HTB

GROUP ANNUAL REPORT AND ACCOUNTS 2023

HAMPSHIRE TRUST BANK PLC

Company number: 1311315

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Robert Sharpe (Chairman)
Richard Price
Martyn Scrivens
Dominic Slade
Richard Sommers
Julia Warrack

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STRATEGIC REPORT

KEY HIGHLIGHTS – HTB Group (the Group) and HTB (the Bank)

Strong profit growth providing robust shareholder returns, supporting high growth in loan assets and operating platform investment

- HTB Group profit before gain on bargain purchase, credit losses & tax £69m (2022: £47m)
- 20% Return on HTB Group Required Equity driven by strong underlying HTB Bank performance (2022: 21% excluding gain on bargain purchase)
- 25% growth in HTB Bank underlying operating income to £129m (2022: £103m)
- 25% growth in HTB Bank's profit before credit losses, dividends & tax to £65m (2022: £52m) reflecting strong asset growth and positive jaws
- 24% Return on HTB Bank Required Equity (2022: 29%)

Continuing to build our HTB Bank franchises at a high growth rate in challenging market conditions

- 32% growth in HTB Bank loans and advances to customers to £2,970m (2022: £2,247m)
- 16% growth in HTB Bank new lending volume to £1,245m (2022: £1,071m)
- 32% growth in HTB Bank deposits to £3,206m (2022: £2,421m)

Delivering strong HTB Bank margins through disciplined pricing

- 9.6% Gross Income Margin (2022: 7.3%) reflecting asset yield discipline and rising interest rates.
- 3.4% Blended Cost of Funds (2022: 1.4%) reflecting tight control of funding costs despite significant increases in market rates from late 2022 onwards
- 5.0% Underlying Net Revenue Margin (2022: 5.2%) reflecting overall strong margin management during challenging market conditions

Investing in our HTB Bank operating platform to support future growth

- Growth in HTB Bank Team to 408 (2022: 347) delivering on our growth strategy
- Continued investment in technology, with £5.4m additions to intangible assets (2022: £4.8m) enhancing our customer propositions
- Maintaining cost discipline and increasing efficiency with HTB Bank Underlying Cost to Asset Ratio 2.4% (2022: 2.5%)

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

- Broadly stable HTB Bank coverage ratio of 0.7% (2022: 0.61%) reflective of an uncertain future economic outlook with expected credit losses provisions increased to £20.4m (2022: £14.4m)

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

- Robust capital levels maintained whilst delivering strong loan book growth with Group CET1 Ratio of 14% (2022: 16%) and strong Group Total Capital Ratio of 17% (2022: 19%)
- Small increase in RWA density, reflecting a change in HTB Bank product mix to 55% (2022: 52%) and a blended group density of 57% (2022: 55%).
- Conservative liquidity levels maintained with HTB Bank Liquidity Coverage Ratio of 352% (2022: 285%)

25% growth in HTB Bank underlying operating income

32% growth in new Bank lending volume to £1,245m

Underlying Cost to Asset Ratio **2.4%**

CHAIRMAN'S OVERVIEW

We knew that 2023 would be a challenging year before it began, preceded as it was with rising interest rates, weakening consumer confidence, political turmoil at home and a world seemingly more troubled by bloodshed and conflict than at any time since the War. But it is turbulence and adversity which proves successful business models and I am proud of the way that HTB navigated the troubled waters of 2023 and emerged stronger than ever.

Our strategy of Excellence through Specialism has not altered since 2018 and it has served us well. Strategy is not worthy of its name if it alters frequently and we stuck to our gameplan despite the stresses of the Covid years and the political and economic challenges which followed. Our five year track record speaks for itself. Setting aside the acquisition of Wesleyan Bank in 2022, we grew the Net Assets in our core business during the period 2019 to 2023 at a compound annual rate of 26%. More significantly, we delivered that vigorous growth rate whilst maintaining disciplined margin management so that, if anything, our Net Interest Margins are higher than they were five years ago. The corresponding underlying Profit Before Tax, therefore, almost quadrupled to £53m.

As I am constantly reminded by my executive colleagues, the contribution of our people is absolutely central to our success. The employment market, particularly for the best, remains fiercely competitive but, despite this fact, we saw our turnover rates trending sharply downwards as our employee value proposition got traction. We invested during the latter half of 2023 in understanding our culture better and in consulting our colleagues on how to enhance and future proof it, particularly in the context of diversity, equity and inclusion (DEI). My Board colleagues and I recognise that our DEI agenda is central to our future success and it will continue to receive the attention and focus which it so clearly merits.

The other stakeholder group upon which we are crucially dependent is, of course, our customers. HTB does not operate in mass market segments and its competitive edge depends on our clients and intermediary partners continuing to value our responsive, flexible service. We aim to demonstrate consistently that we have the time and the skills to understand the needs and expectations of each individual customer - this is what Excellence through Specialism means.

As I referenced in my first paragraph, HTB operates in a world where macro-economic risks are heightened and we need to remain more alert than ever to both known and emerging risks. A key priority for any bank which is growing as rapidly as we are, is to ensure that the Group's enterprise-wide risk framework is developing at a similar pace. We will continue to invest, therefore, as a top priority, in the people, processes and technology necessary to discharge responsibly our ongoing duty of sound risk management and good governance.

I cannot close without mentioning the indispensable contribution made by my non-executive colleagues in supporting me and the Executive in discharging our responsibilities. Their unswerving commitment to HTB's success, their diligence, their perceptive and insightful analysis, their patience and their good humour are invaluable in driving HTB forwards.

Finally, I want to salute our management team and all our employees for their hard work and skill in delivering yet another fine performance during 2023.

Robert Sharpe
Chairman

23 April 2024

Our strategy of **Excellence through Specialism** has not altered since 2018 and it has served us well.

CHIEF EXECUTIVE'S REPORT

The ultra-low interest rate environment which began in 2008 came to an end during the first half of 2022 and by August 2023, the Bank of England's Base Rate (BBR) had reached its current peak (or plateau) of 5.25%. From the low point in 2021, this represented an unprecedented increase and for the first time in 15 years, we knew that many British businesses and consumers could not avoid a significant payment shock as their borrowing repriced. No organisation could be certain what effect that shock would have on asset prices or credit performance.

Our lending profile is heavily skewed towards fixed rate so, whilst we knew that many of our customers would be buffered from the immediate effects, they (and, therefore, we) would certainly not be immune from the broader macro-economic consequences.
As I write these words in early 2024, I am pleased to report that any adverse effects on HTB, to date at least, has been at the mild end of the range. Our expected credit losses (ECL) models are heavily influenced by a small number of key macro-factors so these models have driven some increase in provisions but the underlying actual performance of our lending books, particularly our flagship Specialist Mortgage portfolio which comprises around 71% of our loan assets, has not shown any degree of marked deterioration. Time, of course, will tell but we have started 2024 feeling much happier about the prospects than we did a year ago.

Now that the results for 2023 are in, they look pretty good. The integration of Wesleyan Bank Limited (WBL) which we acquired in early 2022, is well progressed and on plan. HTB received a total of £27.5 million in further dividends from WBL during 2023 as we redeployed capital into our core HTB business. Our core HTB lending business grew its balances by 32% during the year. Net income from our continuing operations in HTB was up by 30% and, thanks to a strongly positive jaws ratio, the PBT in our core business rose by 19% and the Cost / Income ratio fell again to 51%.

HTB's resilient growth is attributable to our business model which we call Excellence through Specialism which is comprised of a number of core components. The first is organisational design. We have built each business to win in each of our defined verticals with specialists within dedicated distribution, product design and credit functions.

Secondly, we apply our specialist knowledge and deep experience in assessing more complex cases which do not fit comfortably into the portfolios of those lenders who are more focussed on unit cost to serve and asset homogeneity. This makes us highly approachable and flexible – this difference is valued by our customers and brokers and enables us to achieve premium margins.

Thirdly, we are highly disciplined in researching and defining our target segments and we stick to our knitting. Focus and consistency is central to our philosophy. Once we have established a franchise, we build out organically from that solid base. We do not engage in adventures or experiments. A good example of this is the successful launch of our new bridging business during 2023 which sits neatly at the nexus of our Specialist Mortgage and Development Finance franchises and leverages further both our reputation and our distribution in those markets.

Fourthly, we use bespoke, best-in breed technology to service each of our franchises. We do not obsess narrowly about synergies and economies of scale. If the right tool does not yet exist, we will build it ourselves in our low code environment. Each of our businesses is very different and each needs its own processes and platforms to deliver the excellence which is central to our mission. We continue to invest year in, year out in our modern scalable infrastructure. For example, during 2023, the bank's network was redesigned to modern standards and using the latest technology. This enables HTB to operate using flexible office locations, hybrid working, third party and offshore capabilities with speed and agility in the future.

Our people strategy is similar – we choose the best. Working at HTB does not suit everyone – it is fast-paced and demanding. That said, high calibre people seem to thrive at HTB and we reward them well, not just financially, but with recognition, advancement and personal development.

Our strategy is built on a central, long term conviction in the fundamentals which have underpinned the UK housing market for decades. We believe that the long-established structural shortage of housing stock will persist and that this in turn also provides a benign environment for the private rental sector in general and our target segments in particular.

We take our social role in helping to build homes for Britain very seriously. Our Development Finance division works closely with experienced and skilled SME developers as partners and clients and we finance the construction of both homes which will be sold to owner occupiers and, increasingly, homes which are intended for rental.

We believe that smaller buy to let investors have been progressively squeezed out of the market by fiscal measures first adopted in 2016 which discriminated against those modest participants who typically bought in their own names instead of using a limited company. Many of these people had previously regarded residential investment property as an attractive alternative to other forms of saving or pension provision but have seen the economics become gradually less and less compelling.

Our Specialist Mortgage division has concentrated on financing larger investors who have the scale and sophistication to operate through corporate structures. We believe that this segment will continue to thrive and grow for the foreseeable future. In many parts of the UK there is a growing shortage of rental stock which is feeding through to buoyant and rising rental values. According to the Office of National Statistics in the 12 months to March 2024 annual private rental prices increased by 9.1% in England, 9.0% in Wales and 10.5% in Scotland.

We are forecasting some gradual easing of interest rates by the Bank of England as inflationary pressures moderate during 2024 which we expect to be broadly positive both for credit and business prospects. Whilst our five year track record demonstrates our ability to grow both our assets and profitability steadily despite volatile economic conditions, we believe the markets which we serve will be more active during 2024 and our opportunity will be consequently greater. As we continue to build scale and momentum, our cost / income ratio will maintain its downward trajectory and our relentless commitment to pricing discipline will sustain our proven ability to deliver stable, strong margins.

Turning to liquidity management, we have built and will continue to develop our broadly based deposit taking franchise. We play across a broad range of customer segments from retail (including ISAs) through SME to corporate deposits. We are also delighted to partner with a number of platforms which provide an important service to larger depositors who want the convenience of managing their cash across a range of institutions through a single log on. These platforms and their clients provide us with further and welcome diversification of our savings customer base.

Yet again we were pleased to win a range of awards which recognised the power and resilience of our customer proposition. Of particular note was Moneynet's decision to name us again as Business Banking Brand of the Year for two years running (2023 / 2024).

Other awards during 2023 included:

- Feefo Platinum Trusted Service Award 2023 / 2024
- Leasing World Gold Awards: Outstanding Bank Owned Lessor 2023
- Leasing World Gold Awards: Broker Deal of the Year 2023
- Business Moneyfacts: Best Specialist Buy-to-Let Mortgage Provider 2023
- Business Moneyfacts: Best Development Finance Provider 2023

Last year I noted that, according to the World Meteorological Organisation (WMO), the global mean temperature in 2022 was estimated to be about 1.15°C above the 1850-1900 pre-industrial average. The result for 2023 is sharply worse. The WMO uses six leading international datasets to monitor global temperatures and consolidated by WMO these measures show that the annual average global temperature was 1.45 (± 0.12) °C above pre-industrial levels (1850-1900) in 2023. Global temperatures in every month between June and December set new monthly records.

Whilst our contribution as a relatively small organisation may be dwarfed by the scale of the environmental challenge which we collectively face, we have, nonetheless, redoubled our efforts. During 2023, we renewed our Carbon Neutral status and, furthermore, met the Carbon Assessed and Reduced Standard which reflects the fact that HTB, in conjunction with Carbon Footprint Limited, has assessed its carbon footprint and has shown a year on year reduction of 17% in market-based emissions relative to its size.

In conclusion, I want to thank our Non-Executive Directors who not only discharge their supervisory duties with skill and aplomb but who also act as a valuable sounding board for me and my colleagues and are a source of thoughtful and supportive advice. Our shareholders, Alchemy, have owned HTB since 2014 and their objective, analytical perspectives provide us with not only healthy challenge but with a flow of good ideas. Their support for our strategy of Excellence through Specialism is a constant which we value and appreciate.

Matthew Wyles
Chief Executive Officer

23 April 2024

Yet again we were pleased to win a range of awards which recognised the power and resilience of our customer proposition.

FINANCIAL AND BUSINESS REVIEW

Financial Performance Indicators

Certain Financial Measures disclosed in the Annual Report and Accounts do not have a standardised meaning prescribed by international accounting standards and may not therefore be comparable to similar measures presented by other issuers. These measures are considered 'alternative performance measures' (Non-GAAP financial measures) and are not a substitute for measures prescribed by international accounting standards. Definitions of financial performance indicators referred to in the Strategic Report (in alphabetical order) are set out below.

Average principal employed	Calculated as the average Loans and Advances to customers held at amortised cost and fair value.
Blended cost of funds (after hedging)	Rate of interest payable on average funding excluding Tier 2 adjusted for interest on interest rate swap liabilities.
Common Equity Tier 1 Ratio (CET1 Ratio)	Common equity tier 1 capital (Note 37) divided by risk-weighted assets as reported per the current year end COREP Submission.
Cost of Risk	Impairment on financial assets and net loss or gain on loans held at fair value through profit or loss (Note 11) divided by average principal employed.
Cost to Asset Ratio	Administrative expenses divided by average principal employed.
Cost to Income ratio	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	The allowance for impairment expressed as a percentage of gross loans and advances at amortised cost.
Gross income margin	Total interest and similar income (Note 8), fees and commission income (Note 9) and net loss or gain on loans & other financial assets at fair value through profit or loss (Note 10) and other income (note 11) divided by average principal employed.
Leverage ratio	Common Equity Tier 1 capital divided by the sum of total assets (excluding intangibles).
Liquidity Coverage Ratio ('LCR')	The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets are unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Loan to Deposit ratio	Loans and advances to customers held at amortised cost and fair value divided by customer deposits.
Net Interest Margin (NIM)	Net interest income divided by average principal employed.
Net Revenue Margin	Operating income excluding net loss or gain on loans held at fair value through profit or loss, divided by average principal employed.
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.
Risk-weighted asset (RWA) density	The ratio of RWA to customer loans provides a measure of riskiness of assets.
Total Capital Ratio	Common Equity Tier 1 plus Tier 2 debt and Additional Tier 1 divided by risk weighted assets.
Underlying Cost to Asset Ratio	Administrative expenses net of management recharges (note 11) divided by average principal employed.
Underlying Gross Income Margin	Total interest and similar income (Note 8), fees and commission income (Note 9) and net loss or gain on loans & other financial assets at fair value through profit or loss (Note 10) and other income excluding Management recharges (Note 11), divided by average principal employed.
Underlying Cost Income Ratio	Administrative expenses net of management recharges (Note 11) divided by operating income excluding net gain or loss on loans held at fair value through profit and loss (Note 10) and management recharges (Note 11).
Underlying Net Revenue Margin	Operating income excluding net loss or gain on loans held at fair value through profit or loss (note 10) and management recharges (Note 11), divided by average principal employed.

	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Loans and Advances to Banks	**480**	**463**	**477**	**459**
Investment Securities	**244**	**262**	**235**	**218**
Loans at fair value through profit or loss – Development Finance	**3**	**4**	**3**	**4**
Loans and advances to customers:	**3,258**	**2,650**	**2,967**	**2,243**
Specialist Mortgages	2,103	1,608	2,103	1,609
Development Finance	268	222	268	222
Asset Finance	385	375	305	246
Wholesale Finance	291	166	291	166
Commercial and Retail Finance	211	279	-	-
Investment in Subsidiaries	**-**	**-**	**49**	**49**
Other Assets	**172**	**167**	**333**	**227**
Total Assets	**4,157**	**3,546**	**4,064**	**3,200**
Customer Deposits	3,261	2,674	3,206	2,421
Central Bank Facilities	354	393	300	295
Tier 2 Capital	58	30	58	30
Other Liabilities	162	166	177	195
Total Liabilities	**3,835**	**3,263**	**3,741**	**2,941**
Equity	**322**	**283**	**323**	**259**
Ratios/KPIs				
Risk weighted assets (“RWA”) (£m)	**1,855**	**1,459**	**1,632**	**1,159**
RWA Density (RWA / Loans to Customers)	**57%**	**55%**	**55%**	**52%**
Common Equity Tier 1 Capital (£m)	**293**	**254**	**244**	**180**
Additional Tier 1 Capital securities	**17**	**17**	**17**	**17**
Tier 2 Capital (£m)	**58**	**30**	**58**	**30**
Common Equity Tier 1 Ratio	**14%**	**16%**	**13%**	**14%**
Total Capital Ratio	**17%**	**19%**	**17%**	**17%**
Leverage ratio	**9%**	**11%**	**8%**	**9%**
LCR	**325%**	**387%**	**352%**	**285%**
Loan to deposits ratio	**100%**	**99%**	**99%**	**93%**

Investment in Subsidiaries

On 28 February 2022 Hampshire Trust Bank plc ("HTB") acquired 100% of the shares and voting rights of Wesleyan Bank Limited ("WBL") shown at cost in investment in subsidiaries of £49m. The Group Balance Sheet at 31 December 2023 and 31 December 2022 reflects the consolidated assets and liabilities of the WBL and its 100% owned subsidiaries. In 2022 the Bank recognised a gain on bargain purchase of £49m on acquisition.

Liquidity

The Group had £480m (2022: £463m) in loans and advances to banks as at 31 December 2023. This represented 15% of total deposits held (2022: 17%), including high quality liquid assets of £424m at 31 December 2023 (2022: £452m), all in the form of deposits held in the Bank of England Reserve Account. The Group maintains investment in covered bonds and Gilts with balances of £244m as at 31 December 2023 (2022: £262m). The Bank's liquidity coverage ratio ('LCR') was 352% (2022: 285%), with a Group LCR of 325% (2022: 387%), substantially in excess of the minimum set by the PRA of 100%.

Loans to customers

The Bank has seen strong organic growth across all of its business lines, net loans and advances (including loans held at fair value) to customers grew strongly by 32% reaching £2,970m as at 31 December 2023 from £2,247m as at 31 December 2022. A description of the Group's principal lending activities and their associated lending book movements are set out below:

Specialist Mortgage (SM) provides various forms of mortgage loans to portfolio landlords and property investors via a panel of specialist brokers. Lending comprises buy to let mortgage loans secured on residential properties, semi-commercial loans (where the property is mainly residential housing), bridging finance for property investors in the residential market and commercial investment mortgages on commercial premises. Despite challenging market conditions the Bank continues to strengthen its franchise in its chosen market segments, with the business growing 31% from £1,608m in 2022 to £2,103m in 2023, with £594m of originations.

Development Finance (DF) 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 21% in the loans and advances to customers held at amortised cost during the year from £222m in 2022 to £268m. New business amounted to £280m (2022: £222m). The loan book continued to experience a steady flow of maturing loans as developments were successfully completed and marketed for sale by our customers with repayments amounting to £243m in 2023 (2022: £160m). The loans held at fair value through profit and loss decreased by 23% to £3.3m (2022: £4.3m) reflective of the run-off on that maturing back book of business.

Asset Finance (AF) 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. Originations in the year decreased by 4% to £166m (2022: £173m). The Bank's Asset Finance book has increased by 24% to £306m (2022: £246m) with the Group increasing overall by 3% to £384m (2022: £374m). The fall in growth between HTB and Group is driven by the natural attrition of the WBL book, which has been in run-off since acquisition, with a remaining book at the end of 2023 of £81m.

Wholesale Finance (WF) provides lending facilities to a range of non-bank finance companies secured on their underlying loan receivables. The loan book increased by 75% from £166m in 2022 to £291m in 2023. New business increased from £90m in 2022 to £207m in 2023 as the business continues to gain momentum.

Commercial and Retail Finance
These portfolios have been acquired by the Group as part of the WBL lending book. Following a strategic review conducted by the Group after acquisition, these business lines have been put into run off with a remaining book of £211m on 31 December 2023 (2022: £279m). Commercial lending provides specialist acquisition finance to enable the purchase of professional practices, predominantly by Dentist and Pharmacists (£214m) and the Retail portfolio consists of point of sale lending to retail customers (£2m) (2022: £272m and £7m respectively).

Funding

The main funding for the loan books is sourced from deposits and the Group's loan to deposit ratio at 31 December 2023 was 100% (2022: 99%). The Group is predominantly funded by deposits which are serviced by our in-house team principally through an online portal.

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

Deposit balances increased from £2,674m in 2022 to £3,261m in 2023. The number of depositors has risen from around 35,300 at the start of the year to around 60,154 at the year end. Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme. At 31 December 2023, 87% of deposits with a value of £2,798m were protected under the Scheme (2022: £2,353m).

The Bank has Tier 2 notes in issuance, which can be used to meet regulatory capital requirements. The bank may explore opportunities, subject to market conditions, to raise further subordinated capital to further optimise its capital base. In addition to Customer Deposits and Tier 2, the Group continued to use the Bank of England's four-year TFSME (Term Funding Scheme with additional incentive for SME's) with drawn balances of £354m at 31 December 2023 (2022: £393m).

Capital

The Group'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.

CET1 on a statutory basis as at 31 December 2023 was £293m for the Group (2022: £254m) and £244m for HTB (2022: £180m). The statutory CET1 ratio as at 31 December 2023 was 14% for the Group (2022: 16%) and 13% at the Bank level (2022: 14%). The CET1 ratio remains above our target levels and our risk-weighted asset (RWA) density (RWA divided by customer loans) for the Bank at 31 December 2023 was 55% (2022: 52%) with 57% for the Group (2022: 55%). This resulted in a leverage ratio of 9% for Group (2022: 11%) and 8% at Bank level (2022: 9%).

	2023 £m	2022 £m
Notice deposits	835	504
Term deposits	2,426	2,170
Total Customer Deposits	**3,261**	**2,674**

	2023 £m	2022 £m
Retail deposits	2,524	1,864
SME deposits	737	810
Total Customer Deposits	**3,261**	**2,674**

Deposit balances increased from £2,674m in 2022 to £3,261m in 2023.

	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Interest and similar income	268	151	246	132
Interest Expense and similar charges	(122)	(40)	(115)	(33)
Net interest income	**146**	**111**	**131**	**99**
Operating lease income	1	2	-	-
Fees and commissions income	1	3	1	2
Fees and commissions payable	(1)	(2)	(1)	(2)
Net gain/(loss) on Loans and other assets at fair value through profit or loss	(2)	3	(2)	3
Other income	-	-	6	7
Operating income	**145**	**117**	**135**	**109**
Impairment gain/(losses)	(12)	(8)	(12)	(7)
Administrative expenses	(76)	(70)	(70)	(57)
Gain on bargain purchase	-	49	-	-
Profit before tax and dividends	**57**	**88**	**53**	**45**
Dividends received	-	-	28	20
Profit before tax	**57**	**88**	**81**	**65**
Tax	(15)	(10)	(14)	(11)
Profit for the period	**42**	**78**	**67**	**54**
Underlying Operating Income				
Operating income	145	117	135	109
Less management recharges (Note 11)	-	-	(6)	(7)
Underlying Operating Income	**145**	**117**	**129**	**102**
Ratios				
Gross Income Margin	**9.0%**	**6.7%**	**9.6%**	**7.3%**
Underlying Gross Income Margin	**9.0%**	**6.7%**	**9.4%**	**6.9%**
Blended cost of funds (after hedging)	**3.4%**	**1.4%**	**3.4%**	**1.4%**
Net Interest Margin	**4.9%**	**4.7%**	**5.0%**	**5.0%**
Net Revenue Margin	**4.9%**	**5.0%**	**5.2%**	**5.5%**
Underlying Net Revenue Margin	**4.9%**	**5.0%**	**5.0%**	**5.2%**
Cost to Asset Ratio	**2.6%**	**3.0%**	**2.7%**	**2.9%**
Underlying Cost to Asset Ratio	**2.6%**	**3.0%**	**2.4%**	**2.5%**
Cost Income Ratio	**52%**	**59%**	**51%**	**52%**
Underlying Cost Income Ratio	**52%**	**59%**	**49%**	**49%**
Cost of Risk	**0.5%**	**0.2%**	**0.5%**	**0.2%**
Return on Required Equity (post tax)	**20.0%**	**56.7%**	**23.8%**	**29.4%**
Return on Equity (post tax)	**14.1%**	**33.1%**	**13.7%**	**15.2%**

Operating income

Group Operating income increased by £28m to £145m (2022: £117m). This principally reflects the growth in average lending assets within HTB with Bank growth in Operating Income of £26m to £135m (2022: £109m), and Bank growth in Underlying Operating Income of £26m to £129m (2022: £102m).

The Group Net Revenue Margin remains stable at 4.9% in 2023 (2022: 5.0%) with the Bank Net Revenue margin and Underlying Net Revenue Margin seeing a small decrease at 5.2% (2022: 5.5%) and 5.0% (2022: 5.2%) respectively driven by disciplined pricing in challenging market conditions.

Impairments

Reflective of ongoing economic uncertainty, there was an increase in expected credit losses provisions within the Bank to £20.4m (2022: £14.4m) to maintain a broadly stable coverage ratio of 0.7% (2022: 0.61%), resulting in a charge to the income statement of £12.5m (2022: £7.3m) including write off and recoveries of £6.5m (2022: £4.1m), giving a cost of risk metric of 0.5% at Bank and 0.5% at Group level (2022: 0.2% at Bank and Group level).

Administrative expenses

In 2023 operating income in the Group increased by 24% from £117m in 2022 to £145m. At the Bank level operating income increased 24% from £109m in 2022 to £135m compared to an increase in underlying administrative expenses of 23% from £57m in 2022 to £70m.

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. £7m (2022: £6m) of variable remuneration reflects financial performance.
- Systems - the impact of the Bank's continuing investment in infrastructure to drive enhanced customer propositions, efficiency and risk management.

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Operating income increased
24%
in 2023

RISK MANAGEMENT

The Group's approach to risk

Effective risk management plays a key role in the successful execution of the Group'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 Group. Senior Management support this by leading in the implementation of the Risk Management Framework ("RMF"), ensuring that it is fully embedded with a strong focus on the adherence to risk appetite, monitored through its suite of risk metrics and key risk indicators. The Group 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 Group, promoting a deep understanding of the Group's approach to risk.

Risk Strategy

The development and implementation of the Group'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 Group faces and how they are managed.
- Defines Risk Appetite.
- Confirms that business plans are consistent with Risk Appetite.
- Requires the Group's Risk Profile to be monitored and reported regularly.
- Tests the Group'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.

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The Board is responsible for setting the 'tone from the top' and ensuring that a strong risk culture exists across the Group.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework ("RMF") sets parameters within which all the Group's activities are executed. This ensures we identify, monitor and report the risks to which the Group 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 Group and the complexity of its operations.

The RMF addresses the legal and regulatory risks the Group 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.

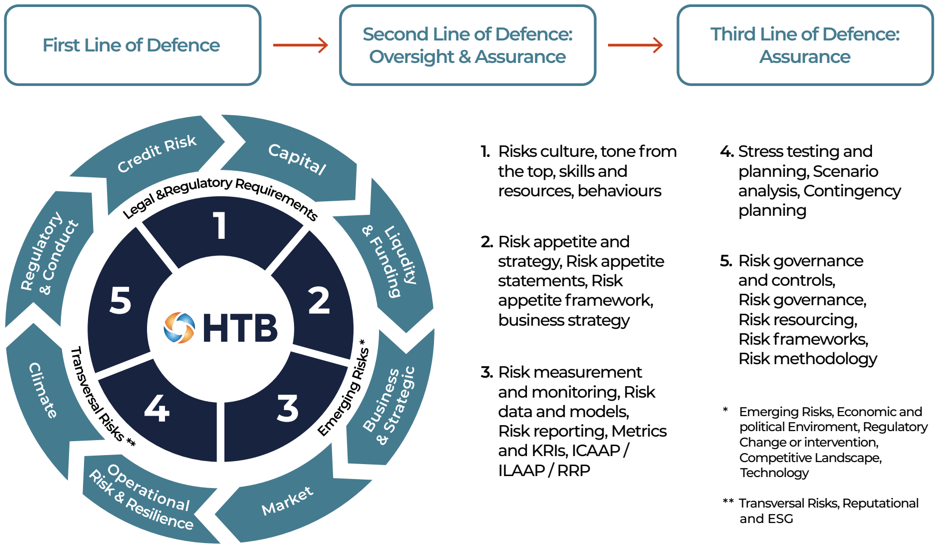


Figure 1 - Risk Management framework

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 the Group is willing to accept and must take in meeting its business objectives. The RAF:

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

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

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

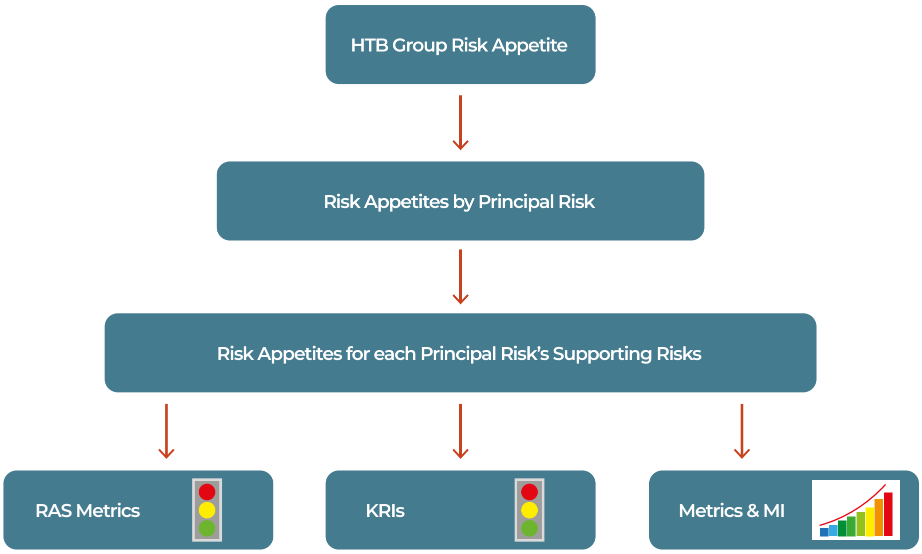


Figure 2 - Structure of the Risk Appetite Framework

Performance against Risk Appetite Metrics and KRIs 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 Group by the Board. The Board reviews and approves the business strategy, ensuring it is consistent with risk appetite. The Board also assures that the RMF is appropriate and is operating effectively with sufficient governance, often through appropriate sub committees, to ensure risk appetite is being adhered to.

The Group 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 Group 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 Group'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 according to agreed first line control testing plans.

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 and undertakes stress testing exercises working with Finance and Treasury on the production of the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), and the Recovery Plan ("RP"). The adequacy and effectiveness of the second line is overseen by BRC, with evidential points including Audit Committee feedback and progress against the risk maturity roadmap.

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 Group currently outsources this function to Deloitte, an independent professional services firm.

Stress Testing

Stress testing is an important risk management tool for the Group and is used to inform the setting of Risk Appetite limits. Stress testing is also used to inform the Group's annual key risk assessments and determination of required buffers, forward-looking strategic planning for capital and liquidity management, and key prudential processes including the ICAAP, ILAAP, and Recovery Plan. Climate Risk stress testing is also undertaken to assess the potential financial impact of both Transitional and Physical risks.

The Group 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 and resilience. Stress testing is an integral element of the Risk Management Framework as it is used to:

- Inform the identification and calibration of Risk Appetite measures;
- Test the adequacy of the Group's capital, funding and liquidity to withstand the emergence of risks under both normal and stressed conditions;
- Demonstrate the adequacy assessment of the potential management actions available to mitigate the effect of adverse events;
- Support the identification of any potential gaps in the Risk Management Framework, not readily apparent from the management of day-to-day risks; and
- Inform the identification and calibration of Risk Appetite measures;

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 the Group Executive Committee ("GEC"). 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.

The Board is responsible for the over-arching Stress Testing Framework, and its embeddedness in the RMF and strategic planning process of the Group. It delegates the implementation of the Stress Testing Programme to senior management however, it retains the following key responsibilities:

- Review and approval of stress scenar-ios;
- Review and challenge of stress testing outcomes, analysis and results;
- Challenge of key assumptions and the application of management actions;
- Approval of key Supervisory submissions (e.g., ICAAP, ILAAP, RP, etc).

All challenges are required to be documented and addressed in advance of final Board approval.

PRINCIPAL RISKS AND RISK MITIGATION

The Principal Risks the Group 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 Group 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
Business & Strategic Risk	The uncertainty related to strategic choices such as misreading of the external environment or external change. Setting and implementation of a wrong or uncompetitive business model or the design of products or services that produce conflicting or disruptive consequences, resulting in a failure to deliver business objectives.	• All new business initiatives and product or service propositions undergo rigorous analysis and challenge prior to launch. • We ensure that benefits of investments are recorded and monitored throughout the life of investments. • Investment spending and prioritisation is managed through the investment committee. • When considering inorganic growth opportunities, we conduct due diligence to understand the risks presented. • We have a new product process in place to consider the risks of product launches. • One of our four core values is Customer Matters. • We have a Customer Experience programme in place to monitor customer experience and feedback. • We take complaints seriously and monitor them to ensure we resolve issues. • We have a conflict-of-interest policy and a control framework to ensure they are declared and understood. • We model and stress test the impact of new investments on our existing business ensuring capital, liquidity and funding requirements remain within risk appetite. • We consider the impact of regulatory expectations and legislative requirements whilst assessing Business and Strategic risks.
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 Group's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part or financial transactions are not settled.	• 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. • We focus on sectors where we have specific expertise. • 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 Banks or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings. • Lending performance against Risk Appetite is monitored regularly.
Capital Risk	The risk that the Group will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans.	• 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 against our risk appetite and report to Asset and Liability Committee (ALCO) and the Board regularly. • Capital forecasts, and their compliance with our risk appetite, form an integral part of the annual budgeting process. • ICAAP stress testing is well embedded and used to inform risk appetite, EWIs, Recovery indicators and business strategy.
Liquidity, and Funding Risk	**Liquidity** – The risk that the Group is unable to meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence. **Funding** – The risk that the Group is unable to continue to fund asset growth or future liquidity requirements at an affordable price.	• 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 liquidity against our risk appetite and report to Asset and Liability Committee (ALCO) and the Board regularly. • Liquidity forecasts, and their compliance with our risk appetite, form an integral part of the annual budgeting process. • ILAAP stress testing is well embedded and used to inform risk appetite, EWIs, Recovery Indicators and business strategy. • 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 Group's income or the value of its holdings of financial instruments.	• We manage exposures to a very low level against our capital and earnings positions. • Where possible we match the interest rate structure of assets with liabilities or deposits to create a natural hedge. • We use swap agreements where required to manage basis and repricing risks within appetite. • We capture pipeline risk (where the behaviours of assets and liabilities do not match expectations) and optionality risk (where early terminations can worsen mismatch positions). • We monitor the credit spread risk in the liquid asset portfolio. • We have no appetite for Foreign Exchange risk. • All above risks are reported to ALCO and Board against risk appetite levels.

Operational Risk & Resilience	**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. **Operational Resilience** – The risk that the Group is unable to prevent, adapt to, respond to, recover from, or learn from operational disruptions.	• 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. • There are separate policies covering key aspects of the ORMF, including, Managing Corrective Action Plans, RCSA management and Risk Events and Financial losses. • 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. • We monitor the operational risk profile alongside proactive recording/management of events, losses, assurance finding resolutions and incidents.
Regulatory & Conduct	**Regulatory** – The risk of regulatory or legal sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable laws, codes of conduct or standards of good practice. **Conduct** – The risk that the business strategy, the culture, and the manner in which the business is run, creates unfair customer outcomes and detriment to customers and/or undermines market integrity.	• 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.

Climate Risk	The threat to HTB Group's business from physical or transitional climate risks.	• We monitor exposure to Climate risk and escalate agenda items across the Group's risk committee structure and Board. • 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.
Transversal Risks – Reputational and ESG	**Reputational Risk** – The threat to HTB Group's standing with our stakeholders that can arise directly from things and the way we do as a business for customers, indirectly from our colleague's actions, or from association with our partners and suppliers. **ESG Risk** – The threat to HTB Group's operations and financial standing as a result of poor Environmental, Social or Governance standards operated across the Group.	• 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 of ESG into our day to day risk management and processes. • We monitor Diversity and 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.

Emerging Risks

The Group 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 Group 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 Group 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 Group 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 Group operates.
- Technology Risk – Risks that will emerge from any exploitable weakness in the Group's infrastructure and/or its ability to withstand targeted attacks.

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

The HTB Group's main emerging risks comprise of the following.

Climate Change

Climate change represents a material risk to the Group 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. Climate risk is increasingly on the Regulatory radar and the guidance / requirements set by the PRA are prescriptive and will impact on the Group's lending policies in the short to medium term. More widely, investors and customers are increasingly becoming sensitive to ESG matters including climate change.

Physical risks could lead to business disruption, damage to assets which could lead to lower property and asset values, lower household wealth and lower corporate profits and litigation.

Transition risks could impact sectors of the economy disproportionately, lead to lower growth and productivity for our customers, leading to increased credit risk and losses.

Macro-Economic Pressures

Macro-economic uncertainty remains high with inflation, low growth and the cost of living pressures continuing. Geo-political tensions in the middle east and the war in Ukraine have impacted global pricing and has led to a more cautionary consumer and business sentiment.

Uncertainty impacts business and consumer confidence and effects SMEs financial health and investment decisions which can lead to decreased market opportunity (e.g., Asset Finance), as well as depressed profitability which could lead to increased debt service issues. Similarly, the increases observed in energy prices due to political and armed conflicts have increased production costs in certain sectors of the economy which could result in margin pressure for companies operating in those sectors.

Companies that have accessed debt funding have faced increased debt service costs due to the increased interest rate environment, which although showing signs of stabilising with limited risk of further material rises, could lead to increased debt service issues at the current elevated level.

Consumers/renters impacted by the cost-of-living crisis may struggle to meet their financial commitments which could impact both repayment profiles and demand within the market. This may have an impact on housing markets should these dynamics deteriorate.

Competitive Landscape

The current competitive landscape has been impacted as the UK has now emerged from the COVID-19 pandemic with the added complication of the cost of living crisis impacting both individuals and SMEs. The UK officially entered recession in Q4 and base economic forecasts whilst generally improving, remain negative.

The impact of depressed economic activity and business investment is that competition for good lending opportunities has increased. This has been compounded by both the global and local political landscape leading to increased economic uncertainty and higher interest rates.

EPC Rating Requirements

In March 2023 the UK government scrapped planned requirements to upgrade EPC performance by the respective 2025 (new tenancies) and 2028 (existing tenancies) deadlines to a band C energy performance rating.

However, with a general election having to be held by 28 Jan 2025 it is not clear that this change will be maintained. If enacted, this requirement could impact available residential rental property supply as landlords comply with the restriction on renting properties that do not meet the minimum efficiency rating. Similarly, the Buy to Let Mortgage market would be expected to take account of this in its underwriting standards and reduce mortgage availability for properties that do not meet the minimum threshold or hold an appropriate 'all improvements made' exemption.

HTB manages this risk via continued horizon scanning of regulatory guidance together with market awareness of current timescales for change and consultation with the regulators.

Technology Risk

With the increasing digitisation and complexities in the supply chain process over recent times, we recognise the emerging risk around increasingly managing suppliers at increased arm's length because of technology advances and the impact this may have on customer fulfilment and oversight of the supply chain. HTB recognise the continued need for effective relationship management and on-going due diligence over the supply chain.

There is a risk of strategic disruption arising from the continued pace of Artificial Intelligence (AI) utilisation across not just society but financial services. Customers rightly demand ever increasing sophistication and tailored solutions to their needs. Competitors and new market entrants are introducing AI solutions across their operational processes to meet customer expectations, and this does present a risk of disruption to HTB position and its current business model.

CLIMATE RISK MANAGEMENT

The supporting risks for Climate Risk are used to inform the measurement and monitoring of HTB's Risk Appetite for assessing the threat to HTB Group's business from physical or transition climate risks. In summary these comprise:

- **Physical:** The Group has a very limited appetite to write new business for mortgages properties or assets that are identified as susceptible to physical climate risk impact such as flooding and reduced value as a result of other climate events.
- **Transitional:** There is limited appetite for financed assets to continue to be lent against that may materially depreciate because of transitional risk as the net zero target of the UK economy comes closer. It is expected that new business assessment processes such as underwriting include assessment of transitional risk exposure.
- **Regulatory:** We have no appetite to fail to meet our Regulatory obligations regarding Climate Risk.
- **Reputational:** We are committed to (i) managing the transition and physical risks faced today and under future scenarios; and (ii) managing the risks associated with the strategic commitment to align to net zero.

Climate change risk has been considered as part of the 2023 Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a key planning process for the Bank and facilitates the Board and senior management in identifying, measuring and monitoring our risks and ensures that we hold adequate capital to support our risk profile. The 2023 ICAAP included quantitative and qualitative assessments of the potential financial implications of climate-related risk. Based on our current assessment the capital requirement for physical and transition risk would not be material.

Consideration of climate risk will continue to be further embedded in key processes where lending decisions are made and the level of climate risk being taken is material. The output of the climate scenario analysis and stress tests will continue to inform our understanding of how capital management may be impacted.

Climate change risk has been considered as part of the 2023 Internal Capital Adequacy Assessment Process (ICAAP).

Metrics and Targets

We use the following metrics to measure and monitor the physical and transitional risks related to our lending for key business lines:

Physical and Transitional Risk Metrics

Risk type	Metric	2023	2022
Physical	• % of properties situated within flood risk / costal erosion areas in Specialist Mortgages	5%	5%
Transitional	• % of portfolio with up to date EPC ratings held in Specialist Mortgages	94%	82%
	• % of units where 'EPC A - C' status was achieved in Development Finance	93%	90%
	• % of units where 'EPC D' status was achieved in Development Finance	6%	7%
	• % of units where EPC status is unknown in Development Finance	1%	2%
	• % of Portfolio in Euro Cat 5 or older diesel assets in Asset Finance	6%	n/a
	• % of new business in assets that contribute to the reduction in carbon footprint in Asset Finance	7%	7%

* Where 'n/a' is referenced in the above table the metric was not measured in the respective period.

Physical Risks

Flood risk assessment continued via a post code matching tool laid across the Specialist Mortgage portfolio, including Buy to Let properties. Currently, 95% of the SM book is located in areas where the flood risk is <0.1%. Our scenario analysis results suggest physical risks arising from climate change should have a low impact on our mortgage portfolio over the next 30 years.

Transition Risk

We have used EPC data to enhance our understanding of the impact of transition risk. EPC ratings of the SM and DF portfolios are monitored to provide a view on the energy efficiency of our housing stock. The table below shows a summary of EPC ratings on the specialist mortgage book. 40% of mortgaged properties book was rated EPC C or better.

Work on the transitional risk assessment continues concurrently with the review of EPC ratings across the property portfolio. This feeds into the assessment 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.

EPC Ratings of Properties Matched with EPC Ratings
(data as at 31 July 2023 for properties within the SM portfolio)

Current Energy Rating	Balances (£m)	Proportion of balance (%)
A	5.2	0.3
B	253.7	13.2
C	527.4	27.4
D	609.1	31.6
E	284.5	14.8
F	16.7	0.9
G	14.1	0.7
Total matched	**1,710.7**	**88.9**
Not matched	215.3	11.1
	1,926.0	**100**

During 2023 the Asset Finance (AF) team began to rate the environmental impact of its assets on a preliminary scale to determine what assets would be susceptible to a carbon tax. We intend to refine these classifications in line with established standards and methodologies (e.g. the forthcoming UK Taxonomy), as this will enable us to assess data quality challenges and recognise areas for improvement.

HTB does not finance the extraction of fossil fuels nor their use for power generation and we have a policy of never doing so.

Metrics for operational emissions

Greenhouse gas (GHG) reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the UK's Streamlined Energy and Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions. (See page 23).

Metrics for financed emissions

Financed emissions are the absolute GHG emissions that we finance through our lending activity. We recognise that measuring financed emissions is a vital step in developing our net zero strategy and achieving alignment with the 2015 Paris Agreement.

In 2023, we established an implementation plan for financed emissions and we are now developing metrics to monitor our impact, set targets, inform actions and disclose progress. We are still in the early stages of our financed emissions journey and we continue to develop the data and technology required to accurately assess and manage our carbon-related assets and exposures. Going forward, we will align with established standards such as the Partnership for Carbon Accounting Financials (PCAF). This will ensure that our calculation methodologies are in line with market practices and will enable us to assess data quality challenges and recognise areas for improvement.

Accounting for 71% of the Bank's lending as at December 2023, the specialist mortgage portfolio has been identified as an area of material climate-related risk and opportunity for the Bank, and hence a priority for calculating emissions baselines. While progress has been made, we will continue to develop climate-related data across the portfolios, improve our methodology and data quality; and expand the data coverage of our emissions measurement to enable more in-depth analysis and reporting. Identification of KRIs / Metrics tracking whether transitional and physical risks are heating or cooling as we progress towards 2030 and beyond are continuing to develop.

ENERGY AND CARBON REPORTING

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 Group'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 Group.

In 2023, our total GHG emissions were 303 tonnes of carbon dioxide equivalent ('tcO2e'), equating to 0.7 tcO2e per employee. This is an increase from 2022, driven by acquiring an additional site at 80 Fenchurch St and therefore having to report on the new premise as well as 55 Bishopsgate. 80 Fenchurch St data has been based on proxy data and these numbers have been calculated by an external environmental consultancy, Carbon Footprint Ltd. Our largest emission factor is our Scope 2 purchased electricity. 2022 values have been updated as a result of improvements in the data quality received from our previous landlord at 55 Bishopsgate.

A full breakdown of our 2023 annual GHG emission and energy consumption, together with data for 2022 is shown in the table below:

Scope	Source	2023	2022
Scope 1 (Direct emission)	Activities for which the Group is responsible for gas combustion or fuel consumption for transport (in tonnes of carbon dioxide*)	99.85	50.77
	Activities for which the Group is responsible for gas combustion or fuel consumption for transport (in kWh)	546,398	278,155
Scope 2 (Indirect emission)	Consumption of purchased electricity** (in tonnes of carbon dioxide)	146.59	63.21
	Consumption of purchased electricity (in kWh)	716,618	326,853
Scope 3 (Other indirect emission)	Emissions from business travel/transport (in tonnes of carbon dioxide)	56.44	100.73
	Emissions from business travel/transport (in kWh)	236,173	425,565
Total	Total energy usage (kWh)	**1,499,189**	**1,030,573**

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

**Electricity usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based upon expense claims and recorded mileage.

The Group remains focused on the transition to net zero to comply with a zero-carbon economy in 2050 and the ESG framework remains in place to manage this. The Group remains committed to establish a net zero strategy and will formalise this during the course of 2024.

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT

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 recognise, and are fully committed to, their responsibilities under section 172(1) (a) to (f) of the Companies Act 2006, ensuring they take into account the likely consequences of any decision in the long term and act in good faith to promote the success of the Group for the benefit of its members as a whole, taking into account the interests of the Group's stakeholders and maintaining a reputation for the highest standards of business conduct.

The Board of Directors (Board) has identified the Group's key stakeholder groups as being its employees, customers, shareholders, brokers, suppliers, and regulators, as well as recognising the Group's impact on, and responsibilities towards, the wider community and the environment.

Recognising that it is primarily the Directors of the Group's separately authorised and regulated subsidiary Wesleyan Bank Limited (WBL) that are responsible for the governance of WBL, the Directors maintain close oversight of activities from a Group perspective.

The following statement sets out how the Board has had regard to these matters during the course of the year and further information on how the Group engages with its stakeholders:

Employees

Employees are fundamental to the delivery of the Group's strategy as a specialist bank. During the year, the Board endorsed an updated People Strategy to support the ongoing development of a high performing, highly engaged workforce, who are willing to give discretionary effort, and who are motivated to remain with HTB for developmental and cultural reasons, as well as promote HTB in the market.

Employee information, supported by a dashboard and metrics, is a standing item of the CEO's Board report and forms a key focus for Board discussion. During 2023, the Board requested that the reporting be expanded to provide greater insight into the Group's Culture.

The Board has sought to increase gender diversity within the Group and, during 2023, adopted a Group Diversity and Inclusion policy. The Board also oversaw the Group's first Gender Pay Gap reporting and the introduction of a number of enhancements to employee-related policies and benefits, including a holiday purchase scheme and improvements to the Group's maternity, paternity, parental and adoption leave.

The Board monitors exposure to ESG risk, including diversity, equal pay and gender pay gap and it is closely monitored by the Board, Board Risk Committee, and Nominations and Remuneration Committee. Policies and benefits are regularly reviewed to ensure they support the Group's goal of greater gender balance and embedding diversity and inclusion. The Board has also started to look at ethnicity data as part of the drive to become both more diverse and more inclusive. In 2023, it was agreed to put forward a further cohort for the Group's 'Women in Leadership' programme, started in 2021, an external programme leading to a management qualification.

The 2023 Employee Engagement Survey achieved 85% participation from staff, and a number of initiatives were launched in response to employee feedback.

The Board recognises the important contribution made to the Group's continued success from employees building relationships, learning and collaborating face to face in an office environment, and the benefits this brings in terms of culture and work-life balance. The Board has overseen a non-contractual "50:50" hybrid working arrangement, which also provides employees with significant flexibility. During 2023, the Board approved the move of the Group's head office from 55 Bishopsgate to 80 Fenchurch Street, a significant continued investment in ensuring that employees benefit from a high-quality working environment.

During 2023, the CEO and the Group Executive Committee have regularly communicated with employees on key financial, strategic and operational matters via email, video updates and Q&A sessions.

> Employees are fundamental to the delivery of the Group's strategy as a specialist bank.

Customers

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 Group's customers. Across the Group's various specialist lending businesses, customers include professional landlords, property developers, and SME and Corporate borrowers. Across the Savings 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 Group 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 Group has had regard to the views of its customers by collecting feedback to understand what customers think of the Group's products and service levels and whether they are meeting their needs and expectations. The Board recognises that a greater understanding of the Group's customers, their needs and their priorities ensures the Group is equipped to deliver continuous improvement across its processes, procedures, communication, and products.

During 2023, Board engagement with interests of the Group's customers has included close oversight of the approval, implementation, embedding and monitoring of the policy updates, procedures, metrics, and reporting designed to ensure that the Group is meeting or exceeding its FCA Consumer Duty obligation to ensure good retail customer outcomes. The Board also continues to remain closely involved in ensuring that the interests of WBL customers are not adversely impacted by the continued run-off activity.

Regulators

The Group 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 Group embeds high standards of conduct into its product design, service delivery and culture, as well as considering correspondence and publications from the regulatory sphere which may have an impact on this.

The Board Chairman and the Chairs of the Board Risk and Audit Committee as well as the CEO and CFO regularly engage with regulators and the Board is committed to maintaining an open and active dialogue with the Group's regulators.

Brokers

Brokers are a key source of business for the Group and, as such, are vital to the success of the Group. The Group undertakes regular and frequent engagement with Brokers to understand their views on the Group'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 Group's products and service. Roadshows and networking events are undertaken with Brokers to promote the Group's products and provide training on its criteria and processes.

The Board 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. During the year, the Board has overseen the implementation of a number of improvements to the Bank's broker-facing platforms, including in the Specialist Mortgages and Asset Finance businesses, and has also considered how broker relationships can continue to be maintained and strengthened through the deployment of technology solutions at its Strategy Day in September 2023.

Shareholders

The Group's shareholders are critical to the success of the Group as the providers of capital to underpin the growth and development of the business and to input into the strategy of the Group. Representatives of the Group's shareholders have seats on the Board and on the board of Directors of WBL, ensuring they are kept up-to-date on the performance of the Group. 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 Group'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 Group's strategy.

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 Group's customers.

Community and Environment

The Board has put in place a comprehensive Environmental and Sustainability policy which has been rolled out across the Group, and since August 2022 the Group has been carbon neutral. This is an important milestone on the Group's road to net-zero.

During the year, the Group formally established its Environment, Social and Governance Committee, and further information on the Group's ESG initiatives can be found on pages 36-40. In November 2023, the Board decided to voluntarily report against certain TCFD climate-related financial disclosure recommendations, despite falling below the mandatory disclosure thresholds, which can be found on pages 36-40.

In October 2022, the Group implemented Neighbourly, an award-winning platform that connects good causes with businesses and helps those businesses make a positive impact in their communities by donating volunteer time and money. The Group's staff are given additional paid leave by the Group and encouraged to participate in good causes that positively impact the community. The uptake has been very positive with both individuals and teams within the Group taking part in volunteering days that positively impact the community.

Suppliers

The Group's business is supported by a number of suppliers and as the business continues to grow, the Group has seen this network expand. As part of the Group's operational resiliency activity, the Group has been enhancing internal controls regarding how the Group 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 Group'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 Board recognises that the Group's suppliers form a key part of the service the Group provides to its customers and are committed to treating them fairly on payments.

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 Group's Modern Slavery Statement and Anti-Bribery and Corruption Policy.

Reputation

The desirability for the Group 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 Group of its statement of Vision, Values and Culture which all underpin a desire for high standards of business conduct. The Group'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 Group's staff will approach everything they do with discipline and set high standards.

As set out above, in 2022 the Group has continued to build out its dedicated customer experience program in order to enhance customer and broker engagement, which included 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 can 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

23 April 2024

CORPORATE GOVERNANCE

THE WATES CORPORATE GOVERNANCE PRINCIPLES

The Group has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") published by the Financial Reporting Council in 2018, with Wesleyan Bank Limited adopting the Wates Principles following its acquisition by the Bank.

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

The table below sets out how the Group has complied with all six Wates Principles in 2023.

Principle	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 Group'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 Group to the Chief Executive Officer who is supported by the Group Executive Committee. • The Board monitors and challenges delivery by the Chief Executive Officer through appropriate reporting. • In 2023, the Board and the Group 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 Group 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 Group Executive Committee throughout the organisation and are embedded in the Group's decision-making processes and in the way that the Group 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 Group'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, technology, operations, communications and brand. • The Nominations and Remuneration Committee is responsible for all senior appointments including all Board Directors and the Group's senior management. • The Nominations 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, with an external review by an independent consultant every third or fourth year. • In 2023, the effectiveness review was carried out by an independent external third-party reviewer, which reported its findings to the Board in November 2023. The Board has adopted a set of objectives and an action plan to address the actions arising from the review, however overall the review, concluded that the Board and its committees were effective in their oversight and leadership of the Group.

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 Group 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 Chief Executive. 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 30-35 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 10 times during the year. Further details on key matters discussed in those meetings are provided on pages 30-35.
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 complementary business lines which are aligned with its Specialist Bank proposition (described above). The Strategic Report (pages 2-26) provides details of how the Group creates and preserves long term value, including future growth opportunities. • The Board's Risk Committee is delegated with responsibility for the oversight of the Group's current and future risks and the performance of the Group against its approved risk appetite through information reported through the Group'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 Group's risks. • The Board's Risk Committee is responsible for the Group's Risk Management Framework, its development, its ongoing effective operation, periodic review of its appropriateness and any required calibration to it. • During 2023, the Board Risk Committee met 10 times. Further details on key matters discussed in those meetings are provided on pages 30-35.
Remuneration - the 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 Nominations and Remuneration Committee to set and oversee the implementation of the Group's remuneration policy and processes, including those for the Group's Executive Directors and other members of its senior management. • The Nominations 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 Group. • During 2023, the Nominations and Remuneration Committee met 5 times. Further details on key matters discussed in those meetings are provided in pages 30-35.
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 Board has identified the Group's key stakeholders as employees, customers, shareholders, brokers, suppliers, and regulators, while recognising the impact the Banks has on and its responsibilities towards the wider community and the environment. • The Group'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 Group Vision, Values and Culture are all aligned to supporting Stakeholder relationships. • The Stakeholder Engagement and Section 172(1) statement on pages 24-26 provides further details of how the Board engages with its key stakeholders and seeks to balance their interests in its decision making.

GROUP GOVERNANCE FRAMEWORK

The Board is committed to the highest standards of corporate governance and has adopted a single overarching Group Governance Framework structured to achieve responsibility, accountability, transparency, and fairness, while ensuring that:

- effective oversight and strategic leadership of the Group, and an appropriate balance between the governance requirements of WBL, as a regulated Bank in its own right, and the Board's effective oversight of the Group is maintained;
- That Group senior executives who hold SMF responsibilities for WBL are able to effectively discharge their responsibilities;
- That there is a framework that is easily understood, practically accessible and capable of quick reference;
- A streamlined approach which utilises the most appropriate resources within the Group, ensures consistency of approach while avoiding duplicated or wasted cost, time, and effort across the Group where appropriate.

The Board approves the strategy and direction of the Group, 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 for loss of office.

The Board is comprised of an independent Non-Executive Chairman, Non-Executive (Shareholder) Directors, independent Non-Executive Directors and Executive Directors. Two of the Executive Directors and one of the Non-Executive Directors are also, respectively, Executive Directors and the Non-Executive Chairman of Wesleyan Bank Limited.

Board meetings are held normally ten times a year, enabling the 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 Committees to which it has delegated relevant authority; the principal Committees being the Board Risk Committee, the Audit Committee, and the Nomination and Remuneration Committee. These Committees 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.

The Chairman of the WBL Board engages with the Board following each WBL Board meeting to inform the Board on WBL's performance against strategy and to understand the Group's views on governance and performance against the strategy and to inform the Board about any significant matters arising from WBL's Audit, Board Risk and Nominations and Remuneration Committee. In practice, the overlapping directorships and senior manager function responsibilities ensure appropriate information sharing.

The Board is committed to the highest standards of corporate governance and has adopted a single overarching Group Governance Framework

Role of Chairman and Chief Executive Officer

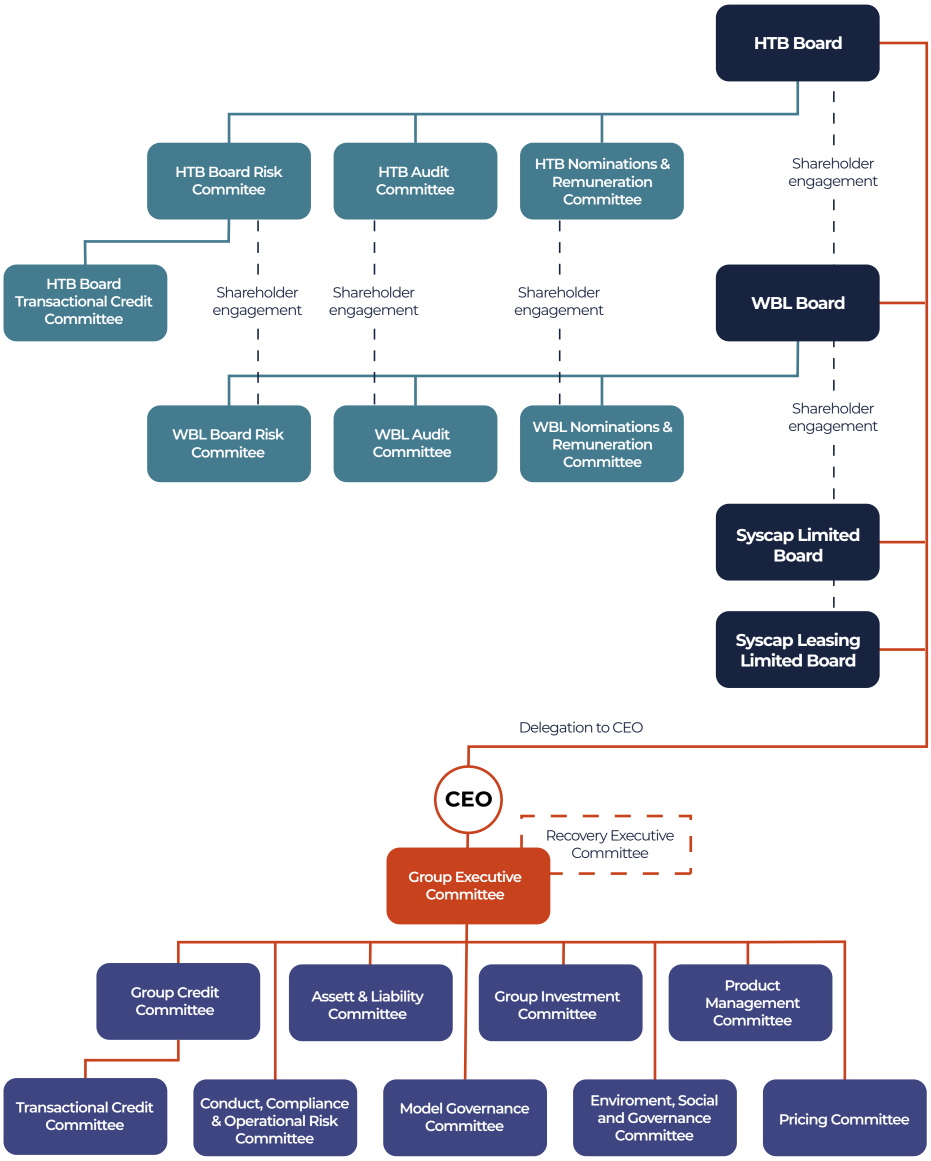
There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman has overall responsibility for the leadership of the Board, its effectiveness on all aspects of its role and setting its agenda. The Chief Executive Officer is responsible for the day to day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

Compliance with the Senior Managers and Certification Regime

The PRA defines a set of prescribed responsibilities ("Responsibilities"), which must be allocated to a senior manager performing a Senior Management Function. The Group 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 Group.

Structure of the Group's Boards and Committees

The Group Board and Committee structure is shown below. Subsidary Board and Committee information is provided in those companies' individual annual reports.



Board and Committee attendance record

	Board Meetings			Board Risk Committee		
	Meetings held	Meetings attended	% attended	Meetings held	Meetings attended	% attended
Robert Sharpe	10	10	100%			
Timothy Blackwell	10	10	100%			
Richard Price	10	10	100%	10	10	100%
Martyn Scrivens	10	10	100%	10	10	100%
Dominic Slade	10	7	70%			
Richard Sommers	10	10	100%	10	10	100%
Julia Warrack	10	10	100%	10	10	100%
Matthew Wyles	10	9	90%			
Total	**10**		**95%**	**10**		**100%**

	Audit Committee			Nominations and Remuneration Committee		
	Meetings held	Meetings attended	% attended	Meetings held	Meetings attended	% attended
Robert Sharpe				5	5	100%
Timothy Blackwell						
Richard Price	8	8	100%	5	5	100%
Martyn Scrivens	8	8	100%	5	5	100%
Dominic Slade				5	4	80%
Richard Sommers	8	8	100%	5	5	100%
Julia Warrack				5	5	100%
Matthew Wyles						
Total	**8**		**100%**	**5**		**97%**

The key Board and Management 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 is chaired by an independent Non-Executive Director and comprises solely independent and shareholder appointed Non-Executive Directors. The Audit Committee meets at least quarterly.

Board Risk Committee

The Board has delegated responsibility for oversight of the Group'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, Capital Management Plan, and the Operational Resilience Self-Assessment. The Committee is chaired by an independent Non-Executive Director and comprises independent and shareholder appointed Non-Executive Directors.

Nominations and Remuneration Committee

The Nominations 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 and of 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 & 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.

Group Executive Committee

The Board delegates day-to-day responsibility for the running of the business to the Chief Executive Officer. The Chief Executive Officer has constituted the Group Executive Committee to support him in the discharge of his responsibilities, including proposing strategy to the Board, and for implementing the strategy as approved by the Board. The Group Executive Committee is supported by a number of sub-committees as set out in the structure chart above.

HTB 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 a wealth of experience in the retail banking sector. In addition to HTB, Robert is currently Chairman of Metro Bank plc, Pollen Street plc and Alba Bank and has previously held a number of non-executive board positions in the UK (and the Middle East) since retiring as an executive director at companies 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.

Richard Sommers, Independent Non-Executive Director

SMF 10: Chair of the Risk Committee

In addition to HTB Board, Richard sits on the Board of Bank of Ireland (UK) plc, where he chairs the Risk Committee and is a member of the Audit Committee. Richard's past non-executive director roles include Al Rayan Bank, where he chaired the Risk Committee; and West Bromwich Building Society, where he chaired the Risk Committee. Richard was also Chair of the Audit and Risk Committee at the University of York. During a 30-year executive career in financial services, Richard held the roles of Finance director and then Risk director for Barclays' Retail Financial Services Division; Finance director, Barclaycard; and Chief Financial Officer for Barclaycard USA.

Julia Warrack, Independent Non-Executive Director

With over 24 years of experience across a number of senior technology and transformation roles, Julia brings a wealth of knowledge gained across 9 industry sectors, including public sector, to help HTB define and deliver a strategy for growth. In addition to the HTB Board, Julia sits on the Board of Cashplus Bank and AIG UK.

Julia has championed technology and innovation for the vast majority of her career, encouraging teams to challenge the orthodoxy and dare to be different. An exponent of collaboration and modern agile practices, Julia's appointment will help HTB by bringing her extensive and cross sector expertise and passion for technology and innovation to bear across the business.

Martyn Scrivens, Independent 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. He 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 as Chairman of Wesleyan Bank, is a Non-Executive director of Somerset NHS Foundation Trust and the Ardonagh Group where he chairs the Audit Committee. 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

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

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. Richard holds a B.Sc. in Economics and Business Economics from the University of Southampton and is a Chartered Accountant.

Matthew Wyles, Chief Executive Officer

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

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.

CLIMATE RELATED DISCLOSURES

The following section represents HTB's voluntary disclosures under the Taskforce on Climate-related Financial Disclosures (TCFD) reporting framework.

Sustainability

HTB Group is committed to acting in a sustainable and responsible way in respect to all 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.

In 2022, HTB reported that it planned to enhance the disclosure capability in closer alignment with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). Although HTB is not required to report its climate-related financial disclosures in accordance with TCFD (due to it falling below the threshold for mandatory disclosures) we've decided to make voluntary disclosures using the TCFD structure where relevant. We consider that the pillars and recommendations provide a useful format to continue to develop, implement and communicate how HTB manages its climate-related risks and opportunities and protect long-term business value.

The Bank recognises that Climate Change is a significant strategic risk and a major challenge for business, the global economy and society. In early 2023, Climate Risk was recognised as a Principal risk within our risk management framework (RMF). Since then, it has retained a sharpened focus and has continued to be embedded within the wider RMF. Progress has been made in enhancing the RMF and we have maintained oversight of progress against the Board approved plan. The Bank's response to developing a proportionate approach to Climate Change continues informed by supervisory guidelines and published regulatory feedback.

HTB assesses the impact of these changes/advances on our business model and risk profile and consider possible impacts on our reporting obligations and our reputation. The Bank continues to undertake effective horizon scanning to provide early visibility of Climate related financial issues, including broad alignment with UK Finance activity.

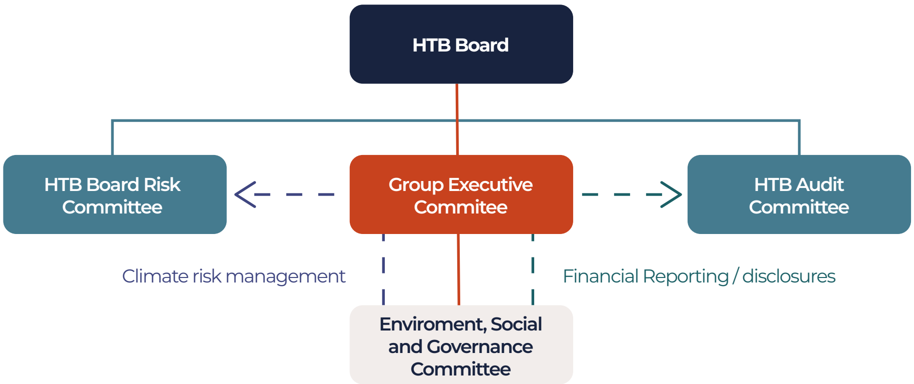
The Bank's ambition is to become a net zero organisation by 2050. This is in line with the UK's net zero commitment and supports the Paris Agreement goal of limiting global average temperature increases to well below 2°C, and preferably below 1.5°C. This will require HTB reduce emissions as far as possible, as outlined below:

- **Operational emissions:** emissions related to the Group's own operations (scopes 1, 2 & 3 not including financed emissions) (see page 23).
- **Financed emissions:** emissions from loan activity related to the HTB's Lending Portfolio.
- **Offsets:** utilising carbon removal credits to remove residual emissions to achieve net zero.

During 2023, work commenced to measure the Group's financed emissions. The purpose of this exercise is to provide HTB with a clearer picture of the emissions generated by the assets we finance and provide a baseline for aligning our activities towards net zero. This will include a consideration of appropriate targets and commitments, where we objectively believe they are achievable and will deliver real benefits on climate change.

GOVERNANCE

HTB's governance around climate-related risks and opportunities has been integrated into our existing governance structure and operating model. The Board oversees the management of ESG related priorities, including climate change, whilst Management is responsible for the delivery of these priorities, illustrated as follows:



During 2023, the Board was engaged on the development of HTB's approach on climate-related matters.

Board Oversight

The Board sets the strategic goals and promotes the long-term sustainable success of the Group, providing oversight of our approach and response to climate change, including progress against targets. This is achieved through regular updates and discussions with the Board and its Committees on this topic and ESG (including climate change) is a standing agenda item at Board meetings, which are held ten times a year.

During 2023, the Board was engaged on the development of HTB's approach on climate-related matters. This included agreeing the key objectives and strategic intent of HTB's 2023-2024 climate-related actions; and reviewing the approach taken on the development of the wider net-zero strategy and financed emissions (see page 23).

As HTB's climate approach continues to mature, the Board and board committees are taking tentative steps to consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans. It also monitors and oversees progress against goals for addressing climate-related issues.

Management's Role

The Board delegates responsibility for the delivery of the climate strategy including assessment of climate-related risks and opportunities to the Chief Executive Officer supported by the Group Executive Committee. They are responsible for the strategic delivery relating to climate-related risks and opportunities, under the oversight of the Board, to ensures HTB can identify, measure, manage, monitor and challenge matters related to climate change.

The Chief Executive Officer (CEO) has ultimate responsibility for climate-related issues affecting the Group and overall accountability to the Board and shareholder to ensure that ESG practices become embedded into our business operations, including overall accountability for climate-related risks and opportunities.

The Chief Risk Officer (CRO) is the Senior Manager accountable under the Prudential Regulatory Authority's (PRA) Senior Managers and Certification Regime for identifying and managing the risks arising from climate change and oversight of ongoing compliance with climate-related risk regulation.

This includes embedding the consideration of financial risks from climate change in governance arrangements; incorporating climate risks into risk management practices; and developing approaches to allow disclosure of the financial risks from climate change. 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, we have developed and continue to enhance Climate/ESG metrics and KRIs and our risk committee structure, allowing senior management to monitor progress. These support the effectiveness of how Climate risk is managed as a Principal risk within the HTB Group RMF and their supporting risks.

The Managing Directors of the Group's business lines are responsible for aligning their strategic actions to respond to climate change by managing associated risks and opportunities, including Product Development which is a standing agenda item at the ESG Committee.

ESG Committee

During 2023, we established an ESG Committee to oversee the identification and documenting of ESG risks and responsibilities (including climate risks) of material relevance to the Group. This followed the reclassification of climate risk from an emerging risk in 2022 to a Principal risk in 2023, which in turn elevated the status of ESG to a formal sub-committee of Group Executive Committee (GEC), reporting to GEC and Board.

The ESG Committee is responsible for proposing a strategy and roadmap for achieving the Group's ESG ambitions, overseeing their implementation and tracking delivery. It also; ensures that ESG risks (including climate risks) are embedded in the risk management framework and monitored; identifies and ensures adherence by the Group to all mandatory legal and regulatory ESG related certification schemes, disclosure and reporting requirements (as well as for those voluntarily assumed by the Group; ensures that there is appropriate ESG training and awareness; and provides recommendations in relation to ESG aspects of new products or material business change initiatives.

The ESG Committee is chaired by the Chief Executive Officer and includes key senior representatives including the Chief Risk Officer (the "CRO"), Chief Commercial Officer, Head of Operational Risk, Chief People Officer and General Counsel. It convenes monthly to steer and review progress against the strategy and provide oversight on climate risk management and integration, sustainable finance opportunities, climate reporting and climate capabilities more broadly.

The ESG Committee ensures that ESG risks are effectively embedded into the Group's Risk Management Framework, including proposing suitable Risk Appetite Statements, Key Risk Indicators and other relevant metrics and ensures that ESG risks are embedded into the Group's Risk and Control Self-Assessment process. During 2023 it also reviewed and recommended ESG related risk scenarios for ICAAP and stress testing processes.

An ESG Working Group sits underneath the ESG Committee with membership representing first line business divisions and functions. It brings together key stakeholders from across the first and second lines of defence to support work to help embed climate risk into the RMF and support our wider ESG goals and ambitions. The working group updates and engages with the Board, ESG Committee and other committees on ESG matters, data capabilities and analysis of financial risks and opportunities from climate change as they evolve.

2023 also saw the further development of the HTB Environmental & Sustainability Policy, following its inception in 2022, approved by the Board Risk Committee. Going forward, the ESG Committee will oversee the implementation of the approved strategy and roadmap, including tracking the delivery against milestones. It will also oversee the creation of any additional, stand-alone ESG policies and the embedding of ESG into other Group policies.

ESG (including climate) is a standing Board agenda item. Board discussions this year have included the continuation and maintenance of our Carbon Neutrality status, working with our strategic partners, Carbon Footprint. The Board & Board Risk Committee also approved the deliverables, tasks and success measures for ongoing work to develop the Bank's Net Zero Strategy and ESG review.

The Board Risk Committee monitors progress against the risk management framework plan which highlights both physical and transitional risk within existing product portfolios. 2023 saw two further climate change stress tests completed as part of the annual ICAAP exercise, the results of which were considered by the Board.

Training on climate issues

ESG Committee sessions have focused on key regulatory and external developments (e.g. emerging climate-related reporting requirements, greenwashing) and their impact on the Group; steps to measure financed emissions; and considerations for setting a climate strategy and roadmap. Moving forward, 2024-2025, we plan to develop and build on this training to further embed climate considerations across the business.

Employees with core climate-related responsibilities received externally facilitated, comprehensive training on sustainable finance during 2023 to build knowledge and climate leadership in certain business areas.

STRATEGY

We recognise that climate change presents risks and opportunities to our business model and strategy over short, medium and long-term horizons:

- Short-term (0-1 years): The time horizon for annual financial planning.
- Medium-term (1-5 years): The time horizon for strategic and financial planning cycles.
- Long-term (>5 years): This timeframe is considered through the use of scenario analysis.

In summary, climate-related risks / opportunities could materialise as follows:

- Business opportunities arising as economies and customers transition to a low-carbon economy.
- Transition risks arising from potential disruptions and shifts associated with the transition to a low-carbon economy.
- Physical risks arising from the physical impacts of climate change which could disrupt the business, operations, or supply chains of the Bank and its customers.

Processes to identify risks & opportunities

The processes for identifying risks and opportunities can be broken down into i) those relating to HTB's own operations and ii) those relating to lending activities.

i) HTB's own operations

We have identified and measured emissions from HTB's own operations covering emissions relating to Scope 1, Scope 2 and Scope 3 (excluding purchased goods and services and financed emissions) and we are committed to reducing this overtime. We are currently exploring setting an interim net zero target for operational emissions in the coming year. This will include a roadmap for the measures we'll take to achieve it, in areas over which we have the greatest control.

We are aware that there are various areas we can improve. For example, acknowledging that our climate impact extends to our suppliers, we intend to engage with them regarding their approaches and how this can align with our own climate ambitions.

In the meantime, we will continue to neutralise remaining emissions through the purchase of high-quality verified carbon credits to maintain carbon neutrality.

We currently support an offsetting project in Eritrea. The Zoba Anseba Community Safe Water Project supports the provision of safe water to hundreds of households within the Zoba Anseba district.

ii) Lending activities

We utilise a suite of tools and processes to identify risks and opportunities presented by climate change relating to our lending activities. These cover buildings emissions measurement, qualitative risk assessments and quantitative scenario analysis.

Buildings Emissions & Use of EPC Data: At individual property level, we use EPC data to measure emissions and ascertain issues affecting transition. The risks and opportunities are greater where properties are high emitting with poorer energy efficiency. The EPC data also provides us with a view on the potential energy efficiency of a property. It informed our assessment of potential impairments in SM and DF ("fixed assets") based on the EPC rating of assets. (See Metrics on page 21).
In the coming year, we will explore the possibility of expanding climate measurement to customers who are currently largely not required to publish emissions data where we believe we can use our expertise to help customers prepare for the transition.

Qualitative Risk Assessments: The risks of climate change to HTB are twofold. Firstly, the physical risks associated with changes in climate and weather (such as a greater incidence of storms, floods, and sea level rises). For example, property at risk from flooding, subsidence, extreme weather events and chronic affects could impact asset valuations. The costs of implementing adaptation measures would impact owners. Properties with poor energy efficiency could lead to falls in asset values. Increased costs for owners in remedying this may impact ability to repay loans.

Secondly, transition risks associated with 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. For example, policy shifts (e.g. carbon taxes) and changes in consumer preferences (e.g. desire for lower carbon products). Failure to adequately respond to these challenges may impact demand and increase costs leading to lower ability to repay loans. Clients in various sectors may need to comply with transitions in their sectors (e.g. move to electric vehicles). This may impact collateral values and ability to repay loans.

During 2023, we undertook a more granular assessment of how these risks could materialise across HTB's business lines. We established clearer linkages of climate risks with known risk types (particularly the more material risks such as credit and operational) and existing available data, such as EPCs. We are confident that these risks are effectively measured, monitored and managed in within the Group's RMF.

In addition, the AF team started rating the environmental impact of its assets and this data was leveraged to determine what assets would be susceptible to a carbon tax. (See page 40).

Quantitative Scenarios for Physical & Transition Risk

We have used Environment Agency data as an established model for measuring flood hazards considering surface water, coastal and river events. The model has been applied at property level where potential flood damage is dependent upon the potential type, frequency and depth of flooding. Coverage is available for the Group's Property Lending Portfolios and the Group's key operating premises in the UK. It was also applied to fixed (i.e. immovable) assets in the AF book.

We also considered the impact of the imposition of a carbon tax on assets producing high CO_2 emissions in Asset Finance & Development Finance. See table below.

Scenarios for Physical Risk (flood) & Transition Risk (carbon tax)

Scenario	Impacted Divisions	Outline of Scenario
Flood risk impact across the Specialist Mortgages portfolio based upon current climate change forecasts in the next 5 and 10 years.	• Specialist Mortgages • Asset Finance (fixed assets)	• Stress on the current portfolio if flood risk crystalises over the next 5 or 10 years. • How many properties impacted and potential financial loss to portfolio if deemed 'stranded assets'. • Impact on portfolio if prevalence or severe weather events increase by pre-determined levels across the UK.
Imposition of Carbon taxes on assets that produce CO_2 emissions or have a dependency on non-renewable energy to operate.	• Asset Finance • Development Finance	• Stress the portfolio based on varying levels of Carbon taxation/CO_2 emissions per asset type. • Measure likely economic impact on customer and the market should such political policy changes be introduced. • Impact measured over 5-10 year horizon.

Moving forward, we intend to align HTB Group's climate stress testing approach to the Network for Greening the Financial System (NGFS) scenarios and methodology. We will maintain coverage of Physical and Transitional risks and will therefore look to run two climate stress tests from the Delayed Transition and Current Policies categories, utilising both internally and externally sourced data upon which the results will be based.

Stress test scenarios will continue to inform HTB Group's susceptibility to Climate Change risk focusing on the potential physical and transitional risks the lending portfolios face and we will continue to build capability and robust data streams to undertake the tests.

Moving forward, we intend to align HTB Group's climate stress testing approach to the Network for Greening the Financial System (NGFS) scenarios and methodology.

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2023.

The Strategic Report set out on (pages 2-26) of this Annual Report includes 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. The principal activities of subsidiaries of the Bank are listed in note 39.

Business Review and Future Developments

Information regarding the business review and future developments (pages 6-11), key performance indicators (page 2) and principal risks (pages 15-18) is contained in the Strategic report.

Results for the year

The Bank made a profit before tax on continuing activities of £80.4m (2022: £64.5m), and a profit after tax of £67.3m (2022: £54m). The Group made a profit before tax on continuing activities of £57.2m, and a profit after tax of £42.5m (2022: £88.4m, and a profit after tax of £78.1m).

Proposed Dividend

The directors do not recommend the payment of a dividend (2022: £nil).

Business relationships

We have appropriately considered the relevant interests of the various stakeholders as mentioned in (pages 24-26) in our discussions and decision making during the year ended 31 December 2023.

Greenhouse gas emissions

Information on the Group's energy consumption is set out on (page 23) 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 on (pages 28-29) of the Corporate Governance section.

Financial Instruments

The Group 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 on (pages 15-18) of the risk management section. Details of financial instruments can be found in notes 20 and 21 to the financial statements.

Employee Share Scheme rights

Details of how rights of shares in employee share schemes are exercised are provided in note 7.5 to the financial statements.

Employees

The Group 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 Group is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering and continuing employment with the Group. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.

Information on employee involvement and engagement can be found in (page 24) of the Strategic report.

Appointment and retirement of Directors

The appointment and retirement of the Directors is governed by the Bank's Articles of Association and the Companies Act 2006. The Bank'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 Nominations and Remuneration Committee.

Martyn Scrivens

Independent Non-Executive Director and Chairman of the Audit Committee.

Richard Sommers

Independent Non-Executive Director, Chairman of the Board Risk Committee and Chairman of the Board Transactional Credit Committee.

Julia Warrack

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 Group maintains liability insurance cover for directors and officers as permitted by the Companies Act 2006.

Political and Charitable Donations

The Group made £1k of charitable donations during the year (2022: £2k) and did not make any political donations or incur any political expenditure during the year (2022: £nil).

Remuneration Matters

The Group 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 Group'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 37 to the financial statements. The Group did not repurchase any of the issued ordinary shares up to the date of this report.

Going Concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Group and the Bank have sufficient resources to continue their 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 Group 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 Group has undertaken analysis of forecast capital and liquidity levels using an updated Bank of England Annual Cyclical Scenario 2022. The stress 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 Group'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 Group's capital and liquidity forecasts are above its minimum regulatory requirements throughout the going concern period.

Accordingly, the Directors are confident that the Group 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 Group'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 Group's auditor is aware of that information.

Matthew Wyles
Chief Executive Officer

By order of the Board
23 April 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and parent Company 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 Group and 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 Group'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 Group 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 parent 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 websites. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Hampshire Trust Bank plc

1. Our opinion is unmodified

We have audited the financial statements of Hampshire Trust Bank plc ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2023 which comprise the consolidated and bank statement of comprehensive income, consolidated and bank statement of financial position, consolidated statement of changes in equity, bank statement of changes in equity, consolidated and bank statement of cash flows and the related notes, including the accounting policies in Note 7.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK- adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements 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 18 financial years ended 31 December 2023.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group 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:		£2,360,000
group financial statements as a whole		4.12% of group profit before tax
Key audit matters		**vs 2022**
Recurring risks	Expected credit losses on loans and advances to customers	
	The impact of IT access controls and change management on the effectiveness of the control environment	

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

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

	The risk
Expected credit losses on loans and advances to customers (£25.6 million; 2022: £21.0 million) *Refer to Note 7.11 (accounting policy) and Note 28 (financial disclosures).*	**Subjective estimate:** The estimation of expected credit losses ('ECL') involves significant judgements and estimates with a high degree of uncertainty. The key areas where we have identified greater levels of management judgement and therefore increased levels of audit focus in the estimation of ECL are: — **Model estimation:** Inherently judgemental modelling is used to estimate ECL, particularly the complexity in determining the probability of default ('PD') and loss given default ('LGD') in certain portfolios. — **Stage allocation criteria:** The criteria selected to identify a significant increase in credit risk ('SICR') is a key area of subjectivity within the Group's ECL calculation as these criteria determine whether a 12 month or a lifetime provision is recorded. — **Post Model Adjustments ('PMAs'):** Adjustments are made to the model-driven ECL results by management to address issues relating to model responsiveness and limitations, or emerging trends or risks relating to the current economic environment that are not captured by the models. Such adjustments are inherently subjective and significant judgement is involved in estimating these amounts. — **Multiple economic scenarios:** IFRS 9 requires the Group to measure ECL on an unbiased forward- looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios used and the probability weightings assigned to each economic scenario. — **Individually assessed stage 3 loans:** Individually assessed stage 3 provisions are inherently judgemental and reliant on significant management judgement in determining forward looking assumptions (including bespoke recovery assumptions over collateral) applied to cash flow forecasts and in the selection of weightings applied to various recovery scenarios in certain portfolios. The effect of these matters is that, as part of our risk assessment, we determined that expected credit losses on 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. **Disclosure quality** The disclosures regarding the Group's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL results, as well as the sensitivity of the ECL results to changes in these judgements or management's assumptions, in light of the estimation uncertainty arising.

	Our response
Expected credit losses on loans and advances to customers (£25.6 million; 2022: £21.0 million) *Refer to Note 7.11 (accounting policy) and Note 28 (financial disclosures).*	We performed the procedures below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. — **Our credit risk modelling expertise:** We engaged with our own credit risk modelling specialists who assisted us in the following for a selection of models: • for those models which were changed or updated during the year, evaluated whether the changes were appropriate by assessing the updated model methodology; • independently evaluated the model output by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code and comparing our independent output with management's output; • independently assessed the assumptions in the ECL models and reperformed the updated model calibrations and redevelopments; and • independently applied management's staging methodology and inspected model code for the calculation of the ECL to assess its consistency of the Group's approved staging criteria and the output of the model. — **Our economic expertise:** We engaged our own economic specialists who assisted us in: • assessing the appropriateness of the Group's economic scenarios used and the probability weightings applied to them; • assessing key economic variables through comparison to external market data; and • assessing the overall appropriateness of the economic forecasts through comparison to our own modelled forecasts. — **Tests of details:** Other key areas of our testing in addition to those set out above included: • critically evaluating the assumptions applied to determine the basis of post model adjustments; • assessing the completeness of post model adjustments identified; • reperforming the calculation of the post model adjustments to assess consistency with approved PMA methodologies; • performing credit file reviews to assess the appropriateness of the stage allocation and associated ECL estimate for individually assessed stage 3 loans; and • evaluating the completeness of the SICR criteria and their effectiveness in capturing increased credit risk. — **Assessing transparency:** We assessed whether the disclosures appropriately reflect and describe the uncertainty which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear. **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 related portfolios. — The results of our testing were satisfactory, and we considered the ECL charge, provisionrecognised and the related disclosures to be acceptable (2022: acceptable).

	The Risk	Our response
The impact of IT access controls and change management on the effectiveness of the control environment	**Data capture:** As with many banks, the Group makes extensive use of IT for the processing and recording of transactions. We identified weaknesses in the prior year with the design and operation of user access and change management controls within the Group's general IT control ('GITC') environment. During 2023 the Group has progressed its IT control remediation program based on findings in 2022. We consider IT user access and change management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data. As a result, we regard this area as a key audit matter owing to the additional work necessary to address the incremental audit risk.	Our procedures included: • Control operation: With the assistance of our IT auditors, we evaluated the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting including GITCs. This included consideration of the Group's IT control remediation program, including the timing of certain remediation activity during the year. • Extended scope: Where we identified that GITCs did not operate effectively during the year or for a portion of it, we performed incremental procedures necessary to mitigate the associated audit risk including additional tests of detail. This included manually re-performing certain system generated reconciliations, additional testing of system records to underlying source documentation and increased sample sizes. **Our results** • Our testing identified weaknesses in the design and operation of user access and change management controls. As a result we expanded the extent of our detailed testing, as set out above.

We continue to perform procedures over unobservable inputs into the fair valuation of loans and advances to customers. However, we consider that there is a lower risk of material misstatement in the current year surrounding the valuation of loans held at fair value. The nature and expected timing of the remaining forecast cashflows results in less estimation uncertainty than in previous years both in terms of potential upside and downside on final recoveries. While this remains an audit risk, 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.

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

Materiality for the Group financial statements as a whole was set at £2,360,000 (2022: £1,730,000), determined with reference to a benchmark of Group profit before tax, of which it represents 4.12%.

Materiality for the parent Company financial statements as a whole was set at £2,260,000 (2022: £1,550,000), which is the component materiality for the parent Company determined by the group audit engagement team.

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.

Based on the results of our prior year audit we have reduced the level at which we set performance materiality to 65% (2022: 75%) of materiality for the financial statements as a whole which equates to £1,530,000 (2022: £1,290,000) for the Group and £1,460,000 (2022: £1,160,000) for the parent Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £118,000 (2022: £86,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

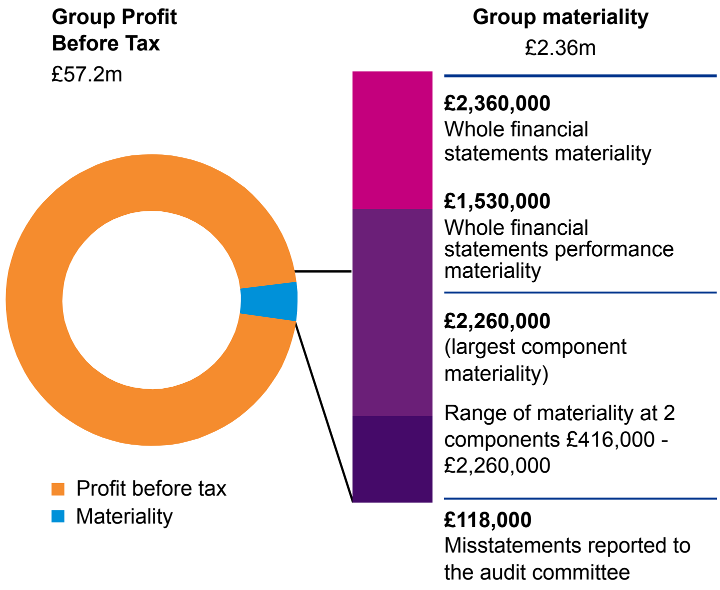
Of the Group's 7 reporting components, we subjected 2 to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

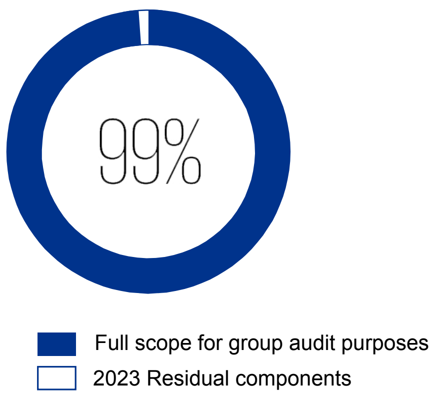
The remaining 1% of total Group revenue, profit before tax and total assets is represented by 5 of the remaining reporting components, none of which individually represented more than 1% of total Group revenue, profit before tax or total assets. For these components, we performed analysis at an aggregated group level to re- examine our assessment that there were no significant risks of material misstatement within these.

Our audit of the Group, and 2 of the 7 components, 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 Group's internal control over financial reporting in some 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.



Group revenue, profit before tax and total assets



4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease its operations, and as they have concluded that the Group's and 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 Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and 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 Group's and 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 next 12 months.

We considered whether these risks could plausibly affect the 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 Group's and Company's financial forecasts.

Our procedures also included:

— Inspecting the Group'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 sensitivities over the level of available capital and liquidity indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; and

— Assessing the completeness of the going concern disclosure.

— 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 Group's or 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 Group or the Company will continue in operation.

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

Identifying and responding to risks of material misstatement due to fraud

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

— Enquiring of Directors as to the Group'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 Group's internal audit reports, and Board Minutes of the Group; 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 opportunity to manipulate revenue.

We also identified fraud risks relating to ECL provisioning as an area involving significant management judgement and estimation uncertainty.

We performed procedures including:

— Identifying journal entries to test based on high risk criteria including manual journal entries posted to seldom-used accounts or by individuals who typically do not make journal entries and journals containing specific key words, and comparing the identified entries to supporting documentation;

— Evaluating the design and implementation and operating effectiveness of relevant internal controls;

— Assessing significant accounting estimates for bias; and

— Substantive procedures to address the fraud risk.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group'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 Group 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 Group 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 Group 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 Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct (including consumer duty), anti-bribery, money laundering, employment law and certain aspects of company legislation recognising the financial and regulated nature of the Group'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.

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company 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 Group and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

R Rawstron

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
24 April 2024

FINANCIAL STATEMENTS

Consolidated and Bank Statement of Comprehensive Income

	Note	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Interest and similar income		268,293	151,232	245,613	131,839
Interest expense and similar charges	8	(122,407)	(39,934)	(114,551)	(33,255)
Net Interest Income		**145,886**	**111,298**	**131,062**	**98,584**
Operating lease income	9	1,353	1,646	-	-
Fees and commissions income	9	1,774	3,105	1,459	2,078
Fees and commissions payable	9	(1,345)	(1,690)	(1,375)	(1,637)
Net (loss)/gain on loans and other financial assets at fair value through profit or loss	10	(2,495)	3,276	(2,495)	3,276
Other income	11	-	(2)	5,991	6,512
Operating Income		**145,173**	**117,633**	**134,642**	**108,813**
Administrative expenses	12	(75,493)	(69,881)	(69,237)	(56,984)
Impairment losses on Loans and Advances to Customers	28	(12,440)	(8,101)	(12,498)	(7,308)
Gain on bargain purchase	41	-	48,708	-	-
Profit before tax and dividends		**57,240**	**88,359**	**52,907**	**44,521**
Interim dividends received	16	-	-	27,500	20,000
Profit before tax		**57,240**	**88,359**	**80,407**	**64,521**
Tax expense	17	(14,692)	(10,274)	(13,134)	(10,488)
Profit after tax for the year		**42,548**	**78,085**	**67,273**	**54,033**
Other Comprehensive Income					
Items that are or may be reclassified subsequently to Profit and loss:					
Cash flow hedges – effective portion of changes in fair value	21	(3,394)	125	(3,394)	125
Cash-flow hedges – recycled to profit or loss	21	166	4	166	4
Total Comprehensive Income for the year after tax		**39,320**	**78,214**	**64,045**	**54,162**

The notes on pages 59 to 140 are an integral part of these financial statements.

Consolidated and Bank Statement of Financial Position

	Note	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Assets					
Loans and Advances to Banks	19	480,470	462,609	476,806	458,974
Derivative Assets held for Risk Management	20	75,076	113,319	75,076	113,319
Investment Securities	24	244,488	262,375	234,509	217,722
Loans and Advances to Customers - FVTPL	22	3,305	4,294	3,305	4,294
Loans and Advances to Customers – at amortised cost	23	3,257,883	2,650,063	2,967,326	2,243,123
Investment in Subsidiaries	41	-	-	49,422	49,422
Property, Plant and Equipment	31	6,097	4,079	4,969	1,443
Right-of-Use Assets	32	3,618	762	3,602	685
Intangible Assets	33	12,795	11,929	11,732	9,464
Deferred tax asset	18	7,007	9,390	1,414	2,538
Other Assets	34	66,263	27,012	235,646	99,498
Total Assets		**4,157,002**	**3,545,832**	**4,063,807**	**3,200,482**
Liabilities					
Derivative Liabilities held for Risk Management	20	25,456	19,136	25,456	19,136
Customer Deposits	26	3,260,852	2,673,491	3,205,681	2,420,694
Finance Lease Liability	32	4,114	923	3,974	647
Other Liabilities	35	132,914	145,981	148,127	175,805
Central Bank Facilities	25	353,770	393,049	300,000	295,000
Subordinated Liabilities	36	57,768	30,336	57,768	30,336
Total Liabilities		**3,834,874**	**3,262,916**	**3,741,006**	**2,941,618**
Equity					
Share Capital	38	139,828	139,828	139,828	139,828
Share Premium		196	196	196	196
Cash flow hedge reserve	38	(3,099)	129	(3,099)	129
Retained Earnings		168,173	125,733	168,846	101,681
Total equity, excluding non-controlling interest		**305,098**	**265,886**	**305,771**	**241,834**
Other Equity Instruments attributable to non-controlling interests	38	17,030	17,030	17,030	17,030
Total Equity		**322,128**	**282,916**	**322,801**	**258,864**
Total Equity and Liabilities		**4,157,002**	**3,545,832**	**4,063,807**	**3,200,482**

The notes on pages 59 to 140 are an integral part of these financial statements.
These financial statements were approved by the Board of Directors and signed on its behalf on 23 April 2023.

Matthew Wyles
Director
23 April 2024

Timothy Blackwell
Director
23 April 2024

Company Number: 1311315

Consolidated Statement of Changes in Equity for the year ended 31 December 2023

	Share Capital	Share Premium	Cashflow Hedge Reserves	Retained Earnings	Attributable to Ordinary Shareholders	Other equity reserves	Total Equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2023	**139,828**	**196**	**129**	**125,733**	**265,886**	**17,030**	**282,916**
Comprehensive Income for the year							
Profit for the year	-	-	-	42,548	**42,548**	**-**	**42,548**
Cash flow hedges – effective portion of changes in fair value	-	-	(3,394)	-	**(3,394)**	**-**	**(3,394)**
Cash-flow hedges – recycled to profit or loss	-	-	166	-	**166**	**-**	**166**
Total Comprehensive Income for the year	-	-	**(3,228)**	**42,548**	**39,320**	**-**	**39,320**
Equity settled share-based payment	-	-	-	1,399	**1,399**	**-**	**1,399**
Issue of other equity instruments	-	-	-	-	-	-	-
Coupon paid on other equity instruments	-	-	-	(1,507)	**(1,507)**	**-**	**(1,507)**
Balance at 31 December 2023	**139,828**	**196**	**(3,099)**	**168,173**	**305,098**	**17,030**	**322,128**

Consolidated Statement of Changes in Equity for the year ended 31 December 2022

	Share Capital	Share Premium	Cashflow Hedge Reserves	Retained Earnings	Attributable to Ordinary Shareholders	Other equity reserves	Total Equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	**139,828**	**196**	**-**	**48,812**	**188,836**	**-**	**188,836**
Comprehensive Income for the year							
Profit for the year	-	-	-	78,085	**78,085**	**-**	**78,085**
Cash flow hedges – effective portion of changes in fair value	-	-	125	-	**125**	**-**	**125**
Cash-flow hedges – recycled to profit or loss	-	-	4	-	**4**	**-**	**4**
Total Comprehensive Income for the year	-	-	**129**	**78,085**	**78,214**	**-**	**78,214**
Equity settled share-based payment	-	-	-	240	**240**	**-**	**240**
Issue of other equity instruments	-	-	-	-	-	17,030	**17,030**
Coupon paid on other equity instruments	-	-	-	(1,404)	**(1,404)**	**-**	**(1,404)**
Balance at 31 December 2022	**139,828**	**196**	**129**	**125,733**	**265,886**	**17,030**	**282,916**

The notes on pages 59 to 140 are an integral part of these financial statements.

Bank Statement of Changes in Equity for the year ended 31 December 2023

	Share Capital	Share Premium	Cashflow Hedge Reserves	Retained Earnings	Attributable to Ordinary Shareholders	Other equity reserves	Total Equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2023	**139,828**	**196**	**129**	**101,681**	**241,834**	**17,030**	**258,864**
Comprehensive Income for the year							
Profit for the year	-	-	-	67,273	**67,273**	**-**	**67,273**
Cash flow hedges – effective portion of changes in fair value	-	-	(3,394)	-	**(3,394)**	**-**	**(3,394)**
Cash-flow hedges – recycled to profit or loss	-	-	166	-	**166**	**-**	**166**
Total Comprehensive Income for the year	-	-	**(3,228)**	**67,273**	**64,045**	**-**	**64,045**
Equity settled share-based payment	-	-	-	1,399	**1,399**	**-**	**1,399**
Issue of other equity instruments	-	-	-	-	-	-	**-**
Coupon paid on other equity instruments	-	-	-	(1,507)	**(1,507)**	**-**	**(1,507)**
Balance at 31 December 2023	**139,828**	**196**	**(3,099)**	**168,846**	**305,771**	**17,030**	**322,801**

Bank Statement of Changes in Equity for the year ended 31 December 2022

	Share Capital	Share Premium	Cashflow Hedge Reserves	Retained Earnings	Attributable to Ordinary Shareholders	Other equity reserves	Total Equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	**139,828**	**196**		**48,812**	**188,836**	**-**	**188,836**
Comprehensive Income for the year							
Profit for the year	-	-	-	54,033	**54,033**	**-**	**54,033**
Cash flow hedges – effective portion of changes in fair value	-	-	125	-	**125**	**-**	**125**
Cash-flow hedges – recycled to profit or loss	-	-	4	-	**4**	**-**	**4**
Total Comprehensive Income for the year	-	-	**129**	**54,033**	**54,162**	**-**	**54,162**
Equity settled share-based payment	-	-	-	240	**240**	**-**	**240**
Issue of other equity instruments	-	-	-	-	-	17,030	**17,030**
Coupon paid on other equity instruments	-	-	-	(1,404)	**(1,404)**	**-**	**(1,404)**
Balance at 31 December 2022	**139,828**	**196**	**129**	**101,681**	**241,834**	**17,030**	**258,864**

The notes on pages 59 to 140 are an integral part of these financial statements.

Consolidated and Bank Statement of Cash flows

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Cashflows from operating activities				
Profit before tax for the year	57,240	88,359	80,407	64,521
Adjustments for:				
Depreciation and amortisation	7,605	7,314	4,936	4,411
Loss on disposal of fixed assets	819	432	503	-
Foreign exchange losses	-	(2)	-	(2)
Increase in impairment of Loans and Advances	11,265	16,677	7,183	11,995
Increase/(Decrease) in provisions	1,847	(4,789)	6,036	3,215
Equity-settled share based payment transactions	1,399	240	1,399	240
Bond premium/discount amortisation	(6,465)	(335)	(4,943)	(335)
Decrease/(Increase) in Fair Value of Derivative Assets	41,006	(76,695)	41,006	(76,695)
(Increase)/Decrease in Fair Value of loans and advances designated as hedged items	(39,697)	73,530	(39,697)	73,530
Decrease/(Increase) in Fair Value of Loans and Advances held at FVTPL	1,436	(6,981)	1,436	(6,981)
Repayment of the interest accrued on finance lease liabilities	152	87	142	70
Dividends received	-	-	(27,500)	(20,000)
Gain on bargain purchase	-	(48,708)	-	-
Other acquisition costs recognised through equity	-	(146)	-	(392)
Corporation Tax paid	(15,563)	(14,257)	(15,835)	(14,257)
Changes in:				
(Increase) in Loans and Advances to Customers	(559,992)	(542,245)	(675,670)	(625,569)
(Increase)/Decrease in Other Assets	(169,333)	(18,708)	(169,564)	(94,775)
(Decrease)/Increase in Central Bank Facilities	(39,993)	1,281	5,000	-
Decrease/(Increase) in collateral held with banks	(33,646)	73,421	(33,646)	73,421
Increase in Customer Deposits	566,810	648,829	765,355	798,748
Increase in Subordinated and Other Liabilities	155,913	30,864	6,564	68,205
Net cash flow from operating activities	**(19,197)**	**228,168**	**(46,888)**	**259,350**

Consolidated and Bank Statement of Cash flows (continued)

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Cashflows from operating activities				
Acquisition of subsidiary, net of cash acquired	-	33,482	-	(32,000)
Dividends received from subsidiary undertakings	-	-	27,500	20,000
Purchase of Property, Plant and Equipment	(4,757)	(1,356)	(4,742)	(543)
Purchase of Intangible Assets	(5,424)	(4,838)	(5,424)	(4,777)
Purchase of Right of use Asset	(3,982)	-	(3,982)	-
Purchase of Investment Securities	(415,054)	(434,322)	(415,054)	(424,657)
Settlement of Investment Securities	439,744	402,000	439,744	402,000
Net cash flow from Investing Activities	**10,527**	**(5,034)**	**38,042**	**(39,977)**
Cash flows from Financing Activities				
Repayments of the principal portion of finance lease liabilities	(944)	(1,444)	(797)	(1,318)
Inception of Finance lease liability	3,982	-	3,982	-
Coupon paid to other equity instrument holders	(1,507)	(1,404)	(1,507)	(1,404)
Proceeds from the issuance of subordinated debt	25,000	-	25,000	-
Net increase/(decrease) in Cash and Cash Equivalents	**17,861**	**220,286**	**17,832**	**216,651**
Cash and cash equivalents at 1 January	462,609	242,323	458,974	242,323
Cash and Cash Equivalents at 31 December	**480,470**	**462,609**	**476,806**	**458,974**
Loans and advances to Banks	480,470	462,609	476,806	458,974
Cash and Cash Equivalents at 31 December	**480,470**	**462,609**	**476,806**	**458,974**

The notes on pages 59 to 140 are an integral part of these financial statements.

[1] Loans and Advances to Banks for both the Group and the Bank includes restricted balance held in the Bank of England in the form of cash ratio deposits of £4.9m (2022: £3.6m).

NOTES TO THE FINANCIAL STATEMENTS

This section describes the Group's significant policies and critical accounting estimates that relate to the financial statements and notes. 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. The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2023 comprise the Bank and its subsidiaries (together referred to as the "Group") as listed in note 39.

2. Basis of Preparation

The Group's financial statements have been prepared in accordance with UK adopted International Accounting Standards.

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

The Group primary financial statements have been presented in a manner to show the comparatives between the Group results in 2023 against 2022, and the Bank results in 2023 against 2022.

Going concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Group has sufficient resources to continue their 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 2023, the Group recognised a profit after tax of £42.5m. The Group's total assets as at 31 December 2023 were £4,157m. The Group has £725m of resources comprising cash and cash equivalents, and other highly liquid assets as at 31 December 2023.

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 Group 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 Group has undertaken analysis of forecast capital and liquidity levels using the Bank of England Annual Cyclical Scenario 2022, which has been rebased to the start of 2023. The stress 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 Group'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 Group's capital and liquidity forecasts are above its minimum regulatory requirements throughout the going concern period.

Accordingly, the Directors are confident that the Group 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. Basis of consolidation

3.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved where the Group is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. All intra-group transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

3.2 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cash flows generated by the assets. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition.

The consideration transferred in the acquisition is measured at fair value. Any gain on bargain purchase is recognised in profit or loss immediately at the date of acquisition.

Any contingent or deferred consideration payable is measured at fair value at the acquisition date. If the contingent or deferred consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in fair value of the contingent or deferred consideration are recognised in profit or loss.

A Joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interest in joint ventures are account for using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date of which significant influence or joint control ceases.

For purchased or originated credit impaired (POCI) financial assets that were acquired as part of the acquisition of WBL, the Bank has calculated interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

4. Changes in material accounting policies

The Group considered the following standards and amendments to standards from 1 January 2023:

- Onerous Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12).

The effect of these amendments has been deemed as immaterial to the Group's financial statements.

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (with certain exceptions), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

The Group has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

As part of this determination, the Group assessed products that could include insurance coverage. For loan contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts.

This choice is made at a portfolio level and is irrevocable. The Group has made an irrevocable choice to apply IFRS 9 to each portfolio of these products. For all financial guarantee contracts issued by the Group, its policy is to apply IFRS 9.

The Group also considered and adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements as it requires the disclosure of 'material', rather than 'significant', accounting policies.

5. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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:

- Note 7.9: classification of financial assets: assessment of the business model within which the assets are held.
- Note 7.11: 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 2023 are included in the following notes:

- Note 7.11: 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.

6. Future accounting developments

New and amended standards and interpretations that are issued but not yet effective are not expected to have a material impact on the Group's financial statements.

7. Material accounting policies

7.1 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 Group 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.

In determining the expected life of loans and receivables assets, the Group uses judgement on the likely redemption profiles. The Group 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 financial assets and financial liabilities measured at Fair value through profit and loss ('FVTPL').
- Interest expense on lease liabilities.
- Interest income from Finance Leases and Hire Purchase is recognised over the period of the agreement to give a constant rate of return.

7.2 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 Group 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 Group 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.

7.3 Net income from other financial instruments at FVTPL

7.3.1 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.

7.3.2 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.

7.4 Employee benefits

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

7.4.1 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 Group 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.

7.4.2 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.

7.4.3 Other long-term employee benefits

The Group'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.

7.5 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 Group'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.

7.5.1 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 Group 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 Bank and the Group.

The Group'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.

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:

	2023	2022	2021
Expected volatility	28.9% to 30.6%	28.9% to 30.6%	28.9% to 30.6%
Risk free rate	-0.1% to 4.18%	-0.1% to 3.5%	-0.1% to 1.3%
Dividend yield	0.0%	0.0%	0.0%
Expected life	1 years	2 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.

7.6 Leases

7.6.1 As a lessee

The Group 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 Group's incremental borrowing rate. Generally, the Group 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 Group 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 Group recognises the lease payments with these leases as an expense on a straight-line basis over the lease term. For property leases, the Group has elected to separate the non-lease and lease component.

7.6.2 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 Group makes an overall assessment of whether the lease transfers substantially all 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 Group 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 Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

The Group has made a judgement on extending the lease term of the Leeds office to 2023 and the landlord exercised a break clause terminating the lease of the Group's 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 Group'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 7.0% would be an equivalent market rate to borrow a similar amount, on a secured basis, over a similar term, given the Group's current credit standing.

The Group uses two data centre providers where the Group 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.

7.7 Dividend Income

Dividend income is recognised when the right to receive income is established. Dividends are presented based on the underlying classification of the equity instruments.

7.8 Taxation

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

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

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

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

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

7.9.1 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 Fair value through other comprehensive income ('FVOCI') only if both 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.

7.9.2 Business model assessment

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

7.9.3 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 Group 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 Group considers:

- Contingent events that would change the amount and timing of cash flows.
- Leverage features.
- Prepayment and extension terms.
- Terms that limit the Group'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 Group 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 Group deems these loans to fall outside of SPPI and has mandatorily reclassified these assets at FVTPL.

7.9.4 De-recognition

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the right to receive contractual cash flows in a transaction in which substantially all the risks and rewards of the financial asset are transferred.

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

7.9.5 Offsetting financial assets and financial liabilities

The Group 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 Group 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 Group 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.

7.10 Modification of financial assetsand financial liabilities

If the terms of a financial asset are modified, then the Group 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. If any modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount Of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment.

7.11 Impairment

The impairment model in IFRS 9 is an expected credit 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 Group 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 Group'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 & Stage 3 POCI	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. Purchased or originated credit impaired (POCI) Acquired loans that meet the Group's definition of default at acquisition are treated as POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

7.11.1 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 Group'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.

7.11.2 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. 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 historical 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 Group's performance data does not go back far enough to capture a full economic cycle, the Group selected a proxy series that best represents each business line to build economic response models ('ERM') to capture the effects of a recession. For Block Discounting 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. For Asset Finance and the Other Commercial and Acquisition Finance portfolios this is the ONS published Company Insolvencies; and for Retail Finance it is the Other Personal Lending Bank Balance Write-offs published by the Bank of England.
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.

7.11.3 Significant judgement and estimates: 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 DF and the majority of accounts to BD counterparty). 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 SM this threshold is set to 0.40% for the annualised lifetime default rate. For all other portfolios this threshold is 1% on the lifetime PD.

Due to a lack of historic trading data, the Group'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 Group can further develop its quantitative tests.

7.11.4 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 Group has considered appropriate to enforce.
- Stage 3 exposures.
- Forborne non-performing exposures.
- Sale of credit obligations (not currently done by the Group).
- Distressed restructuring.

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

7.11.5 Forecast economic data

IFRS 9 requires ECL to reflect a range of possible outcomes and to consider future economic conditions. The Group 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 the scenarios have been sourced from an independent economic consultancy, 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.

7.11.6 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 Group's Delegated Authorities.

7.11.7 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 Group's cure methodology.

The Group'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 Group is satisfied about the likelihood of full and timely repayment of the exposure.

7.11.8 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 Group 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.

7.11.9 Definition of Forbearance

Forbearance is deemed to arise where the Group 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.
- Where concessions provided by the Group would not otherwise have been considered.

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

7.11.10 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 the Group's credit related policies, procedures and practices and setting out how the Group 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 Group's Models Credit Risk Team who manage the Group's IFRS9 credit grading and loss models.

The Group also operates 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 Group manages its Model Risk through the Model Governance Committee ('MGC'). 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 Group's strategic priorities in accordance with the delegations under the Group's Schedule of Policies and Frameworks.
- To ensure that there is robust ongoing monitoring, challenge and assessment of all Models within the Group's business, including the monitoring of both Credit and Finance models.
- To oversee actions necessary to ensure the Group's Model Governance is adhered.
- To provide a quarterly summary of progress from the MGC including completed actions to the Audit Committee.

7.12 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 Group has access at that date.

When one is available, the Group 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 Group 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 Group 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.

7.12.1 Significant estimates

The Group 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 Group 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 estimation. Observable prices and model inputs are usually available in the market for listed debt securities and simple over the counter 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 Group 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 Group believes a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument.

7.13 Loans and advances to banks

Cash and cash equivalents comprise cash on hand and loans and advances to banks and building societies, Loans to banks and building societies comprise cash balances, call deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

7.14 Derivatives held for risk management purposes and hedge accounting

The Group designates certain derivatives as hedging instruments in respect to interest rate risk in fair value and cash flow hedges. The Group applies 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 Group uses the exemption in IFRS 9 to continue using IAS 39 hedge accounting for such portfolio fair value hedges.

At the inception of the hedge relationship, the Group 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 Group 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 Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group 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 Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

7.14.1 Fair value hedges

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Group identifies portfolios whose interest rate risk its wishes to hedge. The portfolio comprise either only assets or only liabilities. The Group 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.

The Group has no outstanding LIBOR linked derivatives, however, the Group has a back-book of LIBOR-referencing or LIBOR-linked loans. The Group worked to migrate as many loans as possible to Base rate during 2023, however a small portfolio of LIBOR referencing loans still remains.

The Group has concluded that as at 31 December 2023, its fair value hedging relationships are no longer subject to uncertainty driven by the IBOR reform or reference erstwhile LIBOR.

Accordingly, the Group ceased to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and hedging instrument are not altered as a result of IBOR reform when the uncertainty arising from IBOR reform was no longer present.

7.14.2 Cash flow hedges

The Group uses pay fixed/receive floating interest rate to hedge the interest rate risks in respect of the benchmark interest rate (SONIA). The Group hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate notes to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria under IFRS 9.

The Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. The Group further supports this qualitative assessment by using the dollar offset method to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

When a derivative is designated as the hedging instrument in a hedge of variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probably forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated and exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the hedged cash flows are no longer expected to occur, then the amount accumulated in the hedging reserve is reclassified from OCI to profit or loss immediately, if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on straight line basis.

7.15 Property, Plant and Equipment

The Group applies 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 Group uses the exemption in IFRS 9 to continue using IAS 39 hedge accounting for such portfolio fair value hedges.

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:

Office equipment	**10% - 33%**
Fixtures and fittings	**10% - 33%**
Equipment for hire	**25% - 50%**
Leasehold Improvements	**25% - 50%**

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

7.15.1 Subsequent costs

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

7.15.2 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 Group Leases office premises and these are presented as Right-of-Use assets on a separate line in the statement of financial position.

7.16 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 Group 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.

7.16.1 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.

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.

7.17 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 from central bank facilities. These funds are then used to lend to customers. To ensure the Group has sufficient cash to repay customers when required, we are required to hold a minimum level of liquid assets. The Group's Treasury team manage the level of liquid assets and funding to ensure we meet the demands of customers, creditors and regulators.

7.18 Financial liabilities - Central Bank Facilities

Loans and advances over which the Group Bank transfers its rights to the collateral thereon to the Bank of England under the Term Funding Scheme with Additional Incentives for SMEs (TFSME) and Indexed Long-term Repo Scheme (ILTR) are not derecognised from the Statement of Financial Position as the Group 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 TFSME have a maturity of four years and bear interest at Bank of England Base Rate. Drawings under the scheme are collateralised using the Group'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 Group is willing to encumber in the schemes. The Group has set its risk appetite for asset encumbrance to ensure that the Group 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 Group regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits.

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

7.19 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. During 2022 the notes paid interest at a rate of 7.25% per annum, payable semi-annually in arrears. The notes mature on 10 May 2028. In 2023 further £30m Tier 2 were issued with interest accruing at an annual interest rate of 8.84% paid semi-annually in arrears, and the interest rate on the existing tier 2 notes was reset at its 5 year call date to 9.71%.

7.20 Provisions

A provision is recognised if, as a result of a past event, the Group 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.

7.21 Financial guarantees and loan commitments

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

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.

7.22 Shareholders' funds

The Group 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 Group 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 Group, or where the instrument will or may be settled in the Group's own equity instruments but includes no obligation to deliver a variable number of the Group's own equity instruments, then it is treated as an equity instrument. Accordingly, the Group's share capital is presented as components of equity. Any dividends, interest or other distributions on capital instruments are also recognised in equity. Any related tax is accounted for in accordance with IAS 12.

7.23 Other equity instruments

Capital securities are classified as equity instruments, as the substance of the contractual arrangements are such that there is no present obligation to deliver cash, another financial asset or a variable number of equity instruments. The capital securities are measured at fair value of the proceeds from the issuance less any costs that are incremental and directly attributable to the issuance (net of applicable tax).

Distributions to holders of the capital securities are recognised when they become irrecoverable and are deducted from retained earnings in equity.

8. Interest income and expense

See accounting policies in notes 7.1 and 7.3.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Interest and similar income on Loans and Advances to Customers held at amortised cost	206,715	137,584	180,590	118,763
Interest and similar income on Loans and Advances to Customers held at fair value through profit and loss	229	1,095	229	1,095
Interest on Loans and Advances to Banks	13,120	4,389	13,109	4,323
Interest on Investment Securities	10,739	3,257	9,292	2,744
Interest on intercompany loans	-	-	4,903	7
Interest received on Derivative Financial Instruments	37,490	4,907	37,490	4,907
Total Interest receivable and similar income	**268,293**	**151,232**	**245,613**	**131,839**
Interest on Deposits from Customers, TFSME & ILTR	(117,927)	(37,619)	(110,071)	(30,940)
Interest on Subordinated Liabilities	(4,480)	(2,315)	(4,480)	(2,315)
Total Interest expense and similar charges	**(122,407)**	**(39,934)**	**(114,551)**	**(33,255)**
Net Interest Income	**145,886**	**111,298**	**131,062**	**98,584**

9. Fees and commission income and expense

See accounting policy in note 7.2.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Operating Lease Income	1,353	1,646	-	-
Total Operating Lease Income	**1,353**	**1,646**	**-**	**-**
Facility Fees	518	421	489	382
Early Settlement Fees	1,148	1,655	912	1,541
Customer Service Fees	75	177	45	155
Commitment Fees on Development Finance Loans	13	-	13	-
Brokerage Fees	20	852	-	-
Fees and Commission Income	**1,774**	**3,105**	**1,459**	**2,078**
Bank Charges	(1,000)	(1,305)	(1,022)	(1,330)
Credit and Identity Searches	(345)	(385)	(353)	(307)
Fees and Commission Expense	**(1,345)**	**(1,690)**	**(1,375)**	**(1,637)**

Fees and commission income for the Bank and the Group include £13k of commitment fees charged for Development Finance loans held at FVTPL which under IFRS 9 is recognised upon receipt (2022: £Nil).

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

See accounting policy in note 7.3.

Group and Bank	Note	2023 £000	2022 £000
Fair value gains on derivative financial instruments	**20/21**	(1,308)	3,260
(Loss)/Gain on loans and advances to customers held at FVTPL	**22**	(1,187)	16
Net (loss)/gain on loans and other financial assets at FVTPL		**(2,495)**	**3,276**

11. Other income

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Foreign exchange gains	**-**	(2)	-	(2)
Management recharges	**-**	-	5,991	6,514
Other Income	**-**	**(2)**	**5,991**	**6,512**

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

Management recharges of £6.0m (2022: £6.5m) relate to transition costs incurred in the integration of systems and processes into the Bank's operational infrastructure following the acquisition of subsidiaries in 2022, and staff costs related to ongoing management activities in 2023.

12. Administration Expenses

	Note	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Depreciation and amortisation	31/32/33	7,605	7,314	4,936	4,411
Loss on disposal of fixed assets	31	819	432	503	-
Staff Costs	13	43,540	38,845	41,067	34,928
Share based payments	14	1,399	240	1,399	240
Other Administrative expenses		22,130	23,050	21,332	17,405
Administrative Expenses		**75,493**	**69,881**	**69,237**	**56,984**

Included within Administrative expenses are £2.9m staff costs (2022: £2.6m) and £3.1m of other administrative expenses (2022: £3.9m) subject to management recharges to subsidiary undertakings as recognised through other income (note 11).

13. Staff numbers and costs

See accounting policy in note 7.4.

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

	Group 2023	Group 2022	Bank 2023	Bank 2022
Directors	8	8	8	8
Lending	163	152	163	141
Administrators	247	235	203	173
	418	**395**	**374**	**322**

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

The aggregate payroll costs of these people were as follows:

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Wages and Salaries	37,383	32,993	35,246	29,848
Social Security costs	4,533	4,286	4,335	3,880
Pension costs	2,307	2,069	2,172	1,836
Other staff costs	1,355	1,203	1,352	1,070
	45,578	**40,551**	**43,105**	**36,634**
Of which capitalised as Intangible Assets	2,038	1,706	2,038	1,706
Of which included within Administration Expenses	43,540	38,845	41,067	34,928
	45,578	**40,551**	**43,105**	**36,634**

Directors remuneration:	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Directors' Salaries and Bonus	1,434	1,408	1,434	1,387
Directors' Share based payments	559	95	559	95
	1,993	**1,503**	**1,993**	**1,482**

There were no Directors to whom retirement benefits were accruing in respect of qualifying services during the year (2022: nil).

There were no Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2022: nil).

The aggregate of emoluments of the highest paid Director of the Group including apportioned share based payments charge was £944k (2022: £594k). 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.

During 2023, remunerations for Non- Executive Directors of the Bank totalled £360k (2022: £360k).

14. Employee share-based payment transactions

See accounting policy in note 7.5.

Details of shares issued are shown in the table below:

Group and Bank	**2023 No. of Shares**	**2022 No. of Shares**
At 1 January	5,749	5,999
Granted	100	200
Forfeited	(150)	(450)
At 31 December	**5,699**	**5,749**

The average fair value of shares issued during the year was £925 per share (2022: £991).

The charge to the Consolidated Income Statement was a debit of £1,399k (2022: £240k).

15. Auditor's remuneration

	2023 £000	**2022 £000**
Audit of these financial statements	1,320	1,513
Other services:		
Audit of subsidiaries	597	693
Audit-related assurance services	82	88
Other non-audit services	-	-
Total other services	679	781
	1,999	**2,294**

16. Dividends received

	2023 £000	**2022 £000**
Dividends received	27,500	20,000
	27,500	**20,000**

During 2023 dividends were paid by Wesleyan Bank Limited of £27.5m (2022: £20m).

17. Taxation

See accounting policy in note 7.8.

Recognised in the Statement of Comprehensive Income

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Current tax on profits for the year	13,280	10,960	13,374	11,341
Adjustment in respect of prior years	(972)	(239)	(1,366)	(239)
Total current tax	**12,308**	**10,721**	**12,008**	**11,102**
Deferred tax:				
Origination and reversal of temporary differences	1,705	(657)	(33)	(777)
Adjustments in respect of prior periods	638	217	1,133	224
Effect of tax rate change on opening balance	41	(7)	26	(61)
Total deferred tax charge/(credit)	2,384	(447)	1,126	(614)
Tax on profit/(loss) on ordinary activities	**14,692**	**10,274**	**13,134**	**10,488**

Tax reconciliation

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Profit for the year	57,241	88,359	80,408	64,521
Tax using the UK Corporation Tax rate of 23.52% (2022: 19.00%)	13,463	16,788	18,912	12,259
Effects of:				
Permanent non-deductible expenses	329	356	335	459
Effect of tax rate change on opening balance	41	(7)	26	(61)
Adjustment for prior year tax differences	(332)	(22)	(233)	(15)
Income not taxable	629	(8,784)	(6,468)	(4,097)
Effects of Group Relief/ other reliefs	(18)	(14)	(18)	(14)
Surcharge on banking companies	580	1,957	580	1,957
	14,692	**10,274**	**13,134**	**10,488**

The Corporation Tax asset for the Group and the Bank at 31 December 2023 is £2,706k (2022: £1,121k liability). This is disclosed within other tax and social security in note 33 Other Assets (2022: 34 Other liabilities).

18. Deferred Tax Asset (Liability)

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

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Accelerated capital allowances	6,183	8,768	1,371	2,545
Short term timing differences	99	58	99	58
Tax losses carried forward and other deductions	188	151	-	-
IFRS 16 adjustment	-	6	-	6
IFRS 9 adjustment	537	407	(56)	(71)
Deferred Tax Asset	**7,007**	**9,390**	**1,414**	**2,538**

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

	2023 £000	2022 £000	2023 £000	2022 £000
Balance brought forward	9,390	1,925	2,538	1,925
Acquired as part of business combination	-	7,018	-	-
Effect of tax rate change on opening balance	(41)	-	(26)	-
Adjustments in respect to the prior periods	(639)	(224)	(1,131)	(225)
Credit to the income statement	(1,703)	671	33	838
Deferred Tax Asset	**7,007**	**9,390**	**1,414**	**2,538**

The Bank has calculated the UK deferred tax asset as at 31 December 2023 using a blended forecast future tax rate of 25% (2022: 25.5%). 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 is not likely to be liable to pay Banking Surcharge Tax from the following period due the de minimis raising to £100m with effect from 1 April 2023.

The deferred tax balance of the Group's consolidated subsidiaries relates to timing differences of fixed assets between depreciation and capital allowances, and the IFRS 9 transitional adjustment which is spread over 10 years in line with IFRS. The Group has calculated the UK deferred tax asset on subsidiary fixed assets as at 31 December 2023 using a blended forecast future tax rate of 25% (2022: 24.73%). This blended rate is calculated based on the main rate of Corporation Tax enacted at 31 December as well as an expectation that the Group will be able to utilise capital allowances in full each year. The IFRS 9 transitional adjustment will be released over 10 years in line with IFRS using a blended rate of 25%.

19. Loans and Advances to Banks

See accounting policy in note 7.9.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Placements with other Banks included in Loans and Advances to Banks				
Repayable on demand	480,470	462,609	476,806	458,974
	480,470	**462,609**	**476,806**	**458,974**

Included within loans to Banks and building societies is a balance held in the Bank of England reserve account of £425.2m (2022: £452.1m) and £4.9m restricted cash ratio deposits held with the Bank of England (2022: £3.6m).

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

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Aa3	4,879	3,577	4,879	3,577
A1	50,418	6,934	46,753	3,298
	55,297	**10,511**	**51,632**	**6,875**

20. Derivative financial instruments held for risk management

See accounting policy in note 7.14.

The Group 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 held for risk management purposes are presented in the following table:

Group and Bank	Notional Amount	Fair value of assets	Fair value of liabilities
	£000	£000	£000
At 31 December 2023			
Interest rate swaps:			
Designated in fair value hedges	4,091,605	75,058	23,306
Designated in cashflow hedges	66,050	18	2,150
Other risk management derivatives	193,200	-	-
	4,350,855	**75,076**	**25,456**

Group and Bank			
At 31 December 2022			
Interest rate swaps:			
Designated in fair value hedges	3,497,300	112,889	18,932
Designated in cashflow hedges	61,100	430	118
Other risk management derivatives	265,600	-	86
	3,824,000	**113,319**	**19,136**

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:

Group and Bank	2023	2022
	£000	£000
Net gain on derivatives designated as fair value hedges	39,698	79,006
Fair value adjustments from hedge accounting	(42,205)	(73,530)
Ineffectiveness of fair value hedges	**(2,507)**	**5,476**
Net (loss) on derivatives designated as cashflow hedges, realised through profit and loss	221	(65)
Movements on other derivative financial instruments	978	(2,151)
Fair value gains on derivative financial instruments	**(1,308)**	**3,260**

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided in Note 21. The Group 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 Group manages its market risks, see Note 29.4.

21. Hedge accounting

a. Fair value hedges of interest rate risk

See accounting policy in note 7.14.

At 31 December the maturities of interest rate swaps held by the Group as hedging instruments in fair value hedges of interest risk are as follows:

As at 31 December 2023	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	459,800	535,400	693,025	1,227,800	1,156,580	19,000	**4,091,605**
Average fixed interest rate	3.71%	4.03%	3.97%	2.38%	3.79%	5.40%	**3.43%**

As at 31 December 2022	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	457,600	265,100	680,400	997,600	1,076,600	20,000	**3,497,300**
Average fixed interest rate	1.38%	2.19%	3.02%	1.64%	1.95%	5.12%	**2.03%**

21. Hedge accounting (continued)

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

31 December 2023	Carrying amount 2023		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	1,788,256	-	(39,062)	-	Loans and advances to customers	62,200
Debt Securities	54,876	-	11	-	Debt Securities	11
Customer deposits	-	1,920,360	-	5,138	Customer deposits	(19,632)
Subordinated liabilities	-	57,881	-	2,881	Subordinated liabilities	(2,881)

31 December 2022	Carrying amount 2022		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	1,462,292	-	(101,262)	-	Loans and advances to customers	(84,630)
Debt Securities	-	1,687,420	-	14,494	Customer deposits	11,100

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

As at 31 December 2023	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffective-ness	Line item in profit or loss
Interest rate swap – Hedge of loans and advances							
Assets							
Interest rate risk	2,289,900	75,058	-	Derivative assets held for risk management	(37,832)	5%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Interest rate swaps - Hedge of customer deposits							
Liabilities							
Interest rate risk	1,801,705	-	23,306	Derivative Liabilities held for risk management	(4,373)	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

21. Hedge accounting (continued)

As at 31 December 2023	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffective-ness	Line item in profit or loss
Interest rate swap – Hedge of loans and advances							
Assets							
Interest rate risk	1,824,800	112,889	-	Derivative assets held for risk management	93,524	6%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Interest rate swaps - Hedge of customer deposits							
Liabilities							
Interest rate risk	1,672,500	-	18,931	Derivative Liabilities held for risk management	14,518	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

b. Cashflow hedges of interest rate risk

At 31 December the maturities of interest rate swaps held by the Group as hedging instruments in Cash flow hedges of exposures to interest rates are as follows:

As at 31 December 2023	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	14,540	51,510	66,050
Average fixed interest rate	4.66%	3.93%	4.10%

As at 31 December 2022	over 5 but not more than 10 years £000	Total £000
Nominal value of derivatives held for hedging purposes	61,100	61,100
Average fixed interest rate	3.91%	3.91%

21. Hedge accounting (continued)

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

As at 31 December 2023	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffective-ness	Line item in profit or loss
Interest rate swap – Hedge of floating rate liabilities							
Assets							
Interest rate risk	22,350	18	-	Derivative assets held for risk management	(412)	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	43,700	-	2,150	Derivative Liabilities held for risk management	2,032	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

As at 31 December 2022	Nominal amount £000	Assets (carrying amount) £000	Liabilities (carrying amount) £000	Line item in balance sheet £000	Change in fair value £000	Ineffective-ness	Line item in profit or loss
Interest rate swap – Hedge of floating rate liabilities							
Assets							
Interest rate risk	49,400	430	-	Derivative assets held for risk management	430	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	11,700	-	118	Derivative Liabilities held for risk management	118	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

21. Hedge accounting (continued)

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

31 December 2023	Line item in balance sheet	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk	Central Banking Facilities	3,394	3,099	1,661

31 December 2022	Line item in balance sheet	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk	Central Banking Facilities	125	129	248

For more information about how the Group manages its market risks, see Note 29.4.

22. Loans and advances to customers at FVTPL

See accounting policy in note 7.9.

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

Group and Bank	2023	2022
	£000	£000
Development Finance	**3,305**	**4,294**

23. Loans and advances to customers at amortised cost

See accounting policy in note 7.9.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Development Finance	272,158	224,639	272,158	224,639
Less: allowance for impairment	(4,373)	(2,934)	(4,373)	(2,934)
	267,785	**221,705**	**267,785**	**221,705**
Specialist Mortgages	2,148,296	1,710,267	2,148,296	1,710,267
Less: allowance for impairment	(9,477)	(7,315)	(9,477)	(7,315)
	2,138,819	**1,702,952**	**2,138,819**	**1,702,952**
Commercial and Retail Finance	215,265	283,146	-	-
Less: allowance for impairment	(3,762)	(4,798)	-	-
	211,503	**278,348**	**-**	**-**
Asset Finance				
Hire Purchase and Loans	325,819	329,113	253,834	214,366
Finance Leases	65,001	58,993	56,534	43,286
Vehicle Stocking	2,564	-	2,563	
Less: allowance for impairment	(7,955)	(5,975)	(6,556)	(4,113)
	385,429	**382,131**	**306,375**	**253,539**
Wholesale finance	293,426	166,213	293,426	166,213
Less: allowance for impairment	(17)	(24)	(17)	(24)
	293,409	**166,189**	**293,409**	**166,189**
	678,838	**548,320**	**599,784**	**419,728**
Fair value adjustments from portfolio hedging	**(39,062)**	**(101,262)**	**(39,062)**	**(101,262)**
	3,257,883	**2,650,063**	**2,967,326**	**2,243,123**

23. Loans and advances to customers at amortised cost (continued)

Hire Purchase and Loan

See accounting policy in note 7.6.

The table below provides an analysis of Hire Purchase and Loan receivables.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Gross investment in hire purchase receivables:				
Year 1	128,646	116,278	95,246	75,656
Year 2	103,822	100,541	80,699	65,380
Year 3	70,795	74,451	58,616	49,792
Year 4	46,142	46,579	40,522	33,924
Year 5	19,839	23,381	17,815	17,716
More than 5 years	3,681	7,785	3,202	5,210
Total future repayments	372,925	369,015	296,100	247,678
Unearned finance income	(47,106)	(39,902)	(42,266)	(33,312)
Net investment	325,819	329,113	253,834	214,366
Less impairment allowance	(6,377)	(3,835)	(5,374)	(2,972)
	319,442	**325,278**	**248,460**	**211,394**

Finance Lease Receivables

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

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Gross investment in finance lease receivables:				
Year 1	27,935	27,214	23,337	19,630
Year 2	20,241	18,419	17,655	13,748
Year 3	14,544	11,328	13,459	8,480
Year 4	8,807	6,119	8,370	4,915
Year 5	3,034	2,610	2,796	2,124
More than 5 years	402	356	243	16
Total future repayments	74,963	66,046	65,860	48,913
Unearned finance income	(9,962)	(7,053)	(9,326)	(5,627)
Net investment in finance leases	65,001	58,993	56,534	43,286
Less impairment allowance	(1,564)	(2,140)	(1,169)	(1,141)
	63,437	**56,853**	**55,365**	**42,145**

24. Investment securities held at amortised cost

See accounting policy in note 7.9.

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

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Covered bonds	116,198	33,462	116,198	33,462
Gilts	128,290	228,913	118,311	184,260
Debt Securities	**244,488**	**262,375**	**234,509**	**217,722**

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.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
A1	68,966	252,582	68,966	207,929
A2	13,634	-	13,634	-
A3	24,560	9,793	24,560	9,793
Aa3	128,290	-	118,311	-
Baa1	9,038	-	9,038	-
Debt Securities	**244,488**	**262,375**	**234,509**	**217,722**

25. Central Bank Facilities

See accounting policy in note 7.18.

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

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
TFSME	348,770	393,049	295,000	295,000
ILTR	5,000	-	5,000	-
Central Bank Facilities	**353,770**	**393,049**	**300,000**	**295,000**

26. Customer Deposits

See accounting policy in note 7.17.

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
With agreed maturity dates or periods of notice by remaining maturity:				
On demand	662,751	397,194	649,434	334,136
Not more than three months	662,583	486,797	637,801	456,726
More than three months but not more than one year	1,220,576	1,171,481	1,213,475	1,076,046
More than one year but not more than five years	709,804	632,513	699,771	568,280
More than five years	-	-	62	-
	3,255,714	**2,687,985**	**3,200,543**	**2,435,188**
Fair value adjustments for portfolio hedging	5,138	(14,494)	5,138	(14,494)
Customer deposits	**3,260,852**	**2,673,491**	**3,205,681**	**2,420,694**

27. Fair value of financial instruments

See accounting policy in note 7.12.

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.

Group	**Hierarchy level**	**Amortised Cost**	**Total carrying amount**	**Fair Value**
At 31 December 2023		**£000**	**£000**	**£000**
Loan and Advances to Banks	Level 2	480,470	480,470	480,470
Loans and Advances to Customers - FVTPL	Level 3	-	3,305	3,305
Loans and Advances to Customers – at amortised cost	Level 3	3,257,883	3,257,883	3,344,588
Investment Securities	Level 1	116,198	116,198	115,676
Investment Securities	Level 2	128,290	128,290	128,239
Derivative Financial Instruments	Level 2	-	75,076	75,076
Other Assets	Level 3	69,572	69,572	69,572
Total Financial Assets		**4,052,413**	**4,130,794**	**4,216,926**
Customer Deposits	Level 3	3,260,852	3,260,852	2,443,424
Central Bank Facilities	Level 3	353,770	353,770	325,533
Subordinated Liabilities	Level 2	-	57,768	57,768
Derivative Financial Instruments	Level 2	-	25,456	25,456
Finance Lease Liability	Level 3	4,114	4,114	4,114
Other Liabilities	Level 3	132,723	132,723	132,723
Total Financial Liabilities		**3,751,459**	**3,834,683**	**2,989,018**

Group At 31 December 2022	Hierarchy level	Amortised Cost £000	Total carrying amount £000	Fair Value £000
Loan and Advances to Banks	Level 2	462,609	462,609	462,609
Loans and Advances to Customers - FVTPL	Level 3	-	4,294	4,294
Loans and Advances to Customers – at amortised cost	Level 3	2,650,063	2,650,063	2,726,978
Investment Securities	Level 2	262,375	262,375	262,042
Derivative Financial Instruments	Level 2	-	113,319	113,319
Other Assets	Level 3	34,115	34,115	34,115
Total Financial Assets		**3,409,162**	**3,526,775**	**3,603,357**
Customer Deposits	Level 3	2,673,491	2,673,491	2,541,497
Central Bank Facilities	Level 3	393,049	393,049	347,752
Subordinated Liabilities	Level 2	-	30,337	30,337
Derivative Financial Instruments	Level 2	-	19,136	19,136
Finance Lease Liability	Level 3	923	923	923
Other Liabilities	Level 3	145,608	145,608	145,608
Total Financial Liabilities		**3,213,071**	**3,262,544**	**3,085,253**

Bank At 31 December 2023	Hierarchy level	Amortised Cost £000	Total carrying amount £000	Fair Value £000
Loan and Advances to Banks	Level 2	476,806	476,806	476,806
Loans and Advances to Customers - FVTPL	Level 3	-	3,305	3,305
Loans and Advances to Customers – at amortised cost	Level 3	2,967,326	2,967,326	3,046,435
Investment Securities	Level 1	116,198	116,198	115,677
Investment Securities	Level 2	118,311	118,311	118,258
Derivative Financial Instruments	Level 2	-	75,076	75,076
Other Assets	Level 3	232,405	232,405	232,405
Total Financial Assets		**3,911,046**	**3,989,427**	**4,067,962**
Customer Deposits	Level 3	3,205,681	3,205,681	2,390,284
Central Bank Facilities	Level 3	300,000	300,000	271,409
Subordinated Liabilities	Level 2	-	57,768	57,768
Derivative Financial Instruments	Level 2	-	25,456	25,456
Finance Lease Liability	Level 3	3,974	3,974	3,974
Other Liabilities	Level 3	147,935	147,935	147,935
Total Financial Liabilities		**3,657,590**	**3,740,814**	**2,896,826**

Bank	Hierarchy level	Amortised Cost	Total carrying amount	Fair Value
At 31 December 2022	**£000**	**£000**	**£000**	**£000**
Loan and Advances to Banks	Level 2	458,974	458,974	458,974
Loans and Advances to Customers - FVTPL	Level 3	-	4,294	4,294
Loans and Advances to Customers – at amortised cost	Level 3	2,243,123	2,243,123	2,333,058
Investment Securities	Level 2	217,722	217,722	217,407
Derivative Financial Instruments	Level 2	-	113,319	113,319
Other Assets	Level 3	97,543	97,543	97,543
Total Financial Assets		**3,017,362**	**3,134,975**	**3,224,595**
Customer Deposits	Level 3	2,420,694	2,420,694	2,305,929
Central Bank Facilities	Level 3	295,000	295,000	260,749
Subordinated Liabilities	Level 2	-	30,336	30,336
Derivative Financial Instruments	Level 2	-	19,136	19,136
Finance Lease Liability	Level 3	647	647	647
Other Liabilities	Level 3	175,433	175,433	175,433
Total Financial Liabilities		**2,891,774**	**2,941,246**	**2,792,230**

Level 3 fair value measurements

(i) Reconciliation

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

Loans and advances to customers

Group and Bank	2023	2022
	£'000	£'000
Balance at 1 January	**4,294**	**10,025**
Total gains or (losses):		
In profit or (loss)	(794)	473
Drawdowns on existing facilities	60	5,417
Repayments	(255)	(11,621)
Balance at 31 December	**3,305**	**4,294**

There were no transfers in or out of level 3.

(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 relate to the timing and amount of expected cash flows.

Significant unobservable inputs include timing and amount of expected cash flows from the sale of completed properties. Based on historical experience, these cash flows can fluctuate due to changes in construction schedules and consumer demand for the completed units, with management having a range of possible cash flow scenarios, weighted by their probability of occurring. Changes in those projected cash flows and/or probabilities could result in a material impact on the fair value. Projected cash flows are derived from the business line's best estimates. An average delay of 5 months in sales will result in a £188k drop in fair value (2022: £17k).

28. 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.

As at 31 December 2023

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£000	£000	£000	£000	£000
Development Finance	181,916	66,172	24,070	-	272,158
Specialist Mortgages	1,827,727	286,075	34,494	-	2,148,296
Asset and Wholesale Finance	569,797	102,742	14,225	46	686,810
Commercial and Retail	195,710	13,434	6,108	13	215,265
Total Exposure	**2,775,150**	**468,423**	**78,897**	**59**	**3,322,529**
Off Balance Sheet:					
Loan Commitments	491,544	-	-	-	491,544
Total Gross Exposure	**3,266,694**	**468,423**	**78,897**	**59**	**3,814,073**
Less: FV losses from portfolio hedging	(32,199)	(6,863)	-	-	(39,062)
Less: allowance for impairment	(6,861)	(7,461)	(11,591)	329	(25,584)
Total Net Exposure	**3,227,634**	**454,099**	**67,306**	**388**	**3,749,427**

As at 31 December 2022

Group	Stage 1	Stage 2	Stage 3	POCI	Total
	£000	£000	£000	£000	£000
Development Finance	169,310	46,334	8,995	-	224,639
Specialist Mortgages	1,371,692	301,491	37,084	-	1,710,267
Asset and Wholesale Finance	483,000	62,270	8,987	62	554,319
Commercial and Retail	269,208	8,537	5,045	356	283,146
Total Exposure	**2,293,210**	**418,632**	**60,111**	**418**	**2,772,371**
Off Balance Sheet:					
Loan Commitments	393,178	-	-	-	393,178
Total Gross Exposure	**2,686,388**	**418,632**	**60,111**	**418**	**3,165,549**
Less: FV losses from portfolio hedging	(79,903)	(21,289)	(70)	-	(101,262)
Less: allowance for impairment	(5,841)	(5,474)	(9,802)	71	(21,046)
Total Net Exposure	**2,600,644**	**391,869**	**50,239**	**489**	**3,043,241**

As at 31 December 2023				
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	**£000**	**£000**	**£000**
Development Finance	181,916	66,172	24,070	272,158
Specialist Mortgages	1,827,727	286,075	34,494	2,148,296
Asset and Wholesale Finance	503,036	91,686	11,635	606,357
Total Exposure	**2,512,679**	**443,933**	**70,199**	**3,026,811**
Off Balance Sheet:				
Loan Commitments	491,544	-	-	491,544
Total Gross Exposure	**3,004,223**	**443,933**	**70,199**	**3,518,355**
Less: FV losses from portfolio hedging	(32,199)	(6,863)	-	(39,062)
Less: allowance for impairment	(5,307)	(6,038)	(9,078)	(20,423)
Total Net Exposure	**2,966,717**	**431,032**	**61,121**	**3,458,870**

As at 31 December 2022				
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	**£000**	**£000**	**£000**
Development Finance	169,310	46,334	8,995	224,639
Specialist Mortgages	1,371,692	301,491	37,084	1,710,267
Asset and Wholesale Finance	355,971	60,152	7,742	423,865
Total Exposure	**1,896,973**	**407,977**	**53,821**	**2,358,771**
Off Balance Sheet:				
Loan Commitments	393,178	-	-	393,178
Total Gross Exposure	**2,290,151**	**407,977**	**53,821**	**2,751,949**
Less: FV losses from portfolio hedging	(79,903)	(21,289)	(70)	(101,262)
Less: allowance for impairment	(3,099)	(4,752)	(6,535)	(14,386)
Total Net Exposure	**2,207,149**	**381,936**	**47,216**	**2,636,301**

Movements in the gross carrying amount of the Group's loans and advances to customers at amortised cost during the year that contributed to the changes in the associated loss allowance during the year are shown in the following tables. The tables are compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

Gross Carrying Value	2023			
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**169,310**	**46,334**	**8,995**	**224,639**
Transfer to Stage 1	8,712	(8,712)	-	-
Transfer to Stage 2	(23,351)	23,351	-	-
Transfer to Stage 3	(1,898)	(16,224)	18,122	-
Drawdowns/(Repayments)	29,143	21,423	(775)	49,791
Write offs	-	-	(2,272)	(2,272)
Balance at 31 December	**181,916**	**66,172**	**24,070**	**272,158**

Group	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,371,692**	**301,491**	**37,084**	**1,710,267**
Transfer to Stage 1	159,964	(159,552)	(412)	-
Transfer to Stage 2	(126,104)	126,961	(857)	-
Transfer to Stage 3	(8,360)	(8,017)	16,377	-
Drawdowns/(Repayments)	430,535	25,192	(16,145)	439,582
Write offs	-	-	(1,553)	(1,553)
Balance at 31 December	**1,827,727**	**286,075**	**34,494**	**2,148,296**

Gross Carrying Value	2023				
Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**483,000**	**62,270**	**8,987**	**62**	**554,319**
Transfer to Stage 1	33,744	(30,231)	(3,513)	-	-
Transfer to Stage 2	(71,211)	71,682	(471)	-	-
Transfer to Stage 3	(12,799)	(1,451)	14,250	-	-
Drawdowns/(Repayments)	137,063	472	(514)	(52)	136,969
Write Offs	-	-	(4,514)	36	(4,478)
Balance at 31 December	**569,797**	**102,742**	**14,225**	**46**	**686,810**

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Commercial and Retail Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**269,208**	**8,537**	**5,045**	**356**	**283,146**
Transfer to Stage 1	3,136	(3,134)	(2)	-	-
Transfer to Stage 2	(11,553)	11,567	(14)	-	-
Transfer to Stage 3	(124)	(1,804)	1,928	-	-
Drawdowns/(Repayments)	(64,957)	(1,732)	(142)	(214)	(67,045)
Write Offs	-	-	(707)	(129)	(836)
Balance at 31 December	**195,710**	**13,434**	**6,108**	**13**	**215,265**

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Total	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**2,293,210**	**418,632**	**60,111**	**418**	**2,772,371**
Transfer to Stage 1	205,556	(201,629)	(3,927)	-	-
Transfer to Stage 2	(232,219)	233,561	(1,342)	-	-
Transfer to Stage 3	(23,181)	(27,496)	50,677	-	-
Drawdowns/(Repayments)	531,784	45,355	(17,576)	(266)	559,297
Write Offs	-	-	(9,046)	(93)	(9,139)
Balance at 31 December	**2,775,150**	**468,423**	**78,897**	**59**	**3,322,529**

Gross Carrying Value	2023			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**169,310**	**46,334**	**8,995**	**224,639**
Transfer to Stage 1	8,712	(8,712)	-	-
Transfer to Stage 2	(23,351)	23,351	-	-
Transfer to Stage 3	(1,898)	(16,224)	18,122	-
Drawdowns/(Repayments)	29,143	21,423	(775)	49,791
Write offs	-	-	(2,272)	(2,272)
Balance at 31 December	**181,916**	**66,172**	**24,070**	**272,158**

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,371,692**	**301,491**	**37,084**	**1,710,267**
Transfer to Stage 1	159,964	(159,552)	(412)	-
Transfer to Stage 2	(126,104)	126,961	(857)	-
Transfer to Stage 3	(8,360)	(8,017)	16,377	-
Drawdowns/(Repayments)	430,535	25,192	(16,145)	439,582
Write offs	-	-	(1,553)	(1,553)
Balance at 31 December	**1,827,727**	**286,075**	**34,494**	**2,148,296**

Bank	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**355,971**	**60,152**	**7,742**	**423,865**
Transfer to Stage 1	32,775	(29,865)	(2,910)	-
Transfer to Stage 2	(55,913)	56,384	(471)	-
Transfer to Stage 3	(9,119)	(1,326)	10,445	-
Drawdowns/(Repayments)	179,322	6,341	161	185,824
Write Offs	-	-	(3,332)	(3,332)
Balance at 31 December	**503,036**	**91,686**	**11,635**	**606,357**

Bank	Stage 1	Stage 2	Stage 3	Total
Total	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,896,973**	**407,977**	**53,821**	**2,358,771**
Transfer to Stage 1	201,451	(198,129)	(3,322)	-
Transfer to Stage 2	(205,368)	206,696	(1,328)	-
Transfer to Stage 3	(19,377)	(25,567)	44,944	-
Drawdowns/(Repayments)	639,000	52,956	(16,759)	675,197
Write Offs	-	-	(7,157)	(7,157)
Balance at 31 December	**2,512,679**	**443,933**	**70,199**	**3,026,811**

Gross Carrying Value	2022			
Group	Stage 1	Stage 2	Stage 3	Total
Development Finance	£000	£000	£000	£000
Balance at 1 January	**127,228**	**11,010**	**10,511**	**148,749**
Transfer to Stage 1	3,340	(3,340)	-	-
Transfer to Stage 2	(18,188)	18,188	-	-
Transfer to Stage 3	-	(2,081)	2,081	-
Drawdowns/(Repayments)	56,930	22,557	(1,140)	78,347
Write offs	-	-	(2,457)	(2,457)
Balance at 31 December	**169,310**	**46,334**	**8,995**	**224,639**

Group	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£000	£000	£000	£000
Balance at 1 January	**1,190,531**	**104,689**	**19,130**	**1,314,350**
Transfer to Stage 1	30,870	(28,240)	(2,630)	-
Transfer to Stage 2	(259,512)	263,517	(4,005)	-
Transfer to Stage 3	(13,890)	(10,856)	24,746	-
Drawdowns/(Repayments)	423,693	(27,619)	118	396,192
Write offs	-	-	(275)	(275)
Balance at 31 December	**1,371,692**	**301,491**	**37,084**	**1,710,267**

Gross Carrying Value	2022				
Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**248,044**	**12,091**	**9,252**	**-**	**269,387**
Acquired	**192,253**	**-**	**-**	**343**	**192,596**
Transfer to Stage 1	3,641	(2,451)	(1,190)	-	-
Transfer to Stage 2	(27,489)	29,088	(1,599)	-	-
Transfer to Stage 3	(6,102)	(514)	6,616	-	-
Drawdowns/(Repayments)	72,653	24,056	(2,199)	(690)	93,820
Write Offs	-	-	(1,893)	409	(1,484)
Balance at 31 December	**483,000**	**62,270**	**8,987**	**62**	**554,319**

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Commercial and Retail Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**-**	**-**	**-**	**-**	**-**
Acquired	**301,380**	**-**	**-**	**924**	**302,304**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(9,209)	9,209	-	-	-
Transfer to Stage 3	(5,211)	-	5,211	-	-
Drawdowns/(Repayments)	(17,752)	(672)	(141)	(543)	(19,108)
Write Offs	-	-	(25)	(25)	(50)
Balance at 31 December	**269,208**	**8,537**	**5,045**	**356**	**283,146**

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Total	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,565,803**	**127,790**	**38,893**	**-**	**1,732,486**
Acquired	**493,633**	**-**	**-**	**1,267**	**494,900**
Transfer to Stage 1	37,851	(34,031)	(3,820)	-	-
Transfer to Stage 2	(314,398)	320,002	(5,604)	-	-
Transfer to Stage 3	(25,203)	(13,451)	38,654	-	-
Drawdowns/(Repayments)	535,524	18,322	(3,362)	(1,233)	549,251
Write Offs	-	-	(4,650)	384	(4,266)
Balance at 31 December	**2,293,210**	**418,632**	**60,111**	**418**	**2,772,371**

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Gross Carrying Value	2022			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**127,228**	**11,010**	**10,511**	**148,749**
Transfer to Stage 1	3,340	(3,340)	-	-
Transfer to Stage 2	(18,188)	18,188	-	-
Transfer to Stage 3	-	(2,081)	2,081	-
Drawdowns/(Repayments)	56,930	22,557	(1,140)	78,347
Write offs	-	-	(2,457)	(2,457)
Balance at 31 December	**169,310**	**46,334**	**8,995**	**224,639**

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,190,531**	**104,689**	**19,130**	**1,314,350**
Transfer to Stage 1	30,870	(28,240)	(2,630)	-
Transfer to Stage 2	(259,512)	263,517	(4,005)	-
Transfer to Stage 3	(13,890)	(10,856)	24,746	-
Drawdowns/(Repayments)	423,693	(27,619)	118	396,192
Write offs	-	-	(275)	(275)
Balance at 31 December	**1,371,692**	**301,491**	**37,084**	**1,710,267**

Bank	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**248,044**	**12,091**	**9,252**	**269,387**
Transfer to Stage 1	3,641	(2,451)	(1,190)	-
Transfer to Stage 2	(24,778)	26,377	(1,599)	-
Transfer to Stage 3	(4,461)	(506)	4,967	-
Drawdowns/(Repayments)	133,525	24,641	(1,870)	156,296
Write Offs	-	-	(1,818)	(1,818)
Balance at 31 December	**355,971**	**60,152**	**7,742**	**423,865**

Bank	Stage 1	Stage 2	Stage 3	Total
Total	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,565,803**	**127,790**	**38,893**	**1,732,486**
Transfer to Stage 1	37,851	(34,031)	(3,820)	-
Transfer to Stage 2	(302,478)	308,082	(5,604)	-
Transfer to Stage 3	(18,351)	(13,443)	31,794	-
Drawdowns/(Repayments)	614,148	19,579	(2,892)	630,835
Write Offs	-	-	(4,550)	(4,550)
Balance at 31 December	**1,896,973**	**407,977**	**53,821**	**2,358,771**

Loss allowance	2023			
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**203**	**2,104**	**627**	**2,934**
Transfer to Stage 1	66	(66)	-	-
Transfer to Stage 2	(35)	35	-	-
Transfer to Stage 3	(17)	(1,588)	1,605	-
Net transfers	**14**	**(1,619)**	**1,605**	**-**
Other changes in credit parameters & forward-looking information[1]	369	1,521	3,040	4,930
Additions and repayments[2]	551	(1,144)	(626)	(1,219)
Charge to the Statement of Profit and Loss	**920**	**377**	**2,414**	**3,711**
Write offs/(Recoveries)	-	-	(2,272)	(2,272)
Balance at 31 December	**1,137**	**862**	**2,374**	**4,373**

Group	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,682**	**2,058**	**3,575**	**7,315**
Transfer to Stage 1	1,280	(1,280)	-	-
Transfer to Stage 2	(146)	146	-	-
Transfer to Stage 3	(59)	(84)	143	-
Net transfers	**1,075**	**(1,218)**	**143**	**-**
Other changes in credit parameters & forward-looking information[1]	(793)	2,105	2,494	3,806
Additions and repayments[2]	1,127	541	(1,759)	(91)
Charge to the Statement of Profit and Loss	**334**	**2,646**	**735**	**3,715**
Write offs/(Recoveries)	-	-	(1,553)	(1,553)
Balance at 31 December	**3,091**	**3,486**	**2,900**	**9,477**

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	2023				
Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**2,258**	**797**	**3,184**	**(240)**	**5,999**
Transfer to Stage 1	1,807	(288)	(1,519)	-	-
Transfer to Stage 2	(429)	514	(85)	-	-
Transfer to Stage 3	(81)	(103)	184	-	-
Net transfers	**1,297**	**123**	**(1,420)**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(2,487)	309	5,366	(1)	3,187
Additions and repayments[2]	457	761	1,980	66	3,264
Charge to the Statement of Profit and Loss	**(2,030)**	**1,070**	**7,346**	**65**	**6,451**
Write offs/(Recoveries)	-	-	(4,514)	36	(4,478)
Balance at 31 December	**1,525**	**1,990**	**4,596**	**(139)**	**7,972**

Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Commercial and Retail Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,697**	**515**	**2,417**	**169**	**4,798**
Transfer to Stage 1	129	(128)	(1)	-	-
Transfer to Stage 2	(88)	98	(10)	-	-
Transfer to Stage 3	171	42	(213)	-	-
Net transfers	**212**	**12**	**(224)**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(369)	793	(732)	(637)	(945)
Additions and repayments[2]	(432)	(197)	967	407	745
Charge to the Statement of Profit and Loss	**(801)**	**596**	**235**	**(230)**	**(200)**
Write offs/(Recoveries)	-	-	(707)	(129)	(836)
Balance at 31 December	**1,108**	**1,123**	**1,721**	**(190)**	**3,762**

Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Total	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**5,840**	**5,474**	**9,803**	**(71)**	**21,046**
Transfer to Stage 1	3,282	1,762	(1,520)	-	-
Transfer to Stage 2	(698)	793	(95)	-	-
Transfer to Stage 3	14	(1,733)	1,719	-	-
Net transfers	**2,598**	**(2,702)**	**104**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(3,280)	4,728	10,168	(638)	10,978
Additions and repayments[2]	1,703	(39)	562	473	2,699
Charge to the Statement of Profit and Loss	**(1,577)**	**4,689**	**10,730**	**(165)**	**13,677**
Write offs/(Recoveries)	-	-	(9,046)	(93)	(9,139)
Balance at 31 December	**6,861**	**7,461**	**11,591**	**(329)**	**25,584**

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	2023			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**203**	**2,104**	**627**	**2,934**
Transfer to Stage 1	66	(66)	-	-
Transfer to Stage 2	(35)	35	-	-
Transfer to Stage 3	(17)	(1,588)	1,605	-
Net transfers	**14**	**(1,619)**	**1,605**	**-**
Other changes in credit parameters & forward-looking information[1]	369	1,521	3,040	4,930
Additions and repayments[2]	551	(1,144)	(626)	(1,219)
Charge to the Statement of Profit and Loss	**920**	**377**	**2,414**	**3,711**
Write offs	-	-	(2,272)	(2,272)
Balance at 31 December	**1,137**	**862**	**2,374**	**4,373**

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,682**	**2,058**	**3,575**	**7,315**
Transfer to Stage 1	1,280	(1,280)	-	-
Transfer to Stage 2	(146)	146	-	-
Transfer to Stage 3	(59)	(84)	143	-
Net transfers	**1,075**	**(1,218)**	**143**	**-**
Other changes in credit parameters & forward-looking information[1]	(793)	2,105	2,494	3,806
Additions and repayments[2]	1,127	541	(1,759)	(91)
Charge to the Statement of Profit and Loss	**334**	**2,646**	**735**	**3,715**
Write offs	-	-	(1,553)	(1,553)
Balance at 31 December	**3,091**	**3,486**	**2,900**	**9,477**

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	2023			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,214**	**590**	**2,333**	**4,137**
Transfer to Stage 1	1,275	(255)	(1,020)	-
Transfer to Stage 2	(304)	389	(85)	-
Transfer to Stage 3	(74)	(93)	167	-
Net transfers	**897**	**41**	**938)**	**-**
Other changes in credit parameters & forward-looking information[1]	(1,593)	220	4,722	3,349
Additions and repayments[2]	561	839	1,019	2,419
Charge to the Statement of Profit and Loss	**(1,032)**	**1,059**	**5,741**	**5,768**
Write offs	-	-	(3,332)	(3,332)
Balance at 31 December	**1,079**	**1,690**	**3,804**	**6,573**

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**3,099**	**4,752**	**6,535**	**14,386**
Transfer to Stage 1	2,621	(1,601)	(1,020)	-
Transfer to Stage 2	(485)	570	(85)	-
Transfer to Stage 3	(150)	(1,765)	1,915	-
Net transfers	**1,986**	**(2,796)**	**810**	**-**
Other changes in credit parameters & forward-looking information[1]	(2,017)	3,846	10,256	12,085
Additions and repayments[2]	2,239	236	(1,366)	1,109
Charge to the Statement of Profit and Loss	**222**	**4,082**	**8,890**	**13,194**
Write offs	-	-	(7,157)	(7,157)
Balance at 31 December	**5,307**	**6,038**	**9,078**	**20,423**

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	2022			
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**57**	**162**	**2,464**	**2,683**
Transfer to Stage 1	21	(21)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(1)	(69)	70	-
Net transfers	**7**	**(77)**	**70**	**-**
Other changes in credit parameters & forward-looking information[1]	90	2,073	558	2,721
Additions and repayments[2]	49	(54)	(8)	(13)
Charge to the Statement of Profit and Loss	**139**	**2,019**	**550**	**2,708**
Write offs/(Recoveries)	-	-	(2,457)	(2,457)
Balance at 31 December	**203**	**2,104**	**627**	**2,934**

Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**639**	**838**	**1,356**	**2,833**
Transfer to Stage 1	553	(407)	(146)	-
Transfer to Stage 2	(100)	524	(424)	-
Transfer to Stage 3	(7)	(123)	130	-
Net transfers	**446**	**(6)**	**(440)**	**-**
Other changes in credit parameters & forward-looking information[1]	(730)	16	2,466	1,752
Additions and repayments[2]	1,327	1,210	468	3,005
Charge to the Statement of Profit and Loss	**597**	**1,226**	**2,934**	**4,757**
Write offs/(Recoveries)	-	-	(275)	(275)
Balance at 31 December	**1,682**	**2,058**	**3,575**	**7,315**

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	2022				
Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Asset and Wholesale Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**735**	**475**	**4,445**	**-**	**5,655**
Acquired	**1,492**	**-**	**-**	**-**	**1,492**
Transfer to Stage 1	752	(76)	(676)	-	-
Transfer to Stage 2	(172)	867	(695)	-	-
Transfer to Stage 3	(129)	(41)	170	-	-
Net transfers	**451**	**750**	**(1,201)**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(824)	(359)	1,042	(240)	(381)
Additions and repayments[2]	404	(69)	791	(409)	717
Charge to the Statement of Profit and Loss	**(420)**	**(428)**	**1,833**	**(649)**	**336**
Write offs/(Recoveries)	-	-	(1,893)	409	(1,484)
Balance at 31 December	**2,258**	**797**	**3,184**	**(240)**	**5,999**

Group	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Commercial and Retail Finance	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**-**	**-**	**-**	**-**	**-**
Acquired	**4,173**	**-**	**-**	**-**	**4,173**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(258)	258	-	-	-
Transfer to Stage 3	(763)	-	763	-	-
Net transfers	**(1,021)**	**258**	**763**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(1,397)	249	1,816	169	837
Additions and repayments[2]	(58)	8	(137)	25	(162)
Charge to the Statement of Profit and Loss	**(1,455)**	**257**	**1,679**	**194**	**675**
Write offs/(Recoveries)	-	-	(25)	(25)	(50)
Balance at 31 December	**1,697**	**515**	**2,417**	**169**	**4,798**

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

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Total	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**1,431**	**1,475**	**8,265**	**-**	**11,171**
Acquired	**5,665**	**-**	**-**	**-**	**5,665**
Transfer to Stage 1	1,326	(504)	(822)	-	-
Transfer to Stage 2	(543)	1,662	(1,119)	-	-
Transfer to Stage 3	(900)	(233)	1,133	-	-
Net transfers	**(117)**	**925**	**(808)**	**-**	**-**
Other changes in credit parameters & forward-looking information[1]	(2,861)	1,979	5,882	(71)	4,929
Additions and repayments[2]	1,722	1,095	1,114	(384)	3,547
Charge to the Statement of Profit and Loss	**(1,139)**	**3,074**	**6,996**	**(455)**	**8,476**
Write offs/(Recoveries)	-	-	(4,650)	384	(4,266)
Balance at 31 December	**5,840**	**5,474**	**9,803**	**(71)**	**21,046**

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	2022			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Development Finance	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**57**	**162**	**2,464**	**2,683**
Transfer to Stage 1	21	(21)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(1)	(69)	70	-
Net transfers	**7**	**(77)**	**70**	**-**
Other changes in credit parameters & forward-looking information[1]	90	2,073	558	2,721
Additions and repayments[2]	49	(54)	(8)	(13)
Charge to the Statement of Profit and Loss	**139**	**2,019**	**550**	**2,708**
Write offs	-	-	(2,457)	(2,457)
Balance at 31 December	**203**	**2,104**	**627**	**2,934**

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	**£000**	**£000**	**£000**	**£000**
Balance at 1 January	**639**	**838**	**1,356**	**2,833**
Transfer to Stage 1	553	(407)	(146)	-
Transfer to Stage 2	(100)	524	(424)	-
Transfer to Stage 3	(7)	(123)	130	-
Net transfers	**446**	**(6)**	**(440)**	**-**
Other changes in credit parameters & forward-looking information[1]	(730)	16	2,466	1,752
Additions and repayments[2]	1,327	1,210	468	3,005
Charge to the Statement of Profit and Loss	**597**	**1,226**	**2,934**	**4,757**
Write offs	-	-	(275)	(275)
Balance at 31 December	**1,682**	**2,058**	**3,575**	**7,315**

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	2022			
Bank	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£000	£000	£000	£000
Balance at 1 January	**735**	**475**	**4,445**	**5,655**
Transfer to Stage 1	752	(76)	(676)	-
Transfer to Stage 2	(116)	811	(695)	-
Transfer to Stage 3	(53)	(41)	94	-
Net transfers	**583**	**694**	**(1,277)**	**-**
Other changes in credit parameters & forward-looking information[1]	(606)	(510)	259	(857)
Additions and repayments[2]	502	(69)	724	1,157
Charge to the Statement of Profit and Loss	**(104)**	**(579)**	**983**	**300**
Write offs	-	-	(1,818)	(1,818)
Balance at 31 December	**1,214**	**590**	**2,333**	**4,137**

Bank	Stage 1	Stage 2	Stage 3	Total
Total	£000	£000	£000	£000
Balance at 1 January	**1,431**	**1,475**	**8,265**	**11,171**
Transfer to Stage 1	1,326	(504)	(822)	-
Transfer to Stage 2	(229)	1,348	(1,119)	-
Transfer to Stage 3	(61)	(233)	294	-
Net transfers	**1,036**	**611**	**(1,647)**	**-**
Other changes in credit parameters & forward-looking information[1]	(1,246)	1,579	3,283	3,616
Additions and repayments[2]	1,878	1,087	1,184	4,149
Charge to the Statement of Profit and Loss	**632**	**2,666**	**4,467**	**7,765**
Write offs	-	-	(4,550)	(4,550)
Balance at 31 December	**3,099**	**4,752**	**6,535**	**14,386**

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.

Impairment losses on loans and advances to customers being recognised in the Statement of Comprehensive Income for the Group and the Bank comprise of the following balances:

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Increase/(Decrease) in ECL	4,538	4,210	6,037	3,214
Write offs	9,139	4,266	7,157	4,550
Bad debt recoveries (Excluding POCI)	(1,262)	(457)	(722)	(456)
Impairments not reflected in ECL	25	82	26	-
Impairment (gains)/losses on loans and advances to customers	**12,440**	**8,101**	**12,498**	**7,308**

Post-Model Adjustments ("PMAs")

For year-end 2023, the Bank determined that a series of PMAs totalling £1.1m (2022: £1.4m) are required across the Group's four key portfolios, which have been included in the respective loss allowance tables (pages 95-111). 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:** A PMA has been applied to loans in this portfolio covered under the RLS (see note 7.21) reflecting the value of the guarantee provided by the British Business Bank and reduction in ECL of £0.1m (2022: £0.1m). Due to the potential effects of the current period of elevated inflation, energy and other input prices, a PMA has been added to account for obligors in at-risk sectors (including sectors at risk from lower consumer spending). This has resulted in a PMA of £55k (2022: £0.2m).
- **Commercial and Retail Finance:** Due to the potential effects of the current period of elevated interest rates, inflation, energy and other input prices, a PMA of £57k (2022: £0.3m) has been added to account for obligors that may face a combination of rising costs and a decrease in consumer spending.
- **Development Finance:** A PMA of £45k (2022: £0.1m) has been determined based on the latest LGD model monitoring to compensate for the LGD model's under prediction versus experience and the elevated risk on mid-construction defaults. The PMA will be reviewed quarterly as new data emerges. Model development work in 2024 is expected to remove the requirement for this PMA. A Further PMA of £1.2m (2022: £Nil) has been determined based on the latest PD model monitoring to compensate for the PD model's under prediction versus experience. The PMA will be reviewed quarterly as new data emerges. Model development work in 2024 is expected to remove the requirement for this PMA.
- **Specialist Mortgages:** The Bank undertook an exercise to understand the cladding / fire risk in its portfolio and management judgement has resulted in additional ECL allowance of £0.2m (2022: £0.2m). The PMA will be reviewed quarterly as new data emerges. Additionally, a PMA has resulted in a reduction of £0.4m in the ECL allowance reflecting the expectation that semi-Commercial and Commercial property valuations are will to be more resilient in a downturn compared to residential property.

29.1 Financial Risk

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

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

29.2 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 Group uses a range of approaches to mitigate credit risk, including policies, obtaining collateral, using master netting agreements. The Group'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:

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Loans and Advances to Banks & Investment Securities held at amortised cost	724,958	724,984	711,315	676,696
Loans and Advances to Customers at amortised cost	3,322,529	2,772,371	3,026,811	2,358,771
Loans and Advances to customers at FVTPL (not subject to impairment requirements)	3,305	4,294	3,305	4,294
Other assets: intercompany balances (Note 33)	119	63	170,316	73,653
Total on-balance sheet exposure	**4,050,911**	**3,501,712**	**3,911,747**	**3,113,414**
Contractual loan commitments	491,544	393,178	491,544	393,178
Maximum credit exposure	**4,542,455**	**3,894,890**	**4,403,291**	**3,506,592**

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2023. However, undrawn loan facilities of £311.3m granted by Development Finance are legally drafted such that they can be drawn on demand but are uncommitted and can be withdrawn without notice (2022: £239.4m).

Quality of credit risk exposures

Internal rating scales

In assessing the credit quality of the loan portfolio the Group 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.

Group		Stage 1	Stage 2	Stage 3 & POCI	2023 Total
Internal Rating at Origination	**12 month PD range**	**£000**	**£000**	**£000**	**£000**
1	0.0006-0.0045	284,522	57,051	1,769	343,342
2	0.0045-0.0105	763,480	161,600	22,617	947,697
3	0.0105-0.0240	1,295,596	177,906	40,052	1,513,554
4	0.0240-0.0550	381,463	59,946	10,429	451,838
5	>0.0550	50,089	11,920	4,089	66,098
		2,775,150	**468,423**	**78,956**	**3,322,529**

Group		Stage 1	Stage 2	Stage 3 & POCI	2022 Total
Internal Rating at Origination	**12 month PD range**	**£000**	**£000**	**£000**	**£000**
1	0.0006-0.0045	298,691	81,718	3,490	383,899
2	0.0045-0.0105	739,735	132,158	22,554	894,447
3	0.0105-0.0240	926,754	146,278	27,405	1,100,437
4	0.0240-0.0550	286,048	47,303	3,626	336,977
5	>0.0550	41,982	11,175	3,454	56,611
		2,293,210	**418,632**	**60,529**	**2,772,371**

Bank		Stage 1	Stage 2	Stage 3	2023 Total
Internal Rating at Origination	**12 month PD range**	**£000**	**£000**	**£000**	**£000**
1	0.0006-0.0045	274,907	55,462	1,719	332,088
2	0.0045-0.0105	653,692	150,872	19,349	823,913
3	0.0105-0.0240	1,184,625	168,311	38,050	1,390,986
4	0.0240-0.0550	359,433	58,169	9,992	427,594
5	>0.0550	40,020	11,119	1,089	52,228
		2,512,677	**443,933**	**70,199**	**3,026,809**

Bank		Stage 1	Stage 2	Stage 3	2022 Total
Internal Rating at Origination	**12 month PD range**	**£000**	**£000**	**£000**	**£000**
1	0.0006-0.0045	283,099	79,933	3,482	366,514
2	0.0045-0.0105	574,674	130,443	20,316	725,433
3	0.0105-0.0240	765,638	141,899	26,585	934,122
4	0.0240-0.0550	249,534	46,124	2,724	298,382
5	>0.0550	24,028	9,578	714	34,320
		1,896,973	**407,977**	**53,821**	**2,358,771**

The following table sets out an analysis of the stage 2 balances as at 31 December, reflecting the stage 2 exposures by days in arrears:

Group	2023		2022	
Stage 2 exposures by days in arrears	**30 days or less**	**More than 30 days**	**30 days or less**	**More than 30 days**
	£000	**£000**	**£000**	**£000**
Commercial loans	71,209	7,942	50,206	4,385
Retail loans	266,123	20,652	293,227	8,620
Asset and Wholesale finance	99,499	2,998	54,788	7,406
	436,831	**31,592**	**398,221**	**20,411**

Bank	2023		2022	
Stage 2 exposures by days in arrears	**30 days or less**	**More than 30 days**	**30 days or less**	**More than 30 days**
	£000	**£000**	**£000**	**£000**
Development Finance	62,481	3,690	42,261	4,073
Specialist Mortgages	265,438	20,638	292,965	8,526
Asset and Wholesale finance	89,095	2,591	53,028	7,124
	417,014	**26,919**	**388,254**	**19,723**

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

Group	2023		2022	
	Gross carrying amount	ECL	Gross carrying amount	ECL
	£000	£000	£000	£000
Credit-impaired not in cure period	76,457	11,490	59,058	9,605
No longer credit-impaired but in cure period that precedes transfer to stage 2	2,499	101	1,471	127
	78,956	**11,591**	**60,529**	**9,732**

Bank	2023		2022	
	Gross carrying amount	ECL	Gross carrying amount	ECL
	£000	£000	£000	£000
Credit-impaired not in cure period	67,959	8,990	52,350	6,408
No longer credit-impaired but in cure period that precedes transfer to stage 2	2,240	88	1,471	127
	70,199	**9,078**	**53,821**	**6,535**

Concentrations of credit risk

The Group 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.

Group	**Loans and advances to Banks & Investment Securities**		**Loans and advances to Customers**		**Contractual Commitments**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Carrying amount	724,958	724,984	3,257,883	2,650,063	491,544	393,178
Concentration by sector:						
Corporate	-	-	2,762,443	2,196,072	438,576	374,222
Government	558,342	684,588	-	-	-	-
Banks	166,616	40,396	-	-	-	-
Retail	-	-	495,440	453,991	52,968	18,956
	724,958	**724,984**	**3,257,883**	**2,650,063**	**491,544**	**393,178**
Concentration by location:						
UK	724,958	724,984	3,257,883	2,650,063	491,544	393,178

Bank	**Loans and advances to Banks & Investment Securities**		**Loans and advances to Customers**		**Contractual Commitments**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Carrying amount	711,315	676,696	2,967,326	2,243,123	491,544	393,178
Concentration by sector:						
Corporate	-	-	2,473,948	1,796,399	438,576	374,222
Government	548,362	639,935	-	-	-	
Banks	162,953	36,761	-	-	-	
Retail	-	-	493,378	446,724	52,968	18,956
	711,315	**676,696**	**2,967,326**	**2,243,123**	**491,544**	**393,178**
Concentration by location:						
UK	711,315	676,696	2,967,326	2,243,123	491,544	393,178

Collateral held and other credit enhancements

Collateral held by the Group 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 Group 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 Group 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 £276,240k (2022: £77,234k). 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.

Group and Bank

31 December 2023

LTV (Indexed)	Buy-to-let	Other lending	2023 Total
Less than 60%	361,153	145,090	506,243
60% to 65%	209,236	127,994	337,230
65% to 70%	263,508	161,824	425,332
70% to 75%	280,771	210,060	490,831
75% to 80%	157,591	157,677	315,268
80% to 85%	32,977	16,683	49,660
Over 85%	12,734	10,998	23,732
Grand Total	**1,317,970**	**830,326**	**2,148,296**

Group and Bank

31 December 2022

LTV (Indexed)	Buy-to-let	Other lending	2022 Total
Less than 60%	419,653	169,611	589,264
60% to 65%	250,461	131,436	381,897
65% to 70%	237,336	130,489	367,825
70% to 75%	172,751	113,989	286,740
75% to 80%	35,969	42,167	78,136
80% to 85%	239	1,663	1,902
Over 85%	1,706	2,797	4,503
Grand Total	**1,118,115**	**592,152**	**1,710,267**

Forbearance and loan modifications

The Group 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. As at 31 December 2023 the value of forborne loans for the Group and Bank respectively amounted £12.0m (2022: £22.4m) and £7.7m (2022: £17.1m).

Inputs, assumptions and techniques used for estimating impairment

The Group 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 Group 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 Group for other purposes such as strategic planning and budgeting. External information considered includes economic data from a leading independent economic forecasting consultant. A review is performed at least annually on the design of the scenarios.

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

	Downside 2	Downside 1	Base	Upside 1	Upside 2
As at 31 December 2023					
Scenario probability weighting	10%	10%	60%	10%	10%
As at 31 December 2022					
Scenario probability weighting	10%	10%	60%	10%	10%

The Group 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 2023

Scenario	Economic variable	2024	2025	2026	2027	2028	Average 24-28
Upside 2	HPI growth (%)	0.2	4.2	8.5	5.0	4.0	4.4
	Unemployment rate (%)	3.7	2.8	2.4	2.3	2.3	2.7
	CRE price growth (%)	14.9	6.2	3.7	1.4	0.3	5.3
	Bank of England rate	6.3	5.6	4.6	3.6	3.0	4.6
	CPI inflation (%)	4.5	3.5	2.3	1.7	1.9	2.8
	GDP Growth (%)	4.6	3.7	3.0	1.8	1.3	2.9
Upside 1	HPI growth (%)	(2.3)	2.6	6.9	5.1	4.1	3.3
	Unemployment rate (%)	4.2	3.9	3.8	3.7	3.7	3.9
	CRE price growth (%)	10.0	5.6	3.9	1.9	0.9	4.5
	Bank of England rate	5.8	5.1	4.1	3.1	2.5	4.1
	CPI inflation (%)	4.0	2.7	2.0	1.6	1.9	2.5
	GDP Growth (%)	3.0	2.9	2.6	1.7	1.3	2.3
Base	HPI growth (%)	(5.9)	0.4	4.3	5.3	4.2	1.7
	Unemployment rate (%)	4.5	4.4	4.1	3.9	3.8	4.1
	CRE price growth (%)	2.9	4.1	3.7	3.0	2.1	3.2
	Bank of England rate	4.9	3.8	2.8	2.0	2.0	3.1
	CPI inflation (%)	3.2	1.6	1.6	1.7	1.9	2.0
	GDP Growth (%)	0.5	1.5	1.9	1.5	1.4	1.3
Downside 1	HPI growth (%)	(11.9)	(4.3)	(0.6)	5.6	4.6	(1.3)
	Unemployment rate (%)	5.4	6.5	7.1	7.0	6.6	6.5
	CRE price growth (%)	(6.7)	3.6	3.9	4.8	3.5	1.8
	Bank of England rate	3.9	2.6	1.6	1.5	1.5	2.2
	CPI inflation (%)	2.0	0.2	1.2	1.6	1.8	1.4
	GDP Growth (%)	(3.1)	0.2	1.4	1.4	1.5	0.3
Downside 2	HPI growth (%)	(15.0)	(7.0)	(3.7)	5.9	4.8	(3.0)
	Unemployment rate (%)	5.6	6.8	7.5	7.3	7.0	6.8
	CRE price growth (%)	(11.8)	2.8	4.1	5.9	4.4	1.1
	Bank of England rate	3.4	1.9	0.9	0.8	0.8	1.5
	CPI inflation (%)	1.4	(0.4)	1.1	1.6	1.8	1.1
	GDP Growth (%)	(5.1)	(0.7)	1.1	1.3	1.6	(0.3)

As at 31 December 2022

Scenario	Economic variable	2023	2024	2025	2026	2027	Average 23-27
Upside 2	HPI growth (%)	(2.8)	0.3	6.2	5.5	5.4	2.9
	Unemployment rate (%)	3.5	2.8	2.3	2.2	2.2	2.6
	CRE price growth (%)	12.3	5.0	3.8	0.1	0.1	4.3
	Bank of England rate	5.5	5.4	4.0	2.6	2.5	4.0
	CPI inflation (%)	8.9	4.8	1.5	0.7	1.5	3.5
	GDP Growth (%)	3.0	3.8	3.9	2.5	1.5	3.0
Upside 1	HPI growth (%)	(5.2)	(1.2)	4.7	5.6	5.5	1.9
	Unemployment rate (%)	4.1	4.0	3.8	3.7	3.6	3.9
	CRE price growth (%)	7.6	4.4	3.7	0.9	0.8	3.5
	Bank of England rate	5.3	4.9	3.4	2.3	2.3	3.6
	CPI inflation (%)	8.3	3.9	1.4	0.7	1.4	3.1
	GDP Growth (%)	1.4	3.0	3.5	2.4	1.6	2.4
Base	HPI growth (%)	(8.4)	(3.3)	2.5	5.7	5.6	0.4
	Unemployment rate (%)	4.4	4.4	4.0	3.9	3.8	4.1
	CRE price growth (%)	0.6	2.9	3.1	2.4	2.0	2.2
	Bank of England rate	4.0	3.1	2.1	1.8	1.7	2.5
	CPI inflation (%)	7.6	2.5	1.2	0.8	1.5	2.7
	GDP Growth (%)	(0.9)	1.5	2.7	2.2	1.7	1.4
Downside 1	HPI growth (%)	(14.6)	(7.9)	(2.8)	6.1	6.0	(2.6)
	Unemployment rate (%)	5.3	6.5	7.1	6.9	6.6	6.5
	CRE price growth (%)	(8.9)	2.5	3.4	4.2	3.4	0.9
	Bank of England rate	3.5	2.9	1.9	1.3	1.3	2.2
	CPI inflation (%)	6.3	0.9	1.1	0.9	1.4	2.1
	GDP Growth (%)	(4.6)	0.2	2.3	2.1	1.8	0.4
Downside 2	HPI growth (%)	(17.6)	(10.4)	(5.9)	6.3	6.2	(4.3)
	Unemployment rate (%)	5.5	6.9	7.4	7.3	6.9	6.8
	CRE price growth (%)	(13.9)	1.9	3.3	5.3	4.3	0.2
	Bank of England rate	2.9	2.3	1.0	0.5	0.5	1.4
	CPI inflation (%)	5.7	0.1	1.0	1.0	1.4	1.8
	GDP Growth (%)	(6.5)	(0.6)	2.0	2.1	1.9	(0.2)

The base case is the recommended scenario from Oxford Economics in which continued headwinds from current levels of heightened inflation and interest rates are generating low GDP growth forecasts. Based on the December 2023 forecast, the UK economy is expected to grow by just 0.5% in 2024 and 1.5% in 2025.

It is expected that the Bank Rate has peaked, however much of the impact has yet to feed into the real economy.

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.

Group As at 31 December 2023	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	3,322,529	3,322,529	3,322,529	3,322,529	3,322,529
Loss allowance (£'000)	36,948	31,375	23,777	21,359	20,151
Loss allowance stage 2 (£'000)	13,611	10,667	6,422	5,146	4,528
Proportion of loss allowance in Stage 2	36.84%	34.00%	27.01%	24.09%	22.47%

Group As at 31 December 2022	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	2,772,371	2,772,371	2,772,371	2,772,371	2,772,371
Loss allowance (£'000)	31,676	28,363	22,560	21,055	19,797
Loss allowance stage 2 (£'000)	11,060	8,782	4,645	3,441	2,500
Proportion of loss allowance in Stage 2	34.92%	30.96%	20.59%	16.34%	12.63%

Bank As at 31 December 2023	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	3,026,811	3,026,811	3,026,811	3,026,811	3,026,811
Loss allowance (£'000)	30,853	25,386	18,081	15,801	14,730
Loss allowance stage 2 (£'000)	12,035	9,133	5,016	3,807	3,253
Proportion of loss allowance in Stage 2	39.01%	35.98%	27.74%	24.09%	22.08%

Bank As at 31 December 2022	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	2,358,771	2,358,771	2,358,771	2,358,771	2,358,771
Loss allowance (£'000)	21,831	18,664	13,313	11,928	10,834
Loss allowance stage 2 (£'000)	10,347	8,095	4,040	2,864	1,967
Proportion of loss allowance in Stage 2	47.39%	43.37%	30.35%	24.01%	18.16%

29.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or cannot do so without incurring unacceptable losses. The Group 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 Group 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 Group 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.

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

Group	**Carrying value**	**Net inflow /(outflow)**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 Years**
At 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Loan and advances to Banks	480,470	480,470	480,470	-	-	-	-
Loans and advances to customers	3,261,188	4,738,180	91,215	122,096	441,903	912,987	3,169,979
Investment Securities	244,488	273,414	65,221	4,180	69,894	134,119	-
Contractual loan commitments	491,544	491,544	114,904	207,994	74,911	93,735	-
Total	**4,477,690**	**5,983,608**	**751,810**	**334,270**	**586,708**	**1,140,841**	**3,169,979**
Liabilities							
Deposits	(3,260,852)	(3,374,422)	(934,035)	(371,992)	(1,252,809)	(815,586)	-
Central Bank Facilities	(353,770)	(389,278)	(9,735)	-	(13,733)	(365,810)	-
Contractual loan commit-ments	(491,544)	(491,544)	(114,904)	(207,994)	(74,911)	(93,735)	-
Subordinated Debt	(57,769)	(83,858)	-	-	(6,413)	(77,445)	-
Capital Securities	(17,030)	(23,051)	-	-	(1,505)	(21,546)	-
Total	**(4,180,965)**	**(4,362,153)**	**(1,058,674)**	**(579,986)**	**(1,349,371)**	**(1,374,122)**	**-**

Group	Carrying value	Net inflow /(outflow)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
At 31 December 2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Loan and advances to Banks	462,609	462,609	462,609	-	-	-	-
Loans and advances to customers	2,654,358	3,739,160	83,415	84,769	307,524	720,232	2,543,220
Investment Securities	262,376	266,756	10,042	190,762	40,529	25,423	-
Contractual loan commitments	393,178	393,178	138,281	17,147	108,068	129,682	-
Total	**3,772,521**	**4,861,703**	**694,347**	**292,678**	**456,121**	**875,337**	**2,543,220**
Liabilities							
Deposits	(2,672,491)	(2,736,041)	(561,098)	(322,882)	(1,184,167)	(667,894)	-
Central Bank Facilities	(393,049)	(434,016)	(3,525)	-	(10,493)	(419,998)	-
Contractual loan commitments	(393,178)	(393,178)	(138,281)	(17,147)	(108,068)	(129,682)	-
Subordinated Debt	(30,000)	(31,088)	-	-	(31,088)	-	-
Capital Securities	(17,030)	(27,526)	-	-	(1,504)	(26,022)	-
Total	**(3,505,748)**	**(3,621,849)**	**(702,904)**	**(340,029)**	**(1,335,320)**	**(1,243,596)**	**-**

Bank	Carrying value	Net inflow /(outflow)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
At 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Loan and advances to Banks	476,806	476,806	476,806	-	-	-	-
Loans and advances to customers	2,970,631	4,294,595	84,483	110,440	390,164	754,770	2,954,738
Investment Securities	234,509	263,435	55,242	4,180	69,894	134,119	-
Contractual loan commitments	491,544	491,544	114,904	207,994	74,911	93,735	-
Total	**4,173,490**	**5,526,380**	**731,435**	**322,614**	**534,969**	**982,624**	**2,954,738**
Liabilities							
Deposits	(3,205,681)	(3,318,121)	(900,731)	(367,256)	(1,245,513)	(804,621)	-
Central Bank Facilities	(300,000)	(331,565)	(9,033)	-	(11,626)	(310,906)	-
Contractual loan commitments	(491,544)	(491,544)	(114,904)	(207,994)	(74,911)	(93,735)	-
Subordinated Debt	(57,769)	(83,858)	-	-	(6,413)	(77,445)	-
Capital Securities	(17,030)	(23,051)	-	-	(1,505)	(21,546)	-
Total	**(4,072,024)**	**(4,248,139)**	**(1,024,668)**	**(575,250)**	**(1,339,968)**	**(1,308,253)**	**-**

Bank	Carrying value	Net inflow /(outflow)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
At 31 December 2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Loan and advances to Banks	458,974	458,974	458,974	-	-	-	-
Loans and advances to customers	2,247,417	3,168,473	72,540	66,857	241,207	504,907	2,282,962
Investment Securities	217,722	221,756	42	180,762	15,529	25,423	-
Contractual loan commitments	393,178	393,178	138,281	17,147	108,068	129,682	-
Total	**3,317,291**	**4,242,381**	**669,837**	**264,766**	**364,804**	**660,012**	**2,282,962**
Liabilities							
Deposits	(2,420,694)	(2,468,694)	(489,239)	(301,602)	(1,084,254)	(593,599)	-
Central Bank Facilities	(295,000)	(326,282)	(2,602)	-	(7,723)	(315,957)	-
Contractual loan commitments	(393,178)	(393,177)	(138,280)	(17,147)	(108,068)	(129,682)	-
Subordinated Debt	(30,000)	(31,088)	-	-	(31,088)	-	-
Capital Securities	(17,030)	(27,526)	-	-	(1,504)	(26,022)	-
Total	**(3,155,902)**	**(3,246,767)**	**(630,121)**	**(318,749)**	**(1,232,637)**	**(1,065,260)**	**-**

Liquidity Reserves

The Group 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 Group's liquidity reserves as at 31 December:

Group	2023	2023	2022	2022
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Cash and balances at central banks	425,174	425,174	452,098	452,098
Unencumbered debt securities issued by sovereigns	123,514	123,463	95,480	95,480
Unencumbered Covered Bonds	116,090	115,677	33,462	33,462
Total liquidity reserves	**664,788**	**664,314**	**581,040**	**581,040**

Bank	2023	2023	2022	2022
	Carrying Group value	**Fair value**	**Carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Cash and balances at central banks	425,174	425,174	452,098	452,098
Unencumbered debt securities issued by sovereigns	118,300	118,248	85,100	85,100
Unencumbered Covered Bonds	116,090	115,677	33,462	33,462
Total liquidity reserves	**659,564**	**659,099**	**570,660**	**570,660**

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 2023 are £543.3m for Group (2022: £433.2m) and £458.3m for Bank (2022: £321.7m).

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 Group's derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. The Group executes a credit support annex in conjunction with the ISDA agreement, which requires the Group 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.

Group and Bank		**Related amounts not offset in the statement of financial position**		
	Assets/ (Liabilities) recognised in the statement of financial position	**Financial instruments (including non-cash collateral**	**Cash collateral (received)/ pledged**	**Net amount**
As at 31 December 2023	**£000**	**£000**	**£000**	**£000**
Derivative assets held for risk management	75,076	(25,456)	(28,485)	21,135
Derivative liabilities held for risk management	(25,456)	25,456	-	-
Total	**49,620**	**-**	**(28,485)**	**21,135**

Group and Bank		**Related amounts not offset in the statement of financial position**		
	Assets/ (Liabilities) recognised in the statement of financial position	**Financial instruments (including non-cash collateral**	**Cash collateral (received)/ pledged**	**Net amount**
As at 31 December 2022	**£000**	**£000**	**£000**	**£000**
Derivative assets held for risk management	112,889	(18,931)	(88,980)	4,978
Derivative liabilities held for risk management	(18,931)	18,931	-	-
Total	**93,958**	**-**	**(88,980)**	**4,978**

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

29.4 Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. The Bank does not engage in any trading operations. The Group'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 Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate products expose the Group 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 Group 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 Group'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 Group. 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 21).

(b) Interest rate sensitivity gap

The Group 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 Sterling Overnight Index Average ("SONIA"), would be as follows:

Group	**2023**	**2022**
	£000	**£000**
+200 basis points	(735)	(510)
-200 basis points	877	586

Bank	**2023**	**2022**
	£000	**£000**
+200 basis points	(434)	(486)
-200 basis points	568	555

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.

Group	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 7 years**	**Non-interest bearing**	**Total**
At 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets						
Loan and advances to Banks	480,470	-	-	-	-	480,470
Loans and advances to customers	444,242	320,062	562,159	1,999,372	-	3,325,835
Investment Securities	181,052	-	63,426	-	11	244,489
Other assets	-	-	-	-	106,208	106,208
Total Assets	**1,105,764**	**320,062**	**625,585**	**1,999,372**	**106,219**	**4,157,002**
Assets						
Customer Deposits	789,721	415,711	1,306,716	748,704	-	3,260,852
Central Bank Facilities	353,770	-	-	-	-	353,770
Subordinated Liabilities	-	-	-	57,768	-	57,768
Non-interest bearing liabilities	55,334	-	-	-	107,151	162,485
Equity	-	-	-	17,030	305,097	322,127
Total Liabilities	**1,198,825**	**415,711**	**1,306,716**	**823,502**	**412,248**	**4,157,002**
Interest rate sensitivity gap	(93,061)	(95,649)	(681,131)	1,175,870	(306,029)	-
Cumulative gap	(93,061)	(188,710)	(869,841)	306,029	-	-
Notional value of derivatives	**179,675**	**296,770**	**602,555**	**(1,079,000)**	**-**	**-**

Group	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 7 years**	**Non-interest bearing**	**Total**
At 31 December 2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets						
Loan and advances to Banks	462,609	-	-	-	-	462,609
Loans and advances to customers	455,008	246,869	348,714	1,727,257	-	2,777,848
Investment Securities	43,453	184,409	34,513	-	-	262,375
Other assets	-	-	-	-	43,000	43,000
Total Assets	**961,070**	**431,278**	**383,227**	**1,727,257**	**43,000**	**3,545,832**
Assets						
Customer Deposits	525,399	360,260	1,157,392	630,440	-	2,673,491
Central Bank Facilities	393,049	-	-	-	-	393,049
Subordinated Liabilities	-	-	30,337	-	-	30,337
Non-interest bearing liabilities	88,980	-	-	-	77,058	166,038
Equity	-	-	-	17,030	265,887	282,917
Total Liabilities	**1,007,428**	**360,260**	**1,187,729**	**647,470**	**342,945**	**3,545,832**
Interest rate sensitivity gap	(46,358)	71,018	(804,502)	1,079,787	(299,945)	-
Cumulative gap	(46,358)	24,660	(779,842)	299,945	-	-
Notional value of derivatives	**46,900**	**309,200**	**720,900**	**(1,077,000)**	**-**	**-**

Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 7 years	Non-interest bearing	Total
At 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets						
Loan and advances to Banks	476,806	-	-	-	-	476,806
Loans and advances to customers	227,185	312,652	532,675	1,957,605	-	3,030,117
Investment Securities	171,072	-	63,426	-	11	234,509
Other assets	-	-	-	-	322,375	322,375
Total Assets	**875,063**	**312,652**	**596,101**	**1,957,605**	**322,386**	**4,063,807**
Assets						
Customer Deposits	814,318	397,311	1,272,162	721,890	-	3,205,681
Central Bank Facilities	300,000	-	-	-	-	300,000
Subordinated Liabilities	-	-	-	57,768	-	57,768
Non-interest bearing liabilities	55,334	-	-	-	122,224	177,558
Equity	-	-	-	17,030	305,770	322,800
Total Liabilities	**1,169,652**	**397,311**	**1,272,162**	**796,688**	**427,994**	**4,063,807**
Interest rate sensitivity gap	(294,589)	(84,659)	(676,061)	1,160,917	(105,608)	-
Cumulative gap	(294,589)	(379,248)	(1,055,309)	105,608	-	-
Notional value of derivatives	**179,675**	**296,770**	**602,555**	**(1,079,000)**	**-**	**-**

Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 7 years	Non-interest bearing	Total
At 31 December 2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets						
Loan and advances to Banks	458,974	-	-	-	-	458,974
Loans and advances to customers	196,349	234,858	279,589	1,652,270	-	2,363,066
Investment Securities	33,462	174,452	9,808	-	-	217,722
Other assets	-	-	-	-	160,721	160,721
Total Assets	**688,785**	**409,310**	**289,397**	**1,652,270**	**160,721**	**3,200,483**
Assets						
Customer Deposits	431,553	360,260	1,062,411	566,470	-	2,420,694
Central Bank Facilities	295,000	-	-	-	-	295,000
Subordinated Liabilities	-	-	30,337	-	-	30,337
Non-interest bearing liabilities	88,980	-	-	-	106,608	195,588
Equity	-	-	-	17,030	241,834	258,864
Total Liabilities	**815,533**	**360,260**	**1,092,748**	**583,500**	**348,442**	**3,200,483**
Interest rate sensitivity gap	(126,748)	49,050	(803,351)	1,068,770	(187,721)	-
Cumulative gap	(126,748)	(77,698)	(881,049)	187,721	-	-
Notional value of derivatives	**49,900**	**309,200**	**720,900**	**(1,077,000)**	**-**	**-**

(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 Group 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 Group 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 Group ceased writing new LIBOR-referencing loans in Q4 2020, the Group has a back-book of LIBOR-referencing or LIBOR-linked loans. The Group worked to migrate as many loans as possible to Base rate during 2023.

The primary risk that the Group 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 2022 and 2023, the Group 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.

Derivatives

The Group 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 2022 are indexed to SONIA. The Group’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 Group has adhered to this protocol.

The following table shows the total amount of unreformed financial assets and loan commitments as at 31 December 2022 and 31 December 2023. 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 shown at their committed amounts.

Group and Bank	31 December 2023	31 December 2022
	£000	£000
Loans and advances to customers		
Specialist Mortgages	273,222	349,221
Development finance	306	10,166
	273,528	**359,387**
Loan commitments	-	35
	273,528	**359,422**

30. Contingent liabilities

In January 2024 FCA announced a review of the historical use of discretionary commission arrangements (DCAs) between lenders and credit brokers and whether redress should be payable. HTB entered into DCAs with its brokers as part of its motor finance business in the period between 2014 -2020 before a ban on DCAs was in-place. Following the ban, HTB ceased offering any regulated business in December 2020. In line with FCA's notice, HTB has paused its response to customer complaints as FCA aims to communicate a decision on next steps, following its review by 24 September 2024.

HTB is of the view that a present obligation does not exist at this point necessitating the recognition of a provision. HTB cannot estimate the resolution of the review accurately as there are substantial inherent uncertainties regarding the potential outcome in terms of existence, scope, and timing and thus it is not practicable to quantify the financial impact on the Bank arising out of such review.

31. Property Plant and Equipment

See accounting policy in note 7.15.

Group	Office Equipment	Fixtures and fittings	Equipment for hire	Total
	£000	£000	£000	£000
Cost				
At 1 January 2023	**2,693**	**2,637**	**5,414**	**10,744**
Additions	943	3,799	16	4,758
Disposals	(20)	(1,845)	(2,261)	(4,126)
At 31 December 2023	**3,616**	**4,591**	**3,169**	**11,376**
Depreciation				
At 1 January 2023	**1,943**	**1,910**	**2,812**	**6,665**
Charge for year	398	335	1,188	1,921
Depreciation release on disposal	(19)	(1,342)	(1,946)	(3,307)
At 31 December 2023	**2,322**	**903**	**2,054**	**5,279**
Net book value				
At 31 December 2023	**1,294**	**3,688**	**1,115**	**6,097**
At 31 December 2022	**750**	**727**	**2,602**	**4,079**

The net book value of equipment for hire represents the value of equipment leased to customers on operating leases. These agreements do not give the customer rights and benefits equivalent to ownership of the asset and the expectation is that the equipment subject to these agreements will be returned to the Bank at the end of the lease period.

Bank	Office Equipment	Fixtures and fittings	Total
	£000	£000	£000
Cost			
At 1 January 2023	**2,610**	**2,449**	**5,059**
Additions	943	3,800	4,743
Disposals	-	(1,658)	(1,658)
At 31 December 2023	**3,553**	**4,591**	**8,144**
Depreciation			
At 1 January 2023	**1,893**	**1,723**	**3,616**
Charge for year	379	335	714
Depreciation release on disposal	-	(1,155)	(1,155)
At 31 December 2023	**2,272**	**903**	**3,175**
Net book value			
At 31 December 2023	**1,281**	**3,688**	**4,969**
At 31 December 2022	**717**	**726**	**1,443**

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2022: nil).

No impairment charges were incurred during the year (2022: nil).

The future minimum lease payments under non-cancellable operating leases are repayable as follows:

Group and Bank		
Gross investment in operating lease receivables:	**2023**	**2022**
	£000	**£000**
Year 1	536	1,088
Year 2	111	536
Year 3	-	111
Total future repayments	**647**	**1,735**
Unearned finance income	(108)	(273)
Net investment	**539**	**1,462**

Rentals receivable during the year under operating leases amounted to £1,353k (2022: £1,983k). In the year to 31 December 2023 the Bank recognised £74k (2022: £37K) of contingent rentals as income.

32. Finance leases

See accounting policy in note 7.6.

The Group leases office premises 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 is as follows:

Right of use asset – Office premise	**Group 2023 £000**	**Group 2022 £000**	**Bank 2023 £000**	**Bank 2022 £000**
Net book value at 1 January	762	1,608	685	1,608
Acquired as part of business combination	-	382	-	-
Net book value at 31 December	3,618	762	3,602	685
Depreciation at 31 December	674	5,927	380	5,695

Additions to the right of use asset during 2023 were £3,982k (2022: £Nil).

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

	Group 2023 £000	**Group 2022 £000**	**Bank 2023 £000**	**Bank 2022 £000**
Year 1	668	810	582	673
Year 2	819	86	766	-
Year 3	1,135	53	1,135	-
Year 4	1,503	-	1,504	-
Year 5	803	-	802	-
	4,928	**949**	**4,789**	**673**

The discounted lease liability as at 31 December 2023 is £3,974k for the Bank (2022: £647k) and £4,114k for the Group (2022: £923k).

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

	Group 2023 £000	**Group 2022 £000**	**Bank 2023 £000**	**Bank 2022 £000**
Depreciation expense	(1,127)	(1,033)	(1,066)	(923)
Interest expense	(10)	(84)	(142)	(70)
Administrative expenses	-	(194)	-	-

A financial commitment existed in the prior period to pay rent for the New Malden and Northwich offices. In 2022 the New Malden office was exited giving rise to an impairment charge for the net book value (£194k) recognised through administrative expenses. The total rent for the year 2022 was £78k

33. Intangible Assets

See accounting policy in note 7.16.

Group	Internally Generated Assets	Software	Licenses	Core Deposit Intangible	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2023	**6,732**	**16,757**	**11**	**1,960**	**25,460**
Additions	1,685	3,739	-	-	5,424
At 31 December 2023	**8,417**	**20,496**	**11**	**1,960**	**30,884**
Amortisation					
At 1 January 2023	**3,513**	**9,413**	**11**	**594**	**13,531**
Charge for year	1,138	2,456	-	964	4,558
At 31 December 2023	**4,651**	**11,869**	**11**	**1,558**	**18,089**
Net book value					
At 31 December 2023	**3,766**	**8,627**	-	**402**	**12,795**
At 31 December 2022	3,219	7,344	-	1,366	11,929

During 2022, the Group recognised a Core Deposit Intangible on the acquisition of Wesleyan Bank Limited. Note 41 provides detail on the valuation technique and amortisation period of material assets and liabilities acquired.

Bank	Internally Generated Assets	Software	Total
	£000	£000	£000
Cost			
At 1 January 2023	**6,732**	**13,842**	**20,574**
Additions	1,686	3,738	5,424
At 31 December 2023	**8,418**	**17,580**	**25,998**
Amortisation			
At 1 January 2023	**3,513**	**7,597**	**11,110**
Charge for year	1,138	2,018	3,156
At 31 December 2023	**4,651**	**9,615**	**14,266**
Net book value			
At 31 December 2023	**3,767**	**7,965**	**11,732**
At 31 December 2022	3,219	6,245	9,464

34. Other Assets

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Corporation Tax asset	2,706	-	2,706	-
Other receivables	59,739	24,661	59,418	23,889
Prepayments	3,699	2,288	3,242	1,955
Intercompany receivables	119	63	170,280	73,654
Other Assets	**66,263**	**27,012**	**235,646**	**99,498**

Amounts receivable from group undertakings are unsecured and repayable on demand.

35. Other Liabilities

	Group 2023 £000	Group 2022 £000	Bank 2023 £000	Bank 2022 £000
Other taxation and social security	-	1,121	-	1,121
Other payables	64,788	27,040	64,422	26,404
Accruals	12,792	28,840	11,410	26,449
Margin account liabilities	55,334	88,980	55,334	88,980
Intercompany payables	-	-	16,961	32,851
Other Liabilities	**132,914**	**145,981**	**148,127**	**175,805**

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

36. Subordinated Liabilities

See accounting policy in note 7.19.

Group and Bank	**2023 £000**	**2022 £000**
Tier 2 notes	55,000	30,000
Deferred acquisition costs	(559)	(26)
Accrued interest	446	362
Fair value movement on hedged item	2,881	-
Subordinated Liabilities	**57,768**	**30,336**

On 27 June 2023 the Bank issued a further £25m of Subordinated Tier 2 notes. The notes pay an annual fixed coupon, payable semi-annually in arrears and have a maturity date of 27 December 2033.

37. Capital

In order to protect customers as a regulated bank, the Group is required to hold a minimum level of capital. To date this has been achieved through equity issuances to our investors, Additional Tier 1 notes, Tier 2 notes, and retained earnings. This also provides the investment to build and grow the Group. This section provides information on the Group's share capital, retained earnings and other equity balances. It also provides a breakdown of the Group's regulatory capital position.

Managing capital risk

Capital risk is the risk that the Group 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 Group, or by having large unexpected operating costs for the business (including operational risk events).

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

The principal committee at which the Group'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 Group refreshes its ICAAP on an annual basis, which includes a 4 year forecast of the Group'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 Group 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 2023, the Group complied in full with all its externally imposed capital requirements. Note 38 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

38. Capital and reserves

(a) Share Capital

See accounting policy in note 7.22

Issued and fully paid

	Ordinary shares of £1 each	
	2023	2022
	£000	£000
In issue at 1 January	139,828	139,828
Issued for cash	-	-
In issue at 31 December	**139,828**	**139,828**

There were no Ordinary A shares issued during 2023 (2022: £Nil).

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

	Bank	Bank
	2023	2022
	£000	£000
Share Capital	139,828	139,828
Share Premium	196	196
Retained Earnings	168,846	101,681
Accumulated other comprehensive income	(3,099)	129
Intangible Assets	(11,732)	(9,464)
IFRS9 Transitional Arrangement	3,887	5,269
Prudential Valuation Adjustments	3,090	(20)
Securitisation positions	(7,875)	(7,875)
Investment in subsidiaries	(49,422)	(49,422)
Common Equity Tier 1 Capital	**243,719**	**180,322**
Capital securities	17,030	17,030
Total Tier 1 Capital	**260,749**	**197,352**
Tier 2 Capital	51,141	30,000
Total Capital	**311,890**	**227,352**

(b) Cashflow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit and loss (See Note 21).

(c) Other equity instruments

See accounting policy in note 7.23

Group and Bank	**2023**	**2022**
	£000	**£000**
Capital securities	17,030	17,030
Other Equity Instruments	**17,030**	**17,030**

Capital securities

£17m Additional Tier 1 securities were issued and fully paid up during 2022 as part of the consideration for the acquisition of Wesleyan Bank Limited.

During the year ended 31 December 2023, the Group paid all interest when scheduled, totalling £1.5m (2022: £1.4m). This is recognised directly in equity.

39. Related party transactions

Related parties of the Group 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.

a) Transactions with Directors

The compensation of the Directors is provided in note 13.

The following Directors during the year directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2023:

Director	**Class A Shares**		**Class B Shares**	
	Number	**£ Nominal Value**	**Number**	**£ Nominal Value**
Matthew Wyles	1,000,000	1,000,000	1,295	12.95
Timothy Blackwell	200,000	200,000	700	7.00
Robert Sharpe	150,000	150,000	189	1.89

Total deposits of £129k are held by the Bank from related parties of Non-Executive Directors as at 31 December 2023 (2022: £278k).

b) Other related party transactions

The value of intercompany loans from the Bank to subsidiaries at the 31 December 2023 are provided in notes 33-34. The value of interest earned on intercompany loans is provided in note 8.

During the year the Bank has paid monthly service fees totalling £21k (2022: £26k) to Wesleyan Bank Limited for the continued servicing of the portfolio.

The value and nature of Management recharges to subsidiaries recognised through the Bank's Other income is provided in note 11.

On the 31 March 2022 Wesleyan Bank Limited transferred an existing Block Discounting portfolio to the Bank at fair value which closely approximated its carrying value of £20m.

40. Investment in subsidiaries

HTB has the following direct investments in subsidiaries as at 31 December 2023:

	Country of Incorporation	Class of shares held	Ownership	Principal Activity	Registered address
Hampshire Bank Limited	England	A	100%	Dormant	80 Fenchurch Street, London, EC3M 4BY
Wesleyan Bank Limited	England	A	100%	Provision of banking services	80 Fenchurch Street, London, EC3M 4BY

Hampshire Bank Limited and Wesleyan Bank Limited are unlisted entities and have an accounting reference date of 31 December.

Due to the run-off nature of the Bank's direct subsidiary, future dividends declared and paid by Wesleyan Bank Ltd in excess of its future retained profits could result in the recognition of an impairment in the carrying value of the cost of investment in subsidiary. Future changes in the current run-off strategy for the subsidiary could also trigger an impairment.

HTB has the following indirect investments in subsidiaries as at 31 December 2023. The companies included in the following with 100% ownership are exempt from the requirements of Companies Act relating to the audit of accounts under section 479A, as the Bank has guaranteed the subsidiary companies under Section 479C of the Act.

	Country of Incorporation	Registered number (Where S479A exemption is taken)	Ownership	Principal Activity	Registered address
Syscap Holdings Limited	England	05740449	100%	Owns and licenses intangible fixed assets	80 Fenchurch Street, London, EC3M 4BY
Syscap Limited	England	02471568	100%	Broker-introduction of Finance	80 Fenchurch Street, London, EC3M 4BY
Syscap Group Limited	England	03132650	100%	Dormant	80 Fenchurch Street, London, EC3M 4BY
Syscap Leasing Limited	England	02718043	100%	To arrange lease finance and the provision of associated services	80 Fenchurch Street, London, EC3M 4BY
Serco Paisa Limited	England	-	50%	JV with Serco Group Plc to effect finance for Serco Leisure Operating Ltd	80 Fenchurch Street, London, EC3M 4BY

On 29th December 2023, Syscap Leasing Limited ceased trading.

41. Acquisition of subsidiaries

(a) Acquisition of Wesleyan Bank Limited

On 28 February 2022 Hampshire Trust Bank plc ("HTB") acquired 100% of the shares and voting rights of Wesleyan Bank Limited ("WBL").

Included within identifiable assets and liabilities acquired at the date of acquisition of WBL are systems, processes and an organised workforce. The Group has determined that together the acquired systems and processes significantly contribute to the ability to create revenue. The Group has concluded that the acquired set is a business.

The acquisition was 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 increases HTB's scale, creates a more profitable business and facilitates HTB's ongoing investment in technology, process effectiveness and capability in a highly capital efficient manner.

(b) Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000
Cash	32,000
Capital securities (Additional Tier 1 notes)	17,176
Total consideration transferred	**49,176**

(c) Acquisition related costs

The Group incurred £250k of stamp duty costs on acquisition which have been recognised as administrative expenses within the Group's income statement but capitalised as part of the investment in subsidiary in the Bank's Statement of Financial Position in the prior period.

(d) Details of identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	£000
Loans and Advances to Banks	65,482
Investment Securities	34,988
Loans and Advances to Customers – at amortised cost	489,295
Tangible Fixed Assets	3,638
Right of use assets	382
Intangible Assets	3,617
Other Assets	8,288
Total assets	**605,690**
Central Bank Facilities	(96,769)
Customer Deposits	(404,875)
Finance Lease Liability	(385)
Other liabilities	(5,777)
Net assets acquired	**97,884**

The Group has reviewed the need to re-assess and adjust the fair value assessment that was undertaken upon the completion of the transaction. However, there is no new information identified which would affect the original FV assessment.

(e) Identifiable assets and liabilities acquired

Measurement of Fair values

The valuation techniques used for measuring the fair value, and amortisation period of fair value adjustments of each material asset and liability class acquired were as follows:

Assets Acquired	Valuation technique	Amortisation profile
Loans and advances to Customers	Discounted cash flow, estimated present value of future cash flows	Amortised using effective interest rates over behavioural life
Intangible Assets	Discounted cash flow, estimated present value of future cash flows	2.5 years straight line basis
Customer Deposits	Discounted cash flow, estimated present value of future cash flows	Amortised using effective interest rates over behavioural life
Central Bank Facilities	Discounted cash flow, estimated present value of future cash flows	Amortised using effective interest rates over behavioural life
Deferred tax asset	Calculated in reference to the intangible asset valuation	2.5 years straight line basis

(f) Gain on bargain purchase

The purchase of WBL resulted in a gain due to HTB being in a better position as a Bank to realise the fair value of the net assets acquired compared with the Seller. The transaction was conducted at a level that enabled the Seller to achieve their objective of releasing capital and providing them with the opportunity of deploying the capital into investment opportunities more aligned with their go-forward strategy. As such a gain on bargain purchase arising from the acquisition has been recognised in the prior period as follows:

	£000
Total consideration transferred	(49,176)
Fair value of identifiable net assets	97,884
Total gain on bargain purchase	**48,708**

Gain on bargain purchase was recognised immediately through the Group Statement of Comprehensive Income.

42. Ultimate parent company

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 80 Fenchurch Street, London, EC3M 4BY.

43. Post balance sheet events

Subsequent to the year end, Wesleyan Bank Ltd, the Bank's wholly owned subsidiary, has declared a dividend of £8m which is expected to be paid in the first half of 2024. When received, the dividend will be recognised as dividend income in the financial statements of the Bank and has been identified as a potential trigger for impairment of the carrying value of the cost of investment in subsidiary. The transaction will have no impact on the consolidated financial statements.

GLOSSARY

Average principal employed	Calculated as the average Loans and Advances to customers held at amortised cost and fair value in reference to current year end and prior year comparative balances within the Statement of Financial Position.
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.
Common Equity Tier 1 Ratio (CET1 Ratio)	The Common Equity Tier 1 ratio is calculated as common equity tier 1 capital (Note 37) divided by risk-weighted assets as reported per the current year end COREP Submission.
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 (Note 11) 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.
CPI	Consumer Price Index.
CRD IV	Capital Requirements Directive.
CRE Price	Consumer Retail Estate Price.
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.
ESG	Environmental, social and governance.
FVOCI	Fair value through other comprehensive income.
FVTPL	Fair value through profit and loss.
GDP	Gross Domestic Product.
Gross income margin	Calculated as total interest and similar income (Note 8), fees and total fees and commission income (Note 9) and Net loss or gain on loans, other financial assets at fair value through profit or loss (Note 10) and other income (note 11) divided by average principal employed.
HPI	House Price Index.
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.
POCI	Purchased or originated credit impaired.
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 RWA 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 and Additional Tier 1 Equity divided by risk weighted assets.
TFSME	Term Funding Scheme with Additional Incentives for SMEs.
Underlying Gross Income Margin	Calculated as total interest and similar income (Note 8), fees and total fees and commission income (Note 9) and Net loss or gain on loans, other financial assets at fair value through profit or loss (Note 10) and other income excluding Management recharges (Note 11), divided by average principal employed.
Underlying Net Revenue Margin	Calculated as operating income excluding net loss or gain on loans held at fair value through profit or loss (note 10) and Management recharges (Note 11), divided by average principal employed.
Underlying Cost to Asset Ratio	Administrative expenses net of Management recharges (note 11) divided by average principal employed.
Underlying Operating Income	Operating Income net of Management recharges.
Underlying Income Ratio	Calculated as administrative expenses net of Management Recharges (Note 11) divided by operating income excluding net gain or loss on loans held at fair value through profit and loss (Note 10) and management recharges (Note 11).