Assets

See accounting policy in note 6.15.

	Software £000	Internally Generated Assets £000	Total £000
Cost			
At 1 January 2021	3,818	8,625	12,443
Additions	1,319	2,036	3,355
At 31 December 2021	**5,137**	**10,661**	**15,798**
Amortisation			
At 1 January 2021	2,296	3,446	5,742
Charge for year	97	2,353	2,450
At 31 December 2021	**2,393**	**5,799**	**8,192**
Net book value			
At 31 December 2021	**2,744**	**4,862**	**7,606**
At 31 December 2020	1,522	5,179	6,701

31. Other Assets

	2021 £000	2020 £000
Other debtors	2,343	2,506
Prepayments	2,359	1,690
Intercompany receivables	18	-
Other Assets	**4,720**	**4,196**

32. Other Liabilities

	2021 £000	2020 £000
Other taxation and social security	4,277	334
Other creditors	3,554	3,403
Accruals	13,749	11,234
Margin account liabilities	15,559	-
Other Liabilities	**37,139**	**14,971**

Accruals include interest accruals on customer deposits amounting to £6.3m (2020: £7.6m).

Margin account liabilities represents cash collateral received in respect of derivative exposures with a term exceeding three months.

33. Subordinated Liabilities

See accounting policy in note 6.18.

	2021 £000	2020 £000
Tier 2 notes	30,000	30,000
Deferred acquisition costs	(105)	(182)
Accrued interest	307	307
Subordinated Liabilities	**30,202**	**30,125**

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 2021, 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	
	2021 £000	2020 £000
In issue at 1 January	126,288	126,288
Issued for cash	13,540	-
In issue at 31 December	**139,828**	**126,288**

13,539,999 Ordinary A shares of £1 each for cash at par value were issued during 2021 (2020: £Nil).

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

	2021 £000	2020 £000
Share Capital	139,828	126,288
Share Premium	196	196
Retained Earnings	48,812	27,574
Intangible Assets	(7,606)	(2,117)
IFRS9 Transitional Arrangement	1,572	7,722
Prudential Valuation Adjustments	(14)	(51)
Securitisation positions	(7,875)	(7,875)
Common Equity Tier 1 Capital	**174,913**	**151,737**
Tier 2 Capital	30,000	30,000
Total Capital	**204,913**	**181,737**

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 2021:

	Class A Shares		Class B Shares	
Director	Number	£ Nominal Value	Number	£ Nominal Value
Robert East	125,000	125,000	93	0.93
Matthew Wyles	1,000,000	1,000,000	1,295	12.95
Tim Blackwell	200,000	200,000	700	7.00
James Drummond-Smith	30,000	30,000	93	0.93
Robert Sharpe	150,000	150,000	189	1.89

Total deposits of £169k, are held by the Bank from related parties of Non-Executive Directors as at 31 December 2021 (2020: £86k).

37. Investment in subsidiaries

HTB has the following investments in subsidiaries as at 31 December 2021 (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 subsidiary is unlisted and has an accounting reference date of 31 December. None of HTB's subsidiaries are banking institutions.

38. Post balance sheet event

Acquisition of Wesleyan Bank Limited

On 7 October 2021, Hampshire Trust Bank plc ("HTB") signed the Share Purchase Agreement ("SPA") for the acquisition of 100% of the shares of Wesleyan Bank Limited ("WBL").

The transaction is driven by HTB's strategy to leverage its existing, proven business model and operating platform, to enhance profitability and drive shareholder value. Specifically, the transaction will increase HTB's scale, create a more profitable business and facilitate HTB's ongoing investment in technology, process effectiveness and capability in a highly capital efficient manner.

Details of the business combination

The actual date of the acquisition was 28 February 2022 following HTB obtaining the necessary regulatory approvals and control has been established from that date.

The final amounts of the assets and liabilities acquired, negative goodwill created and final consideration are subject to further determination under a completion mechanism detailed within the SPA.

Details of estimated assets and liabilities acquired

	Feb 22 £000
Loans and Advances to Banks	100,471
Loans and advances to Customers	489,294
Tangible Fixed Assets	3,638
Right of use assets	651
Intangible Assets	3,609
Other Assets	7,320
Total assets	**604,983**
Deposits by Banks	(96,797)
Loans and Advances to/from intergroup Companies	(1,572)
Customer Accounts	(402,681)
Lease liabilities	(651)
Other liabilities	(7,067)
Net assets acquired	**96,215**

Details of goodwill

The acquisition is estimated to create negative goodwill and a related CET1 consolidated capital increase in HTB estimated to be £42.8m.

Fair value of consideration transferred

The consideration will be paid 65% in cash and, 35% by the way of AT1 capital notes. The fair value of the consideration amount is estimated to be £50.2m

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

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.

Statutory and Amortised Cost Tables

	2021 £m Statutory	2021 £m Amortised cost	2020 £m Statutory	2020 £m Amortised cost
Loans and Advances to Banks	**242**	**242**	**156.7**	**156.7**
Investment securities	**197**	**197**	**20.1**	**20.1**
Loans at fair value through profit or loss	**10**	**-**	**50.4**	**-**
Loans and advances to customers:	**1,705**	**1,715**	**1,277.1**	**1,327.4**
Specialist Mortgages	*1,295*	*1,295*	*904.8*	*904.8*
Development Finance	*146*	*156*	*113.4*	*163.7*
Asset Finance	*170*	*170*	*174.4*	*174.4*
Wholesale Finance	*94*	*94*	*84.5*	*84.5*
Other Assets	**37**	**37**	**18.1**	**18.1**
Total Assets	**2,191**	**2,191**	**1,522.4**	**1,522.3**
Customer deposits	1,633	1,633	1,125.6	1,125.6
Central Bank Facilities	295	295	180.0	180.0
Tier 2 Capital	30	30	30.0	30.0
Other Liabilities	44	44	32.7	32.7
Total Liabilities	**2,002**	**2,002**	**1,368.3**	**1,368.3**
Equity	**189**	**189**	**154.1**	**154.0**
Ratios				
Risk weighted assets ("RWA")	**816**	**816**	**725.1**	**725.1**
RWA Density (RWA as % of Loans)	**48%**	**48%**	**55%**	**55%**
Common Equity Tier 1 capital	**175**	**175**	**144.0**	**144.0**
Tier 2 Capital	**30**	**30**	**30.0**	**30.0**
Common Equity Tier 1 Ratio	**19%**	**19%**	**19%**	**19%**
Total Capital Ratio	**22%**	**22%**	**22%**	**22%**
Leverage ratio	**8%**	**8%**	**10%**	**10%**
LCR	**314%**	**314%**	**393%**	**305%**
Loan to deposits ratio	**105%**	**105%**	**118%**	**118%**

	2021 £'000 Statutory	2021 £'000 Amortised cost	2020 £'000 Statutory	2020 £'000 Amortised cost
Interest income calculated using the effective interest method	86,057	88,927	68,926	78,017
Other Interest Income	2,451	-	7,466	-
Interest Expense and similar charges	(19,351)	(19,351)	(22,020)	(22,020)
Net interest income	**69,157**	**69,576**	**54,372**	**55,997**
Fees and commissions income	1,533	1,103	1,548	955
Fees and commissions payable	(805)	(805)	(784)	(784)
Other Income/ Expenses	9	9	3	3
Net (loss)/gain on loans and other financial assets at fair value through profit or loss	3,175	2,814	(5,369)	(1,005)
Operating Income	**73,069**	**72,697**	**49,770**	**55,166**
Impairment losses	590	958	(14,671)	(20,494)
Administrative expenses	(46,313)	(46,313)	(32,236)	(32,236)
Profit before Tax	**27,346**	**27,342**	**2,863**	**2,436**
Tax	(6,784)	(6,784)	(309)	(309)
Profit for the period	**20,562**	**20,558**	**2,554**	**2,127**
Ratios				
Gross Income Margin	**6.1%**	**6.1%**	**5.8%**	**6.2%**
Blended cost of funds (after hedging)	**1.2%**	**1.2%**	**1.6%**	**1.6%**
Net Interest Margin	**4.6%**	**4.6%**	**4.3%**	**4.5%**
Net Revenue Margin	**4.8%**	**4.8%**	**4.0%**	**4.4%**
Cost to Asset Ratio	**3.0%**	**3.0%**	**2.6%**	**2.6%**
Cost Income Ratio	**64%**	**64%**	**60%**	**58%**
Cost of Risk	**-0.25%**	**-0.25%**	**1.60%**	**1.67%**
Return on Required Equity (post tax)	**22.8%**	**22.8%**	**2.8%**	**2.4%**
Return on Equity (post tax)	**12.1%**	**12.1%**	**1.7%**	**1.4%**

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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