



GROUP
ANNUAL
REPORT
AND
ACCOUNTS
2024

HAMPSHIRE TRUST BANK PLC

Company number: 01311315

Non- Executive Directors

Robert Sharpe (Chairman)
Richard Price
Martyn Scrivens
Dominic Slade
Richard Sommers
Julia Warrack
Helen Beck (Appointed 1 April 2025)
Clare Goldie-Scot (Appointed 1 April 2025)

Executive Directors

Matthew Wyles (Chief Executive Officer)
Timothy Blackwell (Chief Financial
Officer – Resigned 23 May 2024)
Kathryn Winup (Chief Financial Officer –
Appointed 26 September 2024)

Secretary & Registered Office

Scott Southgate (Secretary)

80 Fenchurch Street
London
England
EC3M 4BY

Independent Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

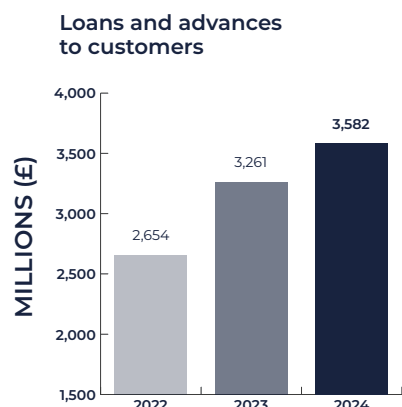
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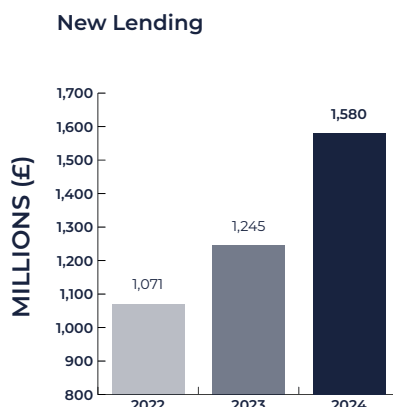
STRATEGIC
REPORT

KEY HIGHLIGHTS – Group Key performance measures

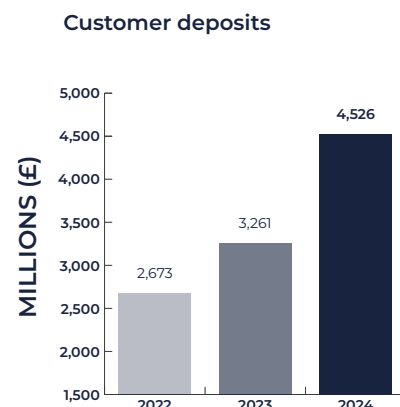
Continuing to support our customers through challenging market conditions:



Annual growth of £321m post securitisation (2023: £607m)

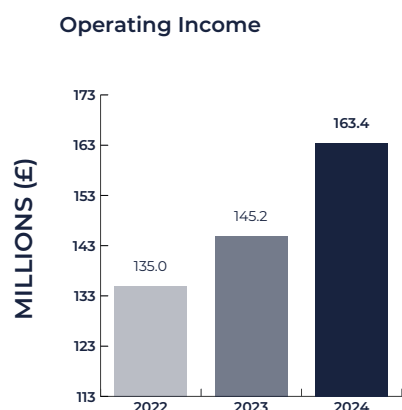


27% growth in new Lending in 2024 (2023: 16%)

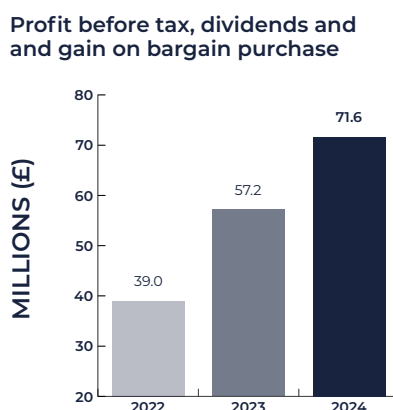


Feefo Platinum Trusted Service Award on our growing deposit book

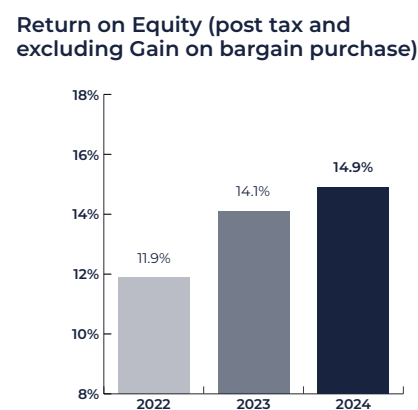
Strong growth providing robust shareholder returns:



12.5% growth in income in 2024 (2023: 7%)

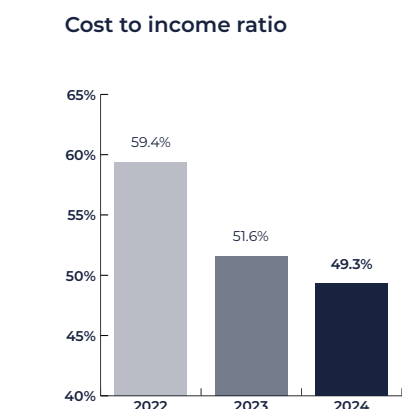


25.1% growth in Profit before tax in 2024 (2023: 47%)

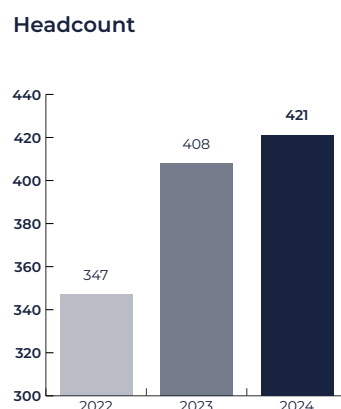


Delivering strong shareholder returns

Robust capital and prudent liquidity management providing resilience and support for future growth:



Improving efficiency whilst we continue to invest for growth



Investing in our people to support our customers and growth

Truncated axis have been used in the above tables for presentational purposes only.

Delivering Excellence Through Specialism



We are united by a commitment to excellence, integrity and customer success.

Excellence Through Specialism



Our Purpose

To help UK businesses to thrive and achieve their goals, to enrich the lives of the people we touch and to protect the environment

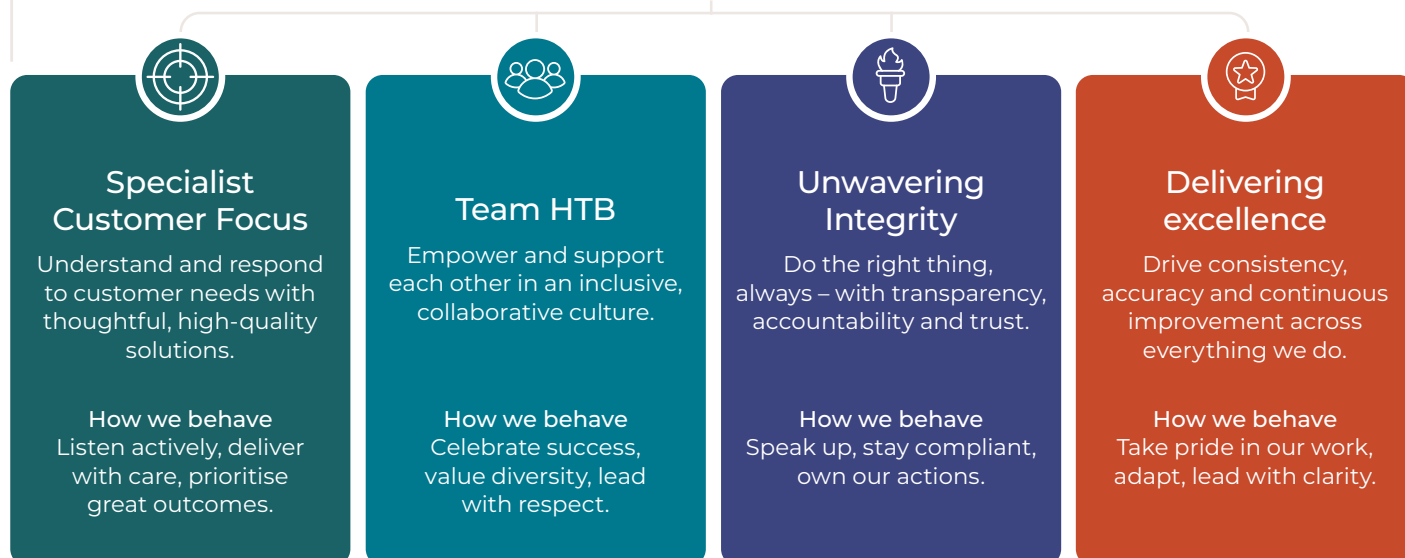
Our Mission

Excellence through specialism

Our Vision

To be the go-to bank in our chosen markets

Our Values



CHAIRMAN'S OVERVIEW

2024 was a year of weak growth for the UK economy, with growth in real GDP failing to reach 1%¹. According to the latest ONS analysis available at the time of writing, growth appears to have slowed sharply during the second half of the year with UK real GDP growth registering only 0.1% during Q4¹, following no growth the preceding quarter. The UK election was followed by the US Presidential race and the early actions of the new American administration have served to add further momentum to fears that 2025 may be a very challenging year for most developed economies.

For HTB's part, however, the markets which we principally serve remained stable with gently rising house prices and steady rental growth. Despite the gloomy macro-economic context, we have a robust plan to maintain the Group's enviable pace of growth. During 2024, therefore, the Board and the management team focussed more acutely than ever on medium term capital planning. HTB uses retained earnings to fuel its base of Common Equity Tier 1 (CET1) capital and whilst it generates a high post tax return on equity, the Group applies a rigorous approach to capital efficiency. We, therefore, concluded during the second half of 2024 that it was rational and appropriate to cease writing new business in HTB's Asset Finance division, principally because we could see that other parts of the Bank could generate superior risk adjusted returns on any capital that we could free up. We also considered the strong empirical evidence that the credit performance of asset finance as a class had a higher beta to macro-economic conditions and was, therefore, less resilient in any downturn.

Whilst on the theme of capital efficiency, we were delighted with the success of Winchester I, the Group's first securitisation. As Matthew Wyles explains in his Review, we elected to use this opportunity to sell the relevant pool of mortgages in their entirety to free up the corresponding capital within the Group's balance sheet for further lending. Whilst we have considerable untapped capacity to issue AT1 and Tier 2 capital, we felt it was important to prove our ability, given the right market conditions, to securitise successfully. We were gratified by the reception that our first deal received and there was strong demand from a broad range of investors across the whole capital stack. The results considerably exceeded our expectations.

Whilst we are pleased with the Group's performance during 2024, we continue to monitor the macro-economic context with some concern. Since HTB enjoys, as I have said, relatively high rates of growth, we are very conscious that our enterprise-wide risk management capabilities need to keep pace. Our operational risk management strategy is based on a combination of a multi-year programme of investment to improve automation and reduce reliance on manual processes whilst continuing to recruit and develop a pool of proven risk managers with the necessary skills and experience.

I am fortunate to lead an outstanding Board of both executive and non-executive colleagues. In particular, I was thrilled to welcome Kathryn Winup as Chief Financial Officer in September. Kathryn joins us from a leading specialist bank where she was Deputy CFO and she is already an important asset to the business both as an executive and as a Board member. I would also like to place on record my thanks to our non-executive directors who bring a valuable mix of talents and skills to the Group. They have worked tirelessly to support our fine executive team who, in turn, have delivered another excellent set of results. Our principal shareholder, Alchemy Partners, continues to be a valuable source of constructive advice and we are grateful for their unwavering commitment and support.

My last word must go to the entire workforce of HTB whose energy, commitment, good humour and relentless hard work during 2024 have been exemplary.



"Despite the gloomy macro-economic context, we have a robust plan to maintain the Group's enviable pace of growth."



Robert Sharpe
Chairman

25 April 2025

¹ ONS data released 13th February 2025.

CHIEF EXECUTIVE'S REPORT

The Bank of England Base Rate (BBR) peaked at 5.25% in August 2023, then, as inflationary drivers eased, in Q3 2024 BBR started on a downward trend and, by February 2025, had fallen to 4.5%. The path forward, however, is by no means clear and is severely complicated by the dramatic repositioning of the US Government's foreign policy in general and its use of trade barriers in particular. The prospects for the global economy look materially worse now (in April 2025) than they did at the end of 2024. The implications for the UK specifically are both uncertain and unpromising.

That said, the HTB team has become accustomed to erratic trading conditions. We maintained, for example, our equilibrium throughout the very challenging Covid era of 2020 / 2021 and weathered the economic shockwaves created by the short and ill-fated premiership of Liz Truss during the Autumn of 2022. HTB's business model, which we call Excellence through Specialism, is focussed on the delivery of our key long-term objectives - rapid growth, high return on equity and stable, resilient earnings through the economic cycle. Our strategy is rooted in our deep conviction in the fundamentals which underpin our principal and predominant underlying asset class – UK residential property.

The structural shortage of housing in the UK is a multi-generational issue and, we believe, is beyond the capacity of any single Government to remedy. The current Labour administration came into office promising to build 1.5 million homes during their first term¹. This is not a new target. In its 2019 manifesto, for example, the Conservative party promised to increase the rate of construction of new homes to 300,000 a year by the mid-2020s. According to research from Savills published in February 2025, precisely the reverse happened – total completions fell from over 253,000 in 2022, to 231,000 in 2023 and then only 218,000 in 2024². Even if the current Government succeeded where previous administrations have failed, the number of new homes actually required each year is closer to 370,000³ to keep pace with ever-rising demand.

HTB has four core businesses – Specialist Mortgages, Development Finance, Short Term Lending (includes Bridging) and Wholesale Finance. The only one of those four businesses which has a material exposure to non-property related assets is our Wholesale business. Over 90% of our new lending is ultimately secured on residential property, including assets in the course of construction. During 2024 we took the decision to close our Asset Finance division to new business because we saw an opportunity to redeploy the relevant capital into our other rapidly growing businesses, all of which were delivering higher risk adjusted returns.

Our largest division, Specialist Mortgages, concentrates on serving the needs of larger, professional landlords, a market segment which has continued to grow whilst smaller investors, in response to both the adverse tax treatment of those borrowing in their capacity as private individuals and higher financing costs, have continued to divest. Rental growth rates have been strong since the end of the pandemic and, according to analysis by Zoopla⁴ released in early March 2025, whilst the rate of rental growth is slowing "there are still 12 people chasing every home for rent". Zoopla adds that "the rental market needs more supply".

2024 was an important year for HTB as we announced our first ever public securitisation, Winchester I, backed by circa £300m of specialist mortgages. This was a significant strategic development because it enabled us to prove our systems and to demonstrate that our mortgage assets could pass successfully through the rigorous due diligence applied by the rating agencies. Securitisation creates two important capabilities both of which are valuable to HTB. Winchester I was a so-called full stack structure which enabled us to sell the underlying mortgage loans in full on attractive terms, take the assets off balance sheet and create the consequent capital relief. The alternative structure which uses securitisation as a funding tool will enable us to add longer duration to our mix of funding, should that be required, as well as diversification of our funding base.

Having acquired Wesleyan Bank Limited (WBL) in February 2022, our strategy was to run the bank's assets off over time, return the deposit taking licence and progressively migrate the capital to the HTB balance sheet. I am pleased to report that we have now accomplished the latter two of these three key objectives with excess capital paid to HTB in Q1 2025. With the surrender of the WBL banking licence we have renamed the remaining business HTB Leasing & Finance Limited (HLF). The HLF loan book contracted by 34% during 2024 and, by year end, stood at only £189.6m. Operationally we will manage the Group's run-off portfolios (which includes the Asset Finance division) within a single team to optimise the potential economies of scale. At 31 December 2024, the combined balances were £475.0m, circa 13.3% of the Group's loan book.

Despite the closure of the Asset Finance division, the core HTB business saw net loans and advances grow by 24.3% including the value of securitised Winchester mortgage portfolio. A similar rate of growth was achieved in earnings with Group Profit After Tax up 21.6% to £51.7m. This result was achieved despite the continuing drag caused by the IFRS9 impairments methodology which obliges us to provide against future credit losses which have not yet crystallised.

"2024 was an important year for HTB as we announced our first ever public securitisation, Winchester I, backed by circa £300m of specialist mortgages."

¹Source: Labour Party Manifesto 2024.

²Source: Savills English Housing Supply Update Q4 2024

³Source: Standard Method, National Planning Policy Framework

⁴Source: Zoopla Rental Market Report March 2025

We delivered another strong performance in our deposit taking business with customer balances growing by 39%. Having invested in a new, scalable platform for our savings customers, we made good progress in leveraging the additional flexibility which that platform provides. Our approach to the deposit taking market is very different to our asset-side strategy. Instead of concentrating consistently on very tightly defined pockets of our target markets as we do in our lending, in savings we operate a highly tactical *modus operandi*. Because we serve a very broad waterfront of customer groups within the deposits market, we can quickly identify opportunities as they open up and move rapidly to capitalise on those opportunities before the window closes. We aim to deliver consistently excellent service, as we do across all of our businesses, and once secured, we have highly developed strategies for retaining customers and building loyalty and advocacy. For the fifth year running, in 2024, Feefo awarded our Savings business its Platinum Trusted Service Award and the leading savings product comparison website, Moneyfacts Compare, gave HTB its 5 Star rating for ease of account opening.

Delighting our customers is absolutely central to our model of Excellence through Specialism. We know that durable and valuable franchises in banking cannot be built on being cheap. We aim not only to be experts in our chosen markets but to be known in those theatres for consistency in decision making, solution design, agility and speed of response. This has been our proposition since we introduced Excellence through Specialism in 2018 and we will continue to develop and mature this proven formula during 2025. The best test of our delivery is the judgement of others and we were delighted to receive a battery of awards during 2024 including:

- Bridging & Commercial Awards - Best Specialist Bank



- Business Moneyfacts Awards - Development Finance Provider of the Year



- Moneynet Awards - Business and SME Savings Provider Brand of the Year



Turning to our own people, we never forget that HTB owes an immense debt to our hard working, loyal and able workforce. We care for our people, for their careers, for their health and for their future. Our culture and its development was an important theme for the Group in 2024 and will remain so. During the year, I was delighted to appoint Kathryn Winup as our new Chief Financial Officer who, alongside the wider Executive team, will continue to drive and develop our culture further. Building greater diversity across the business is a priority and we will take further concrete action in 2025 to make this a reality.

During 2024 we continued to deliver against our long-term operational strategy which has five key themes – automation, regulatory compliance, risk, capability and costs. In each case we have a multi-year plan to deliver clear, focussed improvements. In 2024 our achievements included a new platform for our Wholesale business, further investment in our cyber security and our data architecture, ongoing progress in cloud adoption and new proprietary applications written using our low code platform.



"Feefo awarded our Savings business its Platinum Trusted Service Award and the leading savings product comparison website, Moneyfacts Compare, gave HTB its 5 Star rating for ease of account opening."



Matthew Wyles
Group Chief Executive Officer

25 April 2025

Finally, I want to thank my management team, our shareholders and our non-executive Board colleagues for the important contributions they have all made to the Group's continuing success. I am immensely proud of what we achieved during 2024 and I am confident that we are ideally positioned to deliver a strong performance yet again in 2025.

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 40) 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 12) 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 12) 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 12) 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 12) and Net gains arising from derecognition of financial assets measured at amortised cost (Note 11), divided by average principal employed.
Underlying Cost to Income Ratio	Administrative expenses net of management recharges (Note 12) divided by operating income excluding net gain or loss on loans held at fair value through profit and loss (Note 10) and Net gains arising from derecognition of financial assets measured at amortised cost (Note 11) and management recharges (Note 12).
Underlying Net Revenue Margin	Operating income excluding net loss or gain on loans held at fair value through profit or loss (note 10), management recharges (Note 12) and Net gain arising from derecognition of financial assets measured at amortised cost (note 11), divided by average principal employed.

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£m	£m	£m	£m
Loans and Advances to Banks	1,440.4	480.5	1,435.3	476.8
Investment Securities	220.0	244.5	220.0	234.5
Loans at fair value through profit or loss – <i>Development Finance</i>	0.3	3.3	0.3	3.3
Loans and advances to customers:	3,581.5	3,257.9	3,391.9	2,967.3
<i>Specialist Mortgages</i>	2,394.5	2,103.2	2,394.5	2,103.2
<i>Development Finance</i>	364.5	267.8	364.5	267.8
<i>Asset Finance</i>	327.4	384.0	285.3	304.9
<i>Wholesale Finance</i>	347.6	291.4	347.6	291.4
<i>Commercial and Retail Finance</i>	147.5	211.5	-	-
Investment in Subsidiaries	-	-	38.2	49.4
Other Assets	144.5	170.8	301.8	332.5
Total Assets	5,386.7	4,157.0	5,387.5	4,063.8
Customer Deposits	4,526.0	3,260.9	4,526.0	3,205.7
Central Bank Facilities	295.0	353.8	295.0	300.0
Tier 2 Capital	56.1	57.8	56.1	57.8
Other Liabilities	137.0	162.4	135.9	177.5
Total Liabilities	5,014.1	3,834.9	5,013.0	3,741.0
Equity	372.6	322.1	374.6	322.8
Ratios/KPIs				
Risk weighted assets ("RWA") (£m)	2,106.0	1,854.9	1,961.6	1,631.8
RWA Density (RWA / Loans to Customers)	58.8%	57.0%	57.8%	54.9%
Common Equity Tier 1 Capital (£m)	337.0	292.7	300.6	243.7
Additional Tier 1 Capital securities	17.0	17.0	17.0	17.0
Tier 2 Capital (£m)	45.1	51.1	45.1	51.1
Common Equity Tier 1 Ratio	14.2%	14%	13.6%	13.3%
Total Capital Ratio	15.5%	17%	16.4%	17.0%
Leverage ratio	8%	9%	7%	8%
LCR	527%	325%	1,088%	352%
Loan to deposits ratio	79%	100%	75%	99%

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£m	£m	£m	£m
Interest and similar income	363.0	268.3	352.2	245.6
Interest Expense and similar charges	(209.2)	(122.4)	(206.9)	(114.6)
Net interest income	153.8	145.9	145.3	131.0
Operating lease income	0.6	1.4	-	-
Fees and commissions income	3.4	1.7	3.2	1.5
Fees and commissions payable	(1.4)	(1.3)	(1.4)	(1.4)
Net gain/(loss) on Loans and other assets at fair value through profit or loss	(0.3)	(2.5)	(0.3)	(2.5)
Net gain arising from derecognition of financial assets measured at amortised cost	7.3	-	7.3	-
Other income	-	-	3.9	6.0
Operating Income	163.4	145.2	158.0	134.6
Impairment gain/(losses)	(11.3)	(12.4)	(9.8)	(12.5)
Impairment loss on investments in subsidiaries	-	-	(11.2)	-
Administrative expenses	(80.5)	(75.6)	(75.5)	(69.2)
Profit before tax and dividends	71.6	57.2	61.5	52.9
Dividends received	-	-	11.0	27.5
Profit before tax	71.6	57.2	72.5	80.4
Tax	(19.9)	(14.7)	(19.4)	(13.1)
Profit for the period	51.7	42.5	53.1	67.3
Underlying Operating Income				
Operating income	163.3	145.2	157.9	134.6
Less management recharges (Note 12)	-	-	(3.9)	(6.0)
Underlying Operating Income	163.3	145.2	154.0	128.6
Ratios				
Gross Income Margin	10.9%	9.0%	11.5%	9.6%
Underlying Gross Income Margin	10.7%	9.0%	10.2%	9.4%
Blended cost of funds (after hedging)	4.7%	3.4%	4.7%	3.4%
Net Interest Margin	4.5%	4.9%	4.6%	5.0%
Net Revenue Margin	4.8%	4.9%	5.0%	5.2%
Underlying Net Revenue Margin	4.6%	4.9%	4.6%	5.0%
Cost to Asset Ratio	2.4%	2.6%	2.4%	2.7%
Underlying Cost to Asset Ratio	2.4%	2.6%	2.3%	2.4%
Cost to Income Ratio	49.3%	51.6%	47.9%	58.7%
Underlying Cost to Income Ratio	51.6%	51.6%	48.8%	48.7%
Cost of Risk	0.3%	0.5%	0.3%	0.5%
Return on Required Equity (post tax)	22.1%	20.0%	26.7%	23.8%
Return on Equity (post tax)	14.9%	14.1%	15.2%	13.7%

REVIEW OF FINANCIAL PERFORMANCE

The Group's primary business focus is on providing finance and specialist solutions to its customers and supporting their ambitions. The principal lending activities are focused on the following customer segments:

Core lending business:

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 13.9% to £2,394.5m (2023: £2,103.2m). This growth is net of the £300.2m of customer loans securitised as part of the Winchester transaction during the year. Ignoring the reduction in lending assets resulting from the securitisation, growth in 2024 would have been 28.1%.

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 34.5% in loans and advances to customers during the year to £364.8m (2023:

£271.1m). We continue to build this asset class with expansion into different regions.

Wholesale Finance (WF) provides lending facilities to a range of non-bank finance companies secured on their underlying loan receivable or against the value of their debt funds. The key products offered are Block Discounting, Structured Finance and Fund Finance. The loan book increased by 19.3% to £347.6m (2023: £291.4m).

Closed lending books

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. Following a strategic review the decision was made in Q4 2024 to cease new business under the HTB brand. Combined with the HLF book, which has been in run-off since the 2022 acquisition, the Group's Asset Finance book reduced by 14.7% to £327.4m (2023: £384.0m).

Commercial and Retail Finance

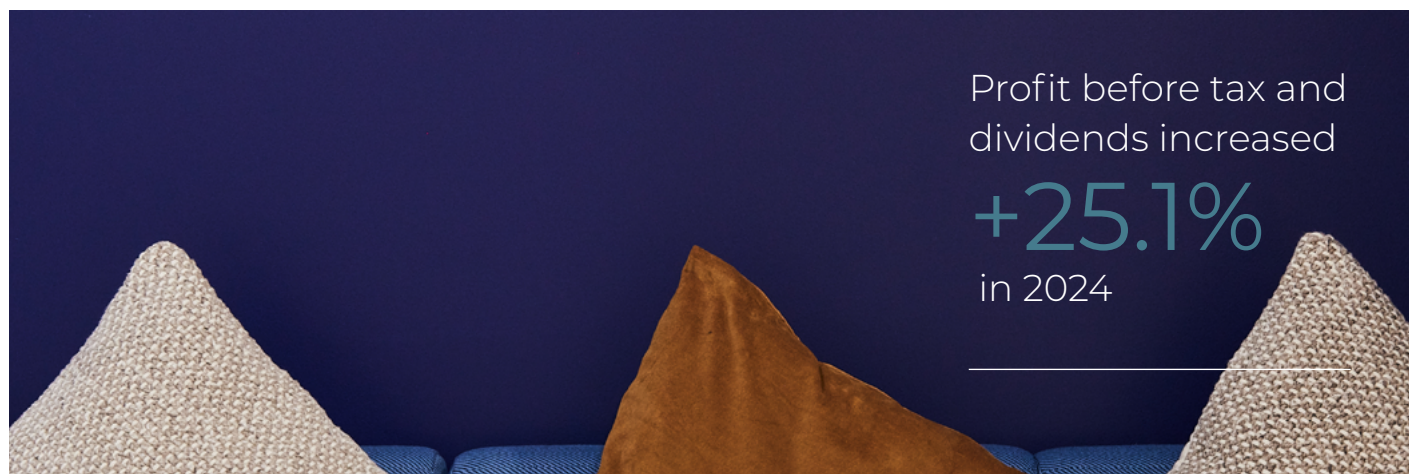
Commercial lending provides specialist acquisition finance to enable the purchase of professional practices,

predominantly by Dentist and Pharmacists and Retail Finance consists of point of sale lending to retail customers. These portfolios were acquired by the Group as part of the HLF lending book in 2022 and were put into run off with a remaining book of £147.5m (2023: £211.5m).

Deposit book:

Savings provides a wide range of savings solutions with competitive interest rates including easy access, notice and fixed term accounts as well as fixed and easy access cash ISAs for both personal and business customers. The Group is predominantly funded by deposits sourced directly through on-line marketing and in product best buy tables which are serviced by our in-house team principally through an online portal. During 2024 the Group ran off the HLF deposit book in its entirety. The Group's loan to deposit ratio was 79% (2023: 100%) and deposit balances increased to £4,526.0m (2023: £3,260.9m). The number of depositors has risen from 60,154 at the start of the year to 70,645 at the year end. Qualifying deposits with the Bank are protected under the terms of the Financial Services Compensation Scheme.





Strong growth supported by prudent liquidity and capital management

The Group's profit before tax and dividends increased by 25.1% to £71.6m (2023: £57.2m) driven by strong asset growth, the securitisation gain from the inaugural Winchester securitisation in the year, an improved impairment performance and delivering the Group's continued investment in the underlying customer proposition and infrastructure.

The Group's operating income increased by 12.6% to £163.4m (2023: £145.2m) including £10.2m gain on securitisation, reflecting the growth in average lending assets with Bank operating income growing by 17.3% to £158.0m (2023: £134.6m), slightly offset by the HLF loan book run off and the closure of the AF book in Q4. The Bank has seen strong organic growth across all business lines excluding the closed books. Bank net loans and advances to customers grew by 14.2% (2023: 32.2%) reaching £3,392.2m (2023: £2,970.6m). This is net of £300.2m assets as part of the successful inaugural Winchester securitisation during the year, and if these assets were included loan growth would have been 24.3%.

The Group's blended cost of funds increased during the year to 4.7% (2023: 3.4%) reflecting repricing of the deposit book, as BoE base rate remained relatively high across the year, and strong growth in the deposit book of 38.8% (2023: 22%). As a result, NIM decreased to 4.5% (2023: 4.9%) reflecting the impact of the higher rate environment. Underlying Group GIM increased to 10.7% (2023: 9.0%) demonstrating the quality of originations during the year and product mix.

The Group's Underlying Net Revenue margin decreased to 4.6% in 2024 (2023: 4.9%) with the Bank Net Revenue margin and Underlying Net Revenue Margin seeing a small decrease at 5% (2023: 5.2%) and 4.6% (2023: 5.0%) respectively.

The Group has a robust process in place to manage and review loan book performance and engages proactively with any customer experiencing financial difficulties. Macroeconomic assumptions used in our IFRS9 models improved slightly during the year but our probability scenario weighting remained unchanged. Coupled with the ongoing growth of the asset book, this drove an increase in expected credit losses provisions within Bank to £21.8m (2023: £20.4m), but the coverage ratio remained stable at 0.7% (2023: 0.7%). The Bank net impairment charge reduced to £9.8m (2023: £12.5m) and at Group level to £11.3m (2023: £12.4m). As a result the overall cost of risk reduced to 0.3% at Bank and Group level (2023: 0.5% at Bank and Group level).

The Bank's administrative expenses grew 9% to £75.5m (2023: £69.2m) driven by investment in staff, with FTEs growing to 421 (2023: 408), and systems to strengthen our capabilities, risk management and to support future growth. As a result of effective cost control the Cost to Asset Ratio decreased from 2.6% in 2023 to 2.4% in 2024, with the Cost to Income Ratio similarly decreasing from 51.6% in 2023 to 49.3% in 2024. The Underlying Cost to Income Ratio remained stable year on year.

Profit before tax and dividends increased
+25.1%
in 2024

The Group is predominantly funded by retail deposits and during the year successfully completed a securitisation demonstrating our increasing capabilities to diversify our capital and funding options. Additionally, the Bank has Tier 2 notes in issuance and the bank may explore opportunities, subject to market conditions, to raise further subordinated capital to 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 £295.0m (2023: £353.8m). The Bank's liquidity coverage ratio ('LCR') was 1,088% (2023: 352%), with a Group LCR of 527% (2023: 325%), substantially in excess of the minimum set by the PRA of 100% and reflects cash ringfenced to repay the TFSME scheme in 2025.

The Group's Common Equity Tier 1 (CET1) Capital on a statutory basis was £336.6m for the Group (2023: £292.7m) and £300.6m for HTB (2023: £243.7m). The statutory CET1 ratio as at 31 December 2024 was 14% for the Group and Bank (2023: 14% Group and 13% Bank). The CET1 ratio remains above our target levels and our risk-weighted asset (RWA) density for the Bank was 58% (2023: 55%) with 59% for the Group (2023: 57%). This resulted in a leverage ratio of 8% for Group (2023: 9%) and 7% at Bank level (2023: 8%).

Operating income increased
+12.6%
in 2024

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 Management Strategy

The development and implementation of the Group's Risk Management Strategy is the responsibility of the Chief Risk Officer (CRO), 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 behaviours through its linkage to the Group's Values, with the remuneration framework.



RISK MANAGEMENT FRAMEWORK

The Risk Management Framework (“RMF”) sets parameters within which all the Group’s activities are executed. This ensures we identify, measure, monitor and control 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 design and effectiveness of the RMF is overseen and reviewed by the Board Risk Committee on a regular basis and at least annually.

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

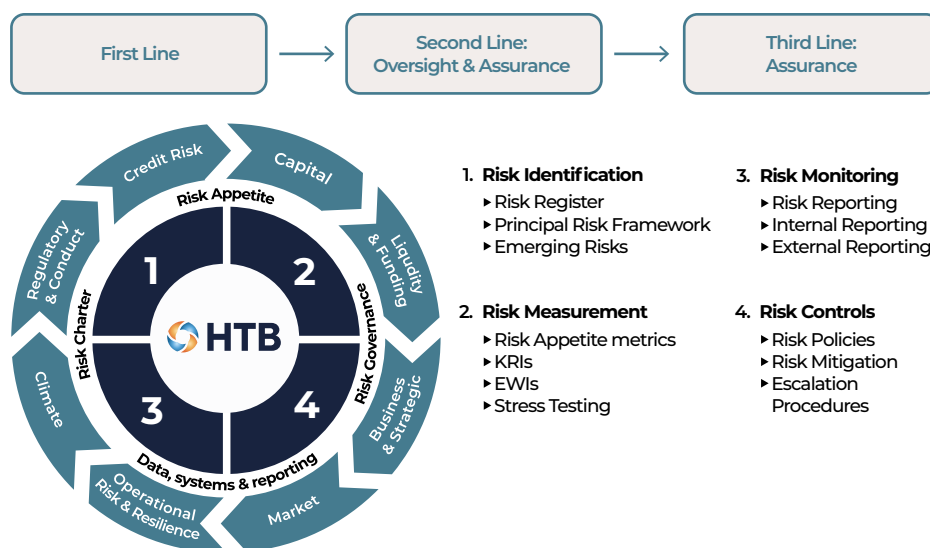


Figure 1 – Structure of the Risk Management Framework

Risk Appetite Framework

The Risk Appetite Framework (“RAF”) is the overarching 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
- 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 which support the Risk Appetite metrics, are reported monthly to the relevant risk committees.

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

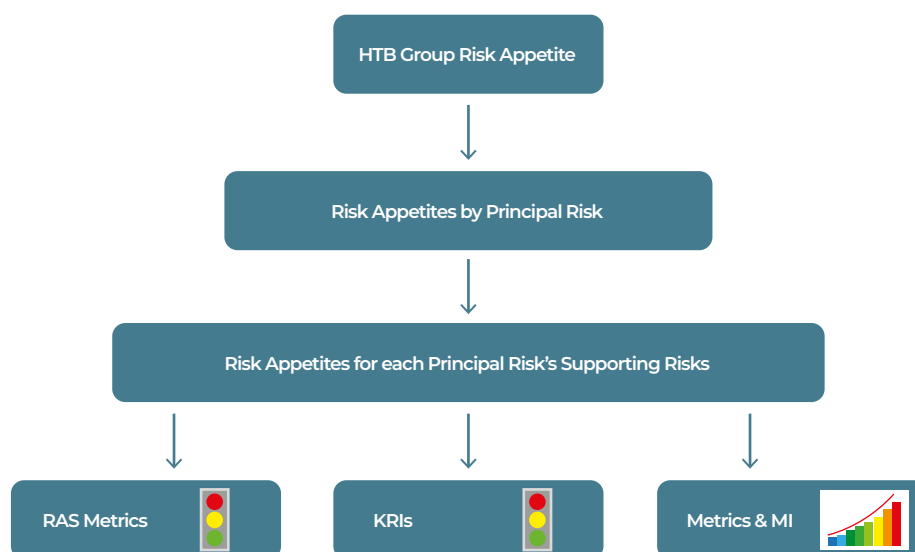


Figure 2 – Structure of the Risk Appetite Framework

Performance against Risk Appetite Metrics and KRIs is regularly reported to the Board and Board Risk Committee via appropriate executive 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 approach to manage its risks. The Three Lines 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 together with their roles are summarised below:

Front Line Business Units (1st line)

The business lines and central functions have ownership of risk, whereby they acknowledge and manage the risk that they incur in conducting their activities. The first line has primary responsibility for the day-to-day management of these risks and the implementation of mitigating controls in line with approved policies, frameworks, processes and procedures. They are responsible for risk event identification, root cause analysis where applicable and early escalation. They will also test key controls, providing regular assurance.

Risk and Compliance Function (2nd line)

The Risk Function (or "Risk & Compliance") is independent of the business units and other central functions of the Group and is the Second

Line of the Three Lines approach to risk management. The main responsibility of the Second Line is to ensure that all risks are identified, measured, monitored, controlled and reported by the relevant units in the institution.

It is accountable for the development and implementation of the Group's Risk Management Strategy, and maintains this RMF, supplemental frameworks and risk policies. It proposes the Risk Appetite of the Group and ensures it is appropriately translated into specific risk limits.

It ensures there are effective processes and controls in place in the First Line by providing independent challenge, oversight and ongoing assurance of the adequacy and effectiveness of risk management within the business units.

Internal Audit (3rd line)

The internal audit function is charged with the third line, conducting risk-based and general audits and reviews to provide assurance to the board that the overall governance framework, including the risk governance framework, is effective and that policies and processes are in place and consistently applied.

Internal Audit operates under the direction of the Board Audit Committee and provides independent assurance to the Board that the First and Second Lines 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.

In addition, HTB also completes scenario testing as part of its operational resilience framework. Scenario testing requires HTB to test its ability to respond to severe but plausible operational disruptions with the aim of ensuring any vulnerabilities to HTB's ability to remain within impact tolerance are identified and addressed.

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
- Provide a view of climate change risk and its impact on the financial risks of the Group.

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.	Sources of risk exposure.	How we mitigate the risk.
Business & Strategic Risk	<p>The uncertainty related to strategic choices such as misreading of the external environment or external change.</p> <p>The failure to identify or monitor emerging risks in regulatory, macroeconomic or competitive environments, resulting in a failure to deliver business objectives.</p> <p>The failure of Governance or Culture leading to franchise damage.</p>	<ul style="list-style-type: none"> The key sources of Business and Strategic Risk are lending growth, product governance, change governance and market competition. 	<ul style="list-style-type: none"> All new business initiatives and product or service propositions undergo rigorous analysis and challenge prior to launch. Transformation spending and prioritisation is managed through a specialised Change committee. The impact of regulatory expectation and legislative requirements are a key consideration in change and transformation. Our four core values are Specialist Customer Focus, Unwavering Integrity, Delivering Excellence and Team HTB. The values are aligned to defined behavioural standards to underpin the commitment to excellence, integrity and purpose. We model and stress test the impact of new investments on our existing business ensuring capital, liquidity and funding requirements remain within risk appetite.
Credit Risk	<p>The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time.</p> <p>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.</p>	<ul style="list-style-type: none"> The key source of credit risk is the group's loans and advances to customers. There is also a small counterparty credit risk exposure relating to Treasury assets held for liquidity management. 	<ul style="list-style-type: none"> 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 have a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and a defined problem debt management process. Lending performance against Risk Appetite is monitored regularly. 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 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.

Capital Risk	<p>The risk that the Group will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans</p>	<ul style="list-style-type: none"> Capital risk exposure concerns the potential for unexpected losses to deplete capital resources or an increase to minimum requirements. 	<ul style="list-style-type: none"> 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	<p>Liquidity Risk – 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</p> <p>Funding Risk – The risk that the Group is unable to continue to fund asset growth or future liquidity requirements at an affordable price</p>	<ul style="list-style-type: none"> The key source of liquidity risk is the Groups retail and wholesale deposits. Funding risk arises from the structural composition of the Group's liabilities and includes the duration and concentration of funding 	<ul style="list-style-type: none"> 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	<p>The risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments</p>	<ul style="list-style-type: none"> Market risk is the result of the Group's core activities of lending and deposit-taking. Recognised risks include interest rate risk, basis risk and behavioural risks including optionality. The Group does not have any trading book exposure. 	<ul style="list-style-type: none"> 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 exchange or swap any FX exposure into GBP All above risks are reported to ALCO and Board against risk appetite levels
Operational Risk & Resilience Risk	<p>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.</p>	<ul style="list-style-type: none"> Operational Risk is identified and managed through the Risk and Control Self-Assessment (RCSA) framework 	<ul style="list-style-type: none"> The Group's Risk and Control Self-Assessment (RCSA) framework is well-embedded and reflects best practice, ensuring the identification of risks across the Group and the assessment of the effectiveness of the controls which mitigate them. We ensure all staff understand and follow the Operational Risk Management Framework (ORMF).

	<p>Operational Resilience Risk – The risk that the Group is unable to prevent, adapt to, respond to, recover from, or learn from operational disruptions.</p>	<ul style="list-style-type: none"> • Key sources of risk include data, process execution, transformation, facilities and third-party risk management. 	<ul style="list-style-type: none"> • We provide training and guidance to first line staff on aspects of the Framework via both the Risk Champions forum and formal training sessions • We have a defined Operational Resilience Policy • We have mapped all Important Business Services (IBS) and set Impact Tolerances for each. • We have embedded an operational resilience testing plan which includes scenario testing of IBS and other scenario testing e.g. incident management, disaster recovery, cyber security
Regulatory & Conduct Risk	<p>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</p> <p>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</p>	<ul style="list-style-type: none"> • The principal source of exposure are the regulated lending and deposit activities the Group undertakes in a highly regulated market. Additional risk is driven by governance, assurance, legal risk, data privacy, and regulatory management. • Key sources of Conduct risk include employee conduct and culture, underpinning the provision of products and services that are fairly priced, properly governed and meet customers' needs in a fair manner. Further conduct risk is associated with the failure to address customer detriment quickly and fairly. 	<ul style="list-style-type: none"> • 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. • 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 complete money laundering and financial fraud checks on our customers at application stage and during the customer lifecycle.
Climate Risk	<p>The threat to HTB Group's business from physical or transitional climate risks.</p>	<ul style="list-style-type: none"> • The key sources of Climate risk are the Group's operational and financial exposure to physical risks and the market-wide transition risk associated with Net Zero policy implementation. 	<ul style="list-style-type: none"> • 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. • We use the TCFD framework to guide our voluntary disclosures on climate-related risk and opportunities.

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 may 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 may emerge from National and/or International regulatory bodies that may require material changes to the way in which the Group operates
- **Competitive Landscape** – Risks that may 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 may 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:

Macro-Economic pressures (Economic and Political Landscape)

Macro-economic uncertainty remains high with inflationary pressures, low growth and uncertainty about the timing and depth of BOE rate cuts. Geo-political tensions in the middle east and the continuing war in Ukraine continue to impact global pricing which, combined with the US protectionary measures and the threat of tariffs, 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 as well as depressed profitability which could lead to increased debt service issues.

Companies that have accessed debt funding have faced increased debt service costs due to the prolonged interest rate environment, and a lack of anticipated rate cuts may lead to increased debt service issues.

Consumers/renters who continue to be 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.

EPC Rating Requirements (Regulatory Change or Intervention)

Recent developments on this area include the UK Government announced an acceleration of their Warm Homes Plan which includes an intention for all private landlords to meet an EPC 'C' standard by 2030. A consultation was launched until May 2025 on the application of the 'C' minimum standard to apply to new tenancies from 2028, with all tenancies required to be compliant by 2030. This followed on from a previous consultation at the end of 2024 on reform to the EPC regime which included proposed enhancements to improve the accuracy and reliability of EPCs. This means that the EPC of a building could potentially change due to the reforms (expected to be applicable from 2026), during the transition to minimum standard requirements, creating additional uncertainty for both borrowers and lenders.

A minimum EPC 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.

Renters' Rights Bill (Regulatory Change or Intervention)

The Renters' Rights Bill was proposed to The House of Commons in January 2025. It is intended to reform the rental market and proposes changes to landlord rights, tenancy reform, grounds for repossession, rent increases and the abolition of Section 21 evictions.

The risk to HTB is that any change in the balance of Landlords / Tenants rights in favour of tenants may dissuade Landlords entering the market or remaining within it and thus contraction. Similarly, some of the proposals could increase HTB's portfolio risk e.g. assets already financed do not meet some of the above standards. The increased regulation will increase pressure on professionalisation of the market and it may result in a reduction in market size.

However, increased regulation of the Private Rental Sector is potentially beneficial to HTB. The market fundamentals for a strong Private Rental Sector remain – and changes in regulation won't materially affect the market segment which the HTB proposition addresses. In the small number of cases where HTB have used recovery actions, the biggest issues are often due to properties not being suitably maintained during the life of our loan, therefore the additional requirements above may support asset values.

Technology Risk (including AI) (Technology Risk)

Strategic disruption may arise from technological change or new business models that potentially may impact HTB's future profitability and position. Such risks include:

- Consumer demands may evolve leading to a challenge to existing capabilities and standards.
- Competitors are adapting and new financial technology continues to help develop new business models.
- Cloud technology reduces barriers to HTB markets and increase the pace of products coming to market.
- Chatbots and virtual assistants, which can transform customer service provision.
- Fraud detection systems, which can disrupt financial services firms.
- Increased speed and complexity of potential cyber threats.

Speed and accuracy of AI will lead to enhanced, more personalised customer experience and firms which fall behind and fail to leverage AI will struggle to remain competitive. Lack of inhouse skills or AI familiarity could lead to having to outsource automated processes with increased costs and maintenance an issue.

Climate Change (Competitive Landscape and/or Regulatory Change or Intervention)

Climate change represents a material risk to HTB and the financial system within which it operates. Climate risk arises from both the physical effects of climate change, and from the impact of changes associated with the transition of the economy to a lower carbon economy. Climate risk is increasingly on the Regulatory radar and the guidance / requirements set by the PRA are prescriptive and will impact on HTB's asset funding 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.

Discretionary Commission Arrangements (Regulatory Change or Intervention)

Following the Commissions Disclosure Court of Appeals judgement made on 25th October, there is a potential contagion risk within Financial Services. The judgement related to three specific actions brought against motor finance deals, whereby the motor dealers acted as both seller and credit broker for the sale of cars, which led to the CoA deciding that informed consent was necessary from the customers for commissions paid by the lender to the dealer. This presents a wider risk for any instance where there could be seen to be a conflict of interest between the dealer, customer and lender.

Since November 2024, the High Court has dismissed Barclays' judicial review of the FOS ombudsman's decision and a Supreme Court Appeal has been granted which was heard in early April. The most recent statement on Discretionary Commission Arrangements from the FCA outlined that any final decision will be communicated up to 6 weeks after the Supreme Court decision. If the FCA conclude motor finance customers have lost out from widespread failings by firms, then it will likely consult on an industry-wide redress scheme.

Taking into account the ongoing challenges to the review's scope and the uncertainty around any redress scheme and our low number of complaints, HTB's accounting conclusion remains that no provision is required and a contingent liability disclosure under IAS 37 is deemed appropriate.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

Our ESG Approach

For HTB, sustainability is about demonstrating good corporate behaviours, behaving with integrity towards our clients, intermediaries and suppliers; offering our employees a great place to work; supporting our community and respecting our environment. HTB is committed to maintaining and progressing our stance as a responsible business. Our ESG approach is a tangible expression of our values and purpose – that is to create sustainable value for all our stakeholders: our customers, colleagues, communities, partners, suppliers and shareholders, while having a positive impact on society and the planet.

Over the last 12 months we have continued to grow and evolve our specialist finance propositions, helping more customers to achieve their goals. We also continued to invest in our people and communities, helping us to deepen our impact.

We've made progress on our ESG journey and taken action to ensure our approach to sustainability is embedded across all areas of our business, ensuring we remain focused on the right issues and build long-term value in our business. We will also continue to engage with our stakeholders to re-evaluate our key ESG topics regularly.

Materiality

It is important for us to understand how our ESG approach and performance measures up against current standards, best practice and societal expectations. In 2024 we undertook a materiality exercise to determine which ESG factors are most material to our business. This included peer benchmarking, sustainability frameworks, industry ESG developments and insights from external experts. Our ESG approach was updated to reflect this.

We consider materiality both in the context of our own business success (financial materiality) and in relation to its stakeholders (impact materiality). We will continue to engage with our growing base of stakeholders on wider sustainability matters – including a 'full refresh' of our ESG topics every three years, engaging with our key stakeholder groups - and will enhance our reporting to include material issues in due course.

ESG Governance

Governance of ESG matters including climate is illustrated on page 29.

ESG Issues

This report provides an insight into ESG areas most relevant to our business.

We have defined an ESG framework, embedded across five pillars:

We have defined an ESG framework, embedded across five pillars:

Colleagues	Customers	Communities	Governance, Ethics & Compliance	Environment
EDI & Culture Gender Pay Gap Learning & Development Wellbeing	Positive outcomes Education & awareness	Neighbourly Social Impact Suppliers	Board Diversity Compliance Training Cybersecurity & Data Privacy Anti-Money Laundering Bribery & Corruption Modern Slavery	See pages 27-28: Net Zero Strategy

This is the first year we have undertaken an ESG materiality assessment, hence the information is more reflective of a baseline than progress made. However, as we develop our ability to measure and deliver against our stakeholder expectations, we intend to expand this going forward.

Our 2024 actions were informed by an analysis of materiality considerations, anticipated regulatory developments and stakeholder feedback.

In the short term our ESG focus has been on climate impact and action and addressing the need to move to a low carbon economy. People factors are another priority area for HTB. Climate and People therefore have been the mainstay of our ESG Committee and board discussions during 2024. Factors relating to our Colleagues are addressed below. Environmental matters are addressed in Climate related disclosures (pages 24-34).

Pillar 1: Colleagues

Enhanced Equality, Diversity & Inclusion (EDI)

We are an equal opportunity employer. The aim of our policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of age, disability, race, religion or belief, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity, gender reassignment, expression or predisposition, or political opinion nor should they be disadvantaged by conditions or requirements which are neither justified nor relevant to the job.

HTB policies relating to EDI are contained in our Staff Handbook, issued to all employees and new joiners. Our EDI policy is supported by ongoing annual activities to raise awareness of inclusivity in the workplace.

Activity: Our HR team have worked closely with GEC to drive change across several areas, align EDI with upcoming regulatory changes and systematically improve our employee experience at HTB. Further activity in 2024 included:

- **Seeking feedback** – through our annual colleague engagement survey supporting GEC in developing a company-wide and divisional action plan. We asked an external agency to review HTB's culture; a gap analysis was performed against incoming EDI legislative changes. The Women in Finance (WiF) Charter qualifications was also conducted. This helped establish our objectives towards WiF Charter membership and created initiatives around driving our culture. Launched our 'CEO Direct' Speak-Up box, a direct channel of access (with the option of anonymity) to our CEO.
- **Enhanced internal communication strategy** – including regular CEO updates to all staff, annual Billionaire Colleague awards, Executive Exchange webinar series with GEC members providing updates to staff. Development of an internal EDI calendar to support education, awareness and celebration of diversity at HTB e.g. Lunar New Year, Pride celebrations, International Women's Day celebration. Launched internal newsletter.

- **Vision & Values** – with support from our Culture Champions created a defined set of values and behaviours to relaunch to all staff.
- **Training** – training and awareness is delivered by an annual mandatory EDI and Speak Up e-learning module. We also launched a risk goal in personal objectives to support all employees' accountability to risk management as it pertains to their roles.
- **KPIs and reporting** – this year, we reported on our gender balance ratio for the first time. We developed internal KPIs on EDI to help us to identify our current cohort and benchmark ourselves when developing and executing our EDI action plan. KPIs include headcount by ethnic diversity and candidate shortlisting targets and measurement against metrics (90% of shortlists must have 50% gender balance). This action aims to gradually improve our female / male ratio. Our attrition rate (excluding Asset Finance redundancies) in 2024: 16.1% compared to 19.5% in December 2023. Both are based on 12 months rolling attrition rate.

Gender Pay Gap Report

Our annual report on 2024 gender pay ratios was released in April 2025. This year we included a more comprehensive and extended review of the key objectives set in 2023, which were:

- To achieve a greater gender balance across the Bank, with initiatives to tackle under-representation, including a drive to increase female leadership and the development of our female talent.
- Support our Women in Leadership apprenticeship programme
- Launch the Change Network, to consult on recruitment and development practices relating to EDI
- Reporting to GEC/Board on the Gender ratio of Senior Management population.

The full Gender Pay Gap report can be found on our website www.htb.co.uk

Learning & Development

HTB is committed to supporting our colleagues in their personal and professional development. During this year, we've expanded the learning development opportunities through training and accessibility of resources. 2024 initiatives included:

- **Launch of Study Support Policy** – to provide clarity and understanding of the forms of study supported by HTB.
- **Launch of Recruitment training** – this training supported more inclusive and diverse hiring, with training covering themes such as unconscious bias and more inclusive hiring practices, supporting recruitment and management capabilities.
- **Launch of the Internal Jobs Board** – increasing transparency of internal vacancies and employee transfers, supporting our career development opportunities at HTB.
- **Launch of Line Managers' Hub** – to improve accessibility and availability of resources to develop management capabilities, including new toolkits and guidance for recruitment, leaver and transitioning, and a refreshed Line Manager's Newsletter.

Wellbeing

In addition to medical insurance through our partnership with Bupa, we support our colleagues' wellbeing through a number of other initiatives. These include the Bank Workers Charity webinar series, which gives colleagues resources, education, awareness and resources to support their mental and physical wellbeing.

We also launched the Menopause Support Pack to support employees experiencing the menopause, driving awareness and education around the symptoms and offering a community of support and resources through a 'Coffee & Chat' networking session with colleagues and Bupa.

Pillar 2: Customers

Our customers are at the heart of our business and, as a specialist bank, we use our expertise to develop products which meet their needs and help them achieve their ambitions. Our specialist teams are continually striving to improve, championing our customers at every opportunity. They are well placed to discuss support available to anyone that needs it, and we are committed to delivering good customer outcomes and treating customers fairly across the Group.

Delivering Better Outcomes for Savings Customers

On 17th May 2024 we launched our new cloud-based banking platform which will bring many benefits and additional services to our Savings customers. It has multiple advantages for our customer including self-service banking; the ability to open additional accounts; make payments; transfer funds between accounts; generate their own statements; and update their personal details online. Strong customer authentication and a secure messaging service will provide another access point to our teams. With documents available to view online and text/email notifications, customers can also receive confirmation of payments quickly and securely, with support from a dedicated team to manage online banking calls.

Customer Experience (CX) Programme

HTB has a long standing CX programme. It provides HTB with the tools and insights to better engage with our brokers and customers across different customer journeys. It's designed to deepen our understanding of customers' needs, regularly check their satisfaction with our products and services, and inform our strategy so that we can better meet their requirements and improve their experience.

Customer Satisfaction

We monitor customer satisfaction scores by department and customer type. Scores measure overall satisfaction with the service received. Each score is a % based on all those who are 'Very satisfied' or 'Satisfied' with the service from each transaction. On a rolling 12-month trend our Satisfaction Scores have consistently improved in 9 out of 10 areas of the business.

Vulnerable Customers

We aim to act to deliver good outcomes for all customers, including those with characteristics of vulnerability. Our people who manage customers are guided by a vulnerable customer strategy to support the management of customers in financial or other distress. This includes signposting guidance to relevant professional agencies who can assist the customer independently. We will give customers the option for us to liaise with a debt management company on their behalf. We can also instruct an agent to visit the customer for a face-to-face meeting.

We aim to work proactively with customers to support them whilst in financial hardship both from a pre arrears and collections perspective. We have a multichannel outbound communications approach comprising of phone, letter, email and SMS and where appropriate we use external field agents to engage customers.

Education & Awareness Raising

In 2024, HTB helped drive up standards in the development finance market through two Masterclasses for brokers, led by our DF team. The Masterclasses provided insight to brokers about the intricacies and technicalities of development finance and shed light on the transaction journey. They illustrate how HTB's role goes beyond finance and embraces supporting all those who play a part in building UK homes for the future.

The Bank's approach to engaging its online community of clients, brokers and its people is the use of online thought-leadership and educational content through its trade press and social media channels.

Addressing Customer Concerns

We don't always get things right so it's important that we resolve any complaints effectively. We use the FCA's Dispute Resolution Sourcebook to deliver consistent and good outcomes for our customers. This means we:

- signpost different ways for our customers to get in touch with us
- acknowledge each complaint properly, within the required timescales

- fully investigate the issues raised diligently and fairly
- respond promptly and explain our decision in a fair manner
- offer suitable redress or remedial action
- provide information on the alternative dispute resolution options

A key focus for HTB is understanding the root cause of customer complaints and all areas across the Group completing regular root cause analysis. The outputs of this are used to review and enhance our processes, ensuring the customer journey is as smooth as possible to avoid similar complaints in future.

Root cause analysis is performed to understand the cause of complaints, with learnings used to drive operational change and improvements.

We assess our complaint performance against industry publications from the FCA and the Financial Ombudsman Service (FOS), comparing the performance of our complaint metrics to those of our peers and the industry as a whole. The FOS complaints data is a high-level satisfaction metric. Information from the last FOS annual reporting period is set out below.

FOS Data	Year ended	Year ended
	31 Dec 2024	31 Dec 2023
	(%)	(%)
HTB Complaints Upheld	15%	13%
Industry Average Upheld	35%	34%

Our Compliance & Operational Risk Committee (CORC) monitors complaint volumes, identifies any trends and makes sure issues are addressed and lessons learnt.

Supporting Customers in the Net Zero Transition

A key element of our net zero strategy is to support our customers in their transition to a low carbon future whilst managing the risks and opportunities associated with the shift towards net zero. See pages 24-34 for more information.

Pillar 3: Community

Neighbourly

As a specialist Bank, it is important for us to give the right support at the right time for communities and businesses to thrive. Working with charities and good causes is no different. We know that charitable giving is important to our teams too, so we developed a volunteering programme, partnering with *Neighbourly*.

Neighbourly is a giving platform which makes it easy for employees to volunteer, reach a network of vetted good causes and get access to regular and flexible volunteering opportunities all year. Neighbourly was one of the UK's first B Corporations certified to meet rigorous standards of social and environmental performance, accountability, and transparency.

All HTB employees are offered one paid day off each year to support volunteering projects and help make a difference in our local communities. The employee participation rate was 52% of total employees (2023, 31%).

Suppliers

During 2024 we introduced ESG factors into our Third Party Risk Policy. In line with the Group's long-term goal to reach net zero by 2050 it will expect third parties to make a similar commitment and attest to ESG commitments aligned to the Group's long-term strategy. We already consider our suppliers' commitment to addressing and monitoring modern slavery a key element of the supplier due diligence process and we are working to integrate information relating to net zero initiatives, targets and downstream emissions to further develop our understanding of our supplier chain.

Pillar 4: Governance, Ethics & Compliance

Board Diversity

- Total Board Directors: 8
- Executive Directors: 2
- Non-Executive Directors: 6 (4 independent, 2 shareholder).
- Board gender balance: Male: 6 (75%) & Female: 2 (25%)
- Ethnicity: All White
- Nationality: All British

Training on Compliance

The Bank produces an annual training plan for all staff that is approved by the Audit Committee. This plan is based on mandatory and risk-based drivers to ensure that all staff, including those in the lending divisions, receive a complete set of tailored training each year. The training is delivered through an automated, online training platform that is monitored to ensure the successful and timely completion of the training and an acceptable pass rate of linked assessments.

In addition to the mandatory training, the Risk and Compliance function develops and delivers bespoke training using a variety of delivery methods, including face-to-face and facilitated sessions.

Cybersecurity

Cyber-attack is a key risk the business faces when managing data electronically over public and non-public systems, networks and applications. Cyber Risk is defined as the risk of loss to the Group of its business services, technology and data as a result of malicious actions committed or facilitated through the use of technology.

Cybersecurity is increasingly addressed by Banks as an ESG issue, on the following grounds:

- **Environmental:** Cybersecurity protects the digital infrastructure that supports environmental sustainability, such as smart grids, renewable energy, and electric vehicles. For example, cyberattacks are an operational and legal ESG risk if they result in industrial closure, pollution caused by disrupted facility leak detection systems or take control of industrial systems.

- **Social:** It protects the systems and processes that support public health, national security, and electoral processes.
- **Governance:** It safeguards the technology and data that support financial reporting, administrative systems, and DEI initiatives.

Our Group Cyber Risk Policy sets suggested control requirements for cyber risks across the firm to allow us to manage cyber risk profile within risk appetite. This Policy supports the regulatory and firm requirements relating to its operational risk management and cyber resiliency requirements.

Further Policies

HTB operates in a highly regulated sector and has a range of policies relating to Anti-Money Laundering; Bribery & Corruption; the prevention of Modern Slavery; Fighting Financial Crime; Conduct Risk; the SMCR Policy and Handbook; and Whistleblower Protection.

Pillar 5: Environment

Our approach and activities in relation to the Environment are addressed in the next section: Climate-related Disclosures.

CLIMATE-RELATED DISCLOSURES

Structure of Climate-related Disclosures

HTB does not meet the threshold for mandatory reporting of Climate-related Financial Disclosures (formerly TCFD and now IFRS S2). However, for the second year running, we have decided to use the TCFD framework to guide our voluntary disclosures on climate-related risk and opportunities. This is because we understand that financial markets need clear, comprehensive, high-quality information on the impacts of climate risks and opportunities on HTB's financial well-being.

Embarking on these disclosures ahead of any regulatory imperative has also been useful for us as a bank - allowing us to identify areas where we need to continue to build our internal expertise. While we may not yet be in full alignment with framework requirements, our disclosures seek to address the most pertinent areas around the four common pillars: A) Strategy; B) Climate Governance; C) Risk Management and D) Metrics & Targets.

A. Strategy

Our Commitment

HTB is committed to reaching Net Zero by 2050, in line with the Paris Agreement goal of limiting global average temperature increases to 1.5°C. We understand that this will require us to reduce emissions as far as possible and support a balanced transition to net zero in areas we can have an impact. Still, we are aware that there are limits to the capacity of banks such as HTB to influence the actions of clients and counterparties. Achieving net zero by 2050 demands a collective global effort to reduce greenhouse gas (GHG) emissions. This will be dependent on a combination of factors including government policies, grid decarbonisation, supply chain transformation and shifts in consumer behaviour.

This section of the report outlines the approach we are taking at HTB to tackle climate change, as well as the progress we've made during 2024.

The time horizons used by the Group are as follows:

Time horizons	Start Year	End Year	Explanation for the choice of time frame
Short-term (0-1 years)	2025	2026	Aligns with annual financial reporting
Medium-term (1-5 years)	2026	2030	Aligns with strategic and financial planning
Long-term (>5 years)	2030	2050	Timeframe used for scenario analysis



i. Potential Risks Identified and Timeframes

Sub-Type	Climate Potential Risk	Business Area	Timeframe (S-M-L term)	Principal Risk Area	Expected Impact
TRANSITIONAL RISK					
Policy & Legal	Continued tightening of energy efficiency measures in private rental sector	Specialist Mortgages	S, M & L	Credit Operational	Low to Medium: Controls are in place to limit risk of impact from current & future regulation. But fast pace of change may increase the impact.
	Increased pricing of GHG emissions (e.g. carbon tax)	Asset Finance	M	Credit	Low: Impact duration of phase-out of assets likely to be subject to carbon tax gives sufficient time to adapt risk profiles
Technology	Transition to low-carbon economy may impact asset values of products and services with high emissions	Asset Finance	M	Credit	Low to Medium: Robust controls in place to limit exposure to sunset industries and obsolete technology
	Increased stakeholder concern or negative stakeholder feedback		S & M	Reputational	Low: Bank has limited exposure to climate sensitive sectors
PHYSICAL RISK					
Acute	Damage to buildings, disruption of operations and increased insurance due to increased severity of extreme weather events such as flooding	Specialist Mortgages, Development Finance, some Asset Finance	S, M & L	Credit Operational	Low: Group has low exposure to physical risk. Multiple controls in place to reduce impact of risks
Chronic	Rising sea levels, changes in heat & precipitation patterns and extreme variability in weather patterns	Specialist Mortgages, Development Finance, some Asset Finance	L	Credit	Very low: Numerous controls in place and impact duration gives sufficient time to adapt risk profiles

ii. Potential Opportunities

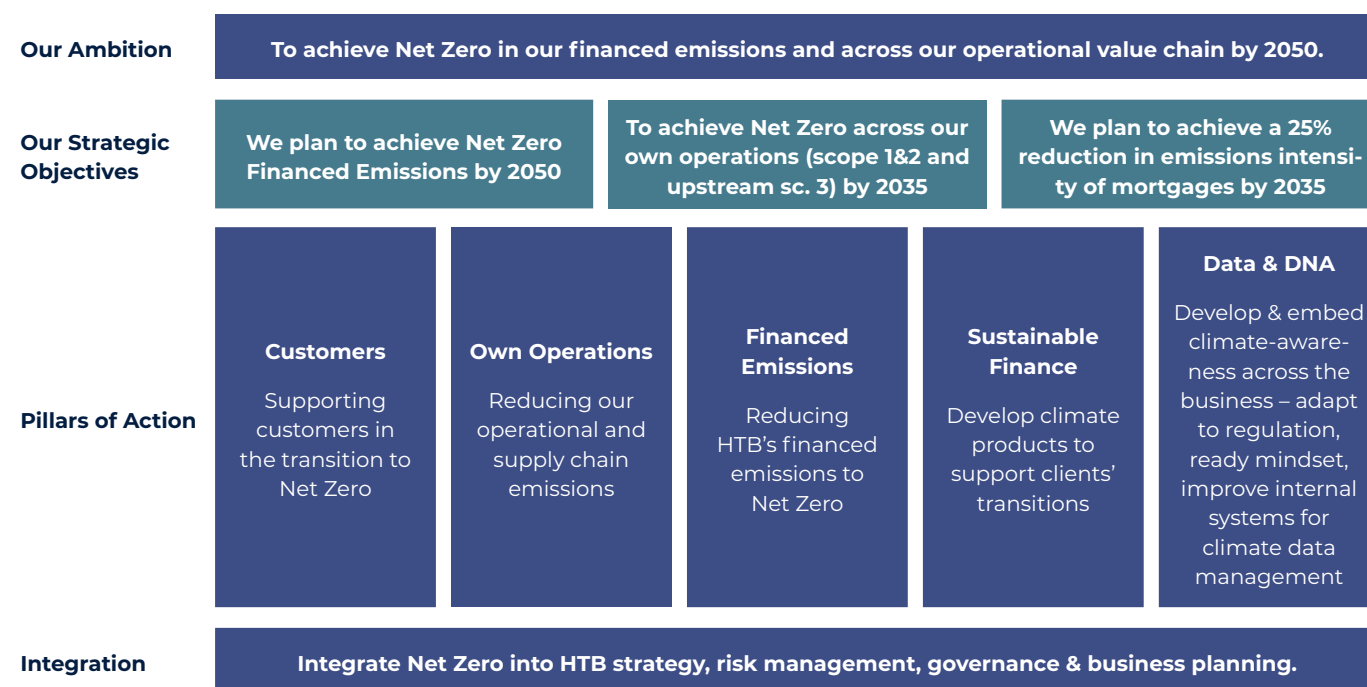
Opportunity Type	Climate-Related Opportunities	Short-Medium-Long (SML)-term
Resource Efficiency	Move to more efficient buildings: Our move to new offices at the end of 2023 supports new opportunities to reduce our carbon footprint	S to M
Products and Service	Growing demand for sustainable lending & savings products in target markets	M
	Brand & reputational benefits resulting in increased demand for goods/services	S to M
Markets	Reduced risk of asset stranding considered in lending decision making	S to M
	Use of public-sector incentives	S to M
	Increased diversification of financial assets	M
Resilience	Increased reliability, climate- resilience of lending chain	M to L



iii. Description of Climate Strategy

During 2024, we developed our Net Zero Strategy, which forms a fundamental part of our ESG approach. From establishing processes to monitor progress, to agreeing a decarbonisation pathway and rolling-out climate training, it will set in motion a series of actions to support the HTB's Net Zero 2050 commitment and sets out how we will mitigate climate-related risks and embed climate considerations into our wider strategy. We will continue to evolve our approach in response to changes in the external environment and emerging industry practices.

Our Strategy is built around a Net Zero Framework containing five themes or pillars of action. The Framework aims to capture the key components of the Strategy in a way which enables them to be structured, managed and operated across the business.



The Net Zero Framework is underpinned by **Ten Core Components**:



Each of the 10 components will be delivered by a series of actions across the business over the short-medium-long term.

iv. How Climate Strategy is Applied

Climate Scenario Analysis

As part of the 2024 ICAAP, HTB undertook a Climate Risk-based stress test based on the NGFS (The Network for Greening the Financial System) scenarios. In the absence of relevant asset-level climate data, these scenarios were chosen on the basis that they best illustrated the potential macro financial impacts of climate change (transition risk) on HTB's lending portfolios.

The NGFS scenarios bring together a global, harmonised set of transition pathways to show a range of higher and lower risk outcomes that explore a different set of assumptions about evolution of

Climate policy, emissions and temperatures. The scenario transforms the impact of Climate change policies into a set of macroeconomic factors and provides forecasts of GDP, HPI, Unemployment rate, Inflation and Bank of England Base rate over the next 26 years (2024 to 2050).

To undertake this stress test, a working group was set up comprising colleagues across the Operational Risk, Credit Risk Modelling and Financial Risk Management teams.

The group agreed that the best way to estimate the economic impact of transition risk was to leverage the use of econometrics for each of the portfolio and estimate an impact of moving across different pathway scenarios against the

Baseline ECL numbers.

The Group has estimated Transition Risk Impact of the Climate risk stress under the below 3 scenarios:

- **Net Zero 2050:** Global warming is limited to 1.5°C (50% chance) via stringent climate policies and innovation.
- **Delayed Transition:** Annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C.
- **Current Policies:** Only currently implemented policies are preserved, leading to high physical risks but low transition risks.

Average Annual ECL charge against Baseline in £m (2024-2050)

Scenario	NGFS Scenario	Asset Finance £m	Specialist Mortgages £m	Development finance £m	Block Discounting £m	Total £m
1	Current Policies	0.53	-0.04	1.71	0.03	2.23
2	Delayed Transition	1.90	0.16	2.45	0.07	4.58
3	Net Zero 2050	2.16	0.67	2.11	0.11	5.05

The above table shows the increase (or decrease) in expected credit losses (ECL) relative to the NGFS baseline scenario.

The Net Zero 2050 Scenario had the highest impact on ECLs with £5m increase over baseline, over the 26-year stress horizon (to 2050).

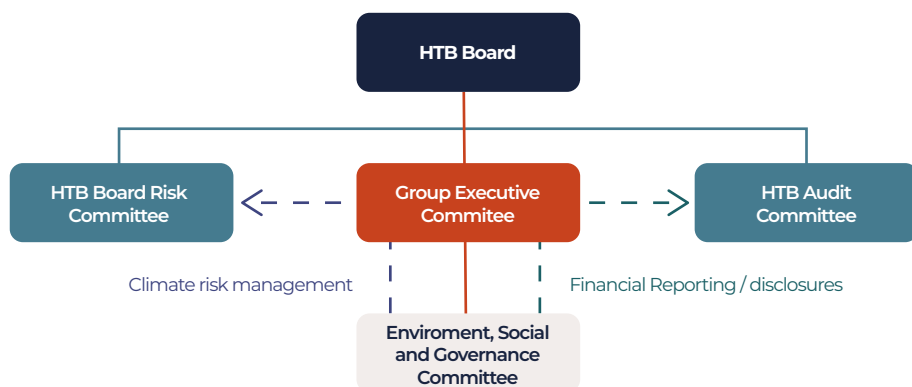
As evident in the outcomes for Asset Finance and Development, the 'short sharp shock' of Delayed Transition has a higher impact on those respective portfolios, with Development Finance experiencing a higher impact than Net Zero.

The continuation of Current Policies would have a more muted impact on each portfolio, with Development Finance displaying the most impact.



B. Climate Governance

Board and Management organisational structure for Climate Governance:



The Board

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. It also oversees progress against any targets set. ESG (including climate change) is a standing agenda item at Board meetings. Board discussions of Climate-related matters in 2024 included reviewing and approving the Net Zero strategy; and approving the methodology and metrics relating to financed emissions (see pages 27-28 and 30-34).

Management's Role

The Board delegates responsibility for delivering the climate strategy, including the assessment of climate-related financial risks, to the Chief Executive Officer supported by the Group Executive Committee. They are responsible for the strategic and operational delivery of measures to address climate risks, under the oversight of the Board. The Executive Committee are also responsible for ensuring that HTB has identified, measured, managed and mitigated climate risks effectively.

The Chief Risk Officer is the Senior Manager responsible under the PRA Senior Managers 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 the risks arising from climate change into governance arrangements; incorporating climate risk into risk management practices; and developing approaches which enable to complete and compre-

hensive disclosure of the financial risks associated with climate change.

The delivery of the climate management framework is co-ordinated 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 (see pages 30-34) 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.

ESG Committee

The ESG Committee oversees the identification and documenting of ESG risks and responsibilities (including climate risks) of material relevance to the Group. It is responsible for proposing a strategy and roadmap for achieving the Group's ESG ambitions, overseeing their implementation and tracking delivery. With the CRO, the ESG Committee ensures that climate risks are embedded in the RMF and effectively monitored; identifies and ensures adherence by the Group to all mandatory legal and regulatory disclosure and reporting requirements (as well as those voluntarily assumed by the Group); ensures that there is appropriate climate and ESG training and awareness across the Group; and makes recommendations on the ESG aspects of new products or material business change initiatives.

The ESG Committee is chaired by the Chief Executive Officer and comprises senior representatives including the CRO, the Chief Commercial Officer, Chief

People Officer and General Counsel. It convenes monthly to steer and review progress against the strategy and provides oversight on climate risk management and integration, sustainable finance opportunities, climate reporting and climate capabilities more broadly. The ESG Committee can also propose changes to Risk Appetite Statements, Key Risk Indicators and other relevant metrics and ensures that ESG risks are embedded into Self-Assessment processes.

ESG Working Group

An ESG Working Group sits under the ESG Committee with membership from business divisions and functions. It brings together key stakeholders from across the first and second lines of defence 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.

Following its inception and approval by the Board Risk Committee in 2022, the HTB Environmental & Sustainability Policy was amended this year to reflect the Net Zero strategy. 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.

C. Climate Risk Management Physical & Transition Risks

Risk Exposure

HTB is primarily exposed to climate risk through its financing and lending activities. Mortgage lending is intrinsically linked with climate change. Property is a high-impact sector and is subject to physical risks (extreme weather events) and transition risks (energy efficiency regulation). Assets financed include industrial equipment and vehicles.

Exposure		Lending	
Sector/Segment	Absolute Exposure (£)	Credit relative exposure (%)	
Applicable sectors and segments being evaluated for risk exposure	Total financing to sector / segment	Financing to sector / segment relative to total financing	
Real Estate	2,294,756,890	67.61%	
Industrials	358,230,020	10.56%	
Transportation	4,980,070	0.15%	

D. Metrics & Targets

Physical & Transition Risks

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

Risk type	Metric	2024	2023
Physical	- % of properties situated within flood risk / costal erosion areas in Specialist Mortgages	6%	5%
	- % of portfolio with up to date EPC ratings held in Specialist Mortgages	98%	94%
	- % of units where 'EPC A - C' status was achieved in Development Finance	96%	93%
	- % of units where 'EPC D' status was achieved in Development Finance	4%	6%
Transitional	- % of units where EPC status is unknown in Development Finance	0%	1%
	- % of Portfolio in Euro Cat 5 or older diesel assets in Asset Finance*	3%	6%
	- % of new business in assets that contribute to the reduction in carbon footprint in Asset Finance*	n/a	7%

* 'n/a' reflects the closure of the Asset Finance portfolio to new business in 2024

Physical risk

Flood risk

Flood risk assessment continued via a post code matching tool laid across the Specialist Mortgage portfolio, including Buy to Let properties. Currently, 94% of the SM book is located in areas where the flood risk is <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.

Transitional risk

EPC Ratings

The Group uses an internal-based assessment of EPC ratings to monitor the energy efficiency of the mortgage portfolio. The internal-based assessment is subject to some data limitations and while up to three quarters of the portfolio is matched to the EPC register, work is ongoing to improve the data quality in the rest of the portfolio. Using EPC ratings at origination and other manual processes, we have an internal assessment for 98% of the portfolio, which indicates that c. 51% of the Mortgage portfolio has an EPC rating of C or better.

Current Energy Rating	Balances (£m)	Proportion of balance (%)	Balances (£m)	Proportion of balance (%)
A	9	0.3	5	0.3
B	411	15.8	254	13.2
C	911	35.1	527	27.4
D	796	30.7	609	31.6
E	381	14.7	285	14.8
F	17	0.7	17	0.9
G	14	0.5	14	0.7
Total matched	2,539	97.8	1,711	88.8
Not matched	55	2.2	215	11.2
	2,594	100	1,926.0	100



Greenhouse Gas (GHG) Emissions

The Group's GHG emissions are disclosed in two categories: Operational Emissions and Financed Emissions.

1. Operational Emissions

Hampshire Trust Bank PLC has appointed Carbon Footprint Ltd, a leading carbon and energy management company, to independently assess its Greenhouse Gas (GHG) emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the Greenhouse Gas Corporate Reporting standard and has used the 2024 emission conversion factors published by Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows the dual-reporting

approach for assessing Scope 2 emissions from electricity usage. The operational control approach has been used. These numbers have been calculated by an external environmental consultancy, Carbon Footprint Ltd. 2023 numbers have been restated as in the prior year they had partly been based on proxy data as calculated by Carbon Footprint Ltd, whereas in the current year the figures have been restated to represent known electricity usage.

The total location-based carbon footprint for HTB for the one-year period ending 31 December 2024 is 197 tonnes CO₂e, and the market-based total is 251 tonnes CO₂e, compared to 184 tonnes CO₂e and 256 tonnes CO₂e respectively in 2023.

The table below summarises the GHG emissions for reporting years ended 31 December 2024 and 31 December 2023 respectively.

a. HTB's Operational Emissions Assessment (by scope and GHG Protocol emission categories)

Scope	Source	2024	Restated 2023
Scope 1 (Direct emission)	Activities for which the Group is responsible for gas combustion or fuel consumption for transport (in tonnes of carbon dioxide*)	19	33
	Activities for which the Group is responsible for gas combustion or fuel consumption for transport (in kWh)	91,351	178,504
Scope 2 (Indirect emission)	Consumption of purchased electricity** (in tonnes of carbon dioxide)	107	167
	Consumption of purchased electricity (in kWh)	257,992	457,513
Scope 3 (Other indirect emission)	Emissions from business travel/transport (in tonnes of carbon dioxide)	125	56
	Emissions from business travel/transport (in kWh)	517,418	236,146
Total	Total energy usage (kWh)	866,761	872,163

*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 total energy usage is broadly flat year on year, however there is notable shift from Scope 1 and 2 emissions to Scope 3. The Scope 3 emissions are further broken down in the next section, while the decrease in Scope 1 and Scope 2 can be attributed to the fact that HTB moved premises at the end of 2023 to a more energy efficient building. This is reflected in lower energy usage and provision of direct meters to measure actual usage by unit / tenant.

b. Scope 3: Other Indirect Emissions

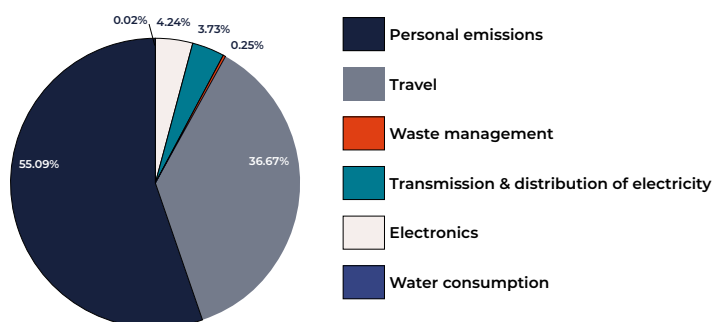
The largest contributor to Scope 3 or indirect emissions are Personal Emissions, which cover both employee commuting and the emissions relating to home-working.

Travel includes emissions due to commuting (fuel), rail and flight travel as

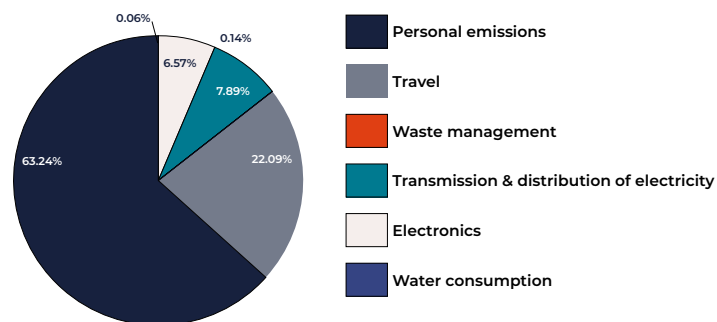
well as hotel accommodation. Electronics reflects the emissions associated with computing and mobile phone purchases.

The charts below display the proportions of contribution to the overall Scope 3 emissions by the key emissions sources: Water, electronics, downstream emissions associated with electricity; waste, travel and personal.

% of Scope 3 Emissions 2024



% of Scope 3 Emissions 2023

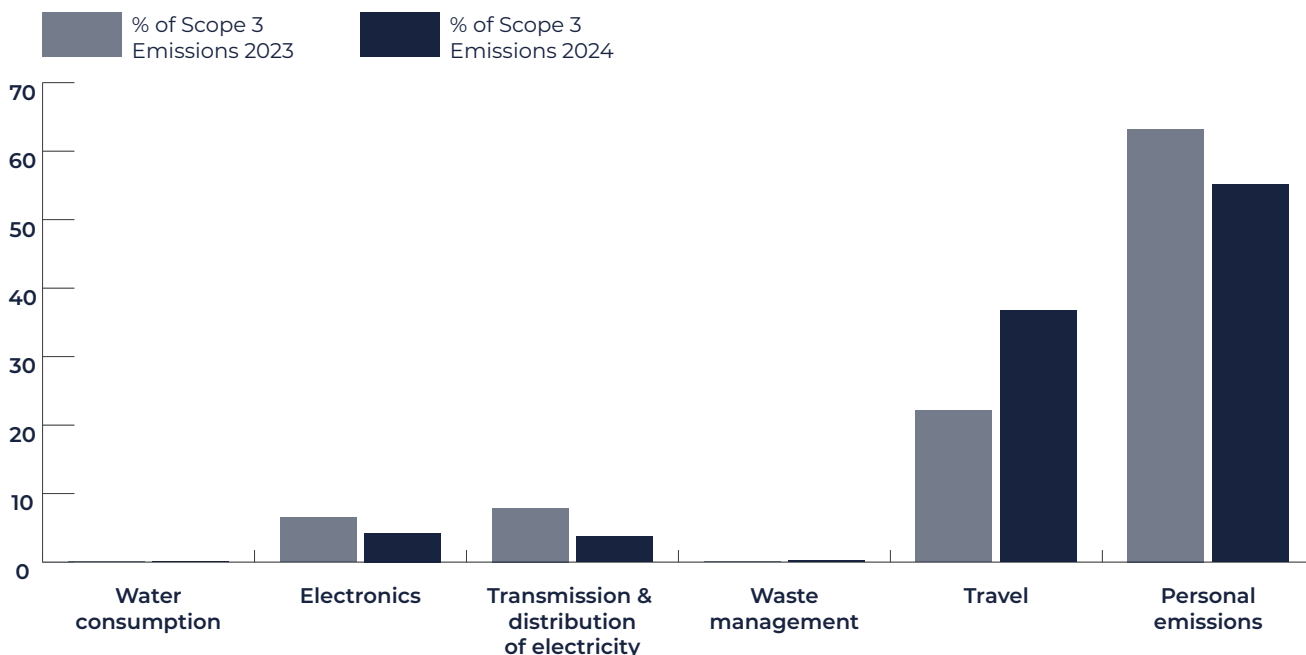


** Proportions based on Market-Based (tCO₂e) Scope 3 emissions from detailed SECR report*

The distribution of Scope 3 emissions has changed in 2024 with an increase in travel-related emissions and a decrease in personal emissions. This is in line with the incidence of in-office working in place of working from home which has increased between 2023 and 2024.

The chart below compares the year on year contribution to the Group's Scope 3 emissions.

% of Scope 3 Emissions YoY



2. Financed Emissions

The group's financed emissions, which are considered as Scope 3 category 15 (Investments) under the GHG Protocol, are the emissions generated by our customers which are facilitated by the financing the bank provides. As set out above, the Group has made a commitment to net zero by 2050 and in doing so has an ambition to reduce the emissions

associate with our lending portfolio, which make up a significant majority of emissions across our value chain.

As a first step in measuring HTB's financed emissions, we've focussed on those related to the residential mortgage portfolio. Calculations for other lending categories will be developed in due course.

Business Area	Asset Type (Lending category)	Balance £m	Number of properties	Number of properties with emissions data	Percentage of portfolio with emissions data* (%)	Absolute Scope 3 financed emissions tCO ₂ e
Specialist Mortgages	Residential	1,379	3,951	2,916	73.8	7013.46

The approach to calculating these emissions depends on the quality lending data. Emissions data is collated, attributing where necessary a portion of emissions based on the level of financing, and using standardised methodologies like the Partnership for Carbon Accounting Financials (PCAF).

The table above outlines the best efforts to assess the Scope 3 emissions of the Specialist Mortgages (buy to let) portfolio.

The outcomes are based on a 73.8% data coverage, and the residual data used a proxy based on data from UK energy regulator Ofgem.

To calculate our financed emissions, we have adhered to the PCAF Global GHG Accounting and Reporting Standard. This industry standard is also followed by our peers, such as Shawbrook and Close Brothers. Below are the formulas used:

$$\text{Financed Emissions} = \sum_b \text{Attribution factor}_b * \text{Building emissions}_b$$

$$\text{Attribution factor}_b = \frac{\text{Outstanding Amount}_b}{\text{Property value at origination}_b}$$

$$\text{Building emissions} = \text{Energy consumption} * \text{Emissions factor}$$

Where:

- b = property
- Energy consumption is the current estimated total energy consumption for the property in a 12-month period. Measured in MWh.
- Emissions Factor is the specific emissions factor that can be found in the PCAF EU Emissions Factor Database³. It allows us to convert MWh into tCO₂e. This is in tCO₂e/MWh.

The Group's Residential Specialist Mortgages Book has established a baseline for financed emissions, assuming a data quality score of 3. As defined by PCAF, this score indicates the use of "Estimated building energy

consumption per floor area based on official building energy labels and the floor area are available." Given that the majority of our properties (73.8%) fall into this category, we have assumed a data quality score of 3.

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT

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 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 subsidiary HTB Leasing & Finance Limited (HLF) (formerly Wesleyan Bank Limited) that are responsible for the governance of HLF, 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

Our colleagues are fundamental to the delivery of the Group's strategy as a specialist bank. Page 21 of the Environmental, Social and Governance (ESG) Review sets out how the Board has had regard to the interests of our colleagues, including in respect of engagement, culture, pay, retention, wellbeing and learning & development.

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.

Page 22 of the ESG Review sets out how the Board has had regard to the interests of our customers, including delivering better outcomes, improved customer experience, education and awareness and supporting customers in their transition to Net Zero.

Community

As a specialist Bank, it is important for us to give the right support at the right time for communities and businesses to thrive.

Page 23 of the ESG Review sets out how the Board has had regard to the interests of the community, including social impact and charity work.

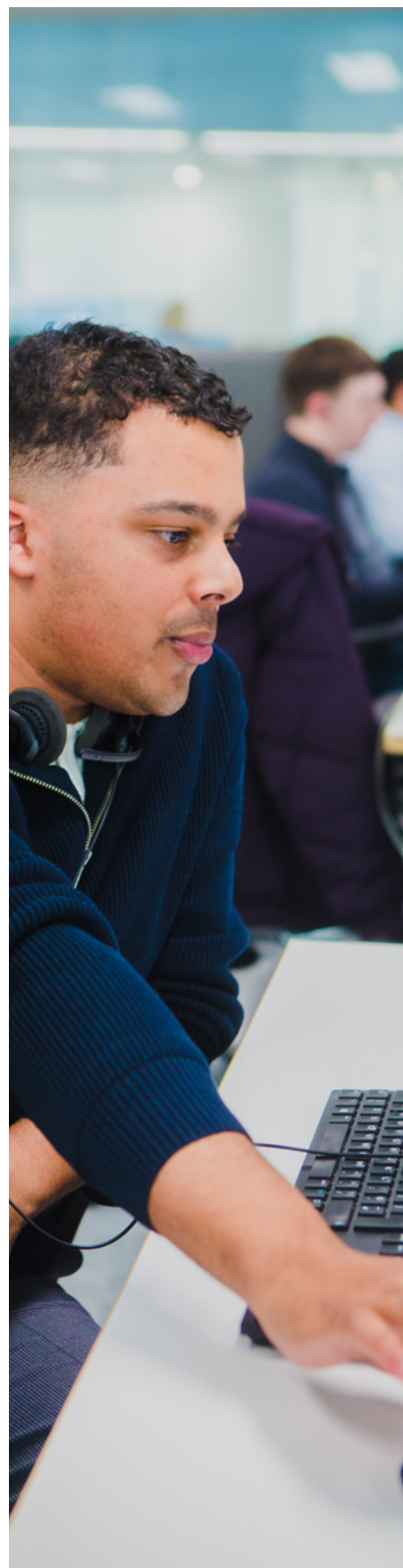
Regulators

The Group operates in a 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.

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, 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.

Environment

Following the establishment of a formal Environmental, Social and Governance Committee in 2023 and ESG becoming a standing agenda item for the Board, 2024 saw enhanced discussion on environmental matters, with a particular focus on climate change. Pages 24-34 of the ESG Review sets out the progress made.

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 of a restated set of values and behaviours that underpin the Groups desire for high standards of business conduct by way of 'excellence through specialism'. The four core values and behaviours based on customer, delivery, integrity and people include:

- **Specialist customer focus** – We engage with customers to understand their needs and we respond by delivering specialist, high quality solutions.
- **Unwavering integrity** – We act with integrity. We embrace both the spirit and the letter of the legal and regulatory standards. We recognise the value they add.
- **Team HTB** – We foster a respectful and inclusive culture where colleagues feel valued, empowered and heard.
- **Delivering excellence** – We uphold excellent standards in all our operations and processes to ensure consistency and accuracy in every transaction.

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



Kathryn Winup
Chief Financial Officer

25 April 2025



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 2024.

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.	<ul style="list-style-type: none"> • The Board is collectively responsible for promoting the long-term sustainable success of the Group, driving shareholder value and the Group’s contribution to wider society. It establishes the Group’s purpose, mission, values and strategy and leads the development of the Group’s culture. It oversees the Group’s progress and performance against its purpose, mission, 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 2024, 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’ through a restated set of values and behaviours. This means that the Group will carefully select its chosen markets and ensure that it becomes the first choice for its brokers and customers. • 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 it’s culture and 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	<ul style="list-style-type: none"> • 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.

Principle	How it is applied
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	<ul style="list-style-type: none"> 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 50-54 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 40-44.
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	<ul style="list-style-type: none"> The Board seeks opportunity for growing existing business lines as well as opportunities for adding additional complimentary business lines which are aligned with its Specialist Bank proposition (described above). The Strategic Report (pages 3-46) 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 2024, the Board Risk Committee met 11 times. Further details on key matters discussed in those meetings are provided on pages 40-44.
Remuneration - a board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company	<ul style="list-style-type: none"> 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 2024, the Nominations and Remuneration Committee met 6 times. Further details on key matters discussed in those meetings are provided in pages 40-44.
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	<ul style="list-style-type: none"> 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, 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 44-46 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:

- effective oversight and strategic leadership of the Group, and an appropriate balance between the governance requirements of HLF, as a regulated Bank in its own right until it relinquished its banking licence in December 2024, and the Board's effective oversight of the Group is maintained;
- that Group senior executives who hold SMF responsibilities for HLF 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 are Executive Directors for HLF and one of the Non-Executive Directors was also the Non-Executive Chairman of HLF until it relinquished its banking licence in December 2024.

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 Nominations 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.

Up to the point that HLF relinquished its banking licence in December 2024, the Chairman of the HLF Board engaged with the Board following each HLF Board meeting to inform the Board on HLF's performance against strategy, to understand the Group's views on governance and performance against the strategy and to inform the Board about any significant matters arising from HLF's Audit, Board Risk and Nominations and Remuneration Committee. In practice, the overlapping directorships and senior management / SMF function holders in attendance at all meetings ensure appropriate information sharing.

Role of Chairman and Chief Executive Officer

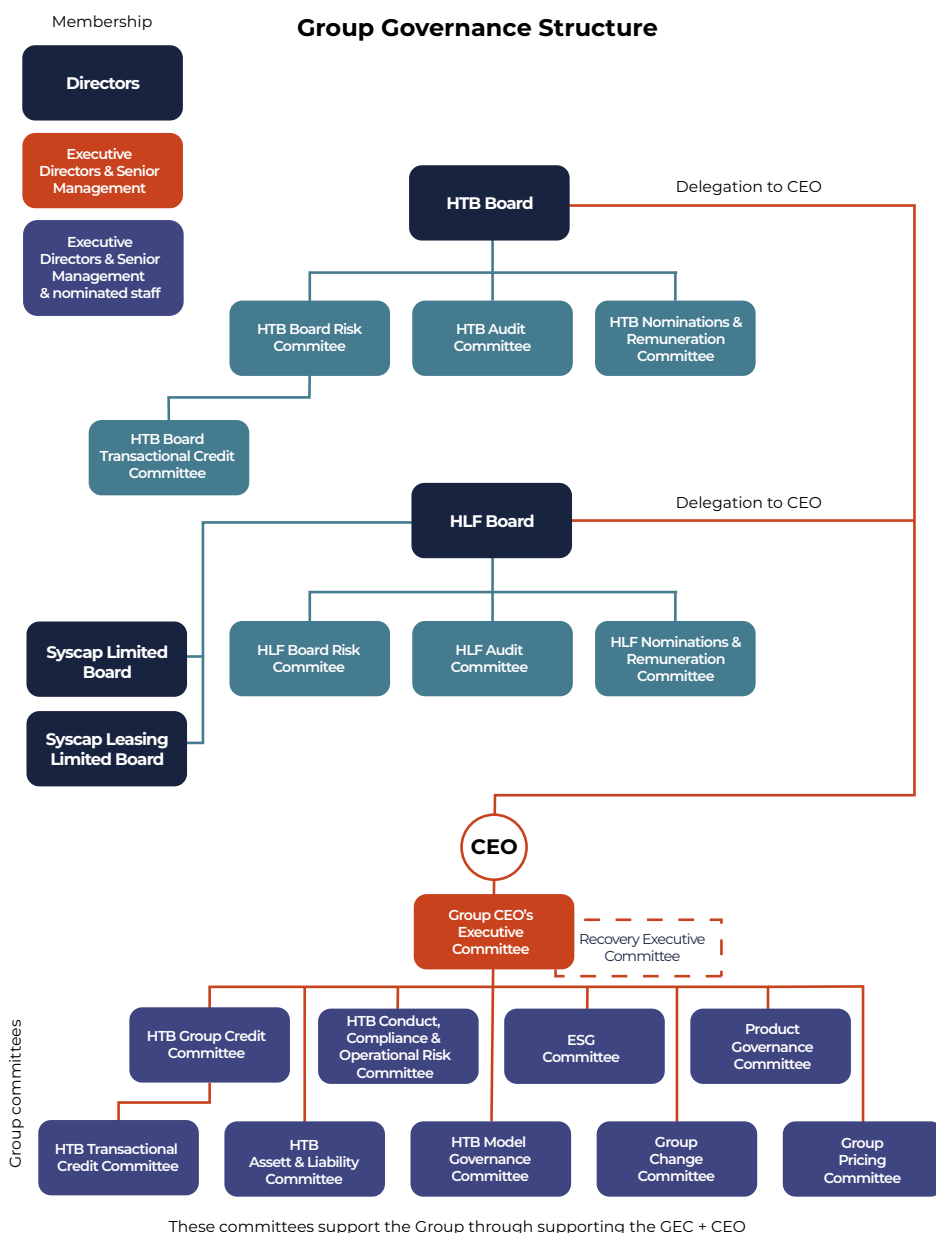
There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman has overall responsibility for the leadership of the Board, its effectiveness on all aspects of its role and setting its agenda. The Chief Executive Officer is responsible for the day to day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

Compliance with the Senior Managers and Certification Regime

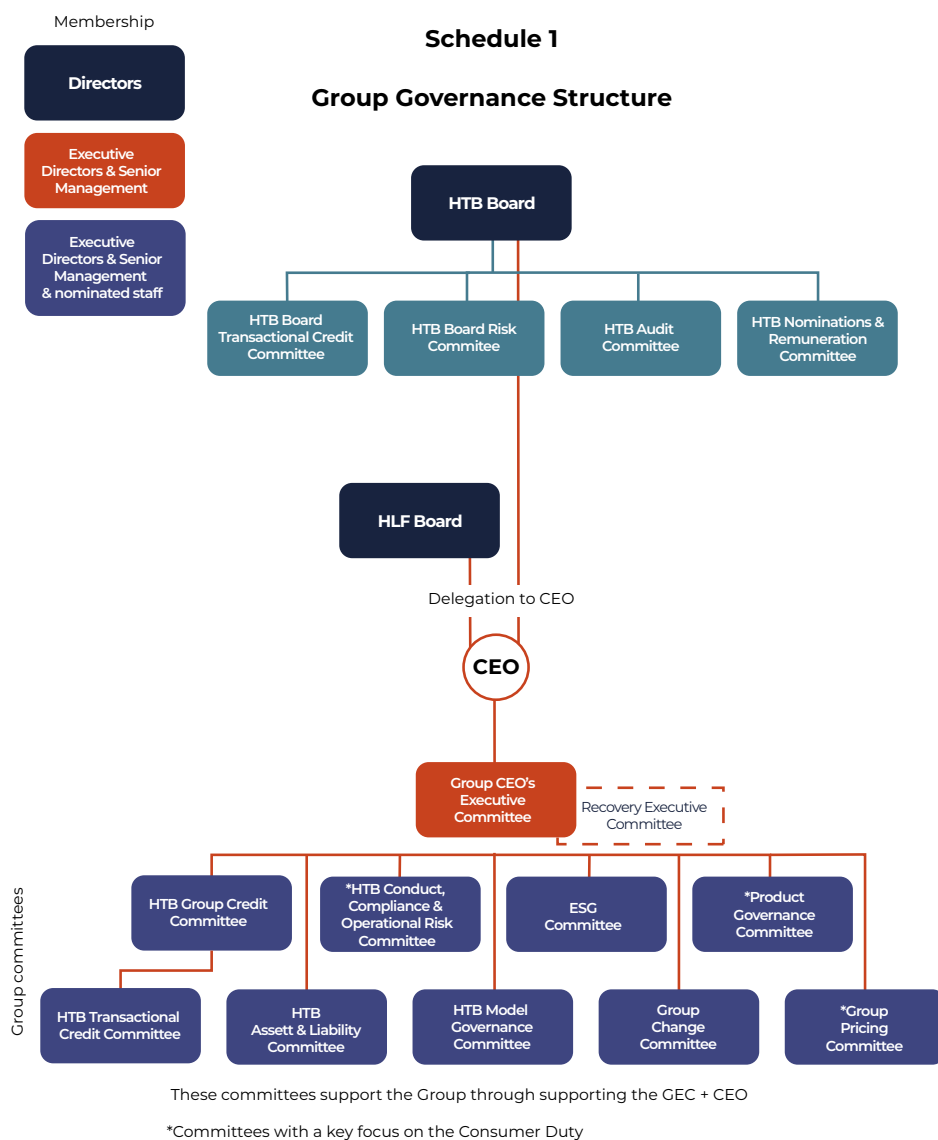
The PRA defines a set of prescribed responsibilities (Responsibilities), which must be allocated to a senior manager performing a Senior Management Function. The Group maintains a Senior Management Functions (SMF) Responsibilities Map and a list of SMF Responsibilities which are contained within the 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 in place until HLF relinquished its banking licence in December 2024 is shown below. Subsidiary Board and Committee information is provided in those companies' individual annual reports.



The Group Board and Committee structure in place at the year end, after HLF relinquished its banking licence in December 2024 is shown right



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	5	5	100%	-	-	-
Richard Price	10	9	90%	11	9	82%
Martyn Scrivens	10	10	100%	11	10	91%
Dominic Slade	10	7	70%	-	-	-
Richard Sommers	10	9	90%	11	11	100%
Julia Warrack	10	9	90%	11	8	73%
Kathryn Winup	3	2	67%	-	-	-
Matthew Wyles	10	10	100%	-	-	-
Total	10		90%	11		87%

	Audit Committee			Nominations and Remuneration Committee		
	Meetings held	Meetings attended	% attended	Meetings held	Meetings attended	% attended
Robert Sharpe	-	-	-	6	6	100%
Timothy Blackwell	-	-	-	-	-	-
Richard Price	6	6	100%	6	6	100%
Martyn Scrivens	6	6	100%	6	6	100%
Dominic Slade	-	-	-	6	4	67%
Richard Sommers	6	6	100%	6	6	100%
Julia Warrack	-	-	-	6	5	83%
Kathryn Winup	-	-	-	-	-	-
Matthew Wyles	-	-	-	-	-	-
Total	6	-	100%	6	-	92%

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 on compliance with accounting policies and ensuring that an effective system of internal control is maintained as well as overseeing and monitoring whistleblowing. The Committee recommends to the Board the appointment of both internal and external auditors and approves the annual internal and external audit plans. During 2024 the Committee started the process to identify a new external auditor as KPMG's mandatory firm rotation was due in 2026. The audit was put to competitive tender and after consideration, the Committee recommended to the Board the appointment of PricewaterhouseCoopers LLP for the year ending 31 December 2025 which the Board approved. They will be formally appointed upon KPMG's resignation following the issuance of the 2024 annual report and accounts. The Committee is chaired by an independent Non-Executive Director and comprises solely 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, and compliance with relevant regulations and law and proper functioning of risk controls. It considers and recommends to the Board the ILAAP, ICAAP, Funding Plan, Recovery Plan, Resolution Pack, the Capital Management Plan the Operational Resilience Self-Assessment and the Consumer Duty

assessment. The Committee is chaired by an independent Non-Executive Director and comprises solely of Non-Executive Directors.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board and its committees as well as the membership and chairship of subsidiary boards and their committees. It oversees the establishment and implementation of an effective succession plan for the Board and senior management, oversees the establishment and implementation of remuneration policy for employees and directors which is designed to support the long-term sustainable success, business strategy, mission, culture and values of the Group, as well as promoting effective risk management and compliance with applicable legal and regulatory requirements. It reviews performance and approves remuneration arrangements. The Committee is chaired by the Chair of the Board and comprises solely 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 and Pollen Street plc 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

In addition to the HTB Board, Julia sits on the Board of Zempler Bank, AIG UK, EQT and Ruler Bidco SARL.

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.

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 continues to bring 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 Non-Executive Director at Somerset NHS Foundation Trust, Symphony Healthcare Services and Chair of The Ardonagh Group. 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 and 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.

Kathryn Winup, Chief Financial Officer

SMF 2: Chief Finance

Kathryn was appointed as an executive director of HTB on 26 September 2024. Kathryn has many years' experience in financial services; most recently as Deputy CFO at Shawbrook Bank. Prior to that, Kathryn held senior finance positions at a range of Banks and Financial Institutions including CFO at Police Mutual, CFO Digital at Aviva, Finance Director for Business and Commercial Banking at Royal Bank of Scotland, CFO for the Wealth Management Division of Royal Bank of Scotland, Finance Director at Coutts & Co. and Finance Director for Royal Bank of Scotland International in Jersey.

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2024.

The Strategic Report set out on pages 3-36 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 42.

Business Review and Future Developments

Information regarding the business review and future developments (pages 7-11), key performance indicators (page 2) and principal risks (pages 15-17) is contained in the Strategic report.

Results for the year

The Bank made a profit before tax on continuing activities of £72.5m (2023: £80.4m), and a profit after tax of £53.1m (2023: £67.3m). The Group made a profit before tax on continuing activities of £71.6m, and a profit after tax of £51.7m (2023: £57.2m, and a profit after tax of £42.5m).

Proposed Dividend

The directors do not recommend the payment of a dividend (2023: £nil).

Business relationships

We have appropriately considered the relevant interests of the various stakeholders as mentioned in pages 46-48 in our discussions and decision making during the year ended 31 December 2024.

Greenhouse gas emissions

Information on the Group's energy consumption is set out on page 32-34 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 38-39 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 15-17 of the risk management section. Details of financial instruments can be found in notes 22 and 23 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 21 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

Helen Beck (appointed 1 April 2025)

Independent Non-Executive Director

Helen Beck (appointed 1 April 2025)

Independent Non-Executive Director

Clare Goldie-Scot (appointed 1 April 2025)

Independent Non-Executive Director

Julia Warrack

Independent Non-Executive Director

Richard Price

Non-Executive Director

Dominic Slade

Non-Executive Director

Matthew Wyles

Chief Executive Officer

Kathryn Winup
(appointed 26 September 2024)

Chief Financial Officer

Timothy Blackwell (resigned 23 May 2024)

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 £nil of charitable donations during the year (2023: £1k) and did not make any political donations or incur any political expenditure during the year (2023: £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 40 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 baseline 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 2024 (Demand Shock Scenario). 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

As our present Auditor, KPMG LLP, was approaching the mandatory firm rotation limit, a competitive tender was completed in 2024 for providing the external auditor services required by the Group and after consideration, the Audit Committee recommended to the Board the proposal of appointing PwC LLP. The Board agreed with the recommendation and a resolution seeking to appoint 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
25 April 2025



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.

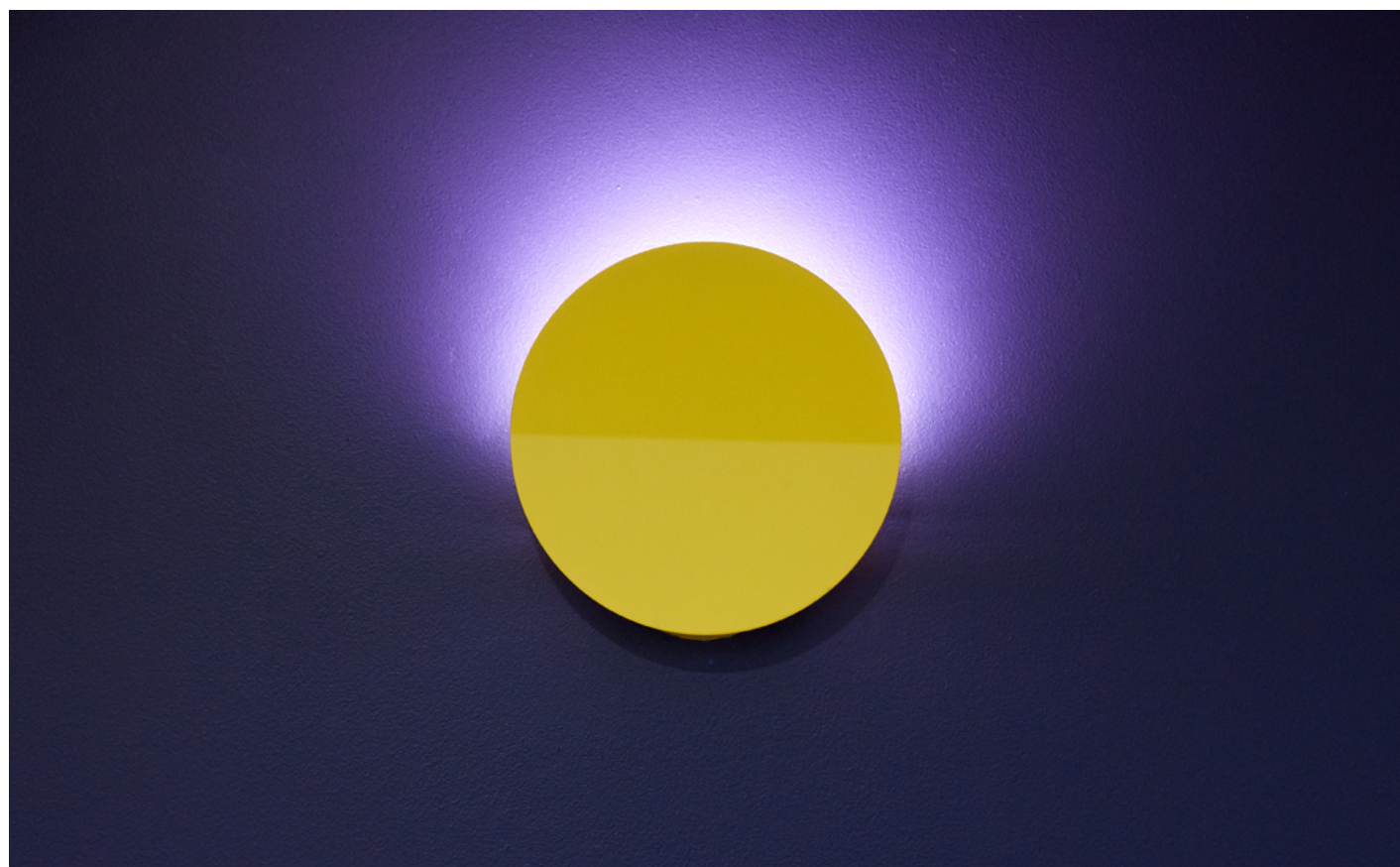
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- 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") for the year ended 31 December 2024 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 2024 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 19 financial years ended 31 December 2024.

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: £2.88m (2023: £2.36m)

group financial statements as a whole 4.0% (2023: 4.1%) of group profit before tax

Key audit matters vs 2023

Recurring risks Expected credit losses on loans and advances to customers

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 matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was 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 this matter..

The risk	
<p>Expected credit losses on loans and advances to customers</p> <p>(£27.9 million; 2023: £25.6 million)</p> <p><i>Refer to Note 7.11 (accounting policy) and Note 30 (financial disclosures)</i></p>	<p>Subjective estimate:</p> <p>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 judgement and therefore increased levels of audit focus in the estimation of ECL are:</p> <ul style="list-style-type: none"> — Model estimation: Inherently judgemental modelling is used to estimate ECL, particularly the complexity in development of the probability of default ('PD') and loss given default ('LGD') models and related assumptions 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. — Multiple economic scenarios: IFRS 9 requires the Group to measure ECL on an unbiased forwardlooking basis reflecting a range of future economic conditions. There is an inherently high degree of estimation uncertainty and significant judgement involved in developing the economic scenarios used and the probability weightings assigned to each economic scenario. — Post Model Adjustments ('PMAs'): Adjustments are made to the model-driven ECL results by the directors 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, and are, therefore, often subjective in nature and require significant judgement. As such, the identification and estimation of certain qualitative adjustments represent a significant risk of error and fraud. — Individually assessed stage 3 loans: Individually assessed stage 3 provisions for certain portfolios are inherently judgemental, highly subjective, and reliant on significant judgement in manually 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. As such, the estimation of individually assessed stage 3 provisions represent a significant risk of error and fraud. <p>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.</p> <p>Disclosure quality</p> <p>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 the directors' assumptions, in light of the estimation uncertainty arising.</p>

Expected credit losses on loans and advances to customers

(£27.9 million; 2023: £25.6 million)

Refer to Note 7.11 (accounting policy) and Note 30 (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 involved our own credit risk modelling team who assisted us in the following:
 - evaluating the Group's impairment methodologies for compliance with IFRS 9;
 - for those models which were changed or updated during the year, evaluating whether the changes or updates were appropriate by assessing the updated model methodology against the applicable accounting standard;
 - for a selection of models, independently evaluating the model output by inspecting the corresponding model functionality and independently implementing the model by re-building the model code and comparing our independent output with the entity's output;
 - for a selection of models, independently assessing the assumptions in the ECL models, and independently reperforming model performance tests, including model calibrations, redevelopments, and model monitoring
 - for a selection of models, independently applying the Group's staging methodology and inspecting 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 involved our own economic specialists who assisted us in:
 - assessing the reasonableness of the Group's economic scenarios used and the probability weightings applied to them;
 - assessing key economic variables by comparing the economic variables to external sources; and
 - assessing the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts and other benchmarks.
- **Tests of details:** Other key areas of our testing in addition to those set out above included:
 - critically evaluating the Group's 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 the Group's methodologies;
 - for a selection of individually assessed stage 3 loans, assessing the reasonableness of the ECL measured by challenging key judgements and assumptions and considering disconfirming or contradictory evidence; 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

- The results of our testing were satisfactory, and we considered the Expected credit losses on loans and advances to customers and the related disclosures to be acceptable (2023: acceptable).

We continue to perform procedures over the impact of IT access controls and change management on the effectiveness of the control environment. However, following the Group's IT control remediation program, 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

Our application of materiality

Materiality for the Group financial statements as a whole was set at £2,880,000 (2023: £2,360,000), determined with reference to a benchmark of Group profit before tax, of which it represents 4.0%.

Materiality for the parent Company financial statements as a whole was set at £2,830,000 (2023: £2,360,000), 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.

We have set performance materiality to 65% (2023: 65%) of materiality for the financial statements as a whole which equates to £1,870,000 (2023: £1,530,000) for the Group and £1,830,000 (2023: £1,460,000) for the parent Company. We applied this percentage in our determination of performance materiality based on factors including control deficiencies identified during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £144,000 (2023: £118,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of the scope of our audit

This year, we applied the revised group auditing standard in our audit of the consolidated financial statements. The revised standard changes how an auditor approaches the identification of components, and how the audit procedures are planned and executed across components.

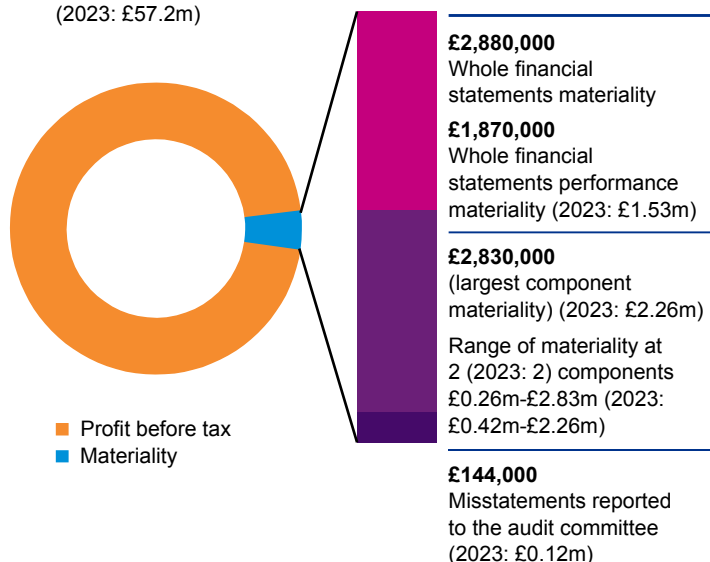
In particular, the definition of a component has changed, shifting the focus from how the entity prepares financial information to how we, as the group auditor, plan to perform audit procedures to address group risks of material misstatement ("RMMs").

Similarly, the group auditor has an increased role in designing the audit procedures as well as making decisions on where these procedures are performed (centrally and/or at component level) and how these procedures are executed and supervised. As a result, we assess scoping and coverage in a different way and comparisons to prior period coverage figures are not meaningful. In this report we provide an indication of scope coverage on the new basis.

We performed risk assessment procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements and which procedures to perform at these components to address those risks.

Group profit before tax £71.6m
(2023: £57.2m)

Group materiality £2.88m
(2023: £2.36m)



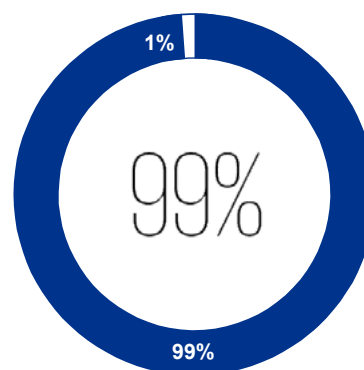
Overview of the scope of our audit (cont.)

In total, we identified 8 components, having considered our evaluation of the Group's operational and legal structure.

Of those, we identified 2 quantitatively significant components (including the parent company) which contained the largest percentages of either total revenue or total assets of the Group.

We performed audit procedures in relation to these two components that accounted for 99% of Group revenue, profit before tax and total assets.

Group revenue, profit before tax and total assets



We set the component materialities, ranging from £256,000 to £2,830,000, having regard to the mix of size and risk profile of the Group across the components.

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.

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 their 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 their 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 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 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;
- Reading the Group's internal audit reports and minutes of the Group's Board meetings; 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 Group's revenue streams, the limited estimation uncertainty in effective interest rate recognition and the lack of opportunity to manipulate revenue.

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

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included manual journal entries posted to seldom-used accounts or by individuals who typically do not make journal entries and journals containing specific key words;
- Evaluating the design and implementation and operating effectiveness of relevant internal controls;
- Assessing whether the judgements made in making significant accounting estimates are indicative of a potential 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 Group's procedures for complying with regulatory requirements.

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

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 noncompliance 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 noncompliance 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 60 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 parent 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 parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



**Richard Rawstron (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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Interest and similar income	8	363,063	268,293	352,194	245,613
Interest expense and similar charges	8	(209,208)	(122,407)	(206,852)	(114,551)
Net Interest Income		153,855	145,886	145,342	131,062
Operating lease income	9	597	1,353	-	-
Fees and commissions income	9	3,400	1,774	3,172	1,459
Fees and commissions payable	9	(1,404)	(1,345)	(1,406)	(1,375)
Net loss on loans and other financial assets at fair value through profit or loss	10	(315)	(2,495)	(315)	(2,495)
Net gain arising from derecognition of financial assets measured at amortised cost	11	7,275	-	7,275	-
Other income	12	-	-	3,927	5,991
Operating Income		163,408	145,173	157,995	134,642
Administrative expenses	13	(80,520)	(75,493)	(75,545)	(69,237)
Impairment Loss on Investments in Subsidiaries		-	-	(11,219)	-
Impairment losses on Loans and Advances to Customers	30	(11,292)	(12,440)	(9,770)	(12,498)
Profit before tax and dividends		71,596	57,240	61,461	52,907
Interim dividends received	18	-	-	11,000	27,500
Profit before tax		71,596	57,240	72,461	80,407
Tax expense	19	(19,854)	(14,692)	(19,407)	(13,134)
Profit after tax for the year		51,742	42,548	53,054	67,273
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	23	(724)	(3,394)	(724)	(3,394)
Cash-flow hedges – recycled to profit or loss	23	1,149	166	1,149	166
Total Comprehensive Income for the year after tax		52,167	39,320	53,479	64,045

The notes on pages 64-148 are an integral part of these financial statements.

Consolidated and Bank Statement of Financial Position

	Note	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Assets					
Loans and Advances to Banks	21	1,440,372	480,470	1,435,307	476,806
Derivative Assets held for Risk Management	22	51,588	75,076	51,588	75,076
Investment Securities	26	219,980	244,488	219,980	234,509
Loans and Advances to Customers - FVTPL	24	260	3,305	260	3,305
Loans and Advances to Customers – at amortised cost	25	3,581,543	3,257,883	3,391,908	2,967,326
Investment in Subsidiaries	42	-	-	38,203	49,422
Property, Plant and Equipment	33	4,316	6,097	3,961	4,969
Right-of-Use Assets	34	2,711	3,618	2,711	3,602
Intangible Assets	35	14,907	12,795	14,712	11,732
Deferred tax asset	20	5,446	7,007	978	1,414
Other Assets	36	65,551	66,263	227,921	235,646
Total Assets		5,386,674	4,157,002	5,387,529	4,063,807
Liabilities					
Derivative Liabilities held for Risk Management	22	22,569	25,456	22,569	25,456
Customer Deposits	28	4,526,003	3,260,852	4,526,003	3,205,681
Finance Lease Liability	34	3,462	4,114	3,409	3,974
Other Liabilities	37	110,981	132,914	109,904	148,127
Central Bank Facilities	27	295,000	353,770	295,000	300,000
Subordinated Liabilities	38	56,085	57,768	56,085	57,768
Total Liabilities		5,014,100	3,834,874	5,012,970	3,741,006
Equity					
Share Capital	40	139,828	139,828	139,828	139,828
Share Premium		196	196	196	196
Cash flow hedge reserve	40	(2,674)	(3,099)	(2,674)	(3,099)
Retained Earnings		218,194	168,173	220,179	168,846
Total equity, excluding non-controlling interest		355,544	305,098	357,529	305,771
Other Equity Instruments attributable to non-controlling interests	40	17,030	17,030	17,030	17,030
Total Equity		372,574	322,128	374,559	322,801
Total Equity and Liabilities		5,386,674	4,157,002	5,387,529	4,063,807

The notes on pages 64-148 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and signed on its behalf on 25 April 2025.



Matthew Wyles
Director
25 April 2025



Kathryn Winup
Director
25 April 2025

Company Number: 01311315

Consolidated Statement of Changes in Equity for the year ended 31 December 2024

	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 2024	139,828	196	(3,099)	168,173	305,098	17,030	322,128
Comprehensive Income for the year							
Profit for the year	-	-	-	51,742	51,742	-	51,742
Cash flow hedges – effective portion of changes in fair value	-	-	(724)	-	(724)	-	(724)
Cash-flow hedges – recycled to profit or loss	-	-	1,149	-	1,149	-	1,149
Total Comprehensive Income for the year	-	-	425	51,742	52,167	-	52,167
Equity settled share-based payment	-	-	-	(204)	(204)	-	(204)
Coupon paid on other equity instruments	-	-	-	(1,517)	(1,517)	-	(1,517)
Balance at 31 December 2024	139,828	196	(2,674)	218,194	355,544	17,030	372,574

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
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

The notes on pages 64-148 are an integral part of these financial statements.

Bank Statement of Changes in Equity for the year ended 31 December 2024

	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 2024	139,828	196	(3,099)	168,846	305,771	17,030	322,801
Comprehensive Income for the year							
Profit for the year	-	-	-	53,054	53,054	-	53,054
Cash flow hedges – effective portion of changes in fair value	-	-	(724)	-	(724)	-	(724)
Cash-flow hedges – recycled to profit or loss	-	-	1,149	-	1,149	-	1,149
Total Comprehensive Income for the year	-	-	425	53,054	53,479	-	53,479
Equity settled share-based payment	-	-	-	(204)	(204)	-	(204)
Coupon paid on other equity instruments	-	-	-	(1,517)	(1,517)	-	(1,517)
Balance at 31 December 2024	139,828	196	(2,674)	220,179	357,529	17,030	374,559

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
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

The notes on pages 64-148 are an integral part of these financial statements.

Consolidated and Bank Statement of Cash flows

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Cashflows from operating activities				
Profit before tax for the year	71,596	57,240	72,461	80,407
<i>Adjustments for:</i>				
Depreciation and amortisation	7,252	7,605	5,800	4,936
Loss on disposal of fixed assets	203	819	-	503
Impairment loss on Investment in Subsidiaries	-	-	11,219	-
Gain on securitisation	(10,414)	-	(10,414)	-
Increase in impairment of Loans and Advances	10,226	11,265	8,939	7,183
Increase/(Decrease) in provisions	2,347	1,847	1,364	6,036
Equity-settled share-based payment transactions	(204)	1,399	(204)	1,399
Bond premium/discount amortisation	(2,440)	(6,465)	(1,943)	(4,943)
Decrease/(Increase) in Fair Value of Derivative Assets	18,609	41,006	18,609	41,007
(Increase)/Decrease in Fair Value of loans and advances designated as hedged items	(19,784)	(39,697)	(19,784)	(39,698)
Decrease/(Increase) in Fair Value of Loans and Advances held at FVTPL	(53)	1,436	(53)	1,436
Repayment of the interest accrued on finance lease liabilities	262	152	258	142
Dividends received	-	-	(11,000)	(27,500)
Corporation Tax paid	(18,086)	(15,563)	(18,086)	(15,835)
Changes in:				
(Increase) in Loans and Advances to Customers	(619,334)	(559,992)	(717,726)	(675,670)
(Increase)/Decrease in Other Assets	7,888	(169,333)	6,841	(169,564)
(Decrease)/Increase in Central Bank Facilities	(59,208)	(39,993)	(5,000)	5,000
Decrease/(Increase) in collateral held with banks	(25,256)	(33,646)	(25,256)	(33,646)
Increase in Customer Deposits	1,268,898	566,810	1,324,101	765,355
Increase in Subordinated and Other Liabilities	(661)	155,913	(20,701)	6,564
Net cash flow from operating activities	631,841	(19,197)	619,425	(46,888)

Consolidated and Bank Statement of Cash flows (continued)

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Cashflows from Investing Activities				
Dividends received from subsidiary undertakings	-	-	11,000	27,500
Purchase of Property, Plant and Equipment	(298)	(4,757)	(298)	(4,742)
Disposal of Property, Plant and Equipment	51	-	51	-
Purchase of Intangible Assets	(6,814)	(5,424)	(6,814)	(5,424)
Disposal of intangible assets	67	-	67	-
Purchase of Right of use Asset	-	(3,982)	-	(3,982)
Disposal of Right of use Asset	(113)	-	(113)	-
Purchase of Investment Securities	(135,668)	(415,054)	(135,668)	(415,054)
Settlement of Investment Securities	162,520	439,744	162,520	439,744
Net cash flow from Investing Activities	19,745	10,527	30,745	38,042
Cash flows from Financing Activities				
Repayments of the principal portion of finance lease liabilities	(725)	(944)	(710)	(797)
Inception of Finance lease liability	-	3,982	-	3,982
Coupon paid to other equity instrument holders	(1,517)	(1,507)	(1,517)	(1,507)
Proceeds from the issuance of subordinated debt	-	25,000	-	25,000
Proceeds from securitisation	310,558	-	310,558	-
Net increase/(decrease) in Cash and Cash Equivalents	959,902	17,861	958,501	17,832
Cash and cash equivalents at 1 January	480,470	462,609	476,806	458,974
Cash and Cash Equivalents at 31 December	1,440,372	480,470	1,435,307	476,806
Loans and advances to Banks ¹	1,440,372	480,470	1,435,307	476,806
Cash and Cash Equivalents at 31 December	1,440,372	480,470	1,435,307	476,806

The notes on pages 64-148 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 £Nil (2023: £4.9m).

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 2024 comprise the Bank and its subsidiaries (together referred to as the "Group") as listed in note 42.

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 2024 against 2023, and the Bank results in 2024 against 2023.

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 2024, the Group recognised a profit after tax of £51.7m. The Group's total assets as at 31 December 2024 were £5,387m. The Group has £1,440m of resources comprising cash and cash equivalents, and other highly liquid assets as at 31 December 2024.

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 2024 (Demand Shock Scenario). 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 HLF (Formerly 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 2024:

- Non-current Liabilities with Covenants – Amendments to IAS 1 and Classification of Liabilities as Current or Noncurrent – Amendments to IAS 1.
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7.
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

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

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.
- Note 7.9.5: assessing whether the Group controls the entities forming part of its securitisation transaction structure and whether the loans transferred to the structure should be derecognised.

A. 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 2024 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

On 9 April 2024, the IASB issued IFRS 18 – ‘Presentation and Disclosure in Financial Statements’. It is anticipated that the new standard will affect the manner in which information is disclosed in financial statements, without materially altering the underlying accounting.

Subject to its endorsement for use in the UK, IFRS 18 is expected to apply to the Group and the Company from the financial year ending 31 December 2028.

A thorough assessment of the impact of this new standard on the Group’s annual reporting will be undertaken prior to its implementation. Notably, the impact on banking companies is expected to be less significant than that on companies generally. None of the other new and amended standards and interpretations issued but not yet effective are 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 gain/(loss) on loans and 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:

	2024	2023	2022
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 4.18%	-0.1% to 3.5%
Dividend yield	0.0%	0.0%	0.0%
Expected life	1 years	1 years	2 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 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 solely payment of principal and interest (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 loan under its Development Finance portfolio which has contingent exit fees. As these fees are contingent on the value of the finished development, the Group deems this loan to fall outside of SPPI and accordingly accounts for it 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 Securitisation Transactions

Certain loans initially classified within loans and advances to customers are securitised by transferring the beneficial interest in the loans to a bankruptcy-remote structured entity. A structured entity is designed so that its activities are not governed by voting rights.

The Group undertakes an assessment, to determine whether it controls such structured entities. This evaluation considers, among other factors, the purpose and design of the entity, its practical ability to direct the relevant activities, the nature of the relationship with the entity, and the extent of the Group's exposure to variability in the entity's returns.

If the Group is determined in the above assessment to control the structured entity, it would be accounted for as a subsidiary and would be fully consolidated in the Group's financial statements. Where it doesn't control the entities involved, the Group discloses its interest in them in under Note 43: as Involvement with unconsolidated structured entities.

A further assessment is conducted to establish whether the securitised loans satisfy the derecognition criteria outlined in Note 7.9.4 above. Should these criteria be met, the transferred loans are accounted for as sale– and any resulting gain or loss on derecognition is recognised in the statement of profit and loss.

Conversely, if the derecognition criteria are not met, the transfer is not treated as a sale, and the loans continue to be fully recognised in the statement of financial position.

7.9.6 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 Cleared Derivatives Execution Agreements (CDEA) and the corresponding cleared derivatives master netting documentation. Under the CDEA 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 assets and 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	<p>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.</p> <p><u>Purchased or originated credit impaired (POCI)</u></p> <p>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.</p>

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	<p>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.</p> <p>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.</p> <p>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 Specialist Mortgages it is UK Finance's Mortgages Over Three Months in Arrears for the Buy-to-Let Market. For Development Finance, Asset Finance, Wholesale 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.</p>
EAD	<p>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.</p> <p>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.</p>
LGD	<p>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.</p>

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 relative threshold). 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.

Due to a lack of historical 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).

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.

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 CRO and is made up of the CFO, CCO, Director of Credit Analytics and Model Governance and Head of Models 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 market 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 Use of 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 it wishes to hedge. The portfolio comprises 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 and 2024, however a small portfolio of LIBOR referencing loans still remains.

The Group has concluded that as at 31 December 2024, 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

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.

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 affected 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.

During 2024, the Growth Guarantee Scheme (GGS) launched with accredited lenders on 1 July 2024, replacing the RLS scheme. The GGS scheme is an extension of the RLS in that it provides lenders with a government-backed guarantee of 70% on losses that may arise on facilities of above £25,000 up to £2 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 Contingent liabilities

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Alternatively, they present obligations where the outflow of resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements, but they are disclosed unless the probability of settlement is remote.

7.23 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.

7.24 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Interest and similar income on Loans and Advances to Customers held at amortised cost ¹	315,111	244,205	294,913	218,080
Interest and similar income on Loans and Advances to Customers held at fair value through profit and loss	12	229	12	229
Interest on Loans and Advances to Banks	36,697	13,120	36,697	13,109
Interest on Investment Securities	11,243	10,739	10,751	9,292
Interest on Intercompany Loans	-	-	9,821	4,903
Total Interest receivable and similar income	363,063	268,293	352,194	245,613
Interest on Deposits from Customers, TFSME & ILTR ¹	(202,630)	(117,927)	(200,274)	(110,071)
Interest on Subordinated Liabilities	(6,578)	(4,480)	(6,578)	(4,480)
Total Interest expense and similar charges	(209,208)	(122,407)	(206,852)	(114,551)
Net Interest Income	153,855	145,886	145,342	131,062

¹. Interest received and interest paid on derivative financial instruments have been represented respectively in interest and similar income on loans and advances to customers held at amortised cost and interest on deposits from customers, TFSME and ILTR in the above table, to better reflect the underlying assets and liabilities to which those swaps are designated in their respective hedging relationships.

9. Fees and commission income and expense

See accounting policy in note 7.2.

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Operating Lease Income	597	1,353	-	-
Total Operating Lease Income	597	1,353	-	-
Facility Fees	589	518	572	489
Early Settlement Fees	2,649	1,148	2,482	912
Customer Service Fees	162	75	118	45
Commitment Fees on Development Finance Loans	-	13	-	13
Brokerage Fees	-	20	-	-
Fees and Commission Income	3,400	1,774	3,172	1,459
Bank Charges	(958)	(1,000)	(967)	(1,022)
Credit and Identity Searches	(446)	(345)	(439)	(353)
Fees and Commission Expense	(1,404)	(1,345)	(1,406)	(1,375)

Fees and commission income for the Bank and the Group include £Nil of commitment fees charged for Development Finance loans held at FVTPL which under IFRS 9 is recognised upon receipt (2023: £13k).

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	2024 £'000	2023 £'000
Fair value losses on derivative financial instruments	22/23	(435)	(1,308)
Gain/(Loss) on loans and advances to customers held at FVTPL	24	120	(1,187)
Net (loss) on loans and other financial assets at FVTPL		(315)	(2,495)

11. Net gain arising from derecognition of financial assets measured at amortised cost

Group and Bank	Note	2024 £'000	2023 £'000
Fair value gain on sale of securitised loans	43	7,275	-
Net gain arising from derecognition of financial assets measured at amortised cost		7,275	-

The Group entered a securitisation transaction in November 2024 that resulted in the transfer of financial assets (loans and advances to customers). The transferred financial assets have been derecognised in their entirety in compliance with the requirements under IFRS. A gain on the sale of securitised loans has arisen due to consideration received in excess of the carrying value of the assets, compensating for future interest repayments. See note 43 for more information.

12. Other income

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Management recharges	-	-	3,927	5,991
Other Income	-	-	3,927	5,991

Management recharges of £3.9m (2023: £6.0m) relate to staff costs related to ongoing management activities including staff costs and recharges of operational costs paid by HTB on behalf of HLF.

13. Administration Expenses

	Note	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Depreciation and amortisation	33/34/35	7,252	7,605	5,800	4,936
Loss on disposal of fixed assets	33	203	819	-	503
Staff Costs	14	50,920	43,540	48,783	41,067
Share based payments	15	(204)	1,399	(204)	1,399
Other Administrative expenses		22,349	22,130	21,166	21,332
Administrative Expenses		80,520	75,493	75,545	69,237

Included within the Bank's Administrative expenses are £1.7m staff costs (2023: £2.9m) and £2.2m of other administrative expenses (2023: £3.1m) subject to management recharges to subsidiary undertakings as recognised through other income (note 12).

14. 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 2024	Group 2023	Bank 2024	Bank 2023
Directors	8	8	8	8
Lending	211	163	188	163
Administrators	257	247	244	203
	476	418	440	374

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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Wages and Salaries	43,546	37,383	41,689	35,246
Social Security costs	5,350	4,533	5,179	4,335
Pension costs	2,659	2,307	2,550	2,172
Other staff costs	1,812	1,355	1,812	1,352
	53,367	45,578	51,230	43,105
Of which capitalised as Intangible Assets	2,447	2,038	2,447	2,038
Of which included within Administration Expenses	50,920	43,540	48,783	41,067
	53,367	45,578	51,230	43,105

Included in wages and salaries for both the Group and Bank is the one-off impact of severance costs for 23 staff members totalling £617k in relation to the cessation of new business on the Asset Finance loan book in the year.

Directors remuneration:	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Directors' Salaries and Bonus	1,823	1,434	1,768	1,434
Directors' Share based payments	(78)	559	(78)	559
	1,745	1,993	1,690	1,993

There were no Directors to whom retirement benefits were accruing in respect of qualifying services during the year (2023: nil).

There were no Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes during the year (2023: nil).

The aggregate of emoluments of the highest paid Director of the Group including apportioned share based payments charge was £650k (2023: £944k). 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 2024, remunerations for Non- Executive Directors of the Bank totalled £413k (2023: £360k).

15. 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	2024	2023
	No. of Shares	No. of Shares
At 1 January	5,699	5,749
Granted	-	100
Forfeited	(426)	(150)
At 31 December	5,273	5,699

There were no share issues during the year under the scheme. The average fair value of shares issued during 2023 was £925 per share.

The charge to the Consolidated Income Statement was a credit of £204k (2023: £1,399k Debit).

16. Impairment loss on investment in subsidiaries

During the year HLF, a direct and wholly owned subsidiary of the Bank, paid dividends of £11m to the Bank. Due to the run-off nature of the Bank's direct subsidiary HTB Leasing and Finance Limited, this payment was in excess of the retained profits during the year and hence resulted in triggering an impairment assessment under IAS 36. Using a fair valuation methodology in-line with IFRS 13 (incorporating techniques such as discounted cash flow analysis) to determine its recoverable amount, an impairment of £11,219k was recognised in the HTB's separate financial statements during 2024 (2023:£nil) as the recoverable amount calculated as the fair value less cost of disposal was below the cost recognised in HTB's separate financial statements.

17. Auditor's remuneration

	2024	2023
	£'000	£'000
Audit of these financial statements	1,350	1,320
Other services:		
Audit of subsidiaries	455	597
Audit-related assurance services	248	82
Other non-audit services	-	-
Total other services	703	679
	2,053	1,999

18. Dividends received

	Bank	Bank
	2024	2023
	£'000	£'000
Dividends received	11,000	27,500
	11,000	27,500

During 2024 dividends were paid by HTB Leasing and Finance Limited of £11m (2023: £27.5m). This resulted in an impairment in subsidiary holdings in HLF for the Bank totalling £11.2m (see note 16).

19. Taxation

See accounting policy in note 7.8.

Recognised in the Statement of Comprehensive Income

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Current tax on profits for the year	17,815	13,280	17,796	13,374
Current tax on profits for the year	-	-	700	-
Adjustment in respect of prior years	478	(972)	476	(1,366)
Total current tax	18,293	12,308	18,972	12,008
Deferred tax:				
Origination and reversal of temporary differences	77	1,704	(371)	(31)
Adjustments in respect of prior periods	818	639	806	1,131
Effect of tax rate change on opening balance	166	41	-	26
Unrecoverable deferred tax	500	-	-	-
Total deferred tax charge/(credit)	1,561	2,384	435	1,126
Tax on profit/(loss) on ordinary activities	19,854	14,692	19,407	13,134

Tax reconciliation

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Profit for the year	71,596	57,240	72,461	80,407
Tax using the UK Corporation Tax rate of 25% (2023: 23.52%)	17,899	13,463	18,115	18,912
Effects of:				
Permanent non-deductible expenses	89	331	2,811	335
Effect of tax rate change on opening balance	-	41	-	26
Adjustment for prior year tax differences	1,296	(334)	1,282	(233)
Income not taxable	70	629	(2,801)	(6,468)
Effects of Group Relief/ other reliefs	-	(18)	-	(18)
Surcharge on banking companies	-	580	-	580
Unrecoverable deferred tax charge	500	-	-	-
	19,854	14,692	19,407	13,134

The Corporation Tax asset for the Group and the Bank at 31 December 2024 is £1,821k (2023: £2,706k liability). This is disclosed within other tax and social security in note 36 Other Assets

20. Deferred Tax Asset (Liability)

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

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Accelerated capital allowances	4,944	6,183	563	1,371
Short term timing differences	457	99	457	99
Tax losses carried forward and other deductions	-	188	-	-
IFRS 16 adjustment	545	537	(42)	(56)
Unrecoverable deferred tax	(500)	-	-	-
Deferred Tax Asset	5,446	7,007	978	1,414

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

	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Balance brought forward	7,007	9,390	1,414	2,538
Effect of tax rate change on opening balance	-	(41)	-	(26)
Adjustments in respect to the prior periods	(818)	(639)	(806)	(1,131)
Credit to the income statement	(243)	(1,703)	370	33
Unrecoverable deferred tax written off	(500)	-	-	-
Deferred Tax Asset	5,446	7,007	978	1,414

The Bank has calculated the UK deferred tax asset as at 31 December 2024 using a blended forecast future tax rate of 26% (2023: 25%). 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 likely to be liable to pay Banking Surcharge Tax from year ended 2026 onwards due the threshold 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 2024 using a blended forecast future tax rate of 25% (2023: 25%). This blended rate is calculated based on the main rate of Corporation Tax enacted at 31 December.

There is an expectation that due to the run off of the book, HLF will not be able to utilise capital allowances in full each year. £500k (2023: £Nil) is estimated to be unrecoverable.

The IFRS 9 transitional adjustment will be released over 10 years in line with IFRS using a blended rate of 25%.

21. Loans and Advances to Banks

See accounting policy in note 7.9.

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Placements with other Banks included in Loans and Advances to Banks Repayable on demand	1,440,372	480,470	1,435,307	476,806
	1,440,372	480,470	1,435,307	476,806

Included within loans to Banks is a balance held in the Bank of England reserve account of £1,396m (2023: £425.2m) and £Nil restricted cash ratio deposits held with the Bank of England (2023: £4.9m).

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

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Aa3	-	4,879	-	4,879
A1	44,410	50,418	39,345	46,753
	44,410	55,297	39,345	51,632

22. 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 £'000	Fair value of assets £'000	Fair value of liabilities £'000
At 31 December 2024			
Interest rate swaps:			
Designated in fair value hedges	3,955,960	37,216	8,371
Designated in cashflow hedges	50,520	376	35
Other risk management derivatives	1,506,310	13,996	14,163
	5,512,790	51,588	22,569

Group and Bank

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

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	2024 £'000	2023 £'000
Net gain on derivatives designated as fair value hedges	19,784	39,698
Fair value adjustments from hedge accounting	(20,434)	(42,205)
Ineffectiveness of fair value hedges	(650)	(2,507)
Net (loss) on derivatives designated as cashflow hedges, realised through profit and loss	(425)	221
Movements on other derivative financial instruments	649	978
Fair value gains on derivative financial instruments	(426)	(1,308)

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided in Note 23. 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 31.3

23. 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 2024	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	373,000	589,200	773,300	1,242,920	962,540	15,000	3,955,960
Average fixed interest rate	4.33%	4.73%	3.97%	2.80%	4.16%	3.68%	3.79%

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%

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

31 December 2024	Carrying amount 2024		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	1,551,666	-	(24,857)	-	Loans and advances to customers	14,204
Debt Securities	-	-	-	-	Debt Securities	(10)
Customer deposits	-	1,992,630	-	1,358	Customer deposits	3,779
Subordinated liabilities	-	56,070	-	1,070	Subordinated liabilities	1,811

23. Hedge accounting (continued)

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)

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

As at 31 December 2024	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	2,432,300	37,216	-	Derivative assets held for risk management	(37,843)	1%	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	1,523,660	-	8,371	Derivative Liabilities held for risk management	14,934	1%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss

23. 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	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

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 2024	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	20,660	29,860	50,520
Average fixed interest rate	3.74%	3.79%	3.77%
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%

23. Hedge accounting (continued)

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

As at 31 December 2024	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	45,750	376	-	Derivative assets held for risk management	394	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
Liabilities							
Interest rate risk	4,770	-	35	Derivative Liabilities held for risk management	2,115	0%	Net (loss)/gain on loans and other financial assets at Fair value through profit and loss
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

23. Hedge accounting (continued)

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

31 December 2024	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	724	2,674	2,855
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

For more information about how the Group manages its market risks, see Note 31.3.

24. 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	2024	2023
	£'000	£'000
Development Finance	260	3,305

25. Loans and advances to customers at amortised cost

See accounting policy in note 7.9.

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Development Finance	368,394	272,158	368,394	272,158
Less: allowance for impairment	(3,905)	(4,373)	(3,905)	(4,373)
	364,489	267,785	364,489	267,785
Specialist Mortgages	2,426,203	2,148,296	2,426,203	2,148,296
Less: allowance for impairment	(7,489)	(9,477)	(7,489)	(9,477)
	2,418,714	2,138,819	2,418,714	2,138,819
Commercial and Retail Finance	152,451	215,265	-	-
Less: allowance for impairment	(4,983)	(3,762)	-	-
	147,468	211,503	-	-
Asset Finance				
Hire Purchase and Loans	269,991	325,819	230,811	253,834
Finance Leases	59,583	65,001	55,449	56,534
Vehicle Stocking	8,411	2,564	8,411	2,563
Less: allowance for impairment	(10,109)	(7,955)	(8,962)	(6,556)
	327,876	385,429	285,709	306,375
Wholesale finance	349,284	293,426	349,284	293,426
Less: allowance for impairment	(1,431)	(17)	(1,431)	(17)
	347,853	293,409	347,853	293,409
	675,729	678,838	633,563	599,784
Fair value adjustments from portfolio hedging	(24,857)	(39,062)	(24,857)	(39,062)
Loans and Advances to Customers held at amortised cost	3,581,543	3,257,883	3,391,908	2,967,326

25. 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Gross investment in hire purchase receivables:				
Year 1	118,480	128,646	96,676	95,246
Year 2	83,655	103,822	72,268	80,699
Year 3	60,281	70,795	54,714	58,616
Year 4	32,518	46,142	30,493	40,522
Year 5	9,328	19,839	8,886	17,815
More than 5 years	3,570	3,681	3,532	3,202
Total future repayments	307,832	372,925	266,569	296,100
Unearned finance income	(37,841)	(47,106)	(35,758)	(42,266)
Net investment	269,991	325,819	230,811	253,834
Less impairment allowance	(8,622)	(6,377)	(7,584)	(5,374)
	261,369	319,442	223,227	248,460

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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Gross investment in finance lease receivables:				
Year 1	25,995	27,935	23,489	23,337
Year 2	20,042	20,241	18,968	17,655
Year 3	13,351	14,544	12,916	13,459
Year 4	6,769	8,807	6,530	8,370
Year 5	2,093	3,034	1,991	2,796
More than 5 years	143	402	87	243
Total future repayments	68,393	74,963	63,981	65,860
Unearned finance income	(8,810)	(9,962)	(8,532)	(9,326)
Net investment in finance leases	59,583	65,001	55,449	56,534
Less impairment allowance	(965)	(1,564)	(849)	(1,169)
	58,618	63,437	54,600	55,365

26. 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Covered bonds	218,864	116,198	218,864	116,198
Gilts	1,116	128,290	1,116	118,311
Debt Securities	219,980	244,488	219,980	234,509

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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
A1	171,681	68,966	171,681	68,966
A2	17,647	13,634	17,647	13,634
A3	11,084	24,560	11,084	24,560
Aa3	-	128,290	-	118,311
Baa1	19,568	9,038	19,568	9,038
Debt Securities	219,980	244,488	219,980	234,509

27. 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
TFSME	295,000	348,770	295,000	295,000
ILTR	-	5,000	-	5,000
Central Bank Facilities	295,000	353,770	295,000	300,000

During the year HLF, a subsidiary of the Group, ceased to participate in the Bank of England's Term Funding Scheme for SMEs, with HLF holding £Nil at the year end (2023: £53.5m).

28. Customer Deposits

See accounting policy in note 7.17.

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
With agreed maturity dates or periods of notice by remaining maturity:				
On demand	1,370,978	662,751	1,370,978	649,434
Not more than three months	746,442	662,583	746,442	637,801
More than three months but not more than one year	1,494,554	1,220,576	1,494,554	1,213,475
More than one year but not more than five years	912,671	709,804	912,671	699,771
More than five years	-	-	-	62
	4,524,645	3,255,714	4,524,645	3,200,543
Fair value adjustments for portfolio hedging	1,358	5,138	1,358	5,138
Customer deposits	4,526,003	3,260,852	4,526,003	3,205,681

29. 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 £'000	Total carrying amount £'000	Fair Value £'000
At 31 December 2024				
Loan and Advances to Banks	Level 2	1,440,372	1,440,372	1,440,372
Loans and Advances to Customers - FVTPL	Level 3		260	260
Loans and Advances to Customers – at amortised cost	Level 3	3,581,543	3,581,543	3,594,799
Investment Securities	Level 1	209,446	209,446	208,480
Investment Securities	Level 2	10,534	10,534	10,485
Derivative Financial Instruments	Level 2	-	51,588	51,588
Other Assets	Level 3	66,962	66,962	66,962
Total Financial Assets		5,308,857	5,360,705	5,372,946
Customer Deposits	Level 3	4,526,003	4,526,003	3,595,526
Central Bank Facilities	Level 3	295,000	295,000	288,542
Subordinated Liabilities	Level 2	-	56,085	56,085
Derivative Financial Instruments	Level 2	-	22,569	22,569
Finance Lease Liability	Level 3	3,462	3,462	3,462
Other Liabilities	Level 3	110,982	110,982	110,982
Total Financial Liabilities		4,935,447	5,014,101	4,077,166

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

Bank	Hierarchy level	Amortised Cost	Total carrying amount	Fair Value
At 31 December 2024		£'000	£'000	£'000
Loan and Advances to Banks	Level 2	1,435,307	1,435,307	1,435,307
Loans and Advances to Customers - FVTPL	Level 3	-	260	260
Loans and Advances to Customers – at amortised cost	Level 3	3,391,908	3,391,908	3,397,718
Investment Securities	Level 1	209,446	209,446	208,480
Investment Securities	Level 2	10,534	10,534	10,485
Derivative Financial Instruments	Level 2	-	51,588	51,588
Other Assets	Level 3	224,312	224,312	224,312
Total Financial Assets		5,271,507	5,323,355	5,328,150
Customer Deposits	Level 3	4,526,003	4,526,003	3,595,526
Central Bank Facilities	Level 3	295,000	295,000	288,542
Subordinated Liabilities	Level 2	-	56,085	56,085
Derivative Financial Instruments	Level 2	-	22,569	22,569
Finance Lease Liability	Level 3	3,409	3,409	3,409
Other Liabilities	Level 3	109,904	109,904	109,904
Total Financial Liabilities		4,934,316	5,012,970	4,076,035

Bank	Hierarchy level	Amortised Cost	Total carrying amount	Fair Value
At 31 December 2023	£'000	£'000	£'000	£'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

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	2024	2023
	£'000	£'000
Balance at 1 January	3,305	4,294
Total gains or (losses):		
In profit or (loss)	247	(794)
Drawdowns on existing facilities	-	60
Repayments	(3,292)	(255)
Balance at 31 December	260	3,305

There were no transfers in or out of level 3.

(ii) Unobservable Inputs used in measuring fair value

The only financial instruments where 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 unobservable inputs relate to the timing and amount of expected cash flows.

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. Projected cash flows are derived from the business line's best estimates. Given the carrying value of the remaining level 3 portfolio, any sensitivity around these estimates would not have a material impact.

30. 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 2024

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
Development Finance	300,768	49,149	18,477	-	368,394
Specialist Mortgages	2,125,938	240,087	60,178	-	2,426,203
Asset and Wholesale Finance	571,021	101,350	14,898	-	687,269
Commercial and Retail	127,538	15,290	9,622	1	152,451
Total Exposure	3,125,264	405,876	103,175	1	3,634,317
Off Balance Sheet:					
Loan Commitments	610,568	-	-	-	610,568
Total Gross Exposure	3,735,832	405,876	103,175	1	4,244,885
Less: FV losses from portfolio hedging	(22,027)	(2,830)	-	-	(24,857)
Less: allowance for impairment	(5,280)	(5,451)	(17,314)	128	(27,917)
Total Net Exposure	3,708,525	397,595	85,861	129	4,192,111

As at 31 December 2023

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'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 2024

Bank	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Development Finance	300,768	49,149	18,477	368,394
Specialist Mortgages	2,125,938	240,087	60,178	2,426,203
Asset and Wholesale Finance	532,039	98,832	13,084	643,955
Total Exposure	2,958,745	388,068	91,739	3,438,552
Off Balance Sheet:				
Loan Commitments	610,568	-	-	610,568
Total Gross Exposure	3,569,313	388,068	91,739	4,049,120
Less: FV losses from portfolio hedging	(22,027)	(2,830)	-	(24,857)
Less: allowance for impairment	(4,436)	(3,998)	(13,353)	(21,787)
Total Net Exposure	3,542,850	381,240	78,386	4,002,476

As at 31 December 2023

Bank	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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

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	2024			
Group	Stage 1	Stage 2	Stage 3	Total
Development Finance	£'000	£'000	£'000	£'000
Balance at 1 January	181,916	66,172	24,070	272,158
Transfer to Stage 1	10,291	(10,291)	-	-
Transfer to Stage 2	(22,216)	22,216	-	-
Transfer to Stage 3	(9,874)	(1,098)	10,972	-
Drawdowns/(Repayments)	140,651	(27,850)	(14,741)	98,060
Write offs	-	-	(1,824)	(1,824)
Balance at 31 December	300,768	49,149	18,477	368,394

Group		Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages		£'000	£'000	£'000	£'000
Balance at 1 January		1,827,727	286,075	34,494	2,148,296
Transfer to Stage 1		103,022	(100,470)	(2,552)	-
Transfer to Stage 2		(101,722)	102,393	(671)	-
Transfer to Stage 3		(24,765)	(27,636)	52,401	-
Drawdowns/(Repayments)		321,676	(20,275)	(22,269)	279,132
Write offs		-	-	(1,225)	(1,225)
Balance at 31 December		2,125,938	240,087	60,178	2,426,203

Gross Carrying Value		2024			
Group	Stage 1	Stage 2	Stage 3	POCI	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	569,797	102,742	14,225	46	686,810
Transfer to Stage 1	48,574	(44,549)	(4,025)	-	-
Transfer to Stage 2	(57,815)	59,836	(2,021)	-	-
Transfer to Stage 3	(6,356)	(8,444)	14,800	-	-
Drawdowns/(Repayments)	16,821	(8,235)	(983)	(241)	7,362
Write Offs ¹	-	-	(7,098)	195	(6,903)
Balance at 31 December	571,021	101,350	14,898	-	687,269

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Commercial and Retail Finance	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	195,710	13,434	6,108	13	215,265
Transfer to Stage 1	3,493	(3,493)	-	-	-
Transfer to Stage 2	(10,089)	10,422	(333)	-	-
Transfer to Stage 3	(3,416)	(4,249)	7,665	-	-
Drawdowns/(Repayments)	(58,160)	(824)	(3,319)	115	(62,188)
Write Offs ¹	-	-	(499)	(127)	(626)
Balance at 31 December	127,538	15,290	9,622	1	152,451

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Total	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	2,775,150	468,423	78,897	59	3,322,529
Transfer to Stage 1	165,380	(158,803)	(6,577)	-	-
Transfer to Stage 2	(191,842)	194,867	(3,025)	-	-
Transfer to Stage 3	(44,411)	(41,427)	85,838	-	-
Drawdowns/(Repayments)	420,988	(57,184)	(41,312)	(126)	322,366
Write Offs ¹	-	-	(10,646)	68	(10,578)
Balance at 31 December	3,125,264	405,876	103,175	1	3,634,317

1. Write offs on POCI represent the write offs of exposures net of ECL allowances at acquisition and recoveries of outstanding balances in excess of acquired net exposures.

Gross Carrying Value	2024			
	Stage 1	Stage 2	Stage 3	Total
Bank	£'000	£'000	£'000	£'000
Development Finance				
Balance at 1 January	181,916	66,172	24,070	272,158
Transfer to Stage 1	10,291	(10,291)	-	-
Transfer to Stage 2	(22,216)	22,216	-	-
Transfer to Stage 3	(9,874)	(1,098)	10,972	-
Drawdowns/(Repayments)	140,651	(27,850)	(14,741)	98,060
Write offs	-	-	(1,824)	(1,824)
Balance at 31 December	300,768	49,149	18,477	368,394

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	1,827,727	286,075	34,494	2,148,296
Transfer to Stage 1	103,022	(100,470)	(2,552)	-
Transfer to Stage 2	(101,722)	102,393	(671)	-
Transfer to Stage 3	(24,765)	(27,636)	52,401	-
Drawdowns/(Repayments)	321,676	(20,275)	(22,269)	279,132
Write offs	-	-	(1,225)	(1,225)
Balance at 31 December	2,125,938	240,087	60,178	2,426,203

Bank	Stage 1	Stage 2	Stage 3	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000
Balance at 1 January	503,036	91,686	11,635	606,357
Transfer to Stage 1	42,805	(38,780)	(4,025)	-
Transfer to Stage 2	(55,170)	56,874	(1,704)	-
Transfer to Stage 3	(6,192)	(6,903)	13,095	-
Drawdowns/(Repayments)	47,560	(4,045)	617	44,132
Write Offs	-	-	(6,534)	(6,534)
Balance at 31 December	532,039	98,832	13,084	643,955

Bank	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	2,512,679	443,933	70,199	3,026,811
Transfer to Stage 1	156,118	(149,541)	(6,577)	-
Transfer to Stage 2	(179,108)	181,483	(2,375)	-
Transfer to Stage 3	(40,831)	(35,637)	76,468	-
Drawdowns/(Repayments)	509,887	(52,170)	(36,393)	421,324
Write Offs	-	-	(9,583)	(9,583)
Balance at 31 December	2,958,747	388,068	91,739	3,438,552

Gross Carrying Value Group	2023			
	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 ¹	-	-	(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	-	-	-	-	-
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 ¹	-	-	(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 ¹	-	-	(9,046)	(93)	(9,139)
Balance at 31 December	2,775,150	468,423	78,897	59	3,322,529

1. Write offs on POCI represent the write offs of exposures net of ECL allowances at acquisition and recoveries of outstanding balances in excess of acquired net exposures.

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

Loss allowance	2024			
	Stage 1	Stage 2	Stage 3	Total
Group	£'000	£'000	£'000	£'000
Development Finance				
Balance at 1 January	1,137	862	2,374	4,373
Transfer to Stage 1	151	(151)	-	-
Transfer to Stage 2	(139)	139	-	-
Transfer to Stage 3	(80)	(21)	101	-
Net transfers	(68)	(33)	101	-
Other changes in credit parameters & forward-looking information ¹	39	283	1,378	1,700
Additions and repayments ²	369	(443)	(270)	(344)
Charge to the Statement of Profit and Loss	408	(160)	1,108	1,356
Write offs	-	-	(1,824)	(1,824)
Balance at 31 December	1,477	669	1,759	3,905

Group	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	3,091	3,486	2,900	9,477
Transfer to Stage 1	1,212	(1,206)	(6)	-
Transfer to Stage 2	(165)	165	-	-
Transfer to Stage 3	(128)	(828)	956	-
Net transfers	919	(1,869)	950	-
Other changes in credit parameters & forward-looking information ¹	(2,674)	547	2,081	(46)
Additions and repayments ²	261	34	(1,012)	(717)
Charge to the Statement of Profit and Loss	(2,413)	581	1,069	(763)
Write offs	-	-	(1,225)	(1,225)
Balance at 31 December	1,597	2,198	3,694	7,489

Loss allowance		2024			
Group	Stage 1	Stage 2	Stage 3	POCI	Total
Asset and Wholesale Finance	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	1,525	1,990	4,596	(139)	7,972
Transfer to Stage 1	2,785	(1,112)	(1,673)	-	-
Transfer to Stage 2	(230)	493	(263)	-	-
Transfer to Stage 3	(51)	(220)	271	-	-
Net transfers	2,504	(839)	(1,665)	-	-
Other changes in credit parameters & forward-looking information ¹	(3,025)	3	12,282	292	9,552
Additions and repayments ²	552	71	643	(348)	918
Charge to the Statement of Profit and Loss	(2,473)	74	12,925	(56)	10,470
Write offs³	-	-	(7,097)	195	(6,902)
Balance at 31 December	1,556	1,225	8,759	-	11,540

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Commercial and Retail Finance	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	1,108	1,123	1,721	(190)	3,762
Transfer to Stage 1	86	(86)	-	-	-
Transfer to Stage 2	(53)	163	(110)	-	-
Transfer to Stage 3	174	(600)	426	-	-
Net transfers	207	(523)	316	-	-
Other changes in credit parameters & forward-looking information ¹	(204)	934	1,372	(43)	2,059
Additions and repayments ²	(461)	(175)	192	232	(212)
Charge to the Statement of Profit and Loss	(665)	759	1,564	189	1,847
Write offs³	-	-	(499)	(127)	(626)
Balance at 31 December	650	1,359	3,102	(128)	4,983

Group	Stage 1	Stage 2	Stage 3	POCI	Total
Total	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	6,861	7,461	11,591	(329)	25,584
Transfer to Stage 1	4,234	(2,555)	(1,679)	-	-
Transfer to Stage 2	(587)	960	(373)	-	-
Transfer to Stage 3	(85)	(1,669)	1,754	-	-
Net transfers	3,562	(3,264)	(298)	-	-
Other changes in credit parameters & forward-looking information ¹	(5,864)	1,767	17,113	249	13,265
Additions and repayments ²	721	(513)	(447)	(116)	(355)
Charge to the Statement of Profit and Loss	(5,143)	1,254	16,666	133	12,910
Write offs³	-	-	(10,645)	68	(10,577)
Balance at 31 December	5,280	5,451	17,314	(128)	27,917

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.

2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

3. Write offs on POCI represents the write off of acquired net exposures after loss allowances and the release of post-acquisition movements in loss allowance.

Loss allowance	2024			
	Stage 1	Stage 2	Stage 3	Total
Bank	£'000	£'000	£'000	£'000
Development Finance				
Balance at 1 January	1,137	862	2,374	4,373
Transfer to Stage 1	151	(151)	-	-
Transfer to Stage 2	(139)	139	-	-
Transfer to Stage 3	(80)	(21)	101	-
Net transfers	(68)	(33)	101	-
Other changes in credit parameters & forward-looking information ¹	39	283	1,378	1,700
Additions and repayments ²	369	(443)	(270)	(344)
Charge to the Statement of Profit and Loss	408	(160)	1,108	1,356
Write offs	-	-	(1,824)	(1,824)
Balance at 31 December	1,477	669	1,759	3,905

Bank	Stage 1	Stage 2	Stage 3	Total
Specialist Mortgages	£'000	£'000	£'000	£'000
Balance at 1 January	3,091	3,486	2,900	9,477
Transfer to Stage 1	1,212	(1,206)	(6)	-
Transfer to Stage 2	(165)	165	-	-
Transfer to Stage 3	(128)	(828)	956	-
Net transfers	919	(1,869)	950	-
Other changes in credit parameters & forward-looking information ¹	(2,674)	547	2,081	(46)
Additions and repayments ²	261	34	(1,012)	(717)
Charge to the Statement of Profit and Loss	(2,413)	581	1,069	(763)
Write offs	-	-	(1,225)	(1,225)
Balance at 31 December	1,597	2,198	3,694	7,489

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	2024			
	Stage 1	Stage 2	Stage 3	Total
Bank	£'000	£'000	£'000	£'000
Asset and Wholesale Finance				
Balance at 1 January	1,079	1,690	3,804	6,573
Transfer to Stage 1	2,696	(1,023)	(1,673)	-
Transfer to Stage 2	(207)	445	(238)	-
Transfer to Stage 3	(52)	(169)	221	-
Net transfers	2,437	(747)	(1,690)	-
Other changes in credit parameters & forward-looking information ¹	(2,755)	27	11,645	8,917
Additions and repayments ²	601	161	675	1,437
Charge to the Statement of Profit and Loss	(2,154)	188	12,320	10,354
Write offs	-	-	(6,534)	(6,534)
Balance at 31 December	1,362	1,131	7,900	10,393

Bank	Stage 1	Stage 2	Stage 3	Total
Total	£'000	£'000	£'000	£'000
Balance at 1 January	5,307	6,038	9,078	20,423
Transfer to Stage 1	4,059	(2,380)	(1,679)	-
Transfer to Stage 2	(511)	749	(238)	-
Transfer to Stage 3	(260)	(1,018)	1,278	-
Net transfers	3,288	(2,649)	(639)	-
Other changes in credit parameters & forward-looking information ¹	(5,390)	857	15,104	10,571
Additions and repayments ²	1,231	(248)	(607)	376
Charge to the Statement of Profit and Loss	(4,159)	609	14,497	10,947
Write offs	-	-	(9,583)	(9,583)
Balance at 31 December	4,436	3,998	13,353	21,787

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	Total
	£'000	£'000	£'000	£'000
Development Finance				
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

Group	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Specialist Mortgages				
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			
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 offs³	-	-	(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 offs³	-	-	(707)	(129)	(836)
Balance at 31 December	1,108	1,123	1,721	(190)	3,762

1. Changes in loss allowance as a result of movements due to changes in: credit risk parameters; adjustments to the models used for expected credit loss calculations; and, the forward-looking economic scenarios.

2. Expected loss allowances recognised on origination of new loans. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances

3. Write offs on POCI represents the write off of acquired net exposures after loss allowances and the release of post-acquisition movements in loss allowance.

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 offs³	-	-	(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.

3. Write offs on POCI represents the write off of acquired net exposures after loss allowances and the release of post-acquisition movements in loss allowance.

Loss allowance	2023			
	Stage 1	Stage 2	Stage 3	Total
Bank	£'000	£'000	£'000	£'000
Development Finance				
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
	£'000	£'000	£'000	£'000
Specialist Mortgages				
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			
	Stage 1	Stage 2	Stage 3	Total
Bank	£'000	£'000	£'000	£'000
Asset and Wholesale Finance				
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
Total	£'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.

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	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Increase/(Decrease) in ECL	2,334	4,538	1,364	6,037
Write offs	10,577	9,139	9,583	7,157
Bad debt recoveries (Excluding POCI)	(1,684)	(1,262)	(1,242)	(722)
Impairments not reflected in ECL	65	25	65	26
Impairment (gains)/losses on loans and advances to customers	11,292	12,440	9,770	12,498

Post-Model Adjustments ("PMAs")

For year-end 2024, the Bank determined that a series of PMAs totalling £0.6m (2023: £1.1m) are required across the Group's four key portfolios, which have been included in the respective loss allowance tables (pages 109-117). 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.

- **Development Finance:** PMAs (2023: £1.2m) relating to the DF portfolio were decommissioned in 2024 following the implementation of new IFRS9 model suite. This incorporated risk associated with mid construction projects and was calibrated to HTB's default experience.
- **Specialist Mortgages:** A PMA reflecting concerns around cladding/fire risks of underlying security (2023: £0.2m) was decommissioned in 2024 following the completion of remediation works to the properties. A PMA (2023: £0.4m release) ensuring correct treatment of Semi Commercial and Commercial Property valuation forecasts has been implemented into the models and has therefore been decommissioned.
- **Asset Finance and Wholesale:** A PMA of £0.5m has been determined in the current period based on the latest PD model monitoring to compensate for the models' under prediction of recent default experience and to enhance the Stage 2 criteria to consider movements in bureau data. These adjustments will be reviewed quarterly and implemented into the underlying models in 2025 as appropriate. A PMA of £0.1m has been applied to the block discounting portfolio following a detailed review of the underlying LGD model assumptions. A new suite of IFRS9 models for Block Discounting is expected to be developed in 2025 which will reflect this adjustment.

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 which results in a reduction in ECL of £0.1m (2023: £0.1m reduction).

- **Commercial and Retail Finance:** A PMA reflecting concerns due to the potential effects of elevated interest rates, inflation, energy and other input prices (2023: £0.1m) was decommissioned in 2024 due to the immaterial nature of the overlay.

31. 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.

31.1 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, and includes the use of various credit risk rating systems to measure the credit risk of loans and advances to customers and banks at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the exposure to the counterparty at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Loans and Advances to Banks & Investment Securities held at amortised cost	1,660,352	724,958	1,655,287	711,315
Loans and Advances to Customers at amortised cost	3,634,317	3,322,529	3,438,552	3,026,811
Loans and Advances to customers at FVTPL (not subject to impairment requirements)	260	3,305	260	3,305
Other assets: intercompany balances (Note 36)	190	119	163,005	170,280
Total on-balance sheet exposure	5,295,119	4,050,911	5,257,104	3,911,711
Contractual loan commitments	610,568	491,544	610,568	491,544
Maximum credit exposure	5,905,687	4,542,455	5,867,672	4,403,255

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2024. However, undrawn loan facilities of £240m granted by Development Finance and £61m granted to Wholesale Finance are legally drafted such that they can be drawn on demand but are uncommitted and can be withdrawn without notice (2023: £179m Development Finance and £26m Wholesale Finance).

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	2024 Total
Internal Rating at Origination	12 month PD range	£'000	£'000	£'000	£'000
1	0.0006-0.0045	253,515	57,802	4,928	316,245
2	0.0045-0.0105	770,808	118,378	27,542	916,728
3	0.0105-0.0240	1,566,911	164,526	49,174	1,780,611
4	0.0240-0.0550	480,197	55,803	13,842	549,842
5	>0.0550	53,834	9,367	7,690	70,891
		3,125,265	405,876	103,176	3,634,317

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

Bank		Stage 1	Stage 2	Stage 3	2024 Total
Internal Rating at Origination	12 month PD range	£'000	£'000	£'000	£'000
1	0.0006-0.0045	247,015	57,470	4,703	309,188
2	0.0045-0.0105	700,287	110,545	22,610	833,442
3	0.0105-0.0240	1,495,037	156,600	45,111	1,696,748
4	0.0240-0.0550	467,731	54,752	13,831	536,314
5	>0.0550	48,675	8,701	5,484	62,860
		2,958,745	388,068	91,739	3,438,552

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	1,184,627	168,311	38,050	1,390,988
4	0.0240-0.0550	359,433	58,169	9,992	427,594
5	>0.0550	40,020	11,119	1,089	52,228
		2,512,679	443,933	70,199	3,026,811

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	2024		2023	
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	46,084	3,065	62,482	3,690
Specialist Mortgages	232,758	7,329	265,437	20,638
Asset and Wholesale Finance	98,570	2,780	99,735	3,007
Commercial and Retail Finance	13,936	1,354	9,244	4,190
	391,348	14,528	436,898	31,525

Bank	2024		2023	
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	46,084	3,065	62,481	3,690
Specialist Mortgages	232,758	7,329	265,438	20,638
Asset and Wholesale finance	96,245	2,587	89,095	2,591
	375,087	12,981	417,014	26,919

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	2024		2023	
	Gross carrying amount	ECL	Gross carrying amount	ECL
	£'000	£'000	£'000	£'000
Credit-impaired not in cure period	99,792	16,982	76,457	11,490
No longer credit-impaired but in cure period that precedes transfer to stage 2	3,384	332	2,499	101
	103,176	17,314	78,956	11,591

Bank	2024		2023	
	Gross carrying amount	ECL	Gross carrying amount	ECL
	£'000	£'000	£'000	£'000
Credit-impaired not in cure period	89,188	13,328	67,959	8,990
No longer credit-impaired but in cure period that precedes transfer to stage 2	2,551	25	2,240	88
	91,739	13,353	70,199	9,078

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	
	2024	2023	2024	2023	2024	2023
	£'000	£'000	£'000	£'000	£'000	£'000
Carrying amount	1,660,352	724,958	3,581,543	3,257,883	610,568	491,544
Concentration by sector:						
Corporate	-	-	3,116,177	2,762,443	545,433	438,576
Government	1,395,962	558,342	-	-	-	-
Banks	264,390	166,616	-	-	-	-
Retail	-	-	465,366	495,440	65,135	52,968
	1,660,352	724,958	3,581,543	3,257,883	610,568	491,544
Concentration by location:						
UK	1,660,352	724,958	3,581,543	3,257,883	610,568	491,544

Bank	Loans and advances to Banks & Investment Securities		Loans and advances to Customers		Contractual Commitments	
	2024	2023	2024	2023	2024	2023
	£'000	£'000	£'000	£'000	£'000	£'000
Carrying amount	1,655,287	711,315	3,391,908	2,967,326	610,568	491,544
Concentration by sector:						
Corporate	-	-	2,927,294	2,473,948	545,433	438,576
Government	1,395,962	548,362	-	-	-	-
Banks	259,325	162,953	-	-	-	-
Retail	-	-	464,614	493,378	65,135	52,968
	1,655,287	711,315	3,391,908	2,967,326	610,568	491,544
Concentration by location:						
UK	1,655,287	711,315	3,391,908	2,967,326	610,568	491,544

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 £90,364k (2023: £276,240k). 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 2024

LTV (Indexed)	Buy-to-let	Other lending	2024 Total
Less than 60%	308,870	189,992	498,862
60% to 65%	226,344	105,659	332,003
65% to 70%	280,288	260,531	540,819
70% to 75%	369,616	307,651	677,267
75% to 80%	163,272	140,132	303,404
80% to 85%	35,136	24,835	59,971
Over 85%	11,735	2,142	13,877
Grand Total	1,395,261	1,030,942	2,426,203

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

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 2024 the value of forborne loans for the Group and Bank respectively amounted £8.4m (2023: £12.0m) and £5.9m (2023: £7.7m).

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 2024					
Scenario probability weighting	10%	10%	60%	10%	10%
As at 31 December 2023					
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 2024

		2025	2026	2027	2028	2029	Average
Scenario	Economic variable						25-29
Upside 2	HPI growth (%)	5.5	5.6	6.8	3.9	4.3	5.2
	Unemployment rate (%)	3.5	2.4	2.1	2.1	2.2	2.4
	CRE price growth (%)	15.2	4.4	2.3	0.2	0.1	4.4
	Bank of England rate	6.0	5.1	4.1	3.5	3.5	4.5
	CPI inflation (%)	4.3	4.1	2.9	2.3	2.2	3.2
	GDP Growth (%)	5.6	3.9	2.9	2.1	1.5	3.2
Upside 1	HPI growth (%)	3.2	3.9	5.2	4.0	4.4	4.1
	Unemployment rate (%)	4.0	3.6	3.6	3.6	3.6	3.7
	CRE price growth (%)	10.6	4.2	2.6	0.6	0.5	3.7
	Bank of England rate	5.4	4.4	3.4	3.0	3.0	3.8
	CPI inflation (%)	3.8	3.4	2.6	2.2	2.0	2.8
	GDP Growth (%)	3.9	3.1	2.5	2.0	1.5	2.6
Base	HPI growth (%)	1.2	1.7	2.7	4.1	4.5	2.8
	Unemployment rate (%)	4.4	4.3	4.2	4.1	4.0	4.2
	CRE price growth (%)	3.5	3.2	2.7	1.5	1.3	2.4
	Bank of England rate	3.8	3.1	2.6	2.5	2.5	2.9
	CPI inflation (%)	3.0	2.4	2.1	2.1	2.1	2.3
	GDP Growth (%)	1.4	1.7	1.8	1.7	1.6	1.6
Downside 1	HPI growth (%)	-7.1	-3.2	-2.3	4.5	4.9	-0.6
	Unemployment rate (%)	5.1	6.0	6.7	6.7	6.5	6.2
	CRE price growth (%)	-5.8	3.1	3.7	3.4	2.6	1.4
	Bank of England rate	3.0	1.8	1.8	1.8	1.8	2.0
	CPI inflation (%)	1.9	1.0	1.7	1.9	1.9	1.7
	GDP Growth (%)	-2.3	0.4	1.4	1.7	1.7	0.6
Downside 2	HPI growth (%)	-10.9	-6.0	-5.4	4.8	5.2	-2.5
	Unemployment rate (%)	5.4	6.4	7.2	7.1	6.9	6.6
	CRE price growth (%)	-10.7	2.9	3.9	4.7	3.5	0.9
	Bank of England rate	2.4	1.0	1.0	1.0	1.0	1.3
	CPI inflation (%)	1.3	0.5	1.6	1.9	1.8	1.4
	GDP Growth (%)	-4.2	-0.5	1.0	1.6	1.8	0.0

As at 31 December 2023

		2024	2025	2026	2027	2028	Average 24-28
Scenario	Economic variable						
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)

The base case is the recommended scenario from Oxford Economics in which slow economic growth is generating low GDP growth forecasts. Based on the December 2024 forecast, the UK economy is expected to grow by just 1.4% in 2025 and 1.7% in 2026.

It is expected that the Bank Rate will continue a slow downwards trajectory.

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 2024	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	3,634,316	3,634,316	3,634,316	3,634,316	3,634,316
Loss allowance (£'000)	33,153	29,606	25,311	24,632	23,995
Loss allowance stage 2 (£'000)	7,886	5,896	3,637	3,316	3,096
Proportion of loss allowance in Stage 2	23.79%	19.91%	14.37%	13.46%	12.90%

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%

Bank					
As at 31 December 2024	Downside 2	Downside 1	Base	Upside 1	Upside 2
Gross exposure (£'000)	3,438,554	3,438,554	3,438,554	3,438,554	3,438,554
Loss allowance (£'000)	26,534	23,034	18,843	18,221	17,631
Loss allowance stage 2 (£'000)	6,404	4,423	2,184	1,873	1,665
Proportion of loss allowance in Stage 2	24.14%	19.20%	11.59%	10.28%	9.44%

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%

31.2 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 2024	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loan and advances to Banks	1,440,272	1,440,372	1,440,372	-	-	-	-
Loans and advances to customers	3,581,803	5,281,545	134,662	114,813	460,551	1,049,679	3,521,840
Investment Securities	219,980	257,528	5,656	2,235	8,473	241,164	-
Contractual loan commitments	610,568	610,568	149,780	164,211	166,187	130,390	-
Total	5,852,723	7,590,013	1,730,470	281,259	635,211	1,421,233	3,521,840
Liabilities							
Deposits	(4,526,003)	(4,667,561)	(1,797,026)	(322,410)	(1,529,672)	(1,018,453)	-
Central Bank Facilities	(295,000)	(309,466)	(3,607)	-	(305,859)	-	-
Contractual loan commitments	(610,568)	(610,568)	(149,780)	(164,211)	(166,187)	(130,390)	-
Subordinated Debt	(56,085)	(77,445)	-	-	(6,413)	(71,032)	-
Capital Securities	(17,030)	(21,546)	-	-	(1,505)	(20,041)	-
Total	(5,504,686)	(5,686,586)	(1,950,413)	(486,621)	(2,009,636)	(1,239,916)	-

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 commitments	(491,544)	(491,544)	(114,904)	(207,994)	(74,911)	(93,735)	-
Subordinated Debt	(57,768)	(83,858)	-	-	(6,413)	(77,445)	-
Capital Securities	(17,030)	(23,051)	-	-	(1,505)	(21,546)	-
Total	(4,180,964)	(4,362,153)	(1,058,674)	(579,986)	(1,349,371)	(1,374,122)	-

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 2024	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loan and advances to Banks	1,435,307	1,435,307	1,435,307	-	-	-	-
Loans and advances to customers	3,392,168	5,009,236	130,234	106,271	427,709	949,290	3,395,732
Investment Securities	219,980	257,528	5,656	2,235	8,473	241,164	-
Contractual loan commitments	610,568	610,568	149,780	164,211	166,187	130,390	-
Total	5,658,023	7,312,639	1,720,977	272,717	602,369	1,320,844	3,395,732
Liabilities							
Deposits	(4,526,003)	(4,667,562)	(1,797,027)	(322,410)	(1,529,672)	(1,018,453)	-
Central Bank Facilities	(295,000)	(309,466)	(3,607)	-	(305,859)	-	-
Contractual loan commitments	(610,568)	(610,568)	(149,780)	(164,211)	(166,187)	(130,390)	-
Subordinated Debt	(56,085)	(77,445)	-	-	(6,413)	(71,032)	-
Capital Securities	(17,030)	(21,546)	-	-	(1,505)	(20,041)	-
Total	(5,504,686)	(5,686,587)	(1,950,414)	(486,621)	(2,009,636)	(1,239,916)	-

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)	-

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	2024	2024	2023	2023
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Cash and balances at central banks	1,395,962	1,395,962	425,174	425,174
Unencumbered debt securities issued by sovereigns	-	-	123,514	123,463
Unencumbered Covered Bonds	201,845	202,016	116,090	115,677
Total liquidity reserves	1,597,807	1,597,978	664,778	664,314

Bank	2024	2024	2023	2023
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Cash and balances at central banks	1,395,962	1,395,962	425,174	425,174
Unencumbered debt securities issued by sovereigns	-	-	118,300	118,248
Unencumbered Covered Bonds	201,845	202,016	116,090	115,677
Total liquidity reserves	1,597,807	1,597,978	659,564	659,099

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 2024 are £414.5m for Group and Bank (2023: £543.3m Group and £458.3m Bank).

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 Cleared Derivatives Execution Agreement (CDEA) and the corresponding cleared derivatives master netting documentation. The Group executes a credit support annex in conjunction with the CDEA, 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. During 2023 The Group's derivative transactions were entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. 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 2024	£'000	£'000	£'000	£'000
Derivative assets held for risk management	51,588	(22,569)	(7,720)	21,299
Derivative liabilities held for risk management	(22,569)	22,569	-	-
Total	29,019	-	(7,720)	21,299

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

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

31.3 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 23).

(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	2024	2023
	£'000	£'000
+200 basis points	(1,717)	(735)
-200 basis points	1,861	877
Bank	2024	2023
	£'000	£'000
+200 basis points	(1,319)	(434)
-200 basis points	1,440	568

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 2024	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Loan and advances to Banks	1,440,372	-	-	-	-	1,440,372
Loans and advances to customers	922,139	79,182	356,184	2,277,072	-	3,634,577
Investment Securities	219,980	-	-	-	-	219,980
Other assets	-	-	-	-	91,745	91,745
Total Assets	2,582,491	79,182	356,184	2,277,072	91,745	5,386,674
Liabilities and Equity						
Customer Deposits	1,592,886	410,443	1,601,728	920,946	-	4,526,003
Central Bank Facilities	295,000	-	-	-	-	295,000
Subordinated Liabilities	-	-	-	56,085	-	56,085
Non-interest bearing liabilities	30,078	-	-	-	106,934	137,012
Equity	-	-	-	17,030	355,544	372,574
Total Liabilities	1,917,964	410,443	1,601,728	994,061	462,478	5,386,674
Interest rate sensitivity gap	664,527	(331,261)	(1,245,544)	1,283,011	(370,733)	-
Cumulative gap	664,527	333,266	(912,278)	370,733	-	-
Notional value of derivatives	(287,750)	231,420	1,084,250	(1,027,920)	-	-

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	-	10	244,488
Other assets	-	-	-	-	106,209	106,209
Total Assets	1,105,764	320,062	625,585	1,999,372	106,219	4,157,002
Liabilities and Equity						
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	-	-	-	107,150	162,484
Equity	-	-	-	17,030	305,098	322,128
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)	-	-

Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 7 years	Non-interest bearing	Total
At 31 December 2024	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Loan and advances to Banks	1,435,307	-	-	-	-	1,435,307
Loans and advances to customers	757,612	74,179	350,032	2,256,990	-	3,438,813
Investment Securities	219,980	-	-	-	-	219,980
Other assets	-	-	-	-	293,429	293,429
Total Assets	2,412,899	74,179	350,032	2,256,990	293,429	5,387,529
Liabilities and Equity						
Customer Deposits	1,592,886	410,443	1,601,728	920,946	-	4,526,003
Central Bank Facilities	295,000	-	-	-	-	295,000
Subordinated Liabilities	-	-	-	56,085	-	56,085
Non-interest bearing liabilities	30,078	-	-	-	105,804	135,882
Equity	-	-	-	17,030	357,529	374,559
Total Liabilities	1,917,964	410,443	1,601,728	994,061	463,333	5,387,529
Interest rate sensitivity gap	495,935	(336,264)	(1,251,696)	1,262,929	(169,904)	-
Cumulative gap	495,935	158,671	(1,093,025)	169,904	-	-
Notional value of derivatives	(287,750)	231,420	1,084,250	(1,027,920)	-	-

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
Liabilities and Equity						
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	-	-	-	122,223	177,557
Equity	-	-	-	17,030	305,771	322,801
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)	-	-

(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 and 2024.

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 2023 and 2024, 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 2024 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 2023 and 31 December 2024. 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 2024	31 December 2023
	£'000	£'000
Loans and advances to customers		
Specialist Mortgages	7,446	273,222
Development finance	-	306
	7,446	273,528
Loan commitments	-	-
	7,446	273,528

32. Contingent liabilities

See accounting policy in note 7.22

In January 2024, the FCA announced a review of historical discretionary commission arrangements (DCAs) between lenders and credit brokers to assess whether redress should be payable. The Bank entered into DCAs for its motor finance business between 2014 and 2020, ceasing regulated activities in December 2020. In line with the FCA's notice, we have paused our response to customer complaints pending further guidance.

In October 2024 the Court of Appeal ("CoA") published its judgment on the cases of Wrench, Johnson and Hopcraft ("Hopcraft"). Each case related to commission arrangements in connection with regulated consumer motor finance. The CoA determined that the motor dealers in those cases, in acting as credit brokers by introducing their customers to lenders to finance their car purchases, owed fiduciary duties to their customers to disclose the existence, nature and amount of commission paid to the motor dealers by the lenders and to obtain the customers' informed consent to the receipt of those commission payments. In the cases, it was found that there was either no disclosure of the commission (i.e. disclosure was entirely absent or insufficient to have been brought to the customer's attention), therefore "secret", or insufficient (therefore "half secret" or "partial") to obtain the customer's informed consent. The judgment, which was based on common law principles, sets a higher bar for commission disclosure than required by current or historical regulatory requirements. The Supreme Court granted the lenders permission to appeal the CoA judgment, and the appeal was heard in April 2025. The decision is outstanding.

During 2025, the FCA announced that it has extended its review process and now expects to confirm within six weeks of the Supreme Court's decision, whether a redress scheme will be proposed and how it would be implemented. The FCA has indicated that if a scheme is introduced, firms will be responsible for determining consumer losses and providing compensation in an orderly and efficient manner.

Any potential liability will depend on resolving ongoing legal and regulatory matters, including the FCA review, further regulatory actions, and appeals arising from Hopcraft litigation. These factors will dictate the affected products, lending dates, customer base, and the timing and amount of any potential cash outflows. At present, the total liability remains uncertain. Furthermore, as the Supreme Court's ruling has not been announced at the date of signing of these financial statements, the FCA has not announced details of any redress scheme. Consequently, the timing and scope of any redress remain unknown.

While certain peers with large motor finance portfolios have quantified potential exposures arising from similar fact patterns, our exposure is significantly smaller, with commission paid in relation to discretionary commission arrangements being less than £2m over the 2014–2020 period. Any redress will be impacted by several judgmental factors, including whether the FCA will implement a redress scheme, the claims rate applied, and the outcome of the legal and regulatory challenges. It is possible that any actual amount of redress may be greater than the historical commissions paid due to possible compensatory payments of interest and any prescribed redress approach the FCA may implement.

Therefore, after considering IAS 37 guidance, we have disclosed a contingent liability primarily due to the substantial uncertainties surrounding the outcome, scope, and timing of the FCA review and related legal proceedings.

Additionally, in the event that redress does become payable, the Group has insurance cover that the Group believes would enable the recovery of the majority of any redress payable.

33. Property Plant and Equipment

See accounting policy in note 7.15.

Group	Office Equipment £'000	Fixtures and fittings £'000	Equipment for hire £'000	Total £'000
Cost				
At 1 January 2024	3,616	4,591	3,169	11,376
Additions	293	5	-	298
Disposals	(6)	(45)	(1,653)	(1,704)
At 31 December 2024	3,903	4,551	1,516	9,970
Depreciation				
At 1 January 2024	2,322	903	2,054	5,279
Charge for year	499	768	559	1,826
Depreciation release on disposal	-	-	(1,451)	(1,451)
At 31 December 2024	2,821	1,671	1,162	5,654
Net book value				
At 31 December 2024	1,082	2,880	354	4,316
At 31 December 2023	1,294	3,688	1,115	6,097

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 2024	3,553	4,591	8,144
Additions	293	5	298
Disposals	(5)	(45)	(50)
At 31 December 2024	3,841	4,551	8,392

Depreciation			
At 1 January 2024	2,272	903	3,175
Charge for year	488	768	1,256
Depreciation release on disposal	-	-	-
At 31 December 2024	2,760	1,671	4,431

Net book value			
At 31 December 2024	1,081	2,880	3,961
At 31 December 2023	1,281	3,688	4,969

There were no capitalised borrowing costs related to the acquisition of Property, Plant and Equipment during the year (2023: nil).

No impairment charges were incurred during the year (2023: nil).

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

Group and Bank	2024	2023
	£'000	£'000
Gross investment in operating lease receivables:		
Year 1	111	536
Year 2	-	111
Year 3	-	-
Total future repayments	111	647
Unearned finance income	(31)	(108)
Net investment	80	539

Rentals receivable during the year under operating leases amounted to £597k (2023: £1,353k). In the year to 31 December 2024 the Bank recognised £67k (2023: £74K) of contingent rentals as income.

34. 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 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Net book value at 1 January	3,618	762	3,602	685
Net book value at 31 December	2,711	3,618	2,711	3,602
Depreciation at 31 December	1,147	674	1,147	380

During the year the following right of use assets were disposed

Right of use asset – Office premise	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Cost Disposed	429	-	120	-
Depreciation released on disposal	(315)	-	(6)	-
Net book value disposed	114	-	114	-

Additions to the right of use asset during 2024 were £Nil (2023: £3,982k).

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

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Year 1	790	668	737	582
Year 2	1,290	819	1,290	766
Year 3	1,474	1,135	1,474	1,135
Year 4	419	1,503	419	1,504
Year 5	-	803	-	802
	3,973	4,928	3,920	4,789

The discounted lease liability as at 31 December 2024 is £3,409k for the Bank (2023: £3,974k) and £3,462k for the Group (2023: £4,114k).

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

	Group 2024 £'000	Group 2023 £'000	Bank 2024 £'000	Bank 2023 £'000
Depreciation expense	(792)	(1,127)	(777)	(1,066)
Interest expense	(262)	(10)	(258)	(142)

35. 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 2024	8,417	20,496	11	1,960	30,884
Additions	2,295	4,519	-	-	6,814
Disposal	-	(67)	(11)	(1,960)	(2,038)
At 31 December 2024	10,712	24,948	-	-	35,660
Amortisation					
At 1 January 2024	4,651	11,869	11	1,558	18,089
Charge for year	1,334	2,899	-	402	4,635
Amortisation released on disposal	-	-	(11)	(1,960)	(1,971)
At 31 December 2024	5,985	14,768	-	-	20,753
Net book value					
At 31 December 2024	4,727	10,180	-	-	14,907
At 31 December 2023	3,767	8,627	-	402	12,796

Bank	Internally Generated Assets	Software	Total
	£'000	£'000	£'000
Cost			
At 1 January 2024	8,418	17,580	25,998
Additions	2,295	4,519	6,814
Disposal	-	(67)	(67)
At 31 December 2024	10,713	22,032	32,745
Amortisation			
At 1 January 2024	4,651	9,615	14,266
Charge for year	1,334	2,433	3,767
At 31 December 2024	5,985	12,048	18,033
Net book value			
At 31 December 2024	4,728	9,984	14,712
At 31 December 2023	3,767	7,965	11,732

36. Other Assets

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Corporation Tax asset	1,821	2,706	1,821	2,706
Other receivables	59,196	59,739	59,116	59,418
Prepayments	4,363	3,699	3,999	3,242
Receivables from affiliates	171	119	162,985	170,280
Other Assets	64,551	66,263	227,921	235,646

Included within receivables from affiliates is amounts receivable from group undertakings of £162.8m (2023: £170.2m) which are unsecured and repayable on demand.

37. Other Liabilities

	Group	Group	Bank	Bank
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Other payables	68,120	64,788	67,905	64,422
Accruals	12,783	12,792	11,744	11,410
Margin account liabilities	30,078	55,334	30,078	55,334
Payables to affiliates	-	-	177	16,961
Other Liabilities	110,981	132,914	109,904	148,127

Payables to affiliates includes intercompany payables to subsidiary undertakings.

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

38. Subordinated Liabilities

See accounting policy in note 7.19.

Group and Bank	2024	2023
	£'000	£'000
Tier 2 notes	55,000	55,000
Deferred acquisition costs	(434)	(559)
Accrued interest	449	446
Fair value movement on hedged item	1,070	2,881
Subordinated Liabilities	56,085	57,768

The original £30m of Tier 2 notes paid interest at a rate of 7.25% per annum, payable semi-annually in arrears, and the interest rate on this liability was reset in May 2023 at its 5 year call date to 9.71%. The notes mature on 10 May 2028.

On 27 June 2023 the Bank issued a further £25m of Subordinated Tier 2 notes. The notes pay an annual fixed coupon, with interest accruing at an annual interest rate of 8.84% payable semi-annually in arrears and have a maturity date of 27 December 2033.

39. 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 the Board's Risk Committee 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 four 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 2024, the Group complied in full with all its externally imposed capital requirements. Note 40 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

40. Capital and reserves

(a) Share Capital

See accounting policy in note 7.23

Issued and fully paid:

	Ordinary shares of £1 each	
	2024 £'000	2023 £'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 2024 (2023: £Nil). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one Vote per share at meetings of the bank. All ordinary shares are ranked equally with regards to the Banks residual assets.

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

	Group 2024 £'000	Bank 2023 £'000	Group 2023 £'000	Bank 2023 £'000
Share Capital	139,828	139,828	139,828	139,828
Share Premium	196	196	196	196
Retained Earnings	218,194	220,179	168,173	168,846
Accumulated other comprehensive income	(2,674)	(2,674)	(3,099)	(3,099)
Intangible Assets	(14,909)	(14,712)	(12,795)	(11,732)
IFRS9 Transitional Arrangement	1,613	1,178	5,156	3,887
Prudential Valuation Adjustments	2,672	2,672	3,090	3,090
Securitisation positions	(7,875)	(7,875)	(7,875)	(7,875)
Investment in subsidiaries	-	(38,203)	-	(49,422)
Common Equity Tier 1 Capital	337,045	300,589	292,674	243,719
Capital securities	17,030	17,030	17,030	17,030
Total Tier 1 Capital	354,075	317,619	309,704	260,749
Tier 2 Capital	45,131	45,131	51,141	51,141
Total Capital	399,206	362,750	360,845	311,890

(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 24)

(c) Other equity instruments

See accounting policy in note 7.24

Group and Bank	2024	2023
	£'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 HTB Leasing and Finance Limited.

During the year ended 31 December 2024, the Group paid all interest when scheduled, totalling £1.5m (2023: £1.5m). This is recognised directly in equity.

41. 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 14.

The following Directors during the year directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2024:

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	525	5.25
Robert Sharpe	150,000	150,000	189	1.89

Total deposits of £85k are held by the Bank from related parties of Directors as at 31 December 2024 (2023: £129k).

b) Other related party transactions

The value of intercompany loans from the Bank to subsidiaries at the 31 December 2024 are provided in notes 36-37. The value of interest earned on intercompany loans is provided in note 8.

During the year the Bank has paid monthly service fees totalling £9k (2023: £21k) to HTB Leasing and Finance 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 12.

During the year ended 31 December 2024 the Bank received dividends from HLF of £11.0m (2023: £27.5m) and recognised impairment losses of £11.2m (2023: £Nil) as included in note 13.

42. Investment in subsidiaries

HTB has the following direct investments in subsidiaries as at 31 December 2024:

	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
HTB Leasing and Finance Limited	England	A	100%	Provision of commercial and personal lending	80 Fenchurch Street, London, EC3M 4BY

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

HLF paid dividends totalling £11.0m to HTB during 2024, due to the run-off nature of HLF, this payment was in excess of the retained profits during the year and hence resulted in triggering an impairment assessment under IAS 36. Using a fair valuation methodology in-line with IFRS 13 (incorporating techniques such as discounted cash flow analysis) to determine its recoverable amount, an impairment of £11,219k was recognised in the HTB's separate financial statements during 2024 (2023:£nil) as the recoverable amount calculated as the fair value less cost of disposal was below the cost recognised in HTB's separate financial statements. Going forward, any future dividend declarations exceeding the subsidiary's future retained earnings, or any material changes in the run-off strategy, could lead to additional impairment being recorded.

HTB has the following indirect investments in subsidiaries as at 31 December 2024. 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%	Dormant	80 Fenchurch Street, London, EC3M 4BY
Syscap Limited	England	02471568	100%	Dormant	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%	Dormant	80 Fenchurch Street, London, EC3M 4BY
Serco Paisa Limited	England	-	50%	Dormant	80 Fenchurch Street, London, EC3M 4BY

The 100% indirect investments listed in the above table were liquidated on 25 March 2025 and Serco Paisa Limited was liquidated on 4 March 2025, all of which were members voluntary liquidations.

43. Involvement with unconsolidated structured entities

The Group entered a securitisation transaction in November 2024 that resulted in the transfer of financial assets (loans and advances to customers). The transferred financial assets have been derecognised in their entirety in compliance with the requirements under IFRS.

The loans sold were classified as loans and advances to customers and measured at amortized cost. The total carrying amount of these loans at the time of transfer was £300.2m. The table below outlines the derecognition of financial assets:

	2024
	£m
Gross proceeds	312.0
Transaction costs	(1.4)
Net proceeds	310.6
Net Book Value of Derecognised Loans	(300.2)
Exceptional Gain Recognised	10.4
	Notes
Of which Net Interest Income adjustments	1.1
Of which Fair value losses on derivative financial instruments	1.8
Of which net gain arising on sale of financial assets measured at amortised cost	11 7.3
Of which expected credit loss allowances	0.2
Exceptional Gain Recognised	10.4

The transaction's design ensures that HTB retains no significant risks or rewards associated with the securitised assets, meeting the derecognition criteria under IFRS 9. HTB's exposure is limited to servicing fees given loans were derecognised following confirmation that HTB no longer retains control, exposure to variable returns, or the ability to influence these returns through its involvement.

The following table describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature & purpose	Interest held by Group
Winchester Holdings. Securitisation Vehicle for loans and advances	HTB sold the beneficial ownership of buy-to-let mortgage loans at fair value to a newly incorporated, bankruptcy remote, special purpose vehicle to free up regulatory capital	Servicing fees earned from unconsolidated structured entities

Group and Bank

	2024	2023
	£'000	£'000
Fee income earned from securitisation vehicles	50	-
Total	50	-

Transfers of Financial Assets

Transferred financial assets that are derecognised in their entirety

As part of the securitisation transactions, the Group transferred substantially all the risks and rewards of ownership to an unconsolidated securitisation vehicle. The Group continues to service the transferred financial assets and receives a servicing fee. Under the servicing arrangements, the Group collects and transfers the cash flows on the transferred mortgages to the SPV on behalf of the unconsolidated securitisation vehicle.

The servicing fees are based on a fixed percentage of 0.10% p.a., payable quarterly, on the carrying value of the securitised loans.

Potentially, a loss from servicing activities may occur if the costs that the Group incurs in performing the servicing activity exceed the fees receivable or if the Group does not perform in accordance with the servicing agreements. Given HTB is not considered to be exposed to significant variable returns from the transaction, the potential maximum loss thus for the Group roughly £0.3m i.e. the maximum amount of servicing income it will lose.

44. Ultimate parent company

The Bank is a subsidiary undertaking of Hoggant Limited, which is incorporated in England and Wales and is the largest company in which the results of the Bank are consolidated. The majority of Hoggant Limited's equity is owned by Hoggant L.P. a limited partnership incorporated in Guernsey. Hoggant L.P. is not controlled by a single party and is majority owned by funds managed by Alchemy Special Opportunities (Guernsey) Limited. The consolidated financial statements of Hoggant Limited are available on request from 80 Fenchurch Street, London, EC3M 4BY.

45. Post balance sheet events

Subsequent to the year end, HTB Leasing and Finance Limited, the Bank's wholly owned subsidiary, has declared a dividend of £26.5m which was paid in the first quarter of 2025. The dividend has been recognised as dividend income in the financial statements of the Bank in 2025 and has been identified as a trigger for impairment of the carrying value of the cost of investment in subsidiary. A subsequent impairment in subsidiary at approximately the same value as the dividend declared has been booked during 2025 as a result. The transaction will have no impact on these consolidated financial statements.

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 40) 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 12) 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 12) 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	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 12) and Net gains arising from derecognition of financial assets measured at amortised cost (Note 11), divided by average principal employed.
Underlying Net Revenue Margin	Operating income excluding net loss or gain on loans held at fair value through profit or loss (note 10), management recharges (Note 12) and Net gain arising from derecognition of financial assets measured at amortised cost (note 11), divided by average principal employed.
Underlying Cost to Asset Ratio	Administrative expenses net of Management recharges (note 12) divided by average principal employed
Underlying Operating Income	Operating Income net of Management recharges.
Underlying Cost to Income Ratio	Administrative expenses net of management recharges (Note 12) divided by operating income excluding net gain or loss on loans held at fair value through profit and loss (Note 10) and Net gains arising from derecognition of financial assets measured at amortised cost (Note 11) and management recharges (Note 12).