Hampden & Co.
BANKERS

Annual Report and Financial Statements

For the year ended 31 December 2020

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2020 Performance Highlights

Total income
Up 18% to £10.2m
2019: £8.7m

Deposits
Up 22% to £501.2m
2019: £409.4m

Loans and advances
Up 60% to £326.3m
2019: £203.8m

New services
Launch of Multi-Part Lending and Retirement Interest Only Mortgage
New digital card management app

Colleague engagement
87% Engagement Index score in 'Great Place to Work' survey
2019: 82%

Awards
'Most Outstanding Private Bank – UK Domestic Clients' by Private Banker International

Our purpose
To help our clients achieve their aspirations.

Our goal
To be a forward-thinking, socially responsible bank which earns the loyalty of its stakeholders every day.

Our strategy
Providing bespoke banking to high net worth and affluent clients, their families and associated businesses, delivered through personal service by expert bankers.

Our services for clients
A superior, personalised banking experience for individuals, their families and businesses.

Day-to-day banking
A broad range of services to keep the management of day-to-day finances simple.

Deposits
Tailored solutions, including Call (Instant Access), Notice and Term accounts.

Borrowing
Bespoke lending ranges from commercial, residential, retirement, buy-to-let, multi-property and family / guarantor mortgages to portfolio and SIPP lending.

Digital banking
Personal service from a banker is complemented by the convenience of online banking and mobile apps.

For more information on Hampden & Co,
please visit our website at www.hampdenandco.com/investors

Company Information

Directors	**S E C Miller*** (appointed as Chairman 26 May 2020)
	G T Hartop (Chief Executive Officer)
	A K Mulligan (Chief Financial Officer)
	D C Huntley* (appointed 1 October 2020)
	P A Sparkes*
	C H Taylor*# (appointed 8 February 2021)
	F F Williamson* (appointed 26 May 2020)
	R A Hammond-Chambers* (retired as Chairman 26 May 2020)
	C G Camroux-Oliver* (resigned 30 September 2020)
	V W C Kubitscheck* (resigned 30 September 2020)
	P S R Shedden* (resigned 22 April 2020)

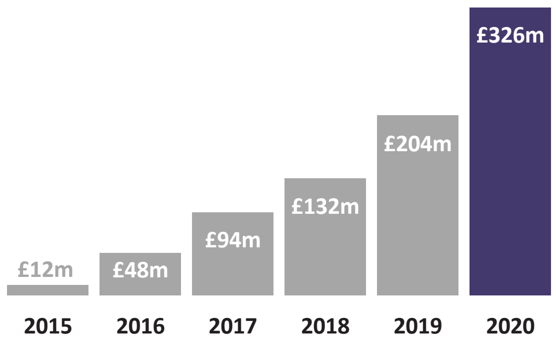
* Non-Executive Director
# Appointed after year-end

Secretary	**R F H Lyon**
Company number	**SC386922**
Registered office	**9 Charlotte Square**
	Edinburgh
	EH2 4DR
Auditor	**Deloitte LLP**
	Statutory Auditor
	Edinburgh
	United Kingdom
Website	**www.hampdenandco.com/investors**

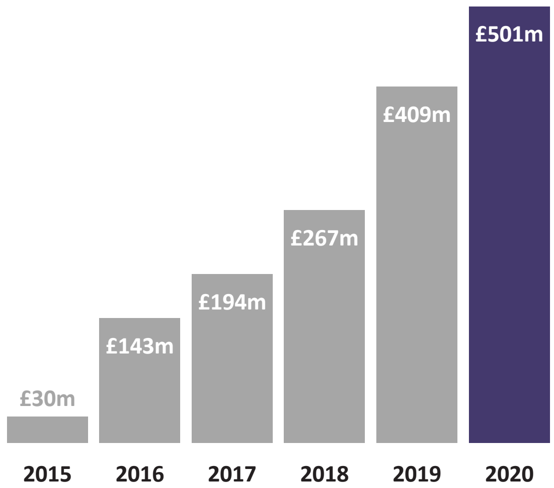
Five-year Performance Summary

	2020	2019	2018	2017	2016	***Growth 2019-20***	*Growth 2018-19*
Loans and advances to clients	**£326.3m**	£203.8m	£132.5m	£94.2m	£48.0m	***+60%***	*+54%*
Deposits from clients	**£501.2m**	£409.4m	£267.5m	£193.9m	£143.5m	***+22%***	*+53%*
Total income	**£10.2m**	£8.7m	£6.4m	£3.9m	£1.6m	***+18%***	*+36%*
Statutory loss before tax	**-£4.1m**	-£5.5m	-£5.8m	-£6.4m	-£6.3m		
Shareholders' equity	**£51.3m**	£44.9m	£40.0m	£43.7m	£34.9m		

Lending growth



Deposit growth



Chairman's Statement

Simon Miller
Chairman

Dear Shareholder

When I last wrote to you in October, I said there had been signs of progress during 2020 and that we should continue to gather momentum. This proved to be the case and the results for the year showed continuing improvement over 2019.

Business performance

Hampden & Co (the Bank) had a good year. Statutory loss before tax continued to reduce from £5.5m in 2019 to £4.1m in 2020, a decrease of 25%. Were it not for a further reduction in base rate in March 2020 to the historically low level of 0.1%, the reduction in losses would have been even greater. Lending increased by 60% to £326m and deposits by 22% to £501m. Costs were well controlled. Further details are contained in the CEO's report on page 9. The Bank responded well to the Covid-19 pandemic. By April, most colleagues in both Edinburgh and London were working from home with a skeleton staff in the office. The results for the year demonstrate that the business performed with agility and resilience.

By the end of the year, further investment of £10m was raised successfully to support continued balance sheet growth, ongoing costs and regulatory requirements.

The Hampden & Co Board

Various Board changes have taken place during the year. I succeeded Alex Hammond-Chambers as Chairman following the Annual General Meeting (AGM) in May. Alex served on the Board of Hampden & Co since inception in 2010. He was a tireless supporter of the Bank and I would like to pay tribute to his outstanding contribution.

Vicky Kubitscheck retired from the Board and as Chairman of the Risk Committee at the end of September. Charlie Oliver and Paul Shedden, both representatives of major shareholders, also stepped down during the year. I would like to pay tribute to each of them for their respective substantial contributions to the Bank over that past five years.

Finlay Williamson also joined in May as Chairman elect of the Audit Committee and became its Chairman following regulatory approval in September. Finlay is a qualified chartered accountant. He was previously Chief Financial Officer of Virgin Money and was until recently a non-executive director of Paragon Banking Group plc where he was Chairman of the Risk & Compliance Committee and a member of the Audit Committee.

David Huntley joined in October as Chairman elect of the Risk Committee and, following regulatory approval, became its Chairman in December. David is an actuary. He is currently non-executive Chairman of Scottish Friendly and Fidelity Life Insurance Ltd and chairs the Audit Committee at Fidelity Life Insurance (Ireland) DAC. His former corporate roles included MD of Pearl Life Ltd, CEO of Scottish Re Ltd and CEO of Swiss Re Life and Health Australia.

Caroline Taylor joined the Board in February this year and is Chairman of the Remuneration Committee. She is currently a non-executive director and Chairman of the Remuneration Committee of Brewin Dolphin plc and of Ecclesiastical Insurance Office plc. Prior to this she worked for Goldman Sachs for 13 years.

This year marks the retirement of Stuart Alexander, the Bank's Chief Operating Officer. Stuart was one of the first members of the Executive Management team and joined the company in August 2011. He made a substantial contribution to setting up the Bank's infrastructure, to achieving the regulatory permissions, and has played a key role in the Bank's development.

Colin Tate will join as the new Chief Operating Officer. He worked at Sainsbury's Bank as Head of Digital Transformation and has extensive leadership experience in change, strategy, digital transformation and business and technology architecture within the banking environment.

The Bank's purpose, goal and strategy

During the second half of the year, the Board and Executive Management Committee (EMC) spent time considering and redefining the Bank's purpose, its goals and its strategy. These deliberations addressed the questions as to what our purpose is, what sort of bank are we aiming to be and how are we endeavouring to get from where we are, to where we want to be.

In summary, our primary purpose is to help clients achieve their aspirations. Clients are at the core of the business. Our goal, our ambition, is to be a forward-thinking, socially responsible bank which earns the loyalty of its clients, shareholders and stakeholders every day.

Further information on our purpose, our goal and our strategy is set out on pages 7 to 8. It is important that everyone in the Bank understands and can articulate each one of these criteria to both clients and shareholders. Only if we are clear about the direction of travel will we succeed.

The Board continues to focus on the culture which lies at the heart of the Bank. Culture to my mind is simply the way in which people deal with each other in any grouping or organisation. Identifying the key characteristics influences the way we behave, how we deal with our clients and shareholders, and how we interact with the communities in which we live and work.

Within the Bank we have chosen at this stage to highlight three aspects of our culture: 'think of the client, take ownership and deliver at pace. We call it 'The Hampden Way'.

The role of sustainability in corporate life has been highlighted by the Covid-19 pandemic and its impact on both communities and corporations has become more pressing. It is now incumbent on us to commit to minimising the Bank's environmental impact and improving the sustainability of all aspects of business life. The Board regards this as a positive development and has responded by establishing a Sustainability Steering Group, led by the Chief Executive, which is focused on reducing the Bank's impact on the environment, and on making a positive contribution to the communities in which we live and work.

Building on our reputation

A strong brand and reputation are valuable and important assets which can help to differentiate the Bank from its competitors and create and maintain strong relationships. The management team initiated a review of the company's brand, conducting research amongst stakeholders to understand their views of private banking, and specifically of Hampden & Co. This research has helped to define the Bank's values and culture, and provided insights which highlighted opportunities for the Bank to become more accessible.

A new website and refreshed marketing materials will help to present an even more compelling proposition to prospective clients. A section of the new site is dedicated to investors. You will find the latest information and documents at www.hampdenandco.com/investors.

Banking award

In recognition of the Bank's high levels of service to clients, Private Banker International named Hampden & Co as its 'Outstanding Private Bank of the Year UK – Domestic Clients'. The Bank was also shortlisted for 'Private Bank of the Year' in the Mortgage Introducer Awards, in recognition of its commitment to this important audience. This external endorsement is a welcome acknowledgement of the Bank's progress.

Looking forward

The Bank is focused on achieving profitability. This objective is closely linked to lending growth where the signs are good. Increased lending is, however, accompanied by the requirement for increased regulatory capital which, until profitability can be achieved, must come from existing or new shareholders.

2021 has started well with continued growth on both sides of the balance sheet and financial performance in line with targets.

Finally, I would like to record the Board's appreciation for the support shown by shareholders and employees during the past difficult year.

Yours sincerely

Simon Miller
Chairman
26 April 2021

Chief Executive's Business Review

Principal activities

Graeme Hartop
Chief Executive Officer

Our purpose is to help clients achieve their aspirations. We aim to achieve this by providing bespoke banking to high net worth and affluent clients, their families and associated businesses, delivered through personal service by expert bankers. The Bank aims to be a forward-thinking and socially responsible private bank which earns the loyalty of its stakeholders every day.

The proposition for clients is to provide private banking services: saving and borrowing configured around the client and their family with a strong emphasis on being flexible and personal.

We believe that by focusing exclusively on banking and not on wealth management services, three key strategic benefits can be derived by the Bank and our clients:

- We are free from the conflicts of interest that can be inherent in a typical private banking business model which relies on the cross-selling of products and services between banking and wealth management arms;
- We can more readily partner with and cultivate introductions from other professional advisers such as wealth managers, solicitors and accountants as a result of presenting limited competitive threat to these potential partners; and
- We can benefit from a simpler business model relative to other private banks.

The Bank seeks to attract business by occupying specific niches in the UK private client deposit and lending markets respectively, which together command margins which we believe will be sufficient for the Bank to meet its business plan. For deposits, this niche is in offering a high-service, high-convenience proposition superior to that of alternative banks, at a competitive price level. For lending, the Bank's niche is in being able, in terms both of time and skills, to understand and underwrite lending business too complex to fit with the business models of the high street banks and many of the more established private banks, again at a competitive price. The Bank is also open to growth via selective acquisitions, should suitable opportunities arise.

We are proud to offer bespoke service delivered by experienced bankers to high net worth and affluent individuals, their families and associated businesses. Our bankers' detailed knowledge of their clients and their families, combined with tailored services, is how private banking should be. The viability of this model is possible by providing banking for our clients and by competing primarily on bespoke service, rather than on price or credit risk.

The Bank's strategy requires a strong reputation for integrity and management of risk. Building a strong reputation will continue to be fundamental to delivering the strategy and the achievement of our long-term objectives. This drives the Bank's risk appetite. The quality of the business and safe growth remain principal priorities. In addition, the Bank seeks to promote a culture of integrity and ethical values supported by a sound risk management and control framework.

2020 represents our fifth full year of trading. It is encouraging that high value lending enquiries continued to be received in 2020 despite the pandemic, with client lending growing by 60% to £326m in the year, both from mortgage intermediaries and direct from private banking clients. The intermediary mortgage channel continues to develop and as mentioned above we are seeing higher levels of enquiries from this channel and we continue to improve our lending process. We continue to be as supportive as we can to our clients while maintaining our appetite for safe lending and it is pleasing to see that the quality of our lending book remains high.

In 2020, the Bank continued to add to the services offered with the launch of an interest-only retirement mortgage, multi-part lending and the further development of the mobile digital banking app. Although it is not the Bank's aim to be at the leading edge of technological development, it does need to be competitive in its use of technology to enhance services to clients. This can be achieved at lower cost by using proven technology.

We attribute the controlled yet strong growth of the Bank to:

- a clear and consistent focus on delivering a highly valued, personalised service to clients;
- building a reputation for excellence by setting and delivering to high standards in every aspect of the business;
- the recruitment of engaged, expert professional bankers who have established and maintained high-value client relationships and specialists in operations, finance, treasury, risk, compliance, marketing, technology and human resources; and
- the development of strong relationships with a range of intermediaries as partners of, and advocates for, the Bank.

The Executive Management Committee

The EMC operates under delegated authority from the Board to manage the day-to-day operations of the Bank. Its purpose is to assist the Chief Executive Officer in the performance of his duties.

The EMC normally meets fortnightly, however, during the early part of the first lock-down period in March to May 2020, it met daily to ensure that any issues arising from colleagues working from home were dealt with swiftly and to ensure communication was effective. The EMC members and I would like to record our thanks to all colleagues for their continued commitment to the business and our clients while making this transition.

Priorities for 2021

The particular challenges arising from the Covid-19 pandemic have served to reinforce our on-going focus on maintaining the safety and soundness of the Bank and growing our reputation in our chosen markets. In 2021 and beyond, as part of its on-going development, the Bank's focus will be on continuing to grow its loan and deposit book, including from additional professional connections; maximising the client benefits of the relationship-driven, high-quality service business model; and growing its reputation and recognition as a leading UK private bank.

As part of the Bank's commitment to operating with secure, efficient IT systems which meet the demands of our business and clients, the management team is embarking on a project to upgrade the core banking system provided by Oracle. This upgrade will bring with it improved processes, continued comprehensive support, and will enable the Bank to further develop its services for clients.

Key priorities include:

- supporting clients, maintaining the quality of service and protecting the wellbeing of colleagues as society and the economy begins to recover from the effects of the pandemic;
- enhancing the experience for clients by improving the efficiency of our services and processes;
- increasing client acquisition, both organically and from collaborative relationships with specialist mortgage and wealth professionals; and
- investment in upgrading the core banking platform.

Financial performance

In 2020 the Bank's Loss Before Tax reduced by 25% to £4.1m (2019: £5.5m). Total income grew by 18% to £10.2m (2019: £8.7m), driven by continued balance sheet growth but tempered by the reduction in base rate to 0.10% in March 2020, the lowest level in UK history. Operating expenses were held to £14.2m (2019: £14.2m). Impairment on loans and advances is a charge of £173k (2019: credit of £23k), driven by the increase in economic uncertainty due to the pandemic, together with the growth in the loan book. The unprecedented and unexpected extent of the pandemic has led to an increase in provisions to reflect the fundamental change in economic outlook. Despite the increase in the impairment charge the Bank has had no write-offs to date and the level of impairment allowances remains low, both of which are reflective of strong asset quality. This is further evidenced by the small number of payment holiday requests. 33 requests were received on total facilities of £20.7m (5.5% of client facilities), all of which were granted. Of these, only one position has subsequently required a forbearance arrangement. Client lending increased by 60% to £326m (2019: £204m), driven by increased demand from new and existing clients for banking expertise and a high-quality service during the pandemic. Deposits from clients grew by 22% to £501m (2019: £409m).

The Bank's capital and liquidity levels exceeded regulatory requirements throughout 2020. At 31 December the regulatory capital base comprised Total Equity of £51.3m (2019: £44.8m) less Intangible Assets of £1.7m (2019: £2.3m) equating to £49.6m (2019: £42.5m), an increase of £7.1m in the year. The key items behind the increase in Total Equity were £10.0m capital raised in 2020, partially offset by the £4.1m loss for the year.

At year end the Tier 1 Capital Ratio was 20% (2019: 26%). The movement in the Tier 1 Capital Ratio was due to the increase in lending, and the trading loss.

During 2020, shareholders invested £10m to support balance sheet growth, costs and regulatory requirements. The majority of this came from the four largest shareholders. Further capital investment is, and will continue to be, required until a profitable scale is reached which is currently forecast within the next 1-2 years. Many factors influence the timing of that, most significantly the economic environment and the pace of growth. The next funding round is expected to commence in Q2 2021. Further details are provided in the Going Concern section of the Directors' Report on pages 36 to 38.

Key Performance Indicators ('KPIs')

The overall progress and performance of the Bank is continually monitored by the Board and management. Performance during the year is summarised below:

	2020	2019
Income growth	18%	36%
Lending growth	60%	54%
Deposit growth	22%	53%
Client loan: deposit ratio	65%	50%
Total capital ratio	20%	26%

Income growth in 2020 has been adversely impacted by the reduction in base rate to 0.10%.

Economic and political context

2020 has been a year of unprecedented economic uncertainty driven by the impact of the global Covid-19 pandemic and the lockdown of daily life in the UK has had a significant negative impact on the economy. The

Bank of England made two cuts to the UK base rate within eight days during March 2020, reducing it to 0.10%, the lowest level in the history of the UK. The UK government introduced various initiatives to support consumers and businesses, including the deferral of loan repayments and a furlough scheme to avoid mass unemployment. In addition, the UK's exit from the European Union has not been smooth and, although Brexit had little direct impact on the Bank, there is continued uncertainty about its longer-term impact. This environment of intense uncertainty will continue to affect the UK's economic growth trajectory and it remains to be seen how the economy will recover from Covid-19. However, early indications of the success of the vaccine programme are encouraging, and there is now a tangible prospect of at least a partial return to normality by summer 2021.

The Bank's income in 2020 was depressed by the low base rate and this will continue into 2021, extending the path to profitability. In addition, although the credit quality of the loan book is strong, the effect of the pandemic on the economy makes the impact on impairments uncertain.

We believe that the significant work over the last five years has laid a pathway to establishing a profitable banking business for shareholders. This entails continued balance sheet growth, securing necessary capital investment for the development of the Bank and achieving profitable scale.

Graeme Hartop
Chief Executive Officer
26 April 2021

Sustainability Report

As a socially responsible bank, we are committed to reducing our impact on the environment and our contribution to the causes of global climate change, and to making a positive contribution to the communities in which we live and work.

We are in the early stages of taking the steps necessary to achieve these aims. During the year, we established our Sustainability Steering Group which is responsible for our sustainability strategy and for setting, embedding and governing high standards of environmental and social practices across the business. The strategy is overseen by the Board and the group is led by our Chief Executive, supported by members of the Executive Management team working with colleagues to identify and deliver opportunities for change.

The assessment and incorporation of climate factors into business decisions and choices, including risks and opportunities, is structured around three themes and is discussed at senior committees prior to action being taken.

Disclosure: improving the quantity and quality of our climate-related disclosures by implementing a common framework built on the Task Force on Climate-Related Financial Disclosures.

Risk: to ensure we can identify, measure and manage the financial risks of climate change. Our assessment and monitoring of exposure to climate-related risks spans our entire physical and financial operations.

Support: our objective is to help clients, investors and colleagues to identify the benefits and opportunities in the transition to a carbon-neutral economy.

Managing our impact on the environment

As almost all colleagues have been working from home during the pandemic and there have been very low levels of business travel, we are calculating our carbon footprint based on the use of resources during normal business times.

By focusing on both our management of the resources we use in the running of the business, and on opportunities to provide support to external environmental projects, we are identifying and pursuing initiatives that reduce waste and our impact on the environment, including:

Energy	The source and amount of energy used in our offices and opportunities to reduce energy from non-renewable sources. 100% of the energy used in our largest office is from renewable sources.
Water	Measuring and reducing the amount of water we use.
Travel	The amount and environmental impact of travel, and opportunities to reduce this, for example, by making greater use of video conferencing capabilities. We also recently launched a cycle-to-work scheme for colleagues.
Food	Understanding the carbon footprint of the food we consume or provide at events.
Paper	The paper we use is from fully sustainable sources, while digital banking offers paperless statements to clients.
Waste	How we recycle and dispose of office waste. We currently separate our waste which is then either recycled or turned into energy.

In addition to our work on the management of these operational resources, we have supported clients with funding for developments that demonstrate strong environmental credentials. For example, we have provided banking services to clients building eco houses; supported the development of a six-house development that uses ground source heat pumps; and we have helped clients investing in forestry and renewable energy such as wind turbines. We are also actively researching other environmental-specific services and initiatives that we could offer or support in the future.

Supporting our communities

We are committed to contributing to and supporting the communities in which we live and work.

During the year, we supported charities that care for people and families in need. We donated to The National Emergencies Trust in support of their work to provide essentials such as food and emergency accommodation to those most affected by the economic impact of the Covid-19 pandemic, and to The Trussell Trust, a foodbank charity that provides food and support to people locked in poverty, while campaigning for change to end the need for food banks in the UK.

We also supported two social enterprises by providing business to Harry Specters and From Babies With Love. Harry Specters offers confidence and hope to young people with autism by providing employment and free training, and From Babies With Love donates the profit from their unique, ethically sourced designs to orphaned and abandoned children around the world.

Many of our colleagues also support charitable causes that they care about, either financially through donations or fundraising, or by volunteering their time and skills. We encourage this and offer volunteering leave, allowing each colleague to use up to two days of paid leave each year to support a charity. We also provide funding of up to £250 to match money colleagues raise for charity. In addition, we offer payroll giving, which provides colleagues with the facility to donate to charity directly from their salary. In 2021 we will be having a 'Charity of the Year' nominated and decided by our colleagues with fundraising efforts throughout the year to raise funds for the charity.

Our social responsibility targets for 2021 are:

- 50 days of volunteering (individual and team) carried out by colleagues
- £5,000 raised by colleagues for our chosen 'Charity of the Year'
- 25% of colleagues signed up to payroll giving

People and Culture

Our people are key to us achieving our vision, purpose, and strategy, and having a positive culture which engages our colleagues, supports them to achieve, and is inclusive. In 2020 we carried out a review of our values and behaviours and how these align with our vision and purpose. We communicated these through sessions for all colleagues, setting out what is important to us and how we expect colleagues to demonstrate our values through their behaviours.

Values – recognising what is important to us

- Service
- Action with ownership
- Teamwork with inclusivity
- Social and environmental responsibility
- Accessibility

Demonstrating our values through our behaviours

We have defined our behaviours as:

Put the client first	We get to know our clients, their particular circumstances, and their aspirations. We treat our clients as valued individuals.
Take ownership	We do what we say we will, when we say we will
Work as a team	We value and respect those we work with and the contribution they make. We work together to deliver synergies.
Do the right thing	We take risk seriously and manage it prudently. We do the right thing to make a positive difference for our clients, colleagues, and communities.
Achieve	We are decisive, agile and move at pace to get things done for the benefit of our clients. We work to make things easier and better for our clients and each other.

As part of embedding our culture and values, we held our first awards for 'The Hampden Way' to recognise colleagues who excelled at demonstrating our values and behaviours.

Caroline Taylor is our people and culture advocate, ensuring visibility of our people and culture agenda at the Board.

Diversity and inclusion

Our approach to diversity and inclusion focuses on hiring, developing, and retaining the best people. Embedding the principles of diversity and inclusion in the way we do business gives us a better understanding of the needs of our people. We believe that a diverse workforce, and an inclusive and caring environment that respects and nurtures people, is a way to improve colleague engagement and business performance, and to build a culture, and company, which all colleagues feel proud to be part of.

We are committed to promoting equality of opportunity for all colleagues and job applicants. We aim to create a working environment in which all individuals can make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit.

The principles of non-discrimination and equality of opportunity also apply to the way in which colleagues treat clients, visitors and suppliers.

All colleagues have a duty to act in accordance with our diversity and inclusion policy, to treat each other with dignity at all times, and not to discriminate against or harass other colleagues, regardless of their status. We aim to ensure that no job applicant suffers discrimination, and any job advertisements avoid stereotyping or using wording that may discourage particular groups from applying.

We are aware that the diversity of our people could be improved (e.g. BAME, gender) and we are committed to identifying strategies to achieve greater diversity amongst our colleagues.

From the 'Great Place To Work' colleague survey which we undertook in May 2020, we received a score of 97% in the Fair Treatment category (+2% from the last survey) which included statements on how people are treated fairly regardless of age, race, ethnic origin, sexual orientation, disability and gender.

As at 1 March 2021 our gender diversity was:

Female/male

Category	% Female	% Male
Board	14%	86%
Executive Management	14%	86%
Colleagues	36%	64%
All	34%	66%

Colleague engagement

Fostering a culture of inclusivity, social responsibility, wellbeing, and high colleague engagement is especially important in developing a strong business in times of change. The 'Great Place To Work' survey is one of the principal tools we use to measure colleague engagement, motivation, affiliation and commitment to Hampden & Co. It provides insights into colleagues' views and has had a consistently high response rate. We conducted a survey in May 2020 which resulted in a response rate of 95%, and colleague engagement score of 87% (an increase of 5% from the previous survey in Nov 2018). There were increases in each of the twenty-two categories in the survey. The Culture category scored 90% (+3% from last survey).

2020 was a challenging year for many people in many different ways, including working from home for most of the year. To help and support colleagues we increased our focus on wellbeing by providing regular 'Wellbeing Wednesday' tips covering a range of topics, including mental health, parenting in lockdown, self-care, mindfulness, nutrition and sleep. We held wellbeing lunch & learn sessions, introduced an Employee Assistance Programme to provide confidential support for financial, physical, and mental wellbeing including access to a qualified counsellor, and highlighted the availability of our internal qualified mental health first aider.

Keeping connected with colleagues, individually and collectively, has never been so important with almost all of our people working from home. Our people managers are actively encouraged to keep in touch with their teams and ensure support is provided where it is needed. We have held regular all-colleague townhalls and during the first lockdown we produced a regular 'Lockdown Lowdown' newsletter for colleagues. In addition, we have undertaken three lockdown care surveys to obtain colleagues' views on how they are feeling during this challenging period, and action has been taken as a result of this feedback and further support and communication with colleagues was provided.

We continue to invest in the development of our colleagues by supporting them with professional development, e.g. Chartered Banker Institute, and personal development. In 2020 all our people managers received development in performance management and managing teams remotely. In addition, we launched a 'Focus on Clients' development programme.

Section 172 Statement

Under S172 of the Companies Act 2006 the Directors, both collectively and individually, have a duty to promote the success of the Bank. This statement describes how the Directors have had regard to the matters set out in S172(1) (a) to (f) when performing their duty under S172.

a. The likely consequences of any decision in the long-term

The Bank is a growing business and the Board is focussed on prioritising its long-term success. Material decisions taken during 2020 in this regard were:

<u>New Board appointments</u>

Simon Miller became Chairman in May 2020, bringing extensive experience from the financial and private banking sectors, including as a co-founder of the Bank a decade ago. In addition, Finlay Williamson, David Huntley and Caroline Taylor have joined the Board as non-executive Directors. They bring a wealth and variety of experience from a number of leading brands in the financial sector. These new appointments will be instrumental in guiding the next phase of the Bank's growth.

<u>Adapting the business model in response to the pandemic</u>

The Bank successfully adapted its business model in response to the Covid-19 pandemic in a number of ways. Staff quickly adapted to working from home and although there were inevitably some challenges, they were able to continue to deliver first-class service to clients. In addition, the Bank took a proactive approach with clients in order to mitigate the impact of Covid-19 as the wider banking sector felt the strain of the pandemic. Existing clients have been supported with liquidity and the refinancing of loans, and the Bank has also seen an upswing in new clients migrating accounts and loans from other banks.

b. Employee engagement

The Bank seeks to inspire, engage and develop all employees to reach their full potential. Information on the Bank's strategy and performance is shared at monthly Colleague Update meetings, to which all employees are invited. There is a regular, independent Great Place to Work survey via which employees are encouraged to share their views. The most recent survey was completed by 95% of employees with a positive engagement score of 87% (2019: 82%). The results were shared with employees and reviewed by the Board. Areas identified for improvement, typically those with lower scores or where the scores compare less favourably with previous surveys or external benchmarks, include career development and wellbeing and agreed action plans have been implemented. Specific actions taken include the launch of a Colleague Development Programme and the augmentation of the Bank's reward package to include 1 day's increased holiday allowance and group life assurance cover for all employees.

Due to the pandemic, the majority of employees moved to working from home from mid-March. In addition to the regular Great Place to Work Survey, the Bank also undertook three Covid-19 Care Surveys to assess how colleagues were coping with working remotely and to ensure that they felt supported and informed. As a result, the frequency of communications has been increased, both townhall sessions and individual departmental meetings, and a variety of wellbeing initiatives have been implemented. Further details are provided in the People and Culture section on pages 13 to 14.

c. Fostering the Bank's business relationships with clients, suppliers and others

<u>Clients</u>

Each client has a nominated banker who provides a tailored service, and who will work collaboratively with other advisers to provide clients with a superior banking experience and to develop long-term, valued relationships. To this end, the Bank does not operate any volume sales incentives to ensure focus is maintained on the needs of clients and providing them with exceptional client service.

The bankers have kept in close contact with their lending clients to establish the impact of the pandemic and the guidance from the Financial Conduct Authority (FCA) has been implemented across all of the Bank's lending, whether regulated or not. To date there have been 33 payment holiday requests, all of which have been granted.

The Bank encourages feedback from clients and, at the Board's request, client satisfaction surveys are conducted periodically. The most recent survey (in 2018) returned a positive Net Promoter Score of over 70. During 2020 the views of existing and potential clients were gathered for research undertaken during a review of the Bank's brand. This has helped to inform a redefinition of the Bank's values and culture, the redesign of the Bank's website and refreshed marketing materials.

Suppliers

The Bank works responsibly with its suppliers in accordance with its Supplier Management Framework. This is monitored via a Key Suppliers KPI Dashboard which the Board reviews. Designated supplier managers are responsible for maintaining and building relationships with suppliers as well as ensuring that contractual obligations are met. They also work with suppliers to improve quality, reduce costs, mitigate supplier risk and drive innovation and continuous improvement. New suppliers are subject to suitability and due diligence checks and critical suppliers are subject to periodic performance and risk reviews, including assessment of their approach to sustainability, the outcomes of which are provided to the Board. There were no significant supplier-related issues during the year which required Board action.

Others

The Bank continues to build new and develop existing collaborative relationships with relevant professional services firms in order to grow and develop its client base.

d. The impact of the Bank's operations on the community and the environment

Community

The Bank is a socially responsible business and all colleagues are encouraged to support our society and our communities. Funds are set aside annually to match colleagues' charity fund-raising activities, up to £250 per person. The Bank also offers 'volunteering leave', allowing colleagues up to two days paid leave each year to take advantage of volunteering opportunities.

Environment

The Bank has a small environmental footprint but is committed to minimising its impact by:

- minimising energy and water consumption in its offices and maximising opportunities to source energy from renewable sources;
- minimising business travel;
- minimising paper consumption and using paper only from sustainable sources; and
- recycling and waste management.

e. Maintaining the Bank's reputation for high standards of business conduct

The Bank relies on its reputation to build its business and the adherence to high standards of business conduct is of paramount importance. The results from the monitoring of client outcomes and other conduct risk indicators are reported to the Risk Committees and the Board. All staff are required to adhere to an internal Code of Conduct and regulatory conduct rules, which require attainment of the highest levels of integrity and ethical behaviour towards the business, colleagues, clients, suppliers and regulators. In addition, a whistleblowing process is in place should staff require to escalate an issue outside of the normal management processes and reporting lines.

f. The need to act fairly as between shareholders of the Bank

The Bank is dependent on its shareholders for new capital investment and works to ensure that they have a good understanding of its strategy, business model and performance. The Bank continues to engage with its shareholders and during the course of the year, all shareholders had the opportunity to subscribe for new shares as part of a fundraising round.

A section of the new website is dedicated to investors. You will find the latest information and documents at www.hampdenandco.com/investors.

Principal Risks and Uncertainties

The Board has identified the principal risks and uncertainties which could threaten the Bank's business and successful delivery of the Bank's strategy and business plan. These risks, which are monitored and assessed for their impact on the Bank's reputation, are noted below and further detailed risk management disclosures are set out in note 19 to the financial statements. Details of the Bank's risk management and governance framework are provided in the Directors' Report on pages 34 to 38.

The Bank is particularly exposed to business and capital risks in its early years until the viability of the business is established and the Bank has reached profitable scale. During this growth period the availability of sufficient additional capital, raised at points in time which meet both investor and regulatory expectations, is uncertain. The success of capital raising depends upon the Bank achieving its planned growth safely and investors' appetites at the time.

Business/strategic risk

Business risk is the risk that the Bank fails to execute its strategy or fails to execute elements of its business plan effectively. This includes failing to build capabilities, or the inability to meet goals due to changes in the economic or political environment. Management monitors performance trends on a weekly basis with monthly actual and forecast management information and action needed is discussed by both the Management and the Board.

The Bank recognises that climate change is a global issue which has significant potential implications for its clients, suppliers, partners and employees. A strategic review of climate related risks and opportunities is underway as part of a wider plan of work understanding the implications of climate change, including delivering on the regulatory requirements through enhancing the measurement of the Bank's exposure to the physical and transition risks that may arise. To date no material exposure to financial risks from climate change has been identified. The onus on companies to demonstrate their commitment to tackling climate change is expected to continue to increase and the Bank is taking steps to reduce its impact on the environment and the causes of global climate change. Further details are set out in the Sustainability Report on pages 11 to 12. The Sustainability Steering Group will keep the Bank's plans under review to ensure they remain appropriate and in line with evolving regulatory requirements.

The Bank's response to the Covid-19 pandemic is being closely managed by the EMC, supported by the Bank's operational resilience framework. Around 98% of employees are working from home, with office attendance restricted to a small number of staff and only for essential tasks which cannot be undertaken remotely. Disruption to service levels has been minimal with clients still able to contact their nominated banker via the normal channels and to access the full range of transactional services. Regular contact is being maintained with key suppliers who continue to deliver their contracted services and payments to suppliers have not been affected. The Bank is committed to supporting its employees and clients and to maintaining the quality of its service throughout the Covid-19 outbreak. The Board recognises, however, that the extent of the economic impact of Covid-19 remains uncertain and this may adversely impact the Bank's growth, at least in the short to medium-term, thereby further extending the time to profitability.

Brexit has had little direct impact on the Bank, although there is continued uncertainty about its longer-term effects. Political and economic developments continue to be monitored as part of business-as-usual activities.

Capital risk

Capital risk is the risk that the Bank does not have sufficient capital to meet the requirements of the business including under stressed conditions. The Bank is, and will continue to be, dependent on new capital investment until the Bank becomes profitable and generates sufficient capital to support continued growth.

The Bank's capital risk framework is monitored by the Assets & Liabilities Committee (ALCO). It monitors and assesses optimal use of the Bank's capital and capital adequacy regularly to ensure its capital exceeds regulatory requirements with regular reporting to the Risk Committees and the Board. This is in line with the Bank's Capital Management Policy for maintaining a strong capital base that is above the capital requirement level set for it by the regulator, the Prudential Regulation Authority (PRA). The Board is cognisant of changing regulatory capital requirements, in terms of both quantum and timing of raising fresh capital, as the Bank moves out of its start-up phase and becomes an established bank.

Capital planning and management, including the quantum and timing of further capital raising, is an iterative process designed to reflect the Bank's regulatory capital requirements and actual and forecast performance. With help from professional advisers, the Bank's capital plan evaluates the requirements, the sources and the appetite of investors to provide fresh capital and the timing thereof.

The Bank's regulatory disclosure requirements under Pillar 3 (defined in note 27) are published annually and are available to review on the Bank's website (www.hampdenandco.com).

Conduct risk

Conduct risk refers to practices that give rise to poor or unfair client outcomes. The Bank manages this risk by putting clients' interests at the heart of the business, seeking to develop and maintain long term relationships with its clients and by being focused on providing products and services relevant to their needs. The Bank relies on its reputation to build its business and sees the adherence to good conduct risk principles and delivery of fair client outcomes as of paramount importance. The conduct risk framework is monitored by the Compliance & Conduct Committee and results from the monitoring of client outcomes and other conduct risk indicators are reported to the appropriate Risk Committees and the Board. High levels of client advocacy contribute to the Bank's growth and help promote shareholder confidence. All staff are required to adhere to an internal Code of Conduct and regulatory conduct rules, which require attainment of the highest levels of integrity and ethical behaviour towards the business, colleagues, clients, suppliers and regulators.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank and arises from lending to clients, a mix of private individuals, trusts and SME business lending, and treasury counterparties. Safe growth and a prudent lending policy remain central to the Bank's risk appetite. Management is cognisant of the need to balance this with required growth.

Credit policies, principles and risk appetite metrics are designed to protect the business throughout economic cycles by ensuring the credit portfolio is of high quality, with a low overall percentage of unsecured lending and relatively low monetary limits for individual unsecured lending cases. Client lending is undertaken within prescribed limits and risk appetite measures, which are reviewed regularly by the Credit Committee and approved by the Board.

The impact of the Covid-19 pandemic on lending clients continues to be closely monitored. The FCA guidance regarding payment holidays on mortgages and personal lending has been implemented across all of the Bank's lending, whether regulated or not. To date only a small number of clients have requested payment holidays, all of which have been granted. Of these, only one has since required a forbearance arrangement and the rest have all been, or are expected to be, regularised. It is recognised that more clients will likely require forbearance as the economy recovers and government support unwinds and the increase in expected credit losses at 31 December 2020 (total provisions £181k) recognises this deterioration in the economic outlook.

Credit risk includes treasury counterparty risk, being the loss that might arise from counterparties of the Bank to whom it lends its surplus funds. These counterparties are required to meet a minimum credit rating as defined in the Bank's Counterparty Policy approved by the Board. The use of treasury counterparties is approved and monitored by ALCO. Credit risk information is reported to the Risk Management Committee (RMC), Board Risk Committee (BRC) and the Board.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due. Liquidity is the on-going ability to accommodate liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations through unconstrained access to funding at reasonable market rates. The risk is inherent within the Bank's operating model as profit generation relies on short term contractual maturity of deposits versus long term lending to generate revenues.

The Board accepts a limited level of risk to achieve the Bank's strategic goals and sets its risk appetite and liquidity requirement measures accordingly. It recognises that in the early stages of development, there is a concentration of depositors and so seeks to establish a loyal, diverse and stable client base. The Treasury function seeks to minimise liquidity risk on a forward-looking basis under the supervision of ALCO. Liquidity and funding positions are reviewed and analysed daily and a monthly review of the liquidity position and the composition of the balance sheet is undertaken by ALCO. Liquidity risk information is reported to RMC, BRC and the Board.

Market risk

Market risk is the risk that the value of the Bank's earnings and economic value will decrease due to changes in the value of financial market prices. The Bank is exposed to two main types of market risk – interest rate and foreign currency risks – both of which are managed to reduce the impact of market movements.

Interest rate risk is the risk that arises from the volatility in interest rates. The Bank's exposure to interest rate changes and sensitivity is closely managed within set limits by the Treasury function and regularly reported to and reviewed by ALCO and the Board.

The Treasury function manages the risk of failing to control the effects of material movements in foreign exchange markets through adherence to agreed limits and risk appetite metrics, overviewed by members of ALCO, and reported to RMC, BRC and the Board. Client deposit accounts denominated in foreign currencies are currently naturally hedged on both sides of the balance sheet.

Operational risk

Operational risk is defined as the risk of loss resulting from failed or inadequate internal processes, systems, people or from external events. The principal sources of operational risk for the Bank stem from client account management, IT systems, information security, outsourcing, financial reporting and regulatory risk including financial crime and market abuse. The regulatory framework is monitored by the Compliance & Conduct Committee.

These risk sources include "cyber" risks, principally in relation to information security and financial crime. Availability, resilience and security of IT Systems are core objectives which are fundamental to meeting clients' needs and maintaining their confidence in the Bank's services. As the pace of technological development increases, so does the threat of new cyberattacks. Accordingly, the Board and the Risk Committees have increased their focus on maintaining an effective cyber threat identification and control framework. An Operational Risk Committee oversees the Bank's arrangements and key risk appetite metrics are monitored regularly and reported to RMC, BRC and the Board.

Inherent in any growth plan are volume related risks arising from increased transactions, client numbers, new products and distribution methods. These are managed through a matched or proportionate increase in operational capability and capacity as well as internal control.

As the Bank grows and enhances its client services and digital capabilities, it will have due regard to emerging and evolving risks and will develop its people, systems and processes accordingly. The Bank is undertaking a material upgrade to its core banking system over the coming months with implementation expected in Q2 2022. The risks associated with this change will be monitored through the risk and project steering committees.

Other threats and opportunities to the business arise from the economic, political and regulatory arena, not least Covid-19 and the UK's departure from the European Union, and these are subject to on-going monitoring and review. Material events are escalated in line with policy to the Board and/or the most appropriate risk committee(s).

The Bank's insurance coverage is reviewed annually.

This Strategic Report was approved by the Board and signed on its behalf by:

Graeme Hartop
Chief Executive Officer
26 April 2021

Board of Directors

Hampden & Co leadership team

Simon Miller
Non-Executive Chairman

Graeme Hartop
Chief Executive Officer

Andy Mulligan
Chief Financial Officer

Caroline Taylor
Non-Executive Director

David Huntley
Non-Executive Director

Peter Sparkes
Non-Executive Director

Finlay Williamson
Non-Executive Director

A clear division of responsibilities

The Board has a majority of Independent Non-Executive Directors. Further information on the Directors' range of skills and expertise can be found on page 23.

Chairman

Provides leadership to the Board, promoting constructive debate and challenge between the Executive and Non-Executive Directors.

Ensures that there is a good information flow to the Board, and from the Board to its key stakeholders.

Supports and advises the Chief Executive Officer, particularly on the development of strategy.

Builds an effective and complementary Board, regularly considering its composition and balance, diversity and succession planning.

Chief Executive Officer

Provides leadership to the Bank.

Develops strategy proposals for recommendation to the Board and is accountable for business performance.

Maintains a dialogue with the Chairman on all important matters and strategic issues facing the Bank.

Ensures that there is an effective framework of internal controls, including risk management, covering all business activities.

Ensures that the Board is fully informed of all key matters.

Chief Financial Officer

Supports the Chief Executive Officer in developing and implementing strategy.

Oversees the financial delivery and performance of the Bank and provides insightful financial analysis that informs key decision making.

Ensuring that all aspects of financial regulation are complied with, including fiscal and regulatory reporting.

Works with the Chief Executive Officer to develop budgets and medium-term plans to support the agreed strategy.

Independent Non-Executive Directors

Constructively challenge management and decisions taken at Board level.

Oversee the performance of management in meeting agreed goals.

Support the Chairman and Executive Directors in instilling appropriate culture, values and behaviours in the boardroom and across the Bank.

Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- RC Risk Committee
- Denotes Chairman of Committee

David Huntley
Non-Executive Director

RC A

Appointed: 1 October 2020, Chair of Risk Committee

Key areas of experience: Risk, Financial services, insurance and operations.

Current external appointments: Scottish Friendly Assurance Society, Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance services Limited, SFIS (Nominees) Limited, MGM Assurance (Trustees) Limited, SF Pension Managers & Trustees Limited, FIL Life Insurance Limited, Fidelity Life Insurance (Ireland) DAC, Huntley Consulting Limited.

Previous experience: MD of Pearl Life Ltd, CEO of Scottish Re Ltd and CEO of Swiss Re Life and Health Australia.

Peter Sparkes
Non-Executive Director

A R RC

Appointed: 21 July 2015

Key areas of experience: Financial services, languages, information technology, project management and strategic acumen.

Current external appointments: Corvus Management Services Ltd.

Simon Miller
Chairman

N R

Appointed: Chairman 26 May 2020, Chair of the Nomination Committee

Key areas of experience: An Independent Non-Executive Director with a wide range of experience in the financial services sector, including wealth management and investment management.

Current external appointments: Chairman of BlackRock North American Income Trust PLC, and Senior Independent Director of STV Group PLC.

Previous experience: Called to the Bar and subsequently worked for Lazard Brothers and County NatWest. Chairman of Dunedin Capital Partners. Chairman of Brewin Dolphin Holdings PLC.

Caroline Taylor
Non-Executive Director

R N

Appointed: 8 February 2021, Chair of Remuneration Committee (subject to regulatory approval)

Key areas of experience: Remuneration, financial services, investment management, operations and compliance.

Current external appointments: Non-Executive Director of Brewin Dolphin Limited, Brewin Dolphin Holdings PLC, Ecclesiastical Insurance Office PLC, Ecclesiastical Insurance Group PLC and Floors Castle Outdoor Events Limited.

Previous experience: Director of Goldman Sachs Asset Management International and Director of GS Luxembourg and Dublin Mutual Funds.

Graeme Hartop
Executive Director

Appointed: Chief Executive Officer 14 January 2013

Key areas of experience: Banking industry, finance, financial services sector and operations.

Previous experience: Head of Finance at Adam & Company before joining Scottish Widows Bank as Finance & Operations Director and where he became Managing Director. Council member of the Chartered Banker Institute and Vice-President from 2007 to 2010.

Andy Mulligan
Executive Director

Appointed: Chief Financial Officer 1 July 2011

Key areas of experience: Finance, banking industry and financial services sector.

Previous experience: Started career at Scottish & Newcastle plc, followed by the Royal Bank of Scotland Group and Finance Director of Adam & Company.

Finlay Williamson
Non-Executive Director

A N RC

Appointed: 26 May 2020, Chair of Audit Committee

Key areas of experience: Audit, Financial services, banking industry, finance and operations.

Previous experience: A qualified Chartered Accountant, Finlay was formerly Chief Financial Officer of Virgin Money plc and a former divisional finance director, head of internal audit, and head of mergers and acquisitions at RBS Group. He also served as a Non-Executive Director and Chair of Risk Committee at Paragon Banking Group PLC and Paragon Bank PLC.

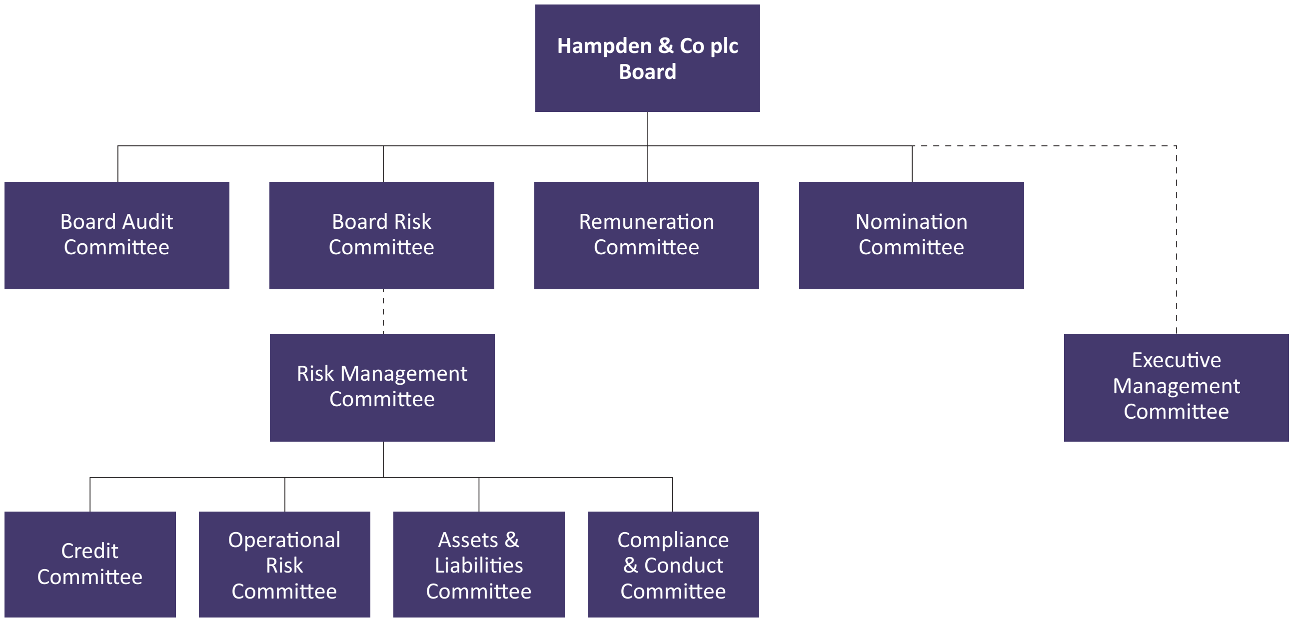
Board and Committee attendance record

Member	Non-Executive	Board	Audit	Risk	Remuneration	Nomination
Simon Miller[1]	Y	2/2	n/a	n/a	2/2	3/3
Graeme Hartop	N	5/5	n/a	n/a	n/a	n/a
David Huntley[2]	Y	1/1	1/1	1/1	n/a	n/a
Andy Mulligan	N	5/5	n/a	n/a	n/a	n/a
Peter Sparkes	Y	5/5	5/5	7/8	0/3	n/a
Caroline Taylor[3]	Y	n/a	n/a	n/a	n/a	n/a
Finlay Williamson[4]	Y	2/2	2/2	4/4	n/a	2/2
Former member						
Alex Hammond-Chambers[5]	Y	2/3	2/3	2/4	1/1	n/a
Vicky Kubitscheck[6]	Y	4/4	4/4	7/7	1/1	1/1
Charlie Oliver[7]	Y	4/4	n/a	n/a	n/a	0/1
Paul Shedden[8]	Y	1/2	n/a	n/a	n/a	n/a

The table shows attendance at scheduled meetings only held during 2020. The Board and Committees also meet on an ad hoc basis when required.

1. Simon Miller was appointed to the Board on 26 May 2020. He attended all Board meetings held from his date of appointment.
2. David Huntley was appointed to the Board on 1 October 2020. He attended all Board meetings held from his date of appointment.
3. Caroline Taylor was appointed to the Board on 8 February 2021. She attended one ad hoc Board meeting in December 2020 as an observer.
4. Finlay Williamson was appointed to the Board on 26 May 2020. He attended all Board meetings held from his date of appointment.
5. Alex Hammond-Chambers stepped down from the Board on 26 May 2020 and attended all Board meetings to that date apart from one but gave comment beforehand.
6. Vicki Kubitscheck stepped down from the Board on 30 September 2020 and attended all Board meetings to that date.
7. Charlie Oliver stepped down from the Board on 30 September 2020 and attended all Board meetings to that date.
8. Paul Shedden stepped down from the Board on 22 April 2020.

Governance Framework



The Board has established a number of committees consisting of specific directors and executives to oversee the operation of the Bank. The governance structure is shown above and is designed to provide independent oversight of decision making and risk appetite across the organisation.

Board Committees

Remuneration Committee, to provide independent oversight and recommendations on executive remuneration policies, including an independent review and assessment of any reward schemes.

Audit Committee, to recommend to the Board the internal and external audit approach. It recommends approval of the financial statements of the business, provides independent approval and oversight of internal and external audit policies and procedures and also presents an annual Whistleblowing Report to the Board.

Risk Committee, to recommend to the Board the business risk appetite and provide independent approval and oversight of the risk policies adopted by the business.

Nomination Committee, to review the structure, size and composition required of the Board and to make recommendations with regard to any changes, taking into account the skills and expertise needed.

Executive Committees

EMC has responsibility for management of the day-to-day activities of the Bank.

RMC has responsibility for maintaining, monitoring and reporting the risk framework of the business, and for overseeing implementation of any action plans required to enhance the control environment.

ALCO has responsibility for managing balance sheet risk (capital, liquidity & market) within the limits set by the Board together with establishing and reviewing the measurement, pricing and performance of the Bank's assets and liabilities.

Credit Committee has responsibility for approving new (and the renewal of) credit facilities, agreeing and monitoring individual personal banker and credit team delegated sanctioning authorities, proposing credit risk policies and monitoring the credit risk appetite metrics.

Compliance & Conduct Committee has responsibility to develop and implement the compliance and conduct frameworks.

Operational Risk Committee has responsibility for managing the Bank's operational risk profile within Risk Appetite.

Committee Reports

Audit Committee

Finlay Williamson	Non-Executive Director Chairman of the Committee (From 22 September 2020)
David Huntley	Non-Executive Director
Peter Sparkes	Non-Executive Director

Finlay Williamson
Chairman of the Audit Committee

This is my first report to you as Chair of the Board Audit Committee (BAC) which, in March 2020, as part of the changes to the Bank's corporate governance arrangements, was reconstituted separately from the Board Risk Committee with which it had latterly been amalgamated. The Committee currently comprises two independent and one shareholder-appointed non-executive directors. In addition, all relevant executive directors and the external and internal audit functions are attendees at every Committee.

This report also covers a year in which the challenges faced by the business, in common with much of the corporate sector worldwide, have been some of the most complex in recent years.

As a committee, our responsibility is to ensure that the financial information published by the Bank properly presents its activities to all stakeholders in a way that is fair, balanced and understandable, as well as overseeing the effective delivery of both external and internal audit services. The impact of the Covid-19 pandemic during the year has increased the complexity of accounting judgments based on future expectations as well as necessitating changes in working practices and the control environment.

From an accounting standpoint this year the Committee has focused primarily on:

- the level of impairment provision against loan assets and, in particular, assessment of the economic impact of the Covid-19 pandemic on both client credit and the Bank's provisioning methodologies using forward-looking macroeconomic scenarios;
- the calculation of interest income under the Effective Interest Rate (EIR) method for the Bank's loan assets which, in light of the growing behavioural evidence from the Banks's clients, has been enhanced this year to reflect the recognition of fees deemed integral to the yield more appropriately under accounting standards; and
- the ability of the Bank to report its financial results on a going concern basis in light of reducing annual losses, its current and future capital position and the impact of the pandemic on the Bank's client base.

In each of these areas the Committee was provided with papers prepared by management and reviewed by the external auditor discussing the position shown in the accounts, the underlying market conditions and the methodology adopted for the judgments made. These were reviewed in detail and discussed fully with both management and the external auditor. The Committee was able to reach satisfactory conclusions on all of these specific areas of note and on the accounts more generally and therefore resolved to recommend the Annual Report to the Board for approval.

During the year the Committee has also carried out its role with regard to assessing the independence and effectiveness of both the external and internal audit functions currently carried out by Deloitte and Grant Thornton respectively. From discussions with both sets of auditors and with management the Committee was able to conclude that the external audit process was effective during the year, but that in light of the failure to complete the full 2020 internal audit program during the year a more formal review of the internal audit function will be carried out providing recommendations to ensure that the internal audit programme will be completed effectively in future.

Therefore, in the coming financial year the Committee's main priorities will include:

- a review by myself as Chair of the Committee of the effectiveness of the internal audit function within the Bank, which is currently underway;
- continued monitoring of developments of the IFRS 9 response to the Covid-19 pandemic as the economic, regulatory and client impacts become clearer; and
- considering ongoing developments in accounting, financial reporting and auditing to ensure that the Bank is well positioned to respond appropriately.

Finally, I would like to thank Vicky Kubitscheck, my predecessor as Chair of the Committee, on behalf of the Committee for her contribution to the growth of the Bank and for the support she has given me during the transition period. We wish her all the best for the future.

I recommend this report to the shareholders and ask you to support the resolutions concerning the reappointment of Deloitte LLP as auditors and their remuneration at the upcoming AGM.

Finlay Williamson
Chairman of the Audit Committee
26 April 2021

Risk Committee

David Huntley	Non-Executive Director Chairman of the Committee (From 7 December 2020)
Finlay Williamson	Non-Executive Director Chairman of the Committee (From 1 October to 7 December 2020)
Peter Sparkes	Non-Executive Director

David Huntley
Chairman of the Risk Committee

The Board Risk Committee (BRC) was formed in March 2020 having previously been part of the Audit & Risk Committee. Following approval by the regulator, I became Chairman of the BRC on 7 December 2020 and this is, therefore, my first report.

The purpose of the BRC is to provide focused support and advice on risk governance, assisting the Board in reviewing the systems for managing all aspects of business risk. The Committee takes account of the most significant issues and risks, both operational and financial, likely to impact on the Bank's financial statements.

During 2020 the Committee met on ten occasions, the first three of which were as part of a joint Audit & Risk Committee.

The primary points of focus for the committee during the past 12 months have been as follows:

- provision of oversight and challenge to the design and content of the Annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports to meet the requirements of the Board and the regulator. In particular, reviewing the relevant regulations, with specific focus on risks inherent in the strategy, the overall capital and liquidity needs assessment, and the adequacy of stress and scenario testing;
- review and challenge of the Risk Framework, Risk Appetite and Policy Principles before recommending for Board approval;
- receiving regular reports from the second-line risk and compliance teams outlining the key prudential, operational and conduct risks facing Hampden & Co and the controls and actions in place to mitigate their impacts. This included updates on the Compliance Monitoring plan and any actions arising from Compliance Reviews and Risk Assurance reviews during the period;
- maintaining a strong focus on understanding and reviewing the risks facing the business both now as well as those emerging on the horizon;
- reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness.

Turning to the year ahead, key priorities for the committee include providing oversight and challenge to a wide range of activities:

- the ICAAP as the capital requirements for the Bank transition to those required as an 'established' firm and, more specifically, in respect to its forward capital management;
- the ongoing development of the Bank's risk and control framework and systems;
- the risks associated with the upgrade of the Bank's core platform which will be a significant feature of the change agenda

- the development of policies and procedures associated with the Bank's focus on sustainability and Climate Change together with reviewing risks associated with new sustainability related products and services.

Finally, I would like to thank both Vicky Kubitscheck and Finlay Williamson as my predecessors as Chair of the Committee. In particular, to thank Vicky for providing her support when I was joining the Board and to thank Finlay for his ongoing support and guidance.

David Huntley
Chairman of the Risk Committee
26 April 2021

Remuneration Committee

Caroline Taylor	Non-Executive Director Chairman of the Committee (From 11 March 2021)
Simon Miller	Non-Executive Chairman Chairman of the Committee (From 26 May 2020 to 11 March 2021)
Peter Sparkes	Non-Executive Director

Caroline Taylor
Chairman of the Remuneration Committee

The Committee operates under delegated authority from the Board to provide independent oversight and recommendation on the remuneration principles and policies of the Bank, including any independent review undertaken and any assessment of incentive schemes.

During 2020 the Committee met three times. The Chief Executive Officer and the HR Director are standing attendees at committee meetings. They exclude themselves from discussions relating to their respective positions.

The Committee currently uses the services of an external remuneration advisor for specific technical advice and consultancy. A review of the provision of external technical consultancy advice to the Committee will be carried out in the second half of 2021.

The main responsibilities of the Committee, on behalf of the Board and the shareholders of the Bank, are to:

- ensure that the Bank's remuneration policy is aligned to the business strategy, objectives, values and long-term interests of the Bank and includes measures to avoid conflicts of interest;
- determine and approve the remuneration arrangements of the Chairman, the executive directors and other senior managers and code staff (as defined by the PRA and FCA Remuneration Code);
- ensure that executive directors and other members of the executive management of the Bank are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the long-term success of the Bank;
- structure the remuneration policy to ensure that it promotes sound and effective risk management, which discourages risk-taking that exceeds the Bank's tolerated risk levels and embraces the principles of remuneration recommended by the Committee and laid down by the Board;
- approve the design of any performance related pay schemes operated by the Bank and approve the total annual payments made under such schemes, subject to performance and to the views of the Risk Committee;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, and the performance targets to be used. In doing this, to receive, and take into account the opinion of the Risk Committee of adherence to Board Risk appetites, and adequate operation of the Control and Risk frameworks of the Bank;
- set the Board Chairman fees (subject to Board approval); and
- ensure that the Bank complies with its obligations arising from the Remuneration Code in a proportionate way that is appropriate to its size and internal organisation and the scope and complexity of its activities.

After each meeting, at the following Board meeting, the Chairman will present to the Board a report on proceedings and all matters within the Committee's duties and responsibilities.

Over 2020 the main areas of focus for the Committee were:

- review of the 2020 remuneration proposals, for recommendation to the Board
- review of the executive management share option scheme
- review, and recommendation to the Board, of tax advantaged company share option plan awards to colleagues
- review of CRD V remuneration regulations
- annual review of the Committee terms of reference
- annual review of the Remuneration Policy

Caroline Taylor
Chairman of the Remuneration Committee
26 April 2021

Nomination Committee

Simon Miller	Non-Executive Chairman Chairman of the Committee (From 26 May 2020)
Finlay Williamson	Non-Executive Director
Caroline Taylor	Non-Executive Director (From 8 February 2021)

Simon Miller
Chairman

The Committee reviews the effectiveness and composition of the Board in the light of the skills required and considers the succession plans for the roles of chairman, the executive directors and the committee chairmen.

As mentioned in the Chairman's Statement, Alex Hammond-Chambers stepped down as Chairman at the AGM. An external market leader in Board searches was appointed to lead the search and as a result I was appointed Chairman. They were also charged with the search for a new chairman of the Audit Committee. Finlay Williamson was appointed to the Board immediately following the AGM and became Chairman of the Audit Committee on 22 September 2020.

David Huntley was appointed to the Board on 1 October 2020 and subsequently as Chairman of the Risk Committee and Caroline Taylor was appointed to the Board on 8 February 2021 and subsequently became Chairman of the Remuneration Committee.

Paul Shedden stepped down from the Board on 22 April 2020, and Vicky Kubitscheck and Charlie Oliver both stepped down from the Board on 30 September 2020.

The Committee and the Board recognise the importance of developing an inclusive and diverse Board with the appropriate balance of skills, professional knowledge and experience, gender, ethnicity, and diversity of thought. It will continue to make appointments based on merit and the ability to perform the role whilst having regard to the benefits of diversity, and the skills, experience, and knowledge of the current Board members.

The composition of all the Board committees will be subject to a review in the first half of 2021. The Board will give consideration to the appointment of a Senior Independent Director during the year

The Board also plans to conduct a review of its performance during the year. The last external review was carried out by an independent board assessment specialist in March 2019. An internal Board skills review was carried out by the Chairman, supported by the HR Director, in June 2020.

In December 2020 the Committee met with the HR Director to review and discuss succession and skill set of the EMC. The Board noted that a training and development programme was being carried out across the Bank starting in October 2020 and continuing into the summer of 2021 focusing on client service and delivered through a series of masterclasses, workshops and lunch & learns.

The Nomination Committee met three times during the year. Its principal role was the supervision of the various Board changes which took place. Alex Hammond-Chambers stepped down as Chairman of the Committee in May 2020, as did Charlie Oliver and Vicky Kubitscheck at the end of September 2020. The reconstituted committee consists of Simon Miller (Chairman), Finlay Williamson and Caroline Taylor. The Chief Executive and the HR Director are standing attendees at committee meetings. They exclude themselves from discussions relating to their respective positions.

Simon Miller
Chairman of the Nomination Committee
26 April 2021

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2020. Information regarding future developments and risk management as required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Accounting Regulations) to be contained in the Directors' Report has been included in the Strategic Report and Chairman's Statement in accordance with section 414C(11) of the Companies Act 2006.

Governance structure

The Bank is led by its Board comprising of a majority of non-executive directors including the Chairman. The Board has established four sub-committees to support proper discharge of its responsibilities: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Further details of the governance structure are set out on in the Governance Framework section on pages 25 to 26.

Directors

Details of the Directors who held office during the year are shown in the Company Information section on page 2 and in the Board of Directors section on pages 22 to 24.

Risk management and governance

The Bank has established a comprehensive risk management and governance framework as an integral part of delivering the Bank's aims and meeting client, shareholder and regulatory expectations. The Board, being ultimately responsible for identifying and managing the Bank's principal risks, sets and regularly reviews the Bank's risk appetite in the light of strategic, commercial and economic aims alongside statutory and regulatory requirements.

Strong risk management that is strategic in its outlook and underpinned by an overall cautious approach to risk taking is fundamental to building the Bank in line with the traditional nature of private banking on a long term, sustainable basis. This means, amongst other things, that the Bank will remain predominantly UK-focused, does not undertake any proprietary trading and manages capital and liquidity in a controlled manner. The Bank adheres to prudent lending policies, with lending undertaken within defined limits and overviewed at the Credit Committee. The Bank's regulatory liquidity, capital and leverage ratios are closely monitored and have been maintained within regulatory requirements. The Bank continually reviews and develops its client proposition and services that are relevant to its clients while maintaining a prudent approach to managing risks to the long-term success of the Bank.

The Board considers the system of risk governance and internal control, as outlined below, adequate to mitigate the principal risks and uncertainties, as set out in the Strategic Report and to be appropriate to the nature of its activities and proportionate to its scale and stage of development. The Board continues to identify ongoing improvements and will invest in its risk management and internal control capabilities to ensure the Bank operates competently within both its appetite and the evolving regulatory expectations of an established rather than start-up bank.

Risk and internal control governance framework

Supporting the Board's oversight of the Bank's risk management is the BRC, made up of Non-Executive Directors. In addition to the Executive's RMC, there are four management committees at the operational level – Credit, ALCO, Compliance & Conduct and Operational Risk – which meet at least once each month, comprising executives and other senior managers. Collectively, these committees are referred to as "Risk Committees".

The Bank adopts the 'three lines of defence' model as a core component of its system of risk management and internal control:

- First line of defence: Line management and operational business functions such as Commercial, Finance, Operations and Treasury. They are accountable for owning and managing, within a defined risk appetite, the risks that exist in their business area and complying with the Bank's policies;
- Second line of defence: The second line consists of Compliance and Risk Management functions and the Risk Committees. The Compliance and Risk Management function is responsible for owning and developing the risk framework within the Bank and is managed by the Chief Risk Officer who is independent of the business areas in the first line of defence. The Risk Committees have an integral role within their stated Terms of Reference; and
- Third line of defence: Internal Audit provides independent assurance to the Board on the appropriateness and effectiveness of the internal controls, processes and procedures across the control framework.

The Bank currently outsources the Internal Audit function to Grant Thornton UK LLP. While governance responsibility lies with the Board, responsibility for approving the Internal Audit annual plan has been delegated to the BAC. Internal Audit and other third party experts periodically perform independent reviews of the Bank's risk management and system of internal control.

Information on risk management performance is aggregated across the lines of defence and reported to each regular meeting of the Board and Risk Committees.

<u>Risk management framework</u>

The risk management framework aims to ensure that emerging risks and the risks inherent in operating and growing the Bank are identified proactively, monitored and managed within the Board's defined risk appetite and reported to the Risk Committees and the Board. Appropriate policies, authorities, risk tolerances and limits are set that seek to balance opportunities, risks and rewards.

In addition to the Bank's risk governance arrangements, a key element of the risk framework is the business culture as reinforced by important objectives of the Board, which include having:

- Board and Committee members that openly champion client needs and fair outcomes for clients, voice the views of the business areas they represent and challenge each other in an open and constructive manner thus demonstrating an appropriate tone from the top to others within the organisation;
- a Board that promotes a robust governance, risk and compliance culture, ensuring appropriate segregation of duties and avoiding conflicts of interest;
- staff who seek to understand the needs of our clients and treat clients fairly;
- staff who act with integrity and honesty and act within the limits of their delegated authorities and accountabilities; and
- staff who understand and manage the risks they take on behalf of the Bank and are given appropriate training to do so.

The Board is conscious of the need to ensure that the Bank's reputation is effectively managed. As such there is proactive identification and vigilant monitoring of, and response to, events which could potentially damage the Bank's reputation. Staff are actively encouraged to identify and report failings and to take proactive steps to address weaknesses when they are discovered. A whistleblowing process is in place should staff require to escalate an issue outside of the normal management processes and reporting lines.

Potential risks identified are evaluated to ensure that appropriate mitigation actions are taken promptly. A risk database is deployed to assist with the recording, analysis and reporting of risks. Scenario analysis and stress testing are additional tools used for gaining more insight and assessing the resilience of internal control strategies, for example, during capital and liquidity adequacy assessments and detailed risk reviews.

The remuneration policy promotes teamwork, reinforcing the culture required to deliver the strategy, and the performance appraisal process takes the achievement of risk management objectives into account for all staff.

Capital structure

Details of the Bank's share capital, together with movements in the Bank's issued share capital are shown in notes 21 & 27.

During 2020 the Bank raised additional capital of £10.0m.

The following shareholders have interests of 3% or more in the voting rights of the Bank.

Shareholder	Number of shares at 31 December 2020	% of voting rights
Drake Enterprises AG	13,620,357	17.8%
XL Bermuda Limited	11,357,435	14.9%
Hampden Holdings Limited [1 2]	10,762,128	14.1%
Euripides Investments Limited	10,275,984	13.4%
Miamoo Investments Pty Limited	10,234,442	13.4%

[1] Includes connected persons
[2] Shareholding reduced to 8,820,760 on 26 February 2021 (11.5% of voting rights)

Going concern

The Directors, having made such enquiries as they considered appropriate and having reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, consider the preparation of the financial statements using the going concern basis of accounting to be appropriate.

In making this assessment, and cognisant of the Principal Risks and Uncertainties described on pages 18 to 21, the Directors considered:

- the need to raise new capital and its likely availability;
- the level of capital requirements expected to be set by the PRA;
- the Business Plan;
- that the UK has agreed a trade deal with the EU;
- their evaluation of the Bank's principal risks and uncertainties, including those that could threaten the Bank's business model, its future performance or solvency;
- the ICAAP; and
- the ILAAP.

In addition, regarding the ongoing pandemic the Directors considered:

- that the Bank has successfully adapted its operations in response to Covid-19;
- that the impact of lockdowns on the Bank's clients is more clearly understood;
- the emergence of effective vaccines; and
- that the Bank of England has introduced supervisory measures to address the challenge of Covid-19.

The Bank invoked business continuity plans to maintain high quality service and support its clients throughout the pandemic whilst maintaining the safety and well-being of staff. The Directors have assessed the continuing operational resilience measures required to provide continuity of service to clients throughout a prolonged period. The Directors are satisfied that the Bank's plans are robust with currently 98% of staff working remotely whilst maintaining a high level of client service. Other risk mitigation strategies remain in place including enhanced credit risk monitoring and increased client and staff communication.

The Directors noted the measures introduced by the Bank of England to assist banks to maintain their safety and soundness and to support the economy during the pandemic. Measures included the reduction of the Countercyclical Capital Buffer and the expectation that capital and liquidity buffers would be used if required. The Bank does not plan to use these buffers however the Directors are cognisant that these measures are available. The Directors expect to continue to support clients directly rather than through the government backed SME lending support schemes.

The Directors considered the effect of the ongoing pandemic on the Bank's capital position. The Bank's income is likely to be depressed during this period of uncertainty through reduced interest rates and client activity, extending the path to profitability.

The Bank has prepared a 5-year Business Plan (the Business Plan), an integral part of which is the assessment of the quantum and timing of capital as well as the funding it requires as it reaches profitability and capital self-sufficiency. The Business Plan provides the basis for the Bank's financial forecasts which include a detailed annual budget for year one (2021) and forecasts for years two to five (2022-2025). The Directors need to raise additional capital by mid-2021 to support business growth, absorb forecast losses and to allow the Bank to adhere to regulatory capital requirements.

Cornerstone shareholders have committed to participate in this funding round. Additionally, key Cornerstone shareholders have committed to provide additional capital prior to this, up to a pre-defined amount, to support growth and, if appropriate, ensure the Bank continues to meet its regulatory capital requirements for a period of not less than 12 months following the date of signing the accounts. In April 2021, shareholders have committed to provide £11m in the next capital raise.

In making this assessment of going concern, the Directors have conducted a review of the Business Plan and relevant sensitivity analysis and stress scenarios. Key considerations when making this assessment include client, deposit and lending growth, judgments regarding the level of capital requirements set by the PRA, the necessary investment in operational capability and the resultant impact on profitability.

The sensitivity analysis considered the impact of:

- negative interest rates (Bank of England base rate reducing to negative 0.10%);
- the inability to raise further capital above the committed funds;
- capital requirements being higher than forecast;
- a worsening of the Bank's liquidity position.

The sensitivity analysis performed demonstrates that throughout the going concern period the Bank would remain above Total Capital Requirements. Depending on the severity of the stress, the Bank may require limited use of capital buffers.

In addition, a stress test was undertaken as at 31 December 2020. This involved running a plausible but severe scenario, based on the PRA 2021 Solvency Stress Test Scenario. This scenario was also used as one of the forward-looking macroeconomic scenarios for the calculation of Expected Credit Losses under IFRS 9. Key elements include a Bank of England base rate low point of negative 0.10% and a house price inflation (HPI) low point in Q2 2022 equating to a circa 30% reduction in residential property values relative to December 2020. Further detail can be found in note 12.4. This scenario was input to the Bank's current forecasts with no assumed management actions. At no point during the going concern assessment period were Total Capital

Requirements breached in this stress test, and there was only limited use of buffers required. If required, mitigating actions available to the Directors to conserve capital resources include the management of lending flows, restriction of capital expenditure and limiting operational expenses.

As a result of the assessment outlined above, the Directors have a reasonable expectation that, for a period of at least 12 months from the date that the financial statements have been authorised for issue, the Bank will be able to raise additional capital, continue in operation and meet its liabilities as they fall due.

Financial instruments

Information about the use of financial instruments by the Bank is given in notes 17 and 19 to the financial statements.

Research and development

The Bank continued to invest in the development of its core banking platform and mobile digital banking app in 2020. See note 15 for further details.

Statement of disclosure to auditor

The Directors confirm that:

(a) so far as they are aware, there is no relevant audit information of which the Bank's auditor is unaware, and

(b) they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Indemnity insurance

The Bank has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Post balance sheet events

Significant events which have arisen between 31 December 2020 and the date of this report are disclosed in note 31.

On behalf of the Board

Richard Lyon
Company Secretary
26 April 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Bank's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Hampden & Co plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Hampden & Co plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • The appropriateness of preparing the financial statements using the going concern basis of accounting; • The measurement of expected credit losses on loans and advances to clients Within this report, key audit matters are identified as follows: Increased level of risk

Materiality	The materiality that we used in the current year was £512k (2019: £448.5k) which was determined on the basis of 1% of the total equity balance as at 31 December 2020 (31 December 2019: 1% of total equity).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our risk assessment process has resulted in the key audit matters reported upon remaining consistent with the previous year. We identified an increased level of risk associated with the use of the going concern basis of accounting on account of the economic uncertainty as a result of COVID-19 and the need for the company to raise additional capital to support business growth, absorb forecast losses and to adhere to regulatory capital requirements. We also identified an increased level of risk associated with the determination of expected credit losses on loans and advances to clients given the model refinements made by management during the current year in response to the economic uncertainty as a result of COVID-19.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. The appropriateness of preparing the financial statements using the going concern basis of accounting

Key audit matter description	The company is required by the Prudential Regulation Authority ("PRA") to maintain sufficient capital and liquidity to continue in operational existence for the foreseeable future. The company's ability to maintain sufficient capital and liquidity is therefore central to the assessment of the appropriateness of preparing the

	financial statements using the going concern basis of accounting. As a result of the regulatory capital requirements associated with the forecast growth in the company's balance sheet, the company's accumulated losses since inception, the company's forecast losses and capital required to sustain its forecast lending growth, the company will need to raise additional capital during 2021 to meet its regulatory capital requirements. In April 2021, shareholders have committed to provide £11m additional capital subscriptions. The company's ability to achieve its financial performance targets is uncertain, particularly in light of the current macro-economic environment including the impact of COVID-19. There is also uncertainty related to the level of future capital requirements expected to be set by the PRA. Given the judgement required in determining the company's forecast capital requirements and the company's ability to meet those requirements under reasonably possible scenarios, we have identified a key audit matter in relation to the appropriateness of the use of the going concern basis of accounting. The directors, in making their assessment of the appropriateness of preparing the financial statements using the going concern basis of accounting, have considered the need to raise new capital and its likely availability, the level of future capital requirements, the company's Business Plan, the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The Directors have also considered stress scenarios, their impact on the company's capital and liquidity requirements and the mitigating actions they could take to conserve capital resources. The directors' statement on going concern is on pages 36 to 38, with the related accounting policy disclosure on pages 55 to 57.
How the scope of our audit responded to the key audit matter	In response to the uncertainty associated with both the significant economic disruption associated with the COVID-19 pandemic and the company's future regulatory capital requirements, we performed the following procedures to assess the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements: **Risk Assessment** We considered as part of our risk assessment the nature of the company, its business model and related risks including the impact of the COVID-19 pandemic, the requirements of the applicable financial reporting framework and the system of internal control. **Controls** We obtained an understanding of key controls over the going concern assessment including the preparation of the company's key financial, capital and liquidity forecasts. **Financial forecasts** We evaluated the reliability of management's forecasts by comparing historical forecasts to actual results for the year ended 31 December 2020. We also challenged the achievability of management's financial forecasts with reference to the company's historic performance, the specific growth strategies that management has put in place, the performance of the company since 31 December 2020 and forecasts regarding the future macro-economic environment and how this may affect the company's performance.

	We evaluated the reasonably possible scenarios whereby the company's performance may be weaker than anticipated and how this may impact the company's ability to raise additional capital and the regulator's determination of the company's future capital requirements. **Capital and liquidity position and forecasts** With involvement of Deloitte prudential and regulatory specialists, we assessed and challenged the analysis prepared by management to support the going concern assumption, including the company's ICAAP and ILAAP. This included an assessment of the mitigating actions that management could take that are wholly within their control to make sure that the company continues to meet its regulatory capital and liquidity requirements in the event of stress scenarios, including the impact of the COVID-19 pandemic. We considered the potential scenarios under which the company would need to raise additional capital to remain above its regulatory capital requirements during the period of at least 12 months from the date the financial statements are authorised for issue. We reviewed the letters of commitment from certain shareholders, under which they commit to provide additional capital, if required, to ensure the company continues to meet its regulatory capital requirements during this period and considered both the likelihood that the shareholders would provide this capital and their ability to do so. We also considered the timing and likelihood of potential supervisory action in connection with the company's forecast position. This included reviewing correspondence between the company and the regulator and meeting with the regulator. **Disclosures** We reviewed management's statements on going concern disclosed in the company's financial statements with reference to the evidence obtained through the procedures above and checked the consistency of these disclosures with our knowledge of the company based on our audit procedures.
Key observations	Based on the work performed, we concur with the Directors' conclusion that the use of the going concern basis of accounting in the preparation of the financial statements and the disclosures in relation to going concern are appropriate.

5.2. The measurement of expected credit losses on loans and advances to clients

Key audit matter description	The company has recorded an impairment provision of £171k at 31 December 2020 (31 December 2019: £7k) on loans and advances to clients of £326,425k (31 December 2019: £203,814k). The company measures the impairment provision on loans and advances to clients using an expected credit losses model. Determining expected credit losses is a judgemental area which requires the formulation of assumptions including the probability of default, the exposure at default and the loss given default, all of which should incorporate forward-looking information. Given the degree of judgement involved, we consider that there is a potential for fraud through possible manipulation of this balance.

	We have determined the most significant areas of management judgement in the measurement of expected credit losses to be: • The calibration of the loss given default ("LGD") assumption for loans with a loan to value of over 65% and secured by commercial property and undeveloped land, given the additional judgement required to determine the realisable values of such collateral; and • The incorporation of forward-looking macro-economic information into the measurement of expected credit losses. Specifically, management has made certain model refinements in the current year such that five macro-economic scenarios are now incorporated into the measurement of expected credit losses. The determination of the probability weightings applied to each scenario and the related adjustments to the key model inputs under each scenario requires significant judgement, particularly in light of the uncertain macro-economic environment as a result of COVID-19. We have therefore identified a key audit matter in relation to these specific judgements. Impairment provisions on loans and advances to clients are detailed within note 12. Management's associated accounting policies are detailed on pages 60 to 62.
How the scope of our audit responded to the key audit matter	Our procedures to assess these judgements included the following: **Risk assessment** We considered as part of our risk assessment the nature of the company's loan portfolio, the key inputs used in management's modelling of loan impairment provisions and the modelling refinements made by management in the year, including those made in response to the COVID-19 pandemic and its effect on the broader macro-economic environment. **Controls** We obtained an understanding of the overall loan impairment provisioning process. We performed a specific assessment of the key management review controls over the loss given default assumption and the selection of different macro-economic scenarios, their probability weightings and the adjustments to the key model inputs under each scenario. **LGD calibration** For a sample of loans, we reviewed relevant documentation to assess whether the company had first charge over the collateral. We obtained the third party collateral valuation reports which the company had commissioned and involved our internal property specialists to challenge both the original valuation of the collateral that was used as the basis of the LGD calibration and the haircuts applied by management to the collateral valuation in determining the LGD, with reference to similar market transactions and other relevant information. **Incorporation of forward-looking macro-economic information into the measurement of expected credit losses** We challenged the macro-economic scenarios selected by management, including the related probability weightings, with involvement of our internal economic modelling specialists. This included benchmarking both the macro-economic forecasts, the probability weightings and the adjustments to the key model inputs

	under each scenario against publicly available information from peer organisations, regulators and economic commentators, to assess whether they were reasonable. We also assessed whether there was sufficient downside risk in the modelled approach given the heightened economic uncertainty, in particular relating to the economic impact of the COVID-19 pandemic.
Key observations	Based on the work performed, we concluded that the company's expected credit losses were reasonably stated.

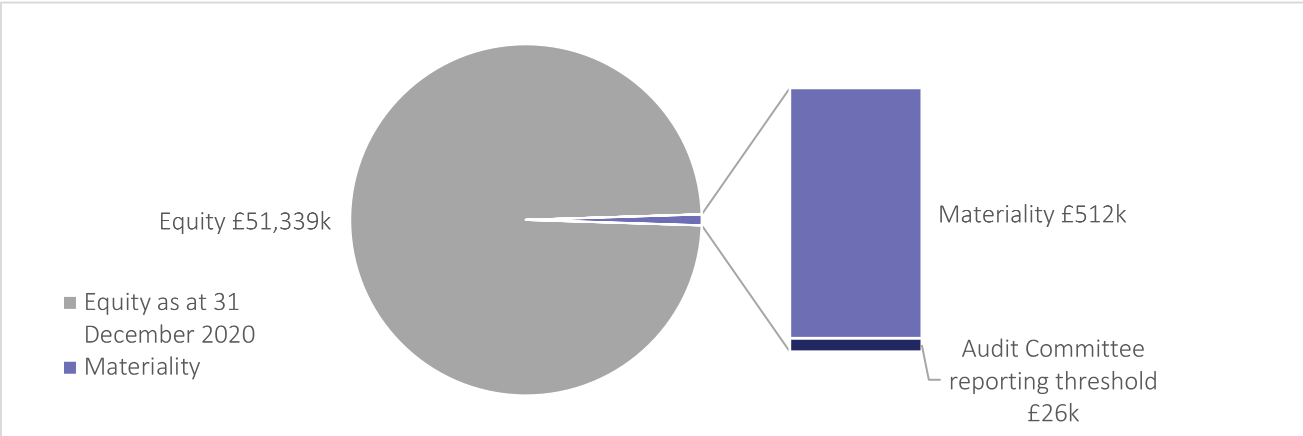
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£512k (2019: £448.5k)
Basis for determining materiality	Materiality has been determined as 1% of equity as at 31 December 2020 (2019: 1% of equity as at 31 December 2019)
Rationale for the benchmark applied	In our professional judgement, the equity balance was determined as the appropriate measure as income statement results are volatile given the early stages of the company's operation.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%).

In determining performance materiality, we considered our understanding of the entity, its environment, the entity's internal controls over financial reporting and the fact that we were able to rely upon controls for a number of key business processes. We also took into account the fact that there is no history of uncorrected misstatements.

As such, we concluded that the 30% error rate was sufficient.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £26,000 (2019: £22,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including controls, and assessing the risks of material misstatement at the entity level. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

The key IT system relevant to our audit is the combined general ledger and banking platform. This is provided to the company by a third party service organisation. This IT system supports the processing of all transactions related to loans and advances to clients and deposits from clients.

We relied on the IT controls associated with this system and therefore assessed the operating effectiveness of the general IT controls within it. This included reviewing the System and Organisation Controls 1 ("SOC1") report prepared by the independent service auditor of the service organisation, as well as assessing the specific controls which operate at the company.

We took a controls reliance strategy over the client lending and deposit product cycles (loans and advances to clients and deposits from clients). This included testing the controls associated with client account opening, the processing of client payments and deposits, and the application of interest to client accounts. We undertake a rotational approach to testing these controls. Under our rotational plan, we tested the operating effectiveness of controls related to client account opening in the current period. We also tested the operating effectiveness of controls related to the application of interest to client accounts given these controls operated twice over a short period of time in the current period as a result of the unprecedented interest rate reductions announced by the Bank of England in response to COVID-19. With regards to the controls related to the processing of client payments and deposits, we updated our understanding of each relevant control and identified no changes in the controls that would affect the audit evidence obtained in previous audit periods. We therefore used the audit evidence obtained in previous audit periods to assess their operating effectiveness.

We also took a controls reliance strategy over the administrative expenses business cycle, including the processing of staff costs. This included testing controls related to the review and approval of invoices and the review and approval of payroll reports.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team and relevant internal specialists, including prudential and regulatory, property and economic modelling specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the measurement of expected credit losses on loans and advances to clients. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and the relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") which are fundamental to the company's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified the measurement of expected credit losses on loans and advances to clients as a key audit matter related to the potential risk of fraud and the appropriateness of preparing the financial statements using the going concern basis of accounting as a key audit matter related to non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 30 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 9 March 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2015 to 31 December 2020.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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.

Stephen Williams ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
26 April 2021

Statement of Comprehensive Income

	Note	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest receivable and similar income		10,144	9,241
Interest payable and similar charges		(1,233)	(1,661)
Net interest income	4	8,911	7,580
Non-interest income		631	627
Net non-interest income	5	631	627
Income from currency operations		695	476
Total income		10,237	8,683
Administrative expenses		(13,007)	(13,028)
Depreciation and amortisation		(1,193)	(1,211)
Operating expenses	6	(14,200)	(14,239)
Operating loss before impairment losses		(3,963)	(5,556)
Impairment (charge)/credit on loans and advances to clients	12	(173)	23
Loss before tax	6	(4,136)	(5,533)
Tax income	8	57	–
Loss for the year from continuing operations (attributable to equity holders) and total comprehensive loss		(4,079)	(5,533)

Statement of Financial Position

	Note	2020 £'000	2019 £'000
Assets			
Cash and balances at central banks	17	117,058	119,691
Loans and advances to banks	17	108,358	129,085
Loans and advances to clients	12	326,254	203,807
Prepayments and accrued income		727	714
Other assets		215	233
Property, plant and equipment	13	111	141
Right-of-use assets	14	1,650	2,093
Intangible assets	15	1,752	2,342
Total assets		556,125	458,106
Liabilities			
Deposits from clients	17	501,163	409,374
Accruals and deferred income	16	1,795	1,662
Lease liabilities	14	1,665	2,076
Other liabilities		38	14
Provisions	26	125	116
Total liabilities		504,786	413,242
Equity			
Share capital	21	3,823	3,322
Share premium account	21	9,064	–
Retained earnings	22	38,452	41,542
Total equity		51,339	44,864
Total liabilities and equity		556,125	458,106

The financial statements on pages 51 to 90 were approved by the Board of Directors and authorised for issue on 26 April 2021 and were signed on its behalf by:

Graeme Hartop
Chief Executive Officer

Andy Mulligan
Chief Financial Officer

Company Registration No. SC386922

Statement of Changes in Equity

	Note	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019		59,902	15,066	19	(35,135)	39,852
Loss for the year and total comprehensive loss		–	–	–	(5,533)	(5,533)
Issue of share capital	21	6,543	3,271	–	–	9,814
Direct share issue costs	21	–	(145)	–	–	(145)
Share capital restructure	21	(63,123)	(18,083)	(19)	81,225	–
Direct share capital restructure costs	21	–	(109)	–	–	(109)
Equity settled share-based payments	11	–	–	–	985	985
At 31 December 2019		3,322	–	–	41,542	44,864
Loss for the year and total comprehensive loss		–	–	–	(4,079)	(4,079)
Issue of share capital	21	501	9,514	–	–	10,015
Direct share issue costs	21	–	(450)	–	–	(450)
Equity settled share-based payments	11	–			989	989
At 31 December 2020		3,823	9,064	–	38,452	51,339

Statement of Cash Flows

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities		
Loss before tax	(4,136)	(5,533)
Reconciliation from loss before tax to net cash flows from operating activities:		
Depreciation and amortisation	1,193	1,211
Equity settled share-based payments	989	985
Impairment charge/(credit) for the year	173	(23)
(Increase) in prepayments and accrued income	(13)	(328)
(Decrease)/increase in accruals and deferred income	(14)	189
(Increase) in loans and advances to clients and banks	(139,270)	(95,184)
Increase in deposits by clients and banks	91,418	144,772
Decrease/(increase) in other assets	17	(11)
Increase in other liabilities and provisions	34	11
Elimination of foreign exchange differences	7	8
Cash (used in)/generated from operations	(49,602)	46,097
Income tax received	57	–
Net cash (outflow)/inflow from operating activities	(49,545)	46,097
Cash flows from investing activities		
Purchase of property, plant and equipment	(2)	–
Purchases / development of intangible assets	(158)	(457)
Net cash outflow from investing activities	(160)	(457)
Cash flows from financing activities		
Repayment of lease liabilities	(412)	(385)
Proceeds from issue of shares	10,015	9,814
Direct costs of share issuance and share capital restructure	(272)	(184)
Net cash inflow from financing activities	9,331	9,245
Net (decrease)/increase in cash and cash equivalents	(40,374)	54,885
Cash and cash equivalents at beginning of year	200,970	148,975
Effects of foreign exchange rate changes on cash and cash equivalents	364	(2,890)
Cash and cash equivalents at end of year	160,960	200,970

Analysis of cash and cash equivalents at end of year		
Cash and balances at central banks	117,058	119,691
Loans and advances to banks repayable on demand	43,902	81,279
	160,960	200,970

Notes to the Financial Statements
For the year ended 31 December 2020

1 General information

Hampden & Co plc (the Bank) is a bank incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 9 Charlotte Square, Edinburgh, EH2 4DR. The nature of the Bank and its principal activities are the provision of bespoke banking services to high net worth and affluent clients, their families and associated businesses, delivered through personal service by expert bankers.

1.1 Presentation of financial statements

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The impact of accounting standards and interpretations issued but not yet effective is summarised in note 29. The financial statements are presented in sterling.

1.2 Going concern

The Directors, having made such enquiries as they considered appropriate and having reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, consider the preparation of the financial statements using the going concern basis of accounting to be appropriate.

In making this assessment, and cognisant of the Principal Risks and Uncertainties described on pages 18 to 21, the Directors considered:

- the need to raise new capital and its likely availability;
- the level of capital requirements expected to be set by the PRA;
- the Business Plan;
- that the UK has agreed a trade deal with the EU;
- their evaluation of the Bank's principal risks and uncertainties, including those that could threaten the Bank's business model, its future performance or solvency;
- the ICAAP; and
- the ILAAP.

In addition, regarding the ongoing pandemic the Directors considered:

- that the Bank has successfully adapted its operations in response to the Covid-19;
- that the impact of lockdowns on the Bank's clients is more clearly understood;
- the emergence of effective vaccines; and
- that the Bank of England has introduced supervisory measures to address the challenge of Covid-19.

The Bank invoked business continuity plans to maintain high quality service and support its clients throughout the pandemic whilst maintaining the safety and well-being of staff. The Directors have assessed the continuing operational resilience measures required to provide continuity of service to clients throughout a prolonged period. The Directors are satisfied that the Bank's plans are robust with currently 98% of staff working remotely whilst maintaining a high level of client service. Other risk mitigation strategies remain in place including enhanced credit risk monitoring and increased client and staff communication.

The Directors noted the measures introduced by the Bank of England to assist banks to maintain their safety and soundness and to support the economy during the pandemic. Measures included the

1 General information *(continued)*

1.2 Going concern *(continued)*

reduction of the Countercyclical Capital Buffer and the expectation that capital and liquidity buffers would be used if required. The Bank does not plan to use these buffers however the Directors are cognisant that these measures are available. The Directors expect to continue to support clients directly rather than through the government backed SME lending support schemes.

The Directors considered the effect of the ongoing pandemic on the Bank's capital position. The Bank's income is likely to be depressed during this period of uncertainty through reduced interest rates and client activity, extending the path to profitability.

The Bank has prepared a 5-year Business Plan (the Business Plan), an integral part of which is the assessment of the quantum and timing of capital as well as the funding it requires as it reaches profitability and capital self-sufficiency. The Business Plan provides the basis for the Bank's financial forecasts which include a detailed annual budget for year one (2021) and forecasts for years two to five (2022-2025). The Directors need to raise additional capital by mid-2021 to support business growth, absorb forecast losses and to allow the Bank to adhere to regulatory capital requirements.

Cornerstone shareholders have committed to participate in this funding round. Additionally, key Cornerstone shareholders have committed to provide additional capital prior to this, up to a pre-defined amount, to support growth and, if appropriate, ensure the Bank continues to meet its regulatory capital requirements for a period of not less than 12 months following the date of signing the accounts. In April 2021, shareholders have committed to provide £11m in the next capital raise.

In making this assessment of going concern, the Directors have conducted a review of the Business Plan and relevant sensitivity analysis and stress. Key considerations when making this assessment include client, deposit and lending growth, judgments regarding the level of capital requirements set by the PRA, the necessary investment in operational capability and the resultant impact on profitability.

The sensitivity analysis considered the impact of:

- negative interest rates (Bank of England base rate reducing to negative 0.10%);
- the inability to raise further capital above the committed funds;
- capital requirements being higher than forecast;
- a worsening of the Bank's liquidity position.

The sensitivity analysis performed demonstrates that throughout the going concern period the Bank would remain above Total Capital Requirements. Depending on the severity of the stress, the Bank may require limited use of capital buffers.

In addition, a stress test was undertaken as at 31 December 2020. This involved running a plausible but severe scenario, based on the PRA 2021 Solvency Stress Test Scenario. This scenario was also used as one of the forward-looking macroeconomic scenarios for the calculation of Expected Credit Losses under IFRS 9. Key elements include a Bank of England base rate low point of negative 0.10% and a HPI low point in Q2 2022 equating to a circa 30% reduction in residential property values relative to December 2020. Further detail can be found in note 12.4. This scenario was input to the Bank's current forecasts with no assumed management actions. At no point during the going concern assessment period were Total Capital Requirements breached in this stress test and there was only limited use of buffers required. If required, mitigating actions available to the Directors to conserve capital resources include the management of lending flows, restriction of capital expenditure and limiting operational expenses.

1 General information *(continued)*

1.2 Going concern *(continued)*

As a result of the assessment outlined above, the Directors have a reasonable expectation that, for a period of at least 12 months from the date that the financial statements have been authorised for issue, the Bank will be able to raise additional capital, continue in operation and meet its liabilities as they fall due.

2 Summary of significant accounting policies

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Computer equipment	5 years

The residual values, useful lives and methods of depreciation are reviewed at each financial period end and adjusted prospectively, if appropriate. Property, plant and equipment are reviewed annually for indicators of impairment. If there are any indicators of impairment the recoverable amount is determined and compared to the carrying amount to identify whether an impairment loss should be recognised. The recoverable amount is the greater of the fair value less cost to sell and value in use. Any impairment losses are recognised immediately in profit or loss.

2.2 Intangible assets

Intangible assets, which represent developed software and software licences, are measured on initial recognition at cost. Staff and development costs in relation to the development of software are capitalised at cost and are recognised when it is deemed probable that the future economic benefits that are attributable to the asset will flow to the Bank. Intangible assets arising from development are recognised when it is demonstrated that the asset can be identified and will be available for use or sale, it is probable that the asset will generate future economic benefit and the expenditure attributable to the intangible asset during its development can be reliably measured. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation commences on development assets when the intangible asset is available for use. Intangible assets are deemed to have a finite life and are amortised over 5 to 7 years using the straight-line method and are reviewed for indicators of impairment annually. If there are any indicators of impairment the recoverable amount is determined and compared to the carrying amount to identify whether an impairment loss should be recognised. The recoverable amount is the greater of the net realisable value of the asset and the amount recoverable from its future use. Any impairment losses are recognised immediately in profit or loss.

2.3 Cash and balances at central banks

Cash and balances at central banks represent balances held with the Bank of England and any cash holdings. These are stated at amortised cost, which is equivalent to their fair values.

Loans and advances to banks that are short-term, readily convertible to known amounts of cash and are subject to insignificant changes in value are classified as cash-equivalents.

2 Summary of significant accounting policies *(continued)*

2.4 Equity

Equity is recorded at the proceeds received. Direct incremental costs relating to the issue of shares and other equity transactions are charged to equity through the share premium account.

2.5 Leases

At the inception of a contract, the Bank assesses whether it is, or contains, a lease. A right-of-use asset and a corresponding lease liability are recognised for all lease arrangements where the Bank is the lessee, except for short-term leases (12 months or less) and leases of low value assets (typically office equipment). For these leases the Bank recognises the lease payments as an operating expense on a straight-line basis over the lease term.

The lease liability is initially recognised based on the present value of the future lease payments, discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate, determined as the market swap rate for the lease term plus a margin based on the Bank's size and credit rating and any lease-specific adjustment as deemed appropriate, estimated at the inception of the lease contract. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount for the lease payments made. The Bank has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The right-of-use asset comprises the initial measurement of the corresponding lease liability. It is depreciated on a straight-line basis over the shorter of the lease term or the asset's useful life. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. Impairment losses are assessed and accounted for as described in note 2.1 Property, plant and equipment.

When the Bank incurs an obligation for costs to restore a leased asset to the condition required by the terms and conditions of the lease, a provision is recognised and, where appropriate, the costs are included in the related right-of-use asset.

2.6 Taxes

Current tax

Current tax assets and liabilities for the current period are measured at the amount that it is expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the United Kingdom.

Deferred tax

Deferred tax can only be recognised to the extent to which losses carried forward will be recoverable against future taxable profits. Due to the uncertainty associated with the recovery of these amounts against future profits, no deferred tax asset has been recognised at this stage. The recognition of deferred tax requires management to make estimates and judgements about future conditions and events, changes in which could have a material impact on the Bank's reported financial position or performance.

2 Summary of significant accounting policies *(continued)*

2.7 Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Bank operates (its functional currency).

Transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

2.8 Financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs.

From a classification and measurement perspective IFRS 9 requires all financial assets except equity instruments and derivatives to be assessed based on the Bank's business model for managing assets and the instruments' contractual cash flow characteristics. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through the profit and loss account, are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by expected credit losses. All financial assets are measured at amortised cost as the Bank's business model is to hold the assets to collect the contractual cash flows and those cash flows meet the SPPI condition.

Effective interest rate method

The effective interest rate (EIR) method is a way of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The EIR is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the initial carrying amount. Interest income is calculated on the gross carrying amount unless the financial asset is impaired, in which case interest income is calculated on the net carrying amount, after allowance for expected credit losses (ECLs).

In order to determine the EIR an estimate must be made of the expected life of the underlying financial asset. These estimates are based on historical experience and expected future client behaviour and are reviewed regularly. The accuracy of the EIR will be affected if actual client behaviour differs from expectations, for example as the result of unexpected market movements.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

Impairment of financial assets

The Bank assesses ECLs associated with its financial assets, including the exposures arising from loan commitments, on a case by case basis and does not measure ECLs on an overall portfolio basis.

The measurement of ECLs reflects reasonable and supportable information that is available without undue cost or effort at the reporting date.

All loan commitments provided by the Bank are contracts that include a loan and an undrawn committed facility. The ECLs on undrawn loan commitments are recognised as a loss provision.

The carrying amount of financial assets are reduced by the impairment loss. The low credit risk exemption has not been applied.

Determining significant increase in credit risk since origination

ECLs are calculated in line with the requirements of IFRS 9 using a three-stage impairment model which assesses significant changes in credit risk since origination of financial assets. The measurement of ECLs is dependent on the classification stage of the assets.

Stage 1: For assets that are not credit impaired and have not had a significant increase in credit risk since initial recognition, 12 months ECLs are recognised.

Stage 2: For assets that have experienced a significant increase in credit risk since initial recognition but are not credit impaired at the reporting date, lifetime ECLs are recognised.

Stage 3: For financial assets that are credit impaired at the reporting date, lifetime ECLs are recognised.

The Bank uses a credit scorecard methodology for assessing significant increase in credit risk based on a number of quantitative, qualitative and backstop measures.

Quantitative criteria:

For each financial asset, if the credit score, determined by the credit scorecard methodology, has increased by more than a predetermined threshold relative to the origination score.

Qualitative criteria:

A number of qualitative criteria are also used to assess significant increase in credit risk:

- bankruptcy;
- forbearance;
- borrowers who are placed on watch list; and
- pre-delinquency information.

Backstops:

As defined within IFRS 9, the following backstops have been factored into the Bank's credit scorecard:

1. The Bank considers that if an asset's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place;
2. If a position is greater than 90 days past due it is considered to be in default.

Definition of default

At each reporting date the Bank assesses whether or not any financial assets carried at amortised cost are credit impaired (stage 3); the Bank's definition of credit impaired is aligned with the definition of default. A position is defined as in default when it meets one of the following criteria:

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

- A facility's contractual payment is more than 90 days past due;
- It is considered that the client is unlikely to pay their credit obligation to the Bank in full, without recourse actions such as the realisation of security (if held). Evidence that a financial asset is credit impaired may include events such as:
  - bankruptcy;
  - bereavement, divorce or separation; and
  - a material covenant breach

An instrument is considered to be no longer credit impaired when it no longer meets the above default criteria and has returned to being up to date on its contractual repayments.

This definition of default is aligned with that used for regulatory reporting purposes.

Write-off policy

In situations where it is evident that a non performing loan/debt is not going to be repaid or there is a shortfall following realisation of security then the Bank may take the decision to write-off the residual debt but may still pursue the client for recovery of the debt.

No assets were written off during the years ended 31 December 2020 and 2019.

Model inputs and assumptions

The ECLs are measured on a 12 month or lifetime basis depending on whether or not a significant increase in credit risk has occurred since initial recognition. The IFRS 9 model developed by the Bank has a number of inputs and assumptions:

- ECLs are determined by assessing the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor for each individual exposure. The four components are multiplied together in order to derive expected ECLs for the relevant period.
- PD represents the likelihood of a borrower defaulting on their financial obligation either over the next 12 months or over the remaining lifetime of the obligation, depending on what stage the financial asset is in at the reporting date. The Bank uses an external consultant to provide PD data that has been profiled against the Bank's lending book. As the Bank historically has limited instances of default it is not possible to use internally collected data to derive PD rates. PD rates remain under constant review and may be adjusted to reflect the potential impact of differing future economic scenarios.
- LGD is based on collateral recovery value to give an expected loss at default, defined as a percentage of EAD. The model uses the market value less a defined haircut to work out the value of collateral for calculating LGD. The haircuts typically vary between 20-50% and are assessed on a case by case basis depending on the type, location, size and nature of the collateral. The haircut to the market value of the collateral also includes assumptions to reflect the cost of liquidating collateral in a forced sale, legal costs and the time value of money. Haircut percentages and values remain under constant review with the option to increase or decrease to reflect any market movements or forward-looking macro-dependencies of LGD. If the expected proceeds from the collateral exceeds the amount loaned, the entity may have an LGD of 0% and hence an allowance of zero.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

- EAD – the model predicts EAD as the expected principal balance outstanding plus three months interest at the time of default. Partial prepayment is excluded from the modelling of EAD as the Bank does not have sufficient prepayment information to accurately predict prepayment rates.
- Discount factor – IFRS 9 expects credit losses to reflect the time value of money, which is achieved by discounting the estimated losses at the reporting date. The Bank has applied an operational simplification to use the interest rate at the time of origination as the basis for the discount rate as an approximation of the EIR. This operational simplification of using the interest rate at origination rather than the EIR is not deemed to have a material impact on the ECLs. ECLs are discounted to the reporting date.
- Lifetime ECLs – Lifetime ECLs are the ECLs that result from all possible default events over the contractual life of the financial instrument. For revolving credit facilities, such as overdrafts, the contractual term is 12 months. The lifetime of the overdraft facility is therefore taken to be 12 months.
- Forward-looking macroeconomic judgements – IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. For 2020 the Bank has addressed these requirements using several economic scenarios, developed specifically in respect of the Covid-19 pandemic, and chosen to represent a range of possible outcomes. These economic scenarios are described in note 12, which also sets out their impact on the measurement of ECLs. For 2019, through analysis received from an economic consultant and management's own analysis (which included consideration of the potential impact of Brexit), management did not deem it necessary to incorporate forward-looking economic assumptions into the ECL model, as adjusting for forward-looking information would not have a material impact on the measurement of ECLs.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as ‘financial liabilities at amortised cost’.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the EIR method, with interest expense recognised on an effective yield basis.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

The EIR method is a way of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Bank uses derivative financial instruments to manage its exposures to foreign exchange and interest rate risks as they arise from operating activities. It does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially measured at fair value on the contract date and are remeasured at fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised as they arise. No derivative financial instruments were held at 31 December 2020 (2019: nil).

2.9 Non-interest income

Non-interest income is recognised on an accruals basis when the underlying performance obligation has been satisfied.

2.10 Interest receivable and payable

Interest income is recognised when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the EIR applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.11 Pension costs

As part of the Workplace pension law, the Bank has organised that an independent specialist pension provider offers members of staff a defined contribution pension scheme. Payments to the defined contribution pension scheme are recognised as an expense when employees have rendered service entitling them to the contributions. The assets of the scheme are administered separately from those of the Bank in independently administered funds.

2.12 Share-based payments

Employees receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for options in the Bank's shares. The fair value of share options at the grant date is recognised as an employee expense in the statement of comprehensive income over the vesting period on a straight-line basis, based on the Bank's estimate of equity instruments that will eventually vest. The overall cost of the award is calculated using the number of options expected to vest and the fair value of the options at the grant date.

The fair value of the share option plan is calculated at the grant date using either a Binomial valuation model or Black Scholes valuation model, depending on the rules of the scheme. Inputs into the valuation model include the risk-free interest rate and volatility assumptions. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 11. The fair value includes the effect of non-vesting conditions and any market-based performance conditions.

2 Summary of significant accounting policies *(continued)*

2.13 Provisions

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of economic resource will be required to settle the obligation, and the amount can be reliably estimated.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors do not consider there to be any critical accounting judgements. Key sources of estimation uncertainty which the Directors consider to be significant are those relating to loan impairment provisions, as follows.

Forward-looking macroeconomic scenarios

For 2020 the Bank has used a number of probability-weighted forward-looking macroeconomic scenarios to reflect a range of possible outcomes. These scenarios have been used to model impacts on ECLs based on the estimated effect of economic variables on key risk inputs, assessed using long term historical data and expert judgement. The scenarios and probability weightings as set out in note 12.4 were approved by the Credit Committee but it is recognised that, due to the impact of Covid-19, there is considerable uncertainty about the actual outcome. Further details regarding the range of possible outcomes are provided in the *Economic Conditions* section of note 12.5.

4 Net interest income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest income and receivables from banks and central bank	982	2,743
Interest income on loans and receivables to clients	9,162	6,498
Interest receivable	10,144	9,241
Interest expense on deposits from clients	(1,091)	(1,493)
Interest expense on lease liabilities	(142)	(168)
Interest payable	(1,233)	(1,661)
Net interest income	8,911	7,580

5 Net non-interest income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Banking income	631	627
Net non-interest income	631	627

6 Loss before tax

Loss before tax is stated after charging:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Staff costs & Directors' remuneration	8,326	7,695
Depreciation of property, plant and equipment (note 13)	31	54
Depreciation of right-of-use assets (note 14)	443	443
Amortisation of intangible assets (note 15)	718	714
Expenses relating to successful and unsuccessful acquisitions	51	488
Other property-related expenses	437	451
Other administrative expenses	4,194	4,394
Operating expenses	14,200	14,239

7 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual financial statements*	166	148
Total audit fees	166	148
Corporate finance services	–	83
Total non-audit fees	–	83

**The fees for 2020 include £8k in respect of the audit of the 2019 financial statements that was billed in 2020*

8 Taxation

Total tax income on loss on ordinary activities was £57k for the year ended 31 December 2020 (2019: £nil).

The differences between the total tax income shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Loss before tax	(4,136)	(5,533)
Tax on loss before tax at UK corporation tax rate of 19 per cent (2019: 19 per cent)	(786)	(1,051)
Effects of:		
- Research and development tax credit	(57)	–
- Expenses not deductible for tax purposes	13	92
- Increase in unrecognised deferred tax assets	773	959
Total tax credit for the year	(57)	–

R&D eligible deductions resulted in a tax credit from HMRC of £57k (2019: £nil).

The standard rate of UK corporation tax applied to reported profit is 19% (2019: 19%). The effective tax rate of nil differs from the standard rate of tax applied to the reported loss primarily as a result of the non-recognition of a deferred tax asset in respect of the current year tax loss.

The Bank has tax losses carried forward to future periods of £36,264k (2019: £33,339k). Due to the uncertainty surrounding when sufficient future taxable profits will be generated by the Bank which these tax losses can be offset against, no deferred tax asset has been recognised on the losses.

No deferred tax asset has been recognised on other deductible temporary differences amounting to £1,741k, comprising fixed asset temporary differences (£1,646k), pension contributions unpaid at the balance sheet date (£46k) and transitional adjustments arising under IFRS 9 and IFRS 16 that are spread for tax purposes (£49k).

On 3 March 2021 the UK Government announced its intention to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The proposed increase in the rate of UK corporation tax is expected to be substantively enacted during 2021. The estimated impact of increasing the rate to 25% will be to increase the unrecognised deferred tax asset by £2,280k.

9 Employees

The monthly average Full Time Equivalent number of employees (including Directors) was 95 (2019: 92).

Aggregate remuneration for the year comprised:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Wages and salaries	5,935	5,426
Social security costs	858	765
Pension costs	544	519
Share-based payments	989	985
	8,326	7,695

10 Directors' remuneration

The aggregate remuneration of the Directors is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Short term employee benefits	758	679
Post-employment benefits	14	13
	772	692

The total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations was £758k (2019: £679k) relating to salary and variable pay and £14k of contributions to a money purchase pension scheme (2019: £13k).

One director has retirement benefits accruing under a defined contribution scheme (2019: one).

No Directors exercised share options during the year. Remuneration of the highest paid Director in respect of qualifying services was £352k (2019: £309k). The Bank does not have a defined benefit pension scheme so there are no defined benefit pension arrangements for the highest paid Director.

11 Share-based payments

The Bank operates a share option scheme with two parts, the details of which are set out below. Options were granted under both parts of the scheme during 2020 (2019: none under either part).

During 2019 the Bank implemented a share capital consolidation which reduced the number of shares in issue by a factor of 20 (see note 21). The outstanding share options were adjusted to take account of the share capital consolidation by reducing the number of shares subject to each option by a factor of 20 and increasing the exercise price per share by a factor of 20. As such the share capital consolidation had no impact on the commercial position of the outstanding share options. The effect of the share capital consolidation on the outstanding share options is shown in the movement tables below.

11 Share-based payments *(continued)*

Part 1 – Share Option Plan

The Share Option Plan (SOP) is for the executive management team and was launched during 2017. The options have a five-year vesting period and, if they remain unexercised after a period of twenty years from the grant date, the options expire. All options are equity settled and have non-market performance conditions. Some of the options also include non-vesting conditions.

The movement in SOP share options outstanding during the year was as follows:

	2020		2019	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At 1 January	12,500,000	195.80	250,000,000	9.79
Granted during the year	457,500	100.00	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Expired during the year	–	–	–	–
Share capital consolidation (note 21)	–	–	(237,500,000)	186.01
At 31 December	12,957,500	192.40	12,500,000	195.80
Options exercisable at the end of the year	–	–	–	–
Weighted average remaining contractual life	17 years		18 years	
Fair value of options awarded during the year (pence)	33.2		N/A	

It is expected that, at the end of the five-year vesting period, all of the share options will vest.

A Black Scholes option-pricing model was used to derive the fair value of options awarded, based on the following inputs:

	2020	2019
Weighted average share price (pence)	100.0	–
Weighted average exercise price (pence)	100.0	–
Expected volatility	30%	–
Expected life	8 years	–
Risk-free rate	0.12%	–

11 Share-based payments *(continued)*

Part 2 – Company Share Option Plan

A HMRC approved Company Share Option Plan (CSOP) was introduced during 2018 and offered to all employees including Executive Directors. Each employee share option converts into one ordinary share on exercise and no amounts were payable by the recipient on receipt of the option. Options may be exercised at any time from the date of vesting to the date of their expiry. The vesting period is five years and, if they remain unexercised after a period of ten years from the date of grant, the options will expire. There are no performance conditions or vesting conditions other than a five-year service condition. Options are forfeited if the employee leaves the Bank before the options vest, except for retirals where the options may be exercised within six months of the date of retirement.

The movement in CSOP share options outstanding during the year was as follows:

	2020		2019	
	Number	**Weighted average exercise price (pence)**	**Number**	**Weighted average exercise price (pence)**
At 1 January	718,712	130.0	16,574,285	6.5
Granted during the year	610,257	100.0	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	(93,000)	125.8	(2,000,000)	6.5
Expired during the year	(23,000)	126.1	(200,000)	6.5
Share capital consolidation (note 21)	–	–	(13,655,573)	123.5
At 31 December	1,212,969	115.3	718,712	130.0
Options exercisable at the end of the year	–	–	–	–
Weighted average remaining contractual life	8.6 years		9 years	
Fair value of options awarded during the year (pence)	21.9		N/A	

A Black Scholes option-pricing model was used to derive the fair value of options awarded, based on the following inputs:

	2020	2019
Weighted average share price (pence)	100.0	–
Weighted average exercise price (pence)	100.0	–
Expected volatility	25%	–
Expected life	5 years	–
Risk-free rate	-0.04%	–

11 Share-based payments *(continued)*

As an unlisted entity, the expected volatility was determined by considering the expected volatility of publicly quoted companies that have private banking / wealth management operations in the UK, and also of recently listed companies with banking operations. The expected life used in the fair value models has been adjusted, based on management's best estimates, for the effects of exercise restrictions and behavioural considerations.

It is expected that, at the end of the five-year vesting period, 80 per cent of the share options will vest.

During 2020 the Bank recognised a total expense of £989k related to equity settled share-based payments transactions (2019: £985k).

12 Impairment of loans and advances to clients

This note sets out information on the Bank's impairment provisioning under IFRS 9 for loans and advances to clients which are all held at amortised cost.

12.1 Impairments by stage

Total impairment allowances

An analysis of the Bank's loan portfolio and impairment allowances by IFRS 9 stage is set out below.

As at 31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross loans and advances to clients	313,209	13,216	–	326,425
Impairment allowances	(94)	(77)	–	(171)
Net loans and advances to clients	**313,115**	**13,139**	**–**	**326,254**
Coverage ratio	**0.030%**	**0.583%**	**–**	**0.052%**

As at 31 December 2019	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross loans and advances to clients	194,573	8,869	372	203,814
Impairment allowances	(7)	–	–	(7)
Net loans and advances to clients	**194,566**	**8,869**	**372**	**203,807**
Coverage ratio	**0.004%**	**–**	**–**	**0.003%**

Under the Bank's credit management processes, stage 1 and stage 2 accounts are handled within the client servicing function with those in stage 2 subject to specific account management arrangements where appropriate. Stage 3 will include any cases subject to recovery or similar processes together with those which are being managed on a long-term basis. All cases in stage 3 are classified as defaulted accounts for regulatory reporting purposes.

Analysis of stage 2 loans

The table below analyses the accounts in stage 2 between those not more than 30 days past due where a significant increase in credit risk has nonetheless been identified from other information, and accounts more than 30 days past due which, under the backstop, are defined as having a significant increase in credit risk.

12 Impairment of loans and advances to clients *(continued)*

12.1 Impairments by stage *(continued)*

As at 31 December 2020	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	13,216	–	13,216
Impairment allowances	(77)	–	(77)
Net loans and advances to clients	**13,139**	**–**	**13,139**
Coverage ratio	**0.583%**	**–**	**0.583%**

As at 31 December 2019	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	8,852	17	8,869
Impairment allowances	–	–	–
Net loans and advances to clients	**8,852**	**17**	**8,869**
Coverage ratio	**–**	**–**	**–**

Analysis of stage 3 loans

There were no accounts in stage 3 at 31 December 2020. The table below analyses the accounts in stage 3 at 31 December 2019 between those greater than 90 days past due, where full recovery is possible but which are considered in default for regulatory purposes, and those in the process of realisation.

As at 31 December 2019	> 90 days past due £'000	Realisations £'000	Total £'000
Gross loans and advances to clients	372	–	372
Impairment allowances	–	–	–
Net loans and advances to clients	**372**	**–**	**372**
Coverage ratio	**–**	**–**	**–**

No impairment allowance was recognised in respect of loans and advances to clients in stage 3 at 31 December 2019 due to the value of property held as collateral.

12 Impairment of loans and advances to clients *(continued)*

12.2 Movements in impairment allowances

Year ended 31 December 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance as at 1 January 2020	7	–	–	7
Changes in the loss allowance				
- Increase in credit risk due to change in credit risk	–	–	–	–
- Increase due to change in risk parameters	48	55	–	103
New financial assets originated or purchased	40	22	–	62
Financial assets that have been derecognised due to repayment	(1)	–	–	(1)
Loss allowance as at 31 December 2020	**94**	**77**	**–**	**171**

Year ended 31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance as at 1 January 2019	10	–	19	29
Changes in the loss allowance				
- Increase in credit risk due to change in credit risk	–	–	–	–
- Decrease due to change in risk parameters	(1)	–	–	(1)
New financial assets originated or purchased	4	–	–	4
Financial assets that have been derecognised due to repayment	(6)	–	(19)	(25)
Loss allowance as at 31 December 2019	**7**	**–**	**–**	**7**

There were no modifications or renegotiations that resulted in derecognition of financial assets. Information about significant changes in gross carrying amount of loans and advances to clients during the year that contributed to changes in the loss allowance is provided in the table below:

Year ended 31 December 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2020	194,573	8,869	372	203,814
Changes in the gross carrying amount				
- Transfer to stage 1	485	(485)	–	–
- Transfer to stage 2	(3,277)	3,638	(361)	–
- Transfer to stage 3	–	–	–	–
New financial assets originated or purchased	169,123	5,088	–	174,211
Financial assets that have been derecognised due to repayment	(44,101)	(3,765)	(11)	(47,877)
Other changes	(3,594)	(129)	–	(3,723)
Gross carrying amount as at 31 December 2020	**313,209**	**13,216**	**–**	**326,425**

12 Impairment of loans and advances to clients *(continued)*

12.2 Movements in impairment allowances *(continued)*

Year ended 31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2019	125,408	7,090	19	132,517
Changes in the gross carrying amount				
- Transfer to stage 1	2,753	(2,753)	–	–
- Transfer to stage 2	(4,726)	4,726	–	–
- Transfer to stage 3	–	(370)	370	–
New financial assets originated or purchased	99,805	2,508	5	102,318
Financial assets that have been derecognised due to repayment	(26,543)	(2,236)	(19)	(28,798)
Other changes	(2,124)	(96)	(3)	(2,223)
Gross carrying amount as at 31 December 2019	**194,573**	**8,869**	**372**	**203,814**

12.3 Impairments charged to income

The amounts charged to the income statement in the period are analysed as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Impairment charge/(credit) on loans and advances to clients	164	(22)
Impairment charge/(credit) on loan commitments	9	(1)
Total impairment charge/(credit)	173	(23)

The £173k charge in 2020 reflects increases in impairment allowances, driven by the impact of the pandemic and the associated economic uncertainty. The credit of £23k in 2019 arose due to the release of the impairment allowance held against loans and advances to clients in stage 3 at 31 December 2018 due to the full recovery of the outstanding balances.

12.4 Forward-looking macroeconomic scenarios

IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. For 2020 the Bank has addressed these requirements using five distinct economic scenarios, chosen to represent a range of possible outcomes. Four of these scenarios were developed specifically in respect of the Covid-19 pandemic and the fifth is based on the Bank of England's 2021 solvency stress test scenario. For 2019, through analysis received from an economic consultant and the Bank's own analysis (which included consideration of the potential impact of Brexit), forward-looking economic assumptions were not incorporated into the ECL model, as they would not have had a material impact on the measurement of ECLs.

In developing its economic scenarios, the Bank considers analysis from reputable external sources to form a general market consensus which informs its central (base case) scenario. For 2020 these sources included forecasts produced by the Office of Budget Responsibility and the PRA as well as private sector economic research bodies.

12 Impairment of loans and advances to clients *(continued)*

12.4 Forward-looking macroeconomic scenarios *(continued)*

The five economic scenarios comprise a base case, which carries the highest probability weighting, an upside case, a severe downside case, a very severe downside case and the Bank of England's 2021 solvency stress test scenario. Each scenario represents a different pace of recovery from the pandemic and therefore a different economic impact.

Base case	Assumes smooth roll-out of Covid-19 vaccine across the UK during 2021, ushering in a new kind of normality by Q4 2021.
Upside	This scenario has the vaccine rolled-out across the UK by mid-2021, leading to increased confidence and an uplift in public mood.
Severe downside	A delay in the vaccine roll-out resulting in a longer period of lockdown, which further dampens consumer confidence.
Very severe downside	Delays in the vaccine roll-out combined with a lower protection rate from the vaccines and new strains of the virus.
BoE solvency stress test scenario	A severe path following the economic shock associated with the Covid pandemic, incorporating a second dip on top of that seen in 2020.

The economic variables and their projected average values over the first three years of the forecast period are set out below:

	Weighting	Annual growth in GDP	Bank of England base rate	House price inflation*	Consumer Price Index inflation	Unemployment
Base case	70%	4.8%	0.56%	-4%	1.4%	6.3%
Upside	5%	5.8%	0.64%	0%	1.8%	5.5%
Severe downside	20%	4.7%	0.45%	-7%	1.2%	6.8%
Very severe downside	4%	4.2%	0.35%	-11%	0.9%	8.0%
BoE solvency stress test scenario	1%	3.9%	(0.06%)	-35%	0.8%	9.9%

** To lowest point*

The asymmetry in the scenarios is demonstrated by comparing the probability-weighted impairment allowance at 31 December 2020 with the impairment allowance from the base case scenario.

	2020 £'000
Probability-weighted impairment allowance	181
Base case scenario impairment allowance (100% weighted)	123
Effect of multiple economic scenarios	**58**

12.5 Sensitivities

The calculation of impairment allowances is subject to a variety of uncertainties arising from assumptions and forecasts of future conditions. To illustrate the impact of these uncertainties, sensitivity calculations have been performed for those which have the most significant effect.

12 Impairment of loans and advances to clients *(continued)*

12.5 Sensitivities *(continued)*

Economic conditions

The table below shows the potential impact of differing future economic scenarios, by comparing the impairment allowance which would arise if each of the economic scenarios were 100% weighted with the probability-weighted impairment allowance of £181k:

	Impairment allowance £'000	Difference £'000
Base case	123	(58)
Upside	46	(135)
Severe downside	276	95
Very severe downside	613	432
Bank of England solvency stress test scenario	1,241	1,060

Loss given default

The principal assumptions impacting on LGD are the estimated security values. If the market value reductions in residential and commercial property values assumed in the ECL model were increased by 50%, then the impairment allowance under the base case scenario would increase by £13k.

Significant increase in credit risk

In the Covid-19 environment, the Bank has followed the advice of UK regulatory bodies that the grant of a payment holiday does not, of itself, indicate a significant increase in credit risk. 33 payment holiday requests were received on total facilities of £20.7m. Of these, 28 had resumed full payment or were still in the initial 3-month deferral period at 31 December 2020 and are in stage 1. One account has required a forbearance arrangement subsequent to the end of the payment deferral period and is in stage 2. The remaining four accounts were fully repaid by 31 December 2020. The model incorporates a roll rate for accounts moving from stage 1 to stage 2 and from stage 2 to stage 3, including for accounts which have had payment deferrals. If the roll rates of accounts from stage 1 to stage 2 and from stage 2 to stage 3 assumed in the model were increased by 50%, then the impairment allowance under the base case scenario would increase by £13k.

13 Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2020	239	203	442
Additions	2	–	2
At 31 December 2020	241	203	444
Depreciation			
At 1 January 2020	110	191	301
Charge for the year	24	8	32
At 31 December 2020	134	199	333
Net book value			
At 31 December 2020	107	4	111

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2019	239	203	442
Additions	–	–	–
At 31 December 2019	239	203	442
Depreciation			
At 1 January 2019	86	161	247
Charge for the year	24	30	54
At 31 December 2019	110	191	301
Net book value			
At 31 December 2019	129	12	141

14 Leases

Right-of-use assets

	2020 £'000	2019 £'000
Cost		
At 1 January	2,536	2,536
Additions	–	–
At 31 December	2,536	2,536
Depreciation		
At 1 January	443	–
Charge for the year	443	443
At 31 December	886	443
Carrying amount		
At 31 December	1,650	2,093

The Bank leases three offices, two in Edinburgh and one in London. The average original lease term is 8 years 8 months, and the average remaining lease term at 31 December 2020 was 3 years 4 months (2019: 4 years 4 months).

There are no leases to which the Bank was committed and which had not yet commenced at 31 December 2020 (2019: none).

Amounts recognised in the statement of comprehensive income

	2020 £'000	2019 £'000
Depreciation expense on right-of-use assets	443	443
Interest expense on lease liabilities	142	168
Expense relating to leases of low-value assets	92	73

Total cash outflow for leases during the year ended 31 December 2020 was £645k (2019: £626k).

Lease liabilities

	2020			2019		
	Current £'000	Non-current £'000	Total £'000	Current £'000	Non-current £'000	Total £'000
Lease liabilities – property	440	1,225	1,665	412	1,664	2,076

None of the leases have variable lease payments not included in the measurement of lease liabilities.

The lease liabilities are recognised in accordance with IFRS 16 which was adopted from 1 January 2019. The weighted average incremental borrowing rate applied at the date of initial application was 6.82%.

A maturity analysis of lease liabilities is included within note 19.

15 Intangible assets

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2020	4,171	896	5,067
Additions	128	–	128
At 31 December 2020	4,299	896	5,195
Amortisation			
At 1 January 2020	2,126	599	2,725
Charge for the year	602	116	718
At 31 December 2020	2,728	715	3,443
Net book value			
At 31 December 2020	1,571	181	1,752

During the year £60k of costs incurred on the development of mobile banking were capitalised (2019: £96k). The carrying amount of mobile banking software was £725k at 31 December 2020 (2019: £886k) with a remaining amortisation period of 7 years at 31 December 2020 (2019: 6.2 years).

The total carrying value of intangible assets whereby amortisation had not yet commenced was £nil as at 31 December 2020 (2019: £31k).

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2019	4,025	896	4,921
Additions	146	–	146
At 31 December 2019	4,171	896	5,067
Amortisation			
At 1 January 2019	1,543	468	2,011
Charge for the year	583	131	714
At 31 December 2019	2,126	599	2,725
Net book value			
At 31 December 2019	2,045	297	2,342

16 Accruals and deferred income

	2020 £'000	2019 £'000
Deferred fee income	149	153
Expense accruals	1,646	1,509
	1,795	1,662

17 Financial instruments

Categories of financial instruments

	2020		2019	
	Financial assets at amortised cost £'000	Total £'000	Financial assets at amortised cost £'000	Total £'000
Financial assets:				
Cash and balances at central banks	117,058	117,058	119,691	119,691
Loans and advances to banks	108,358	108,358	129,085	129,085
Loans and advances to clients	326,254	326,254	203,807	203,807
Total financial assets	551,670	551,670	452,583	452,583

	2020		2019	
	Financial liabilities at amortised cost £'000	Total £'000	Financial liabilities at amortised cost £'000	Total £'000
Financial liabilities:				
Deposits from clients	501,163	501,163	409,374	409,374
Lease liabilities	1,665	1,665	2,076	2,076
Total financial liabilities	502,828	502,828	411,450	411,450

18 Fair value

Fair value measurements

The information set out below provides information about how the Bank determines fair values of various financial assets and financial liabilities.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There are no financial assets or liabilities measured at fair value at the end of the current or prior reporting period.

Fair value measurements recognised in the statement of financial position

For financial assets and liabilities held at amortised cost, as the majority are at variable rates of interest, the fair value (classified as Level 3) is not materially different from the carrying value.

19 Financial risk management

Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), counterparty credit risk and liquidity risk.

The Bank seeks to minimise the effects of these risks by using both natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Bank's policy principles (approved by the Board of Directors), which provide written principles on foreign exchange risk, interest rate risk, counterparty credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Bank does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function reports monthly to ALCO and appropriate metrics are reported monthly to the Board and the RMC. Metrics are also presented quarterly to the BRC, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Market risk

Foreign currency risk management

The Bank undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts where required.

The Bank does not maintain any material open currency positions, and as such has no material exposure to the effects of fluctuations in foreign exchange rates. No material open positions arose during 2020 and none existed at the year end (2019: nil). The Bank's foreign exchange rate risk is managed by natural hedges and/or FX Forward contracts to leave no material FX open positions.

Interest rate risk management

The Bank is exposed to interest rate risk because the Bank accepts deposits from clients and other counterparties at both fixed and floating rates and lends money at both fixed and floating rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate assets and liabilities, and by the use of interest rate swap contracts if required. Hedging activities are evaluated regularly to align with the defined risk appetite; ensuring the most cost-effective hedging strategies are applied. The Bank did not hold any interest rate swaps during 2020 or at the year end (2019: nil) so hedge accounting has not been applied in these financial statements.

Interest rate sensitivity analysis

The Bank's interest rate exposure is shown in the interest rate repricing table below. The assets and liabilities are shown at the carrying amounts, categorised by the earlier of the next contractual interest repricing date and the maturity date.

Lease liabilities are classified as non-interest bearing as they are not sensitive to changes in market interest rates.

19 Financial risk management *(continued)*

At 31 December 2020	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	117,058	–	–	–	–	–	117,058
Loans and advances to banks	44,142	11,043	53,173	–	–	–	108,358
Loans and advances to clients	279,509	407	10,739	35,551	–	48	326,254
Other assets	–	–	–	–	–	4,455	4,455
Total assets	**440,709**	**11,450**	**63,912**	**35,551**	–	**4,503**	**556,125**
Liabilities							
Deposits from clients	356,871	19,629	117,992	6,671	–	–	501,163
Other liabilities and provisions	–	–	–	–	–	3,623	3,623
Total liabilities	**356,871**	**19,629**	**117,992**	**6,671**	**–**	**3,623**	**504,786**
Interest rate sensitivity gap	**83,838**	**(8,179)**	**(54,080)**	**28,880**	**–**	**880**	
Cumulative gap	**83,838**	**75,659**	**21,579**	**50,459**	**50,459**	**51,339**	

At 31 December 2019	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	119,691	–	–	–	–	–	119,691
Loans and advances to banks	102,088	7,673	19,324	–	–	–	129,085
Loans and advances to clients	187,329	–	500	15,926	–	52	203,807
Other assets	–	–	–	–	–	5,523	5,523
Total assets	**409,108**	**7,673**	**19,824**	**15,926**	**–**	**5,575**	**458,106**
Liabilities							
Deposits from clients	348,100	10,850	50,424	–	–	–	409,374
Other liabilities and provisions	–	–	–	–	–	3,868	3,868
Total liabilities	**348,100**	**10,850**	**50,424**	**–**	**–**	**3,868**	**413,242**
Interest rate sensitivity gap	**61,008**	**(3,177)**	**(30,600)**	**15,926**	**–**	**1,707**	
Cumulative gap	**61,008**	**57,831**	**27,231**	**43,157**	**43,157**	**44,864**	

The Bank monitors its exposure to interest rate risk, and reports this to ALCO. One such internally reported measure is calculating the net present value of a 2% change in the yield curve. The results at both 31 December 2020 and 31 December 2019 do not show a material change in net present value.

19 Financial risk management *(continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining a high-quality liquid assets buffer, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Bank's liquidity risk is monitored by ALCO.

Liquidity risk tables

The table below analyses the contractual undiscounted cash flows receivable and payable including future interest receipts and payments of interest by contractual maturity. The amounts presented in the disclosure below differ from those presented in the statement of financial position due to the inclusion of contractual future interest flows.

At 31 December 2020	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Financial assets						
Cash and balances at central banks	117,058	–	–	–	–	117,058
Loans and advances to banks	44,147	11,054	53,233	–	–	108,434
Loans and advances to clients	36,809	5,620	22,877	199,802	102,029	367,137
Total financial assets	**198,014**	**16,674**	**76,110**	**199,802**	**102,029**	**592,629**
Financial liabilities						
Deposits from clients	356,875	19,630	117,995	6,671	–	501,171
Lease liabilities	–	138	415	1,396	–	1,949
Total financial liabilities	**356,875**	**19,768**	**118,410**	**8,067**	**–**	**503,120**
Maturity gap	**(158,861)**	**(3,094)**	**(42,300)**	**191,735**	**102,029**	
Cumulative gap	**(158,861)**	**(161,955)**	**(204,255)**	**(12,520)**	**89,509**	

At 31 December 2019	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Financial assets						
Cash and balances at central banks	119,691	–	–	–	–	119,691
Loans and advances to banks	102,100	7,699	19,458	–	–	129,257
Loans and advances to clients	46,266	4,227	18,896	105,808	59,335	234,532
Total financial assets	**268,057**	**11,926**	**38,354**	**105,808**	**59,335**	**483,480**
Financial liabilities						
Deposits from clients	373,209	11,346	25,054	–	–	409,609
Lease liabilities	–	138	415	1,817	132	2,502
Total financial liabilities	**373,209**	**11,484**	**25,469**	**1,817**	**132**	**412,111**
Maturity gap	**(105,152)**	**442**	**12,885**	**103,991**	**59,203**	
Cumulative gap	**(105,152)**	**(104,710)**	**(91,825)**	**12,166**	**71,369**	

19 Financial risk management *(continued)*

Credit risk

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Credit risk arises from lending to clients, a mix of private individuals, SME business lending and treasury counterparties. Credit policies, principles and risk appetite metrics aim to ensure the credit portfolio is of high quality, with a low overall percentage of unsecured lending and relatively low monetary limits for individual unsecured lending cases. Client lending propositions are subject to thorough credit assessment, including affordability and stress testing at increased rates at a percentage over the prevailing rate at loan origination.

In the event that a client faces financial difficulty, the Bank seeks to make early contact and to work with them in a responsible and reasonable way, usually via a bespoke solution. The early identification and management of clients in financial difficulty is one of the principal ways in which the Bank manages asset quality and improves the outcome for both the client and the Bank. The FCA guidance regarding Covid-19 payment holidays on mortgages and personal lending has been implemented across all the Bank's lending, whether regulated or not. A small number of payment holiday requests have been received, all of which have been granted. Of these, only one has required a subsequent forbearance arrangement. The rest have all been, or are expected to be, regularised at the end of the payment holiday term.

The Bank only transacts with treasury counterparties that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Bank uses other publicly available financial information and its own trading records to rate its major clients. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by ALCO annually.

The Bank structures its level of credit risk by placing limits on the amount of risk it takes by individual borrower, groups of borrowers, in addition to concentration risk by product, industry and geographical sectors. These limits are monitored monthly at Credit Committee and Board. The Credit Committee is responsible for governance and oversight of changes in the key assumptions to the ECL model and the impact of forward-looking macroeconomic scenarios. Further details on the recognition and measurement of financial assets and liabilities can be found in note 2.8.

Maximum exposure to credit risk

The table below details the value of collateral held against the Bank's loans and advances to clients.

	2020 **£'000**	**2019** **£'000**
Exposure	412,049	273,327
Collateral	1,024,920	712,258
Cover	249%	261%

Collateral held includes investment portfolios against which the Bank holds a charge, in addition to commercial and residential property.

19 Financial risk management *(continued)*

Credit quality

Credit risk is also differentiated by credit ratings using a combination of the value of security held and utilising an external ratings agency. In addition, the Bank's credit policy requires that all mortgages, term loans, overdraft facilities and charge card facilities greater than £10k are reviewed on an annual basis with knowledge of the client's financial affairs being of paramount importance in the credit assessment process.

The internal credit grades (ICG) are based on the following ratings:

ICG 1: Very strong affordability, very low loan to security value, negligible risk of default

ICG 2: Strong affordability, low loan to security value, minimal risk of default

ICG 3: Good affordability, acceptable loan to security value, very unlikely to result in default

ICG 4: Satisfactory affordability, either partially secured or unsecured, unlikely to result in default

ICG 5: Affordability/repayment ability questionable, security may have deteriorated, much greater risk of default

The table below provides a summary of the Bank's asset quality analysed by ICG. At 31 December 2020 the ECL was £171k against loans and advances (2019: £7k) and £10k against commitments (2019: £1k).

The accruing past due category captures any exposures that are up to 90 days past due.

No balances were in category ICG 5 in 2020 or 2019.

At 31 December 2020	ICG 1 £'000	ICG 2 £'000	ICG 3 £'000	ICG 4 £'000	Accruing past due £'000	Non-accrual £'000	Impairment allowance £'000	Total £'000
Cash and balances at central banks:								
Stage 1	117,058	–	–	–	–	–	–	117,058
Loans and advances to banks:								
Stage 1	108,358	–	–	–	–	–	–	108,358
Loans and advances to clients:								
Stage 1	269,776	25,479	16,494	1,460	–	–	(94)	313,115
Stage 2	12,522	–	691	3	–	–	(77)	13,139
Stage 3	–	–	–	–	–	–	–	–
	507,714	**25,479**	**17,185**	**1,463**	–	–	**(171)**	**551,670**
Commitments								
Stage 1	74,438	3,823	216	6,819	–	–	(10)	85,286
Stage 2	504	–	–	5	–	–	–	509
Stage 3	–	–	–	–	–	–	–	
	74,942	**3,823**	**216**	**6,824**	–	–	**(10)**	**85,795**

19 Financial risk management *(continued)*

At 31 December 2019	ICG 1 £'000	ICG 2 £'000	ICG 3 £'000	ICG 4 £'000	Accruing past due £'000	Non-accrual £'000	Impairment allowance £'000	Total £'000
Cash and balances at central banks:								
Stage 1	119,691	–	–	–	–	–	–	119,691
Loans and advances to banks: *Stage 1*	129,085	–	–	–	–	–	–	129,085
Loans and advances to clients:								
Stage 1	170,745	14,538	8,337	953	–	–	(7)	194,566
Stage 2	8,226	–	502	141	–	–	–	8,869
Stage 3	–	–	–	–	–	372	–	372
	427,747	**14,538**	**8,839**	**1,094**	**–**	**372**	**(7)**	**452,583**
Commitments								
Stage 1	62,694	2,490	540	3,704	–	–	(1)	69,427
Stage 2	68	–	–	18	–	–	–	86
Stage 3	–	–	–	–	–	7	–	7
	62,762	**2,490**	**540**	**3,722**	**–**	**7**	**(1)**	**69,520**

No impairment allowance was recognised in respect of loans and advances to clients in stage 3 at 31 December 2019 due to the value of property held as collateral.

Collateral

The Bank has £244k (2019: £252k) of financial assets which it has pledged as collateral.

20 Reconciliation of liabilities arising from financing activities

	At 1 January 2020 £'000	Financing cash flows £'000	Non-cash movements £'000	At 31 December 2020 £'000
Lease liabilities	2,076	(411)	–	1,665
Financing liabilities	**2,076**	**(411)**	**–**	**1,665**

	At 1 January 2019 £'000	Financing cash flows £'000	Non-cash movements £'000	At 31 December 2019 £'000
Lease liabilities	2,461	(385)	–	2,076
Financing liabilities	**2,461**	**(385)**	**–**	**2,076**

21 Share capital

Share capital restructure

The Bank restructured its share capital during 2019 as follows:

Share capital consolidation

The purpose of the share capital consolidation was to reduce the number of shares in issue to a more manageable number. A 20:1 consolidation was implemented whereby the number of ordinary shares in issue was reduced by a factor of 20 (from 1,328,902,840 to 66,445,142) and, consequently, the nominal value per ordinary share increased by a factor of 20 (from £0.05 to £1.00).

Reduction of capital

Following the share capital consolidation, the nominal value of each ordinary share was reduced during 2019 from £1.00 to £0.05 by cancelling capital to the extent of £0.95 on each ordinary share. The amount of share capital so cancelled (£63,123k) was credited to retained earnings. The reduction of capital provides greater assurance that the Bank will be able to raise equity in the future, even in adverse market conditions, as shares cannot be issued at a discount to their nominal value. Also, together with the share premium cancellation and redemption reserve cancellation explained below, the reduction of capital provides the Bank with flexibility to make distributions to shareholders in the future as, collectively, they result in the Bank having net distributable profits rather than retained losses

Share premium cancellation and redemption reserve cancellation

The balance on the share premium account (£18,083k), which arose from various issues of ordinary shares by the Bank at prices in excess of their nominal value, less direct share issue costs, was cancelled and transferred to retained earnings during 2019. The balance on the capital redemption reserve (£19k), which arose from the cancellation of the Bank's former B and C shares in 2016, was also cancelled and transferred to retained earnings during 2019.

The share capital consolidation, reduction of capital, share premium cancellation and redemption reserve cancellation (collectively "the share capital restructure") were approved by the Bank's shareholders at a general meeting on 19 November 2019. The reduction of capital, share premium cancellation and redemption reserve cancellation were also approved by the Court of Session in Edinburgh on 17 December 2019.

The 2019 share capital restructure had no impact on cash, net assets or the Bank's regulatory capital, other than the implementation costs incurred by the Bank which amounted to £109k and which were charged to the share premium account prior to its cancellation.

Ordinary shares

	2020		2019	
Allotted, called up and fully paid	**Number**	**£'000**	**Number**	**£'000**
At 1 January (£0.05 per share)	66,445,142	3,322	1,198,049,600	59,902
Issued ordinary shares	10,015,002	501	130,853,240	6,543
Share capital consolidation	–	–	(1,262,457,698)	–
Reduction of capital: transfer to retained earnings	–	–	–	(63,123)
At 31 December (£0.05 per share)	**76,460,144**	**3,823**	**66,445,142**	**3,322**

21 Share capital *(continued)*

During the year 10,015,002 (2019: 130,853,240) ordinary shares were issued at a gross premium of £9,514k (2019: £3,271k). Direct issue costs of £450k (2019: £145k) associated with fundraising activities, and direct costs of £nil (2019: £109k) incurred in respect of the share capital restructure, have been recorded in the share premium account.

At 31 December 2020 121,683,854 (2019: 121,683,854) ordinary shares were authorised with a par value of £0.05 (2019: £0.05).

There are currently no conditions or restrictions in respect of dividends, voting or repayment of capital. Ordinary shares cannot be issued at a discount to par.

Share premium account	**2020**	**2019**
	£'000	**£'000**
At 1 January	–	15,066
Premium arising on issue of equity shares	9,514	3,271
Direct share issue costs	(450)	(145)
Direct share capital restructure costs	–	(109)
Share premium cancellation: transfer to retained earnings	–	(18,083)
At 31 December	**9,064**	**–**

Other Reserves

	2020	**2019**
	£'000	**£'000**
At 1 January	–	19
Redemption reserve cancellation: transfer to retained earnings	–	(19)
At 31 December	**–**	**–**

22 Retained earnings

	2020	**2019**
	£'000	**£'000**
At 1 January	41,542	(35,135)
Loss for the year attributable to equity holders	(4,079)	(5,533)
Equity settled share-based payments	989	985
Reduction of capital	–	63,123
Share premium cancellation	–	18,083
Redemption reserve cancellation	–	19
At 31 December	**38,452**	**41,542**

23 Control

The Directors have assessed that there is no overall controlling party.

24 Related parties

In accordance with IAS 24 *Related Party Disclosures,* the Bank's key management personnel, being those persons having responsibility for planning, directing and controlling the Bank's activities, are considered to be the Directors. Directors' remuneration for the year is disclosed in note 10.

24 Related parties *(continued)*

Key management personnel and their close family members' aggregate deposits were £175,197 (2019: £37,451) and aggregate lending was £1,902,926 (2019: £3,912,814) at year end. Committed loans at 31 December 2020 were £nil (2019: £15,000).

No impairment losses have been recognised in respect of amounts owed by related parties (2019: £nil).

These transactions were made on terms equivalent to those that prevail in arm's length transactions.

25 Commitments

The commitments shown in the table below provide an indication of the business volume committed and committed spend on intangible assets at the year end. Commitments to lend include loan commitments and unutilised overdraft facilities.

	2020 £'000	2019 £'000
Commitments to lend	85,795	69,520
	85,795	69,520

26 Provisions

	2020		2019	
	Loss provision £'000	Dilapidation provision £'000	Loss provision £'000	Dilapidation provision £'000
At 1 January	1	115	2	116
Provided/(released) during the year	9	–	(1)	–
Utilised during the year	–	–	–	(1)
At 31 December	10	115	1	115

The dilapidation provision relates to the anticipated costs of restoring leased assets to their original condition. It is expected that the provision will be utilised at the end of the lease terms, the longest of which is due to end in 2025. The loss provision represents ECLs on undrawn lending commitments.

27 Capital management policy

The European Capital Requirements Directive (Basel II) came into force on 1 January 2007. On 1 January 2014 Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements. Basel III is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital. The PRA is responsible for the implementation and enforcement of the Directive. The framework consists of three pillars:

- Pillar 1 sets minimum capital requirements that firms must meet for credit, market and operational risk.
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements.
- Pillar 3 complements Pillars 1 and 2 and improves market discipline by requiring firms to disclose information on their capital resources and requirements, risk exposures and their risk management framework.

27 Capital management policy *(continued)*

The Bank's primary objective in managing capital is to ensure that it has capital which is permanent and meets the requirements of the regulator. The Bank monitors its capital regularly and ensures that its capital exceeds its regulatory requirements. This is in line with the Bank's Capital Management Policy to maintain a strong base that is comfortably above the minimum capital level set for it by the PRA which enforces the Directive.

The Bank has not elected to take advantage of the IFRS 9 transitional arrangements set out in Article 473a of the Capital Requirements Regulation, which allows the impact of ECLs to be phased in over a five-year period.

The Bank's disclosure requirements under Pillar 3 are published annually and are available on the Bank's website (www.hampdenandco.com).

28 Adoption of new and amended IFRSs

During the year to 31 December 2020, the Bank has adopted a number of new accounting standards and amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2020:

- Amendments to IFRS 3 *Business Combinations* – definition of a business
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – definition of material
- Amendments to references to the *Conceptual Framework* in IFRS Standards

These amendments have not had a significant impact on the Bank's accounting policies or reporting.

29 New accounting standards and interpretations not adopted

The International Accounting Standards Board has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years, including:

- Amendments to IFRS 9 *Financial Instruments*
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

These amendments are not expected to have a significant impact on the Bank.

Under the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 the EU-endorsed IFRS regime remains applicable to the Bank until its first financial year commencing after the conclusion of the UK's Transition Period, which ended on 31 December 2020.

Therefore, the financial statements for the year ending 31 December 2021 will instead be prepared under 'UK-adopted international accounting standards'. It is anticipated that 'UK-adopted international accounting standards' will be equivalent to IFRS as adopted by the EU at the point of transition and that there will be no amendments required to the Bank's accounting policies.

30 Country by country reporting

The following disclosures are made under the Capital Requirements (Country-by-Country Reporting) Regulations 2013:

(a) Name, nature of activities and geographical location

This information is provided in note 1.

(b) Turnover

Total income is set out in the Statement of Comprehensive Income on page 51.

(c) Average number of employees

The average number of employees on a full-time equivalent basis is disclosed in note 9.

(d) Profit or loss before tax

Loss before tax is set out in the Statement of Comprehensive Income on page 51.

(e) Corporation tax paid

Corporation tax paid is £nil. Further information is provided in note 8.

(f) Public subsidies received

The Bank does not receive public subsidies.

31 Post balance sheet events

There are no post balance sheet events that require additional disclosure.

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